ORCA

Orca Energy Group Inc.

2023 Q3 Interim Report

Reliably providing domestic natural gas to support Tanzania's growth

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Management's Discussion & Analysis

THIS MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2022. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON NOVEMBER 15, 2023. ALL AMOUNTS ARE REPORTED IN US DOLLARS ("$") UNLESS OTHERWISE NOTED.

THIS MD&A CONTAINS NON-GAAP FINANCIAL MEASURES AND RATIOS AND FORWARD-LOOKING INFORMATION. READERS ARE CAUTIONED THAT THIS MD&A SHOULD BE READ IN CONJUNCTION WITH THE DISCLOSURE BELOW UNDER THE HEADINGS "NON-GAAP FINANCIAL MEASURES AND RATIOS", "FORWARD-LOOKING STATEMENTS" AND "GLOSSARY" INCLUDED AT THE END OF THIS MD&A.

Nature of Operations

The principal asset of Orca Energy Group Inc. ("Orca" or the "Company") is its interest in the Production Sharing Agreement ("PSA") with the Tanzanian Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of natural gas from the Songo Songo license offshore of Tanzania. The PSA defines the gas produced from the Songo Songo gas field as "Protected Gas" and "Additional Gas". The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 31, 2024) to Songas Limited ("Songas") and Tanzania Portland Cement PLC ("TPCPLC"). Songas is the owner of the infrastructure that enables the gas to be treated and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island (collectively, the "Songas Infrastructure").

Songas utilizes the Protected Gas as fuel for its gas turbine electricity generators and for onward sale to customers while TPCPLC uses the Protected Gas to fire kilns for the production of cement. A small amount of Protected Gas is also reserved for village electrification. The Company receives no revenue for the Protected Gas delivered to Songas or other recipients and operates the original wells and gas processing plant on a "no gain no loss" basis. Under the PSA, the Company has the right to produce and market all gas in the Songo Songo gas field in excess of the Protected Gas requirements set forth in the PSA ("Additional Gas") until the PSA expires in October 2026.

The Tanzanian Electric Supply Company Limited ("TANESCO") is a parastatal organization wholly owned by the GoT with oversight by the Ministry of Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydropower as well as a more cost-effective and lower carbon dioxide intensive alternative to liquid fuels. The Company and TPDC as joint sellers currently supply Additional Gas directly to TANESCO by way of the Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas, which in turn generates and sells power to TANESCO. The Company also supplies Additional Gas to TPDC through a long-term gas sales agreement ("LTGSA") utilizing the National Natural Gas Infrastructure ("NNGI"). PGSA expires on July 31, 2024 and LTGSA expires on October 10, 2026.

In addition to supplying gas to TPDC, Songas and TANESCO, the Company has developed 50 contracts to supply gas to Dar es Salaam's industrial market.

Financial and Operating Highlights for the Three and Nine Months Ended September 30, 2023

(Expressed in $'000 unless indicated otherwise)	Three Months ended September 30 2023	Three Months ended September 30 2022	% Change Q3/23 vs Q3/22	Nine Months ended September 30 2023	Nine Months ended September 30 2022	% Change Ytd/23 vs Ytd/22
OPERATING						
Daily average gas delivered and sold (*MMcfd*)	**82.9**	92.1	(10)%	**87.3**	83.9	4%
Industrial	**14.2**	12.8	11%	**13.9**	13.6	2%
Power	**68.7**	79.3	(13)%	**73.4**	70.3	4%
Average price (*$/mcf*)						
Industrial	**8.93**	8.79	2%	**8.65**	8.64	0%
Power	**3.71**	3.60	3%	**3.67**	3.58	3%
Weighted average	**4.60**	4.33	6%	**4.46**	4.40	1%
Operating netback (*$/mcf*)[1]	**2.38**	2.41	(1)%	**2.42**	2.69	(10)%
FINANCIAL						
Revenue	**27,374**	30,537	(10)%	**85,787**	86,212	(0)%
Net income attributable to shareholders	**256**	11,443	(98)%	**7,452**	25,401	(71)%
per share – basic and diluted ($)	**0.01**	0.57	(98)%	**0.38**	1.27	(70)%
Net cash flows from operating activities	**14,995**	19,544	(22)%	**38,627**	52,222	(26)%
per share – basic and diluted ($)	**0.76**	0.98	(23)%	**1.95**	2.62	(26)%
Capital expenditures[1]	**2,928**	1,222	140%	**6,038**	18,791	(68)%
Weighted average Class A and Class B Shares[1] (*'000*)	**19,842**	19,918	(0)%	**19,847**	19,933	(0)%

	September 30, 2023	As at December 31, 2022	% Change
Working capital (including cash)[1]	**64,276**	61,553	4%
Cash and cash equivalents	**101,738**	96,321	6%
Long-term loan	**34,919**	39,762	(12)%
Outstanding shares (*'000*)			
Class A	**1,750**	1,750	0%
Class B	**18,092**	18,126	0%
Total shares outstanding	**19,842**	19,876	0%

1 Please refer to the Non-GAAP Financial Measures and Ratios section of the MD&A for additional information.

Management's Discussion & Analysis cont.

Financial and Operating Highlights for Q3 2023

- Revenue decreased by 10% for Q3 2023 and by 0.5% for the nine months ended September 30, 2023 over the comparable prior year periods. The decrease for Q3 2023 is primarily a result of lower sales to the power sector. The decrease for the nine months ended September 30, 2023 is primarily a result of higher TPDC share of revenue due to decreased capital expenditures and lower Cost Gas revenue.
- Gross conventional natural gas production was lower than forecast for the quarter and averaged 124.8 MMcfd for Q3 2023, of which 82.9 MMcfd was Additional Gas. Gas deliveries decreased by 10% for Q3 2023 and increased by 4% for the nine months ended September 30, 2023 compared to the same prior year periods. The decrease for Q3 2023 was primarily due to declining production from the currently producing wells and reservoir compartments in the Songo Songo field. The increase for the nine months ended September 30, 2023 was primarily due to increased gas sales to the power sector.
- Despite declining production, increased gas demand is now seen as part of a long term requirement of the MoE, TPDC and TANESCO for gas supply to support growing power demand, following the commissioning in late 2022 of new gas fired generation capacity and increased power distribution through the national grid. As a result of less consistent rainfall in Tanzania in recent years causing lower average output of hydropower, this new gas fired capacity is being used on a more continuous base load basis than had been expected.
- We currently forecast average Additional Gas sales for 2023 to be within the revised range of 85–90 MMcfd, compared to full year sales for 2022 of 86.8 MMcfd. Average production guidance (Additional Gas) for 2024 is forecast to be in the range of 80–90 MMcfd for the full year, based on current contracted volumes and the end of the Protected Gas regime on July 31, 2024.
- Discussions have commenced with Songas and TPCPLC to agree requirements and negotiate new commercial terms for the sale of gas from August 1, 2024, replacing volumes currently supplied as Protected Gas (PG) under the gas agreement between the GoT, TPDC, Songas and the Company (the "Gas Agreement").
- Net income attributable to shareholders decreased by 98% for Q3 2023 and by 71% for the nine months ended September 30, 2023 compared to the same prior year periods, primarily as a result of the increased depletion expense and net foreign exchange loss in Q3 2023 and for the nine months ended September 30, 2023, as well as higher reversal of loss allowance in the comparable periods as a result of collection of TANESCO arrears in Q3 2022 and for the nine months ended September 30, 2022.
- Net cash flows from operating activities decreased by 23% for Q3 2023 and by 26% for the nine months ended September 30, 2023 compared to the same prior year periods. This was primarily a result of the reversal of loss allowance following collection of TANESCO arrears of $5.6 million for Q3 2022 and for the nine months ended September 30, 2022.
- Capital expenditures increased by 140% for Q3 2023 and decreased by 68% for the nine months ended September 30, 2023 compared to the same prior year periods. The capital expenditures in Q1, Q2 and Q3 2023 primarily related to the 3D seismic acquisition program. The capital expenditures in Q1, Q2 and Q3 2022 primarily related to the well workover program.
- The third party contractor responsible for the 3D seismic acquisition program suspended its operations in Q3 2023. Subsequently, following the recall of acquisition equipment by the contractor's suppliers, PanAfrican Energy Tanzania Limited ("PAET") issued a breach of contract notice to the contractor. The contractor has failed to remedy the breach under its agreement with PAET. The Company therefore terminated the contract on October 25, 2023.
- The Company has commenced detailed planning work to carry out a number of projects in Q4 2023 and 2024. Subject to equipment availability and necessary approvals, an intervention in the offshore well SS-7 is planned to take place in Q1 2024. The total expected cost of the project is $8.5 million which is subject to confirmation on receipt of final bids from suppliers. If successful, SS-7 is expected to initially deliver 20-25 MMcfd from the non-producing southern compartment. The Company is also planning to install a new common inlet manifold on the Songas processing plant at an estimated cost of $5.1 million during 2024 to improve the flow efficiency of wells to both the Songas and the National Gas Infrastructure ("NNGI") plants.
- Optimization studies have identified opportunities to improve production efficiencies at the Songas plant. A work program to deliver the initial benefits of this is now being planned for implementation during Q4 2023 and is estimated to cost $0.1 million. Production improvement of 5-10 MMcfd is forecasted to be achievable from this work. Furthermore, a production logging programme is being planned for Q1 2024 at an estimated cost of $1.0 million. This programme is currently targeting the SS-3, SS-5, SS-7 and SS-10 wells, where SS-4 may also be included at a later stage, and is expected to provide additional information to enable improved accuracy of forecasting future reservoir performance.
- Funding of capital projects will be from working capital. All capital allocation decisions will be based upon prudent economic evaluations and returns given the timeline of the existing license through to October 2026.
- The Company exited the period in a strong financial position with $64.3 million in working capital (December 31, 2022: $61.6 million), cash and cash equivalents of $101.7 million (December 31, 2022: $96.3 million) and long-term debt of $34.9 million (December 31, 2022: $39.8 million). Subsequent to September 30, 2023 the Company made a payment of $5.0 million, representing the third semi-annual repayments of the long-term debt.
- As at September 30, 2023 the current receivable from TANESCO was $0.1 million (December 31, 2022: $3.7 million). During Q3 2023 TANESCO paid the Company $3.4 million against the 2021 take or pay invoice. TANESCO have now settled all outstanding principal take or pay invoices (related interest balances remain outstanding). The TANESCO long-term receivable as at September 30, 2023 and as at December 31, 2022 was $22.0 million with a provision of $22.0 million. Subsequent to September 30, 2023 the Company has invoiced TANESCO $5.6 million for October 2023 gas deliveries and TANESCO has paid the Company $3.3 million to date.
- On February 24, 2023, the Company declared dividends of CDN$0.10 per share on each of its Class A common voting shares ("Class A Shares") and Class B subordinate voting shares ("Class B Shares") for a total of $1.5 million to the holders of record as of March 31, 2023 paid on April 14, 2023.
- On May 17, 2023, the Company declared dividends of CDN$0.10 per share on each of its Class A Shares and Class B Shares for a total of $1.5 million to the holders of record as of June 30, 2023 paid on July 14, 2023.

Financial and Operating Highlights for Q3 2023 cont.

- On August 16, 2023, the Company declared dividends of CDN$0.10 per share on each of its Class A Shares and Class B Shares for a total of $1.5 million to the holders of record as of September 29, 2023 paid on October 13, 2023.
- On November 1, 2023 the Company announced a normal course issuer bid ("2023 NCIB") commencing on November 6, 2023, to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at November 15, 2023 the Company has repurchased 11,400 Class B Shares at a weighted average price of CDN$4.70 pursuant to the 2023 NCIB.
- During Q2 2023, the Company formally requested TPDC to initiate the process of extending the development license in accordance with the terms of the PSA. The Company continues to wait on a response from TPDC and is actively engaging with the GoT and TPDC to progress this matter and will maintain gas sale contract discipline going forward by operating in line with our gas supply agreements.
- On July 21, 2023, the Company has repurchased the 7.9% shares in the Company's subsidiary, PAE PanAfrican Energy Corporation ("PAEM"), previously held by Swala (PAEM) Limited ("Swala UK") for $7.5 million and the non-controlling interest was eliminated in Q3 2023.
- On August 5, 2022, the Fair Competition Commission of the United Republic of Tanzania ("FCC") issued Provisional Findings with respect to an investigation the FCC initiated against Orca, PAEM, PAET and Swala UK and Swala Oil & Gas (Tanzania) plc ("Swala TZ") in response to a letter Swala TZ sent the FCC on March 31, 2022. In the Provisional Findings, the FCC claims that Orca's sale of investment shares held in PAEM to Swala UK pursuant to the Investment Agreement amounted to a notifiable merger whose non-notification infringed the provisions of the Fair Competition Act, 2003 and the Fair Competition Rules, 2018. In September 2022 the Company responded to the FCC's Provisional Findings submitting that the transactions did not amount to a prohibited merger and that, if the transactions were notifiable, it was Swala UK who had the obligation to notify the authorities of the merger and not Orca, PAEM and PAET. In Q3 2023, the Company, PAEM and PAET entered into settlement negotiations with the FCC to settle allegations made under the Provisional Findings.

Operating Volumes

The average gross daily sales volume decreased by 10% for Q3 2023 and increased by 4% for the nine months ended September 30, 2023 over the comparable prior year periods. The decrease for Q3 2023 was primarily due to declining production from the currently producing wells and reservoir compartments in the Songo Songo field.

The Company's gross sales volumes were split between the industrial and power sectors as detailed in the table below:

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	2023	2022
Gross sales volume *(MMcf)*				
Industrial sector	**1,301**	1,181	**3,777**	3,714
Power sector	**6,323**	7,297	**20,044**	19,177
Total volumes	**7,624**	8,478	**23,821**	22,891
Gross daily sales volume average *(MMcfd)*				
Industrial sector	**14.2**	12.8	**13.9**	13.6
Power sector	**68.7**	79.3	**73.4**	70.3
Gross daily sales volume average total	**82.9**	92.1	**87.3**	83.9

Industrial Sector

Industrial sector gross daily sales volume increased by 11% for Q3 2023 and by 2% for the nine months ended September 30, 2023 over the comparable prior year periods. The increases were a result of increased consumption by industrial customers due to a higher demand for services and products.

Power Sector

Power sector gross daily sales volumes decreased by 13% for Q3 2023 and increased by 4% for the nine months ended September 30, 2023 over the comparable prior year periods. The decrease for Q3 2023 over the comparable prior year period was primarily due to decreased gas sales to TANESCO. The increase for the nine months ended September 30, 2023 over the comparable prior year period was primarily due to increased gas sales to TANESCO.

Protected Gas Volumes

Protected Gas volumes increased by 21% to 3,856 MMcf (41.9 MMcfd) for Q3 2023 compared to 3,184 MMcf (34.6 MMcfd) for Q3 2022 and by 6% to 10,573 MMcf (38.7 MMcfd) for the nine months ended September 30, 2023 compared to 9,993 MMcf (36.6 MMcfd) for the nine months ended September 30, 2022. The Company receives no revenue for Protected Gas volumes, however the volumes are required to calculate total gas produced from the reservoir and the allocation of certain production, distribution and transportation expenses between Protected Gas and Additional Gas.

Management's Discussion & Analysis cont.

Commodity Prices

The commodity prices achieved in the different sectors during the respective periods are detailed in the table below:

	Three Months ended September 30		Nine Months ended September 30	
$/mcf	2023	2022	2023	2022
Average sales price				
Industrial sector	**8.93**	8.79	**8.65**	8.64
Power sector	**3.71**	3.60	**3.67**	3.58
Weighted average price	**4.60**	4.33	**4.46**	4.40

Industrial Sector

The average sales price for the industrial sector increased by 2% for Q3 2023 and by 0.1% for the nine months ended September 30, 2023 over the comparable prior year periods. The increases in prices are primarily due to the underlying increase in the price of heavy fuel oil against which most of the industrial customer contracts are priced.

Power Sector

The average sales price for the power sector increased by 3% both for Q3 2023 and for the nine months ended September 30, 2023 compared to the same prior year periods. The average power sector sales price varies depending on whether gas is delivered and sold through the NNGI or the Songas Infrastructure. Sales through the NNGI are to TPDC and do not include processing and transportation tariffs which are included in gas delivered through the Songas Infrastructure.

Revenue

Under the terms of the PSA the Company is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales (See "Principal Terms of the PSA and Related Agreements" in the Company's MD&A for the year ended December 31, 2022).

The Company is entitled to recover all costs incurred on the exploration, development and operations of the project ("Cost Gas revenue") up to a maximum of 75% of the net field revenue (gross field revenue less the tariff for processing and pipeline infrastructure) prior to allocating the remaining net field revenue between TPDC and the Company ("Profit Gas revenue"). Any costs not recovered in a period are carried forward for recovery out of future revenues. Once the Cost Gas revenue has been recovered, TPDC is able to recover any pre-approved marketing costs. Currently there are no pre-approved marketing costs for TPDC.

The Company is liable for income tax in Tanzania, but under the terms of the PSA, TPDC's share of revenue is reduced by the current tax payable grossed up at 30% ("income tax adjustment"). Revenue as presented on the Company's Consolidated Interim Statements of Comprehensive Income is calculated by adjusting the Company's operating revenue by the income tax adjustment.

The reconciliation of gross field revenue to Company operating revenue and revenue is detailed below:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Industrial sector	**11,614**	10,381	**32,666**	32,081
Power sector	**23,479**	26,300	**73,536**	68,729
Gross field revenue	**35,093**	36,681	**106,202**	100,810
TPDC share of revenue	**(11,837)**	(11,478)	**(34,046)**	(25,920)
Company operating revenue	**23,256**	25,203	**72,156**	74,890
Current income tax adjustment	**4,118**	5,334	**13,631**	11,322
	27,374	30,537	**85,787**	86,212

Revenue decreased by 10% for Q3 2023 and by 0.5% for the nine months ended September 30, 2023 over the comparable prior year periods. The decrease for Q3 2023 over the comparable prior year period is primarily a result of lower sales to the power sector and lower current income tax adjustment. The decrease for the nine months ended September 30, 2023 over the comparable prior year period is primarily a result of higher TPDC share of revenue as an outcome of decreased capital expenditures and lower Cost Gas revenue. This was partially offset by higher sales to the power sector.

The average Additional Gas sales volumes for the quarters ended September 30, 2023 and September 30, 2022 as well as for the quarters ended June 30, 2023, March 31, 2023, June 30, 2022 and March 31, 2022 were above 50 MMcfd which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 63% of the Additional Gas net field revenue for Q3 2023 (Q3 2022: 65%) and a total of 65% of the Additional Gas net field revenue for the nine months ended September 30, 2023 (nine months ended September 30, 2022: 72%).

Production, Distribution and Transportation Expenses

The production, distribution and transportation costs are detailed in the table below:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Operating costs	**1,057**	836	**3,069**	2,302
Tariff for processing and pipeline infrastructure	**3,266**	3,394	**9,210**	8,870
Ring-main distribution costs	**809**	605	**2,342**	2,040
	5,132	4,835	**14,621**	13,212

Operating costs include well maintenance costs, PSA license costs, regulatory fees, insurance, certain costs associated with evaluation of the reserves and the costs of personnel not recoverable from Songas. Operating costs are allocated between Protected Gas (recoverable from Songas) and Additional Gas in proportion to their respective volumes during the period. Operating costs increased by 26% for Q3 2023 and by 33% for the nine months ended September 30, 2023 compared to the same prior year periods, primarily as a result of the increase of insurance costs. The amount paid under the tariff for processing and pipeline infrastructure decreased by 4% for Q3 2023 and increased by 4% for the nine months ended September 30, 2023 compared to the same prior year periods, primarily as a result of fluctuations in gas volumes processed and delivered through the Songas Infrastructure. Ring-main distribution costs increased by 34% for Q3 2023 and by 15% for the nine months ended September 30, 2023 compared to the same prior year periods, primarily as a result of higher compressor maintenance costs.

Operating Netback

The operating netback per mcf before general and administrative expenses, tax and Additional Profits Tax ("APT") is detailed in the table below (see "Non-GAAP Financial Measures and Ratios"):

	Three Months ended September 30		Nine Months ended September 30	
$/mcf	2023	2022	2023	2022
Weighted average price for gas	**4.60**	4.33	**4.46**	4.40
TPDC Profit Gas entitlement	**(1.55)**	(1.35)	**(1.43)**	(1.13)
Production, distribution and transportation expenses	**(0.67)**	(0.57)	**(0.61)**	(0.58)
Operating netback	**2.38**	2.41	**2.42**	2.69

The operating netback decreased by 1% for Q3 2023 and by 10% for the nine months ended September 30, 2023 over the comparable prior year periods. The decreases are mainly due to the increase in the TPDC Profit Gas entitlement as an outcome of decreased capital expenditures and lower Cost Gas revenue recoveries by the Company.

General and Administrative Expenses

General and administrative expenses are split between the Company's head office and Tanzania. A significant percentage of administration expenses relate to office and management costs that support our operations in Tanzania and are cost recoverable under the PSA.

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Tanzania	**1,845**	1,983	**5,835**	5,673
Corporate	**2,757**	1,399	**6,523**	4,055
	4,602	3,382	**12,358**	9,728

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General and Administrative Expenses cont.

General and administrative expenses are detailed in the tables below:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Employee and related costs	**2,683**	1,571	**7,133**	5,013
Office costs	**834**	1,208	**2,750**	3,154
ESG, marketing and business development costs	**149**	217	**257**	335
Reporting, regulatory and corporate	**936**	386	**2,218**	1,226
	4,602	3,382	**12,358**	9,728

In Q2 2023, the Company approved the Long Term Retention Award Plan effective for the period from October 1 to September 30, 2026 ("Long Term Retention Plan") to encourage retention of its employees, promote employee performance to increase shareholder value over the four year period, and align the Company's approach to compensation with the Company's strategy to continue and expand its operations in Tanzania. The total potential award amount payable to eligible participants (employees and directors) under the plan is $4.8 million, with an award payment date of September 30, 2026. This award amount is being recognized on a straight line basis over the four year period. Accordingly, as at September 30, 2023, $1.2 million has been recognized as an expense and as an outstanding liability.

General and administrative expenses averaged $1.5 million per month during Q3 2023 (Q3 2022: $1.1 million) and $1.4 million per month for the nine months ended September 30, 2023 (nine months ended September 30, 2022: $1.1 million). The 42% increase in employee and related costs for the nine months ended September 30, 2023 over the comparable prior year period was mainly a result of recruitment of additional corporate employees and the introduction of the Long Term Retention Plan. The 13% decrease in office costs for the nine months ended September 30, 2023 over the comparable prior year period was primarily a result of lower costs related to legal services in Tanzania. The 23% decrease in ESG, marketing and business development costs for the nine months ended September 30, 2023 over the comparable prior year period was a result of a decrease in business development related costs. The 81% increase in reporting, regulatory and corporate costs for the nine months ended September 30, 2023 over the comparable prior year period was due to increase in costs related to professional services.

Stock Based Compensation

The breakdown of the costs incurred in relation to stock based compensation is detailed in the table below:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Stock appreciation rights ("SARs")	**(2)**	(42)	**3**	23
Restricted stock units ("RSUs")	**1**	(32)	**3**	(142)
	(1)	(74)	**6**	(119)

As at September 30, 2023 there were no SARs or RSUs outstanding (December 31, 2022: 14,000 SARs and 2,833 RSUs). No new SARs or RSUs were issued or forfeited during Q3 2023 or the nine months ended September 30, 2023. 14,000 SARs and 2,833 RSUs were exercised during Q3 2023.

As at September 30, 2023 a total accrued liability of $ nil (December 31, 2022: $0.02 million) has been recognized in relation to SARs and RSUs. The Company recognized a recovery of $0.001 million for Q3 2023 (Q3 2022: $0.07 million) and an expense of $0.006 million for the nine months ended September 30, 2023 (nine months ended September 30, 2022: recovery of $0.1 million) on stock based compensation.

Depletion and Depreciation

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proved reserves. The average depletion rate was $1.13/mcf for the quarter and the nine months ended September 30, 2023 compared to $0.84/mcf for the comparable prior year periods.

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Oil and natural gas interests	**8,580**	7,144	**26,805**	19,288
Office and other	**33**	23	**85**	45
Right-of-use assets	**60**	69	**199**	215
	8,673	7,236	**27,089**	19,548

The depletion for natural gas interests increased by 20% for Q3 2023 and by 39% for the nine months ended September 30, 2023 over the comparable prior year periods. The increases were primarily the result of increased gas produced and sold, additional capital expenditure, and a reduction in estimated proved reserves.

Finance Income and Expense

Finance income is detailed in the table below:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Interest income	**422**	187	**1,140**	313
	422	187	**1,140**	313

Finance expense is detailed in the table below:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Base interest expense	**1,213**	1,482	**3,758**	4,402
Participation interest expense	**697**	878	**2,268**	1,786
Lease interest expense	**1**	6	**5**	19
Interest expense	**1,911**	2,366	**6,031**	6,207
Net foreign exchange loss	**3,189**	93	**4,475**	313
Indirect tax expense	**295**	307	**975**	772
Long-term receivable write off	**–**	–	**2,205**	–
	5,395	2,766	**13,686**	7,292

Base interest expense and participation interest expense relate to the long-term loan ("Loan") from the International Finance Corporation ("IFC") to PAET, the Company's subsidiary operating in Tanzania. Base interest on the Loan is payable quarterly in arrears at 10% per annum on a "pay-if-you-can-basis" using a formula to calculate the net cash available for such payments as at any given interest payment date. The participation interest expense is paid annually in arrears. It equates to 6.4% of PAET's net cash flows from operating activities less the net cash flows used in investing activities for the year. Such participation interest will continue to accrue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date. The increase in participation interest expense for the nine months ended September 30, 2023 over the comparable prior year period is primarily a result of the increase in PAET's net cash flows from operating activities, less the net cash used in investing activities.

Management's Discussion & Analysis cont.

Finance Income and Expense cont.

Net foreign exchange losses are the result of transactions in foreign currencies recorded at the rate of exchange prevailing on the date of such transactions and include both realized and unrealized revaluation gains and losses. Specifically, unrealized revaluation loss represents changes in fair value of cash balances denominated in Tanzanian shillings. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Non-monetary items are translated at historic rates, unless such items are carried at market value, in which case they are translated using the exchange rates that existed when the values were determined. These foreign exchange gains and losses are recorded in finance expense.

The indirect tax is for value added tax ("VAT") associated with invoices to TANESCO for interest on late payments. Long-term receivable write off is related to VAT on the workovers that had already been paid and was reclassified as a long-term receivable in 2017 (see "Long-term Receivables" in this MD&A).

Reversal of Loss Allowance for Receivables

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Reversal of loss allowance	**(519)**	(5,573)	**(2,014)**	(7,622)
Loss allowance	**–**	195	**–**	195
	(519)	(5,378)	**(2,014)**	(7,427)

The reversal of loss allowance of $0.5 million in Q3 2023 and $2.0 million for the nine months ended September 30, 2023 is associated with the indirect taxation related to the TANESCO 2020 and 2021 take or pay invoices which were paid in Q2 and Q3 2023 and had been previously not recognized.

The reversal of loss allowance in Q3 2022 follows collection of TANESCO arrears of $5.6 million which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the year. The reversal of loss allowance of $7.6 million for the nine months ended September 30, 2022 also includes indirect taxation of $2.0 million related to the TANESCO 2017 take or pay invoice which was paid in Q2 2022 and had been previously not recognized.

The loss allowance of $0.2 million in Q3 2022 and for the nine months ended September 30, 2022 represents the net amount of: (i) $0.5 million previously allowed for in Q4 2021 with respect to the dispute with the Tanzanian Revenue Authority ("TRA") on the issue of withholding tax on services performed outside Tanzania by non-resident persons in 2010 and 2015-16; and (ii) $0.7 million representing the settlement amount with respect to the above withholding tax dispute. In Q3 2022 the Company, with advice from its legal counsel, agreed to settle the dispute and made the payment to TRA on August 24, 2022.

Additional Profits Tax

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
APT	**2,175**	2,441	**6,409**	5,343

Under the terms of the PSA, APT is payable when the Company has recovered its costs plus a specified return out of Cost Gas revenue and Profit Gas revenue. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenue plus an annual operating return under the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum APT rate is 55% of the Company's Profit Gas revenue when costs have been recovered with an annual return of 35% plus the percentage change in PPI.

The timing and the effective rate of APT depends on the realized value of Profit Gas revenue which in turn depends on the level of expenditure. The Company provides for APT by annually forecasting the total APT payable in the future as a proportion of the forecast Profit Gas revenue over the term of the PSA. The forecast takes into account the timing of future development capital spending. As at September 30, 2023 the current portion of APT payable was $12.6 million (December 31, 2022: $13.1 million) with a long-term APT payable of $9.2 million (December 31, 2022: $15.3 million). APT of $13.1 million was paid in Q1 2023 based on the 2022 results (Q1 2022: $8.5 million based on 2021 results).

The effective APT rate for Q3 2023 of 15.6% (Q3 2022: 17.3%) has been applied to Profit Gas revenue of $13.8 million for Q3 2023 (Q3 2022: $14.2 million) and $40.9 million for the nine months ended September 30, 2023 (nine months ended September 30, 2022: $30.8 million). Accordingly, $2.2 million for Q3 2023 (Q3 2022: $2.4 million) and $6.4 million for the nine months ended September 30, 2023 (nine months ended September 30, 2022: $5.3 million) of APT has been recorded in the Company's Consolidated Interim Statements of Comprehensive Income.

Working Capital

Working capital as at September 30, 2023 was $64.3 million (December 31, 2022: $61.6 million) and is detailed in the table below (see also "Non-GAAP Financial Measures and Ratios"):

$'000		September 30, 2023		December 31, 2022
Cash and cash equivalents		**101,738**		96,321
Trade and other receivables				
Songas	**5,371**		12,640	
TPDC	**7,047**		4,694	
TANESCO	**68**		3,736	
Industrial customers and other receivables	**14,422**		15,207	
Loss allowance	**(1,177)**	**25,731**	(1,177)	35,100
Prepayments		**930**		1,551
		128,399		132,972
Trade and other liabilities				
TPDC share of Profit Gas revenue[1]	**17,878**		19,440	
Songas	**3,046**		2,933	
Deferred income – take or pay contracts	**193**		10,665	
Other trade payables and accrued liabilities	**10,470**		10,154	
Current portion of long-term loan	**10,000**		10,000	
Current portion of APT	**12,564**	**54,151**	13,146	66,338
Tax payable		**9,972**		5,081
		64,123		71,419
Working capital		**64,276**		61,553

1 The balance of $17.9 million payable to TPDC is the liability for TPDC's share of Profit Gas revenue, primarily related to unpaid gas deliveries to TANESCO. The majority of the settlement of this liability is dependent on receipt of payment from TANESCO for arrears. For their allocation of Profit Gas revenue, the Company paid TPDC $5.7 million in February 2023, $11.5 million in April 2023, $4.9 million in July 2023 and $11.1 million in October 2023.

Financial Instruments

Current financial instruments of the Company include cash and cash equivalents, trade and other receivables, trade and other liabilities and tax payable. The carrying values of the financial instruments approximate fair values due to their relatively short periods to maturity. The risks associated with the Company's financial instruments are primarily attributed to the inherent riskiness of cash and the ability to exchange Tanzanian shillings for hard currencies, and the risk that trade and other receivables may not be paid when due. The Company mitigates these risks by (i) holding, when possible, the majority of its cash outside of Tanzania in reputable international financial institutions primarily in Jersey and Mauritius which reduces geo-political risk; and (ii) monitoring and reviewing the trade and other receivables on a regular basis to determine if allowances are required for overdue amounts or action is required to restrict deliveries on past due accounts to reduce exposure on outstanding receivables. There are no restrictions on the movement of cash from Jersey, Mauritius or Tanzania.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets cease to be recognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Working Capital Requirements

The Company expects to have sufficient cash flow from operating activities to maintain adequate working capital to cover both short-term and long-term obligations, including forecasted debt and interest payments ($6.2 million) and capital expenditure ($8.9 million) for 2023. The Company has not incurred any losses from debtors in 2022 and in nine months ended September 30, 2023 and does not expect to incur any loses from debtors in 2023. The Company maintains adequate cash and cash equivalents on hand to ensure it can meet all its capital expenditure obligations and deal with possible fluctuations in liquidity from operational problems. The Company does not anticipate any circumstances that are reasonably likely to occur that could significantly impact the Company's cash flows and liquidity, however, the global growth slowdown and the impact of the war in Ukraine has seen a widening decline in foreign exchange reserves in Tanzania, which has given rise to decreased availability of United States dollars and has impaired the Company's ability to convert Tanzanian shillings to United States dollars in Q3 2023. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to United States dollars as and when required. It is not known when the foreign exchange reserve deficiency in Tanzania may be remedied.

Management's Discussion & Analysis cont.

Working Capital cont.

TANESCO Receivable

As at September 30, 2023 the current receivable from TANESCO was $0.1 million (December 31, 2022: $3.7 million). During Q3 2023 the Company invoiced TANESCO $3.4 million for gas deliveries (Q3 2022: $7.2 million) and received $6.9 million in payments for current receivables (Q3 2022: $16.9 million). These amounts are inclusive of value added tax ("VAT"). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2023 and Q3 2022 as revenue; and (ii) recognized $ nil during Q3 2023 (Q3 2022: $5.6 million) as a reversal of loss allowance relating to the amounts collected during the year that were applied toward the long-term TANESCO receivables previously allowed for. During Q3 2023 TANESCO paid the Company $3.4 million against the 2021 take or pay invoice.

The TANESCO long-term receivable as at September 30, 2023 and as at December 31, 2022 was $22.0 million with a provision of $22.0 million. Subsequent to September 30, 2023 the Company has invoiced TANESCO $5.6 million for October 2023 gas deliveries and TANESCO has paid the Company $3.3 million to date.

Capital Expenditures

The capital expenditures (see "Non-GAAP Financial Measures and Ratios") in Q1, Q2 and Q3 2023 primarily related to the 3D seismic acquisition program. The capital expenditures in Q1, Q2 and Q3 2022 primarily related to the well workover program.

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Pipelines and infrastructure	**2,918**	1,214	**5,917**	18,521
Other capital expenditures	**10**	8	**121**	270
	2,928	1,222	**6,038**	18,791

Capital Requirements

Except as described below, there are no contractual commitments for exploration or development drilling or other field development, either in the PSA or otherwise agreed, which would give rise to significant capital expenditure at Songo Songo Island. Any additional significant capital expenditure in Tanzania is discretionary.

The third party contractor responsible for the 3D seismic acquisition program, which was expected to continue through Q4 2023 and to cost $24.2 million, has suspended its operations. The Company issued a breach of contract notice to the contractor in Q3 2023. The contractor has failed to remedy the breach under its agreement with PAET. The Company therefore terminated the contract on October 25, 2023.

Subject to equipment availability and necessary approvals, an intervention in the offshore SS-7 well is planned to take place in Q1 2024. The total expected cost of the project is $8.5 million which is subject to confirmation on receipt of final bids from suppliers. The work program is designed to shut off excessive water production which has caused the shut in of the well in 2019. The cause of the water production is interpreted to be a failed original cement bond outside the production liner which has been allowing the flow of water into the well when placed on production. If successful, SS-7 is expected to initially deliver 20-25 MMcfd from the currently non-producing southern compartment.

A project is planned to install a new common inlet manifold at the Songas processing facility during 2024 at an estimated cost of $5.1 million. This will improve flow efficiency of wells to both the Songas and the NNGI plants to optimize deliverability of low versus high pressure wells into the production system.

Optimization studies have identified opportunities to improve the efficiency of operations at the Songas plant. A work program to deliver the initial benefits of this is now being planned for implementation during Q4 2023 and is estimated to cost approximately $0.1 million. Production improvement of 5-10 MMcfd is forecasted to be achievable from this work commencing in December 2023.

A production logging programme is being planned for Q1 2024 and the total estimated cost is $1.0 million. This programme will provide information additional to the annual pressure surveys to enable improved accuracy of forecasting future reservoir performance. Key targeted wells include SS-3, SS-5, SS-7 and SS-10. The SS-4 well may also be included to further understand the results of the sidetrack carried out in 2021.

With the emergence of longer term high levels of gas demand, the Company's short term 2023 forecast capital expenditure remains at approximately $8.9 million. The Company continues to work with the GoT on an alternative development plan for the longer term field development.

Long-term Receivables

$'000	As at September 30, 2023	As at December 31, 2022
VAT on Songas workovers	–	2,205
Lease deposit	10	10
	10	2,215

In 2017, based on agreement with TPDC, $12.3 million relating to the Songas share of workover costs of the wells SS-5 and SS-9 was transferred to the cost pool, which enabled the Company to recover the costs via the PSA cost recovery mechanism. This resulted in $2.2 million relating to VAT previously paid by the Company on the workovers being reclassified as a long-term receivable. In Q2 2023, Songas agreed to pay the Company $7.6 million as full and final settlement of their share of the workover costs of the SS-5 and SS-9 wells. Pursuant to the agreement with Songas, the originally issued invoices will not be settled, hence the recovery of the associated VAT of $2.2 million has been written off in Q2 2023. On receipt of the $7.6 million cash from Songas, due to be paid in monthly instalments across Q4 2023 and Q1 2024, the Company will credit the PSA cost pool accordingly. As of September 30, 2023, $2.0 million has been received from Songas and credited to the PSA cost pool.

The following table details the amounts receivable from TANESCO that do not meet revenue recognition criteria and therefore are not recorded in the consolidated financial statements:

$'000	As at September 30, 2023	As at December 31, 2022
Total amounts invoiced to TANESCO	82,074	92,547
Trade receivable – TANESCO	(68)	(3,736)
Unrecognized amounts not meeting revenue recognition criteria[1]	(59,988)	(66,793)
Loss allowance	(22,018)	(22,018)
	–	–

1 The amount includes invoices for interest on late payments from TANESCO.

Long-term Loan

In 2015 PAET obtained the Loan with the IFC, a member of the World Bank Group, for $60 million. The Loan was fully drawn down in 2016.

The Loan is to be paid out through six semi-annual payments of $5.0 million starting October 15, 2022, for which initial payment was paid by the Company subsequent to October 15, 2022, and one final payment of $25.2 million will be due on October 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was guaranteed by the Company to a maximum of $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfilment of all or part of its guarantee obligation in 2025. Pursuant to the sale of a non-controlling interest in PAEM, the parent company of PAET, in 2018, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

Dividends and distributions from PAET to PAEM are restricted at any time whenever amounts of interest, principal or participating interest are due and outstanding. All amounts under the Loan have been paid when due.

Management's Discussion & Analysis cont.

Outstanding Shares

The Class A Shares are convertible at any time at the option of the holder into Class B Shares on a one-for-one basis. Subject to the terms and conditions of conversion specified in the memorandum of association and articles of association of the Company, the Class B Shares are convertible into Class A Shares on a one for one basis if an offer is made to purchase Class A Shares that: (i) must, by reason of applicable securities legislation or the requirements of a stock exchange on which the Class A Shares are listed, be made to all or substantially all of the holders of Class A Shares; and (ii) are not made concurrently with an offer to purchase Class B Shares that is identical to the offer to purchase Class A Shares and that has no condition attached other than the right not to take up and pay for shares tendered if no shares are purchased pursuant to the offer for Class A Shares. The conversion right does not come into effect under certain events specified in the memorandum of association of the Company, including, without limitation, the prior delivery to the Company's transfer agent and to the Secretary of the Company of a certificate signed by one or more shareholders owning more than 50% of the then outstanding Class A Shares.

Pursuant to the normal course issuer bid commenced on June 21, 2021 ("2021 NCIB"), the Company repurchased and cancelled a total of 60,900 Class B Shares at an average price per Class B Share of CDN$5.18 as of June 30, 2022. Pursuant to the normal course issuer bid commenced on July 11, 2022 ("2022 NCIB"), the Company had repurchased and cancelled a total of 81,000 Class B Shares at a weighted average price of CDN$4.89 as of September 30, 2023.

On November 1, 2023 the Company announced the 2023 NCIB to commence on November 6, 2023 to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at November 15, 2022, the Company has repurchased for cancellation 11,400 Class B Shares at a weighted average price of CDN$4.70 pursuant to the 2023 NCIB. 1,750,495 Class A Shares and 18,091,714 Class B Shares were outstanding as at September 30, 2023 and November 15, 2023. See "Normal Course Issuer Bid and Dividends" in this MD&A.

Cash Flow Summary

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Operating activities				
Net income	**256**	12,040	**7,452**	27,266
Non-cash adjustments	**12,120**	9,013	**32,425**	27,324
Interest expense	**1,911**	2,366	**6,031**	6,207
Changes in non-cash working capital[1]	**708**	(3,875)	**(7,281)**	(8,575)
Net cash flows from operating activities	**14,995**	19,544	**38,627**	52,222
Net cash used in investing activities	**(3,222)**	(5,875)	**(6,585)**	(21,649)
Net cash used in financing activities	**(10,111)**	(2,962)	**(23,833)**	(10,554)
Increase in cash	**1,662**	10,707	**8,209**	20,019

1 See Condensed Consolidated Interim Statements of Cash Flows.

Net income decreased by 73% for the nine months ended September 30, 2023 compared to the same prior year period, primarily as a result of the increased depletion expense and net foreign exchange loss in Q3 2023 and for the nine months ended September 30, 2023, as well as higher reversal of loss allowance in the comparable periods as a result of collection of TANESCO arrears in Q3 2022 and for the nine months ended September 30, 2022. The Company's net cash flows from operating activities decreased by 23% for Q3 2023 and by 26% for the nine months ended September 30, 2023 over the comparable prior year periods primarily a result of a reversal of $5.6 million loss allowance relating to the amounts collected from TANESCO during Q3 2022 that had been previously allowed for. The decrease in net cash used in investing activities for Q3 2023 and for the nine months ended September 30, 2023 over the comparable prior year periods was mainly a result of higher expenditure in the first nine months of 2022 in relation to the well workover program. The increase in net cash used in financing activities for Q3 2023 and for the nine months ended September 30, 2023 over the comparable prior year periods was mainly an outcome of the purchase of the non-controlling interest shareholding in Q3 2023.

Related Party Transactions

The Chair of the Company's Board of Directors is counsel to Burnet, Duckworth & Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2023 (Q3 2022: $0.1 million) and $0.5 million for the nine months ended September 30, 2023 (nine months ended September 30, 2022: $0.4 million). As at September 30, 2023 the Company had a total of $0.5 million (December 31, 2022: $0.1 million) recorded in trade and other payables in relation to related parties.

Normal Course Issuer Bid and Dividends

On June 21, 2021 the Company commenced the 2021 NCIB to purchase Class B Shares through the facilities of the TSX Venture Exchange ("TSXV") and alternative trading systems in Canada. Purchases pursuant to the 2021 NCIB were made by Research Capital Corporation ("Research Capital") on behalf of the Company and were not to exceed 500,000 Class B Shares, representing approximately 2.74% of the total outstanding Class B Shares. The 2021 NCIB was in effect until June 21, 2022. An aggregate of 60,900 Class B Shares were repurchased by the Company pursuant to the 2021 NCIB at an average price per Class B Share of CDN$5.18.

On July 5, 2022 the Company announced the 2022 NCIB to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. Purchases pursuant to the 2022 NCIB were made by Research Capital on behalf of the Company and were not to exceed 500,000 Class B Shares, representing approximately 2.75% of the total outstanding Class B Shares as of July 4, 2022. The 2022 NCIB was in effect from July 11, 2022 until July 11, 2023. An aggregate of 81,000 Class B Shares were repurchased and cancelled by the Company pursuant to the 2022 NCIB at a weighted average price per Class B Shares of CDN$4.89.

On November 1, 2023 the Company announced the 2023 NCIB to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. Purchases pursuant to the 2023 NCIB will be made by Research Capital on behalf of the Company and will not exceed 500,000 Class B Shares, representing approximately 2.76% of the total outstanding Class B Shares as of October 31, 2023. The 2023 NCIB will be in effect from November 6, 2023 until November 5, 2024 (or until such time as the maximum number of Class B Shares have been purchased). Purchases of Class B Shares will be made by Research Capital based on the parameters prescribed by the TSXV and applicable securities laws. The acquisition price of Class B Shares under the 2023 NCIB will not exceed the market price of the Class B Shares at the time of acquisition and the funds available to acquire the Class B Shares will come from the Company's working capital and cash flow. All Class B Shares purchased under the 2023 NCIB will be cancelled. As at November 15, 2023, the Company has repurchased for cancellation 11,400 Class B Shares at a weighted average price of CDN$4.70 pursuant to the 2023 NCIB.

Shareholders may obtain a copy of the notice regarding the 2021 NCIB, 2022 NCIB and 2023 NCIB filed with the TSXV from the Company without charge.

All issued capital stock is fully paid.

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
August 16, 2023	September 29, 2023	October 13, 2023	0.10
May 17, 2023	June 30, 2023	July 14, 2023	0.10
February 24, 2023	March 31, 2023	April 14, 2023	0.10
November 16, 2022	December 31, 2022	January 13, 2023	0.10
September 28, 2022	October 14, 2022	October 28, 2022	0.10
May 20, 2022	June 30, 2022	July 15, 2022	0.10
February 23, 2022	March 31, 2022	April 15, 2022	0.10

Consolidation

The companies which are being consolidated for the purposes of this MD&A are:

Company	Incorporated	Holding
Orca Energy Group Inc.	British Virgin Islands	Parent Company
Orca Exploration UK Services Limited	United Kingdom	100%
PAE PanAfrican Energy Corporation	Mauritius	100%
PanAfrican Energy Tanzania Limited	Jersey	100%

Management's Discussion & Analysis cont.

Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to Swala UK in 2018 for $15.4 million cash and $4.0 million of Swala TZ's convertible preference shares ("Preference Shares") pursuant to a share purchase agreement. The Preference Shares entitled the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions was at the discretion of Swala TZ based on funds available, however, the liability accrued if any amount was unpaid when due. For any distributable amount remaining unpaid at December 31, 2021, the Company may demand settlement and Swala TZ was obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these shares will equal the amount of the outstanding distributions.

Swala TZ was obligated to redeem 20% of the Preference Shares for cash annually starting from December 31, 2021 until all shares are redeemed. If at any time Swala TZ did not redeem in cash the required number of Preference Shares, Swala TZ was obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these Class A common shares is equal the amount of any outstanding redemption. On August 8, 2022, the Company issued a redemption notice to Swala TZ, requesting that Swala TZ redeem 20% of the outstanding Preference Shares by August 23, 2022. On January 31, 2023 the Company issued a further redemption notice to Swala TZ, requesting that Swala TZ redeem a further 20% of the outstanding Swala TZ's Preference Shares by February 15, 2023.

On April 3, 2023, Swala TZ announced that its creditors resolved that Swala TZ be placed into liquidation at a creditors' meeting held on March 31, 2023. On March 31, 2023, Apex Corporate Trustees (UK) Limited appointed representatives of Grant Thornton UK LLP as administrators of Swala UK. On July 21, 2023, the Company repurchased the 7.9% shares in PAEM held by Swala UK for $7.5 million and the non-controlling interest is therefore eliminated in Q3 2023.

A reconciliation of the non-controlling interest is detailed below:

	As at	
$'000	September 30, 2023	December 31, 2022
Balance, beginning of period	**5,670**	3,116
Net income attributable to non-controlling interest	**–**	2,554
Distribution to non-controlling interest shareholder	**(7,500)**	–
Elimination of non-controlling interest	**1,830**	–
Balance, end of period	**–**	5,670

Contingencies

Taxation

					As at	
Amounts in $' millions					September 30, 2023	December 31, 2022
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Income Tax	2008-09, 2011-20	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), foreign exchange rate application (2013 to 2015, 2018 to 2020), underestimation of tax due (2014, 2016 and 2020) and methodology of grossing up of income taxes paid (2015 to 2017).	21.6	13.1	**34.7**	34.2
Tax on Repatriated Income	2012-21	Applicability of withholding tax on repatriated income (2012 to 2021)	20.6	3.8	**24.4**	24.9
VAT	2012-20	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments (2017) and input VAT on services (2017 to 2020).	0.2	1.2	**1.4**	1.6
			42.4	18.1	**60.5**	60.7

Contingencies cont.

Taxation cont.

During 2022, following the expiry of the statutory deadline for the TRA to respond to the Company's objections, the Company filed notices of intention to appeal to the Tanzania Revenue Appeals Board ("TRAB") against the corporate income tax assessments for the years of 2012 to 2016, tax on repatriated income for the years of 2012 to 2014, and VAT for the years of 2015 to 2016. On several occasions during 2022 these matters came for hearing, and in April 2023, the Company received determination letters from the TRA. Further to that, in May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016, in which the TRA agreed to drop certain claims with respect to previously assessed corporate income tax for the years of income of 2012 and 2016. These claims are no longer represented in the table above.

On May 22, 2023, the TRAB pronounced its judgement on the VAT appeal for the years of 2015 and 2016 ($0.2 million) in favour of the Company. A written judgement is still pending. The TRA did not file a Notice of Intention to Appeal at Tax Revenue Appeals Tribunal ("TRAT") by the statutory filing deadline. The Company continues to monitor actions taken by the TRA.

On May 15, 2023, the Company filed statements of appeal at the TRAB for the remainder of claims on TRA's notice of assessments with respect to the corporate income tax assessments for the years of 2012 to 2016 and tax on repatriated income for the years of 2012 to 2014, and is awaiting a hearing date.

In Q3 2023, the TRAT pronounced its judgement on the corporate income tax appeal for the year 2011 ($1.6 million) in favour of the TRA. The Company filed a Notice of Intention to Appeal at the Court of Appeal of Tanzania ("CAT"). Subsequent to the quarter end, the Company filed a Memorandum of Appeal and is awaiting a hearing date.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.8 million) for the years of 2015 to 2021. The Company objected to the assessments on the grounds of the assessments lacking merit; additionally, the assessments for the years of 2015 and 2016 were time-barred. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue final determination on the objections within the statutory time limit, the Company filed Notices of Intention at Appeal at the TRAB. Subsequent to the quarter end, the Company filed statements of appeal and is awaiting a hearing date.

In Q4 2022, the TRA issued six assessments for corporate income tax and for ensuing interest on deemed delayed payments ($0.5 million) for the years of 2018 to 2020. The Company objected to the assessments on the grounds of incorrect disallowance of expenses and use of exchange rates. In Q3 2023, following TRA's failure to issue final determination on the objections within the statutory time limit, the Company filed Notices of Intention at Appeal at the TRAB. Subsequent to the quarter end, the Company filed statements of appeal and is awaiting a hearing date.

In Q4 2022, the TRA issued an assessment for VAT ($0.1 million) for the years 2019 and 2020. The Company objected to the assessment on the grounds that TRA incorrectly disallowed input VAT on certain services. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue final determination on the objections within the statutory time limit, the Company filed Notices of Intention at Appeal at the TRAB. Subsequent to the quarter end, the Company filed statements of appeal and is awaiting a hearing date.

Management, with advice from its legal counsel, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no further provision is required. However, if the TRA reassesses the Company's tax returns for open taxation years on a similar basis, the Company may be required to make future deposits to object such assessments.

The process of appealing assessments issued by TRA start by initially filing an appeal with TRA. If this is not successful, claims can be taken to higher authorities, starting with the TRAB, followed by an appeal to the TRAT and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2022 for a full discussion.

In 2016 the TRA introduced significant changes in relation to the income tax treatment of the extractive sector with separate new chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Further changes were subsequently made by the Written Laws (Miscellaneous Amendments) Act, 2017 ("WLMAA, 2017") and in particular section 36(a)(ii) of the WLMAA, 2017. The WLMAA, 2017 amended sections 65M and 65N of the ITA, 2004 to exclude cost oil/cost gas from inclusion in both income and expenditure. The Company continues to review the tax effects of the changes as there are a number of uncertainties and ambiguities as to the interpretation and application of certain provisions of the WLMAA, 2017. In the absence of guidance on these matters, the Company has used what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and the results of operations, which may change as it receives additional clarification and implementation guidance. The Company does not expect a significant impact from the changes as it is able to recover taxes payable from the TPDC Profit Gas revenue entitlement under the terms of the PSA.

Management's Discussion & Analysis cont.

Quarterly Results Summary

The following is a summary of the results for the Company for the last eight quarters:

Figures in $'000	2023			2022				2021
except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**27,374**	28,006	30,407	31,877	30,537	28,223	27,452	24,819
Net income attributable to shareholders	**256**	3,282	3,914	2,325	11,443	6,567	7,391	1,548
Earnings per share								
– basic and diluted ($)	**0.01**	0.17	0.20	0.12	0.57	0.33	0.37	0.08
Net cash flows from operating activities	**14,995**	16,160	7,472	15,438	19,544	28,601	4,077	18,521
Capital expenditures	**2,928**	1,405	1,705	3,615	1,222	3,306	14,263	12,496

Revenue increased in Q1 2022 as a result of increased sales to the power sector and decreased TPDC share of revenue as a result of increased capital expenditures. Revenue increased in Q2 2022 as a result of increased sales to the power sector. Revenue increased in Q3 2022 as a result of increased sales to the power sector and a higher current income tax adjustment. Revenue increased in Q4 2022 as a result of a further increase in sales to both industrial and the power sector and a higher current income tax adjustment. Revenue decreased in Q1 2023 as a result of a decrease in sales to the industrial sector. Revenue decreased in Q2 2023 as a result of a further decrease in sales to both the industrial sector and the power sector partially offset by a decreased TPDC share of revenue. Revenue decreased in Q3 2023 as a result of an increased TPDC share of revenue.

Net income attributable to shareholders was affected by several factors, other than changes in revenue:

- the increase in Q1 2022 was a result of recording loss allowance for receivables in Q4 2021;
- the decrease in Q2 2022 was a result of an increase in finance expense;
- the increase in Q3 2022 was a result of a collection of TANESCO arrears;
- the decrease in Q4 2022 was a result of no collection of TANESCO arrears compared to Q3 2022 and the impairment of the investment in Swala TZ in Q4 2022;
- the increase in Q1 2023 was a result of a higher deferred tax recovery;
- the decrease in Q2 2023 was a result of higher general and administrative and finance expenses; and
- the decrease in Q3 2023 was a result of lower reversal of loss allowance for receivables, an expense in relation to the Long Term Retention Plan and a higher foreign exchange loss.

In addition to the factors impacting net income attributable to shareholders, net cash flows from operating activities were primarily affected by the timing and amount of payments received from TANESCO. The decrease in Q1 2022 was primarily a result of the payment of the annual 2021 current APT liability. Correspondingly, the increase in Q2 2022 was a result of the payment of the current APT liability in the previous quarter and changes in non-cash working capital. The decrease in Q3 2022 was primarily a result of the changes in non-cash working capital, namely the decrease in accounts payable related to deferred income on take or pay contracts. The decreases in Q4 2022 and Q1 2023 were primarily a result of the changes in the non-cash working capital, namely the decreases in tax payable and trade and other payables. Similarly, the increase in Q2 2023 was primarily a result of the changes in the non-cash working capital, namely the decrease in trade and other receivables. The decrease in Q3 2023 was primarily a result of the changes in the non-cash working capital, namely the decrease in trade and other payables.

Capital expenditures in Q4 2021 and Q1 and Q2 2022 were mainly related to the well workover program. Capital expenditures in Q3 2022 were mainly related to the well workover program and the 3D seismic acquisition program. Capital expenditures in Q4 2022 and Q1, Q2 and Q3 2023 were mainly related to the 3D seismic acquisition program.

Non-GAAP Financial Measures and Ratios

In this MD&A, the Company has disclosed the following non-GAAP financial measures, non-GAAP ratios and supplementary financial measures: capital expenditures, operating netback, operating netback per mcf, working capital, net cash flows from operating activities per share and weighted average Class A and Class B Shares.

These non-GAAP financial measures and ratios disclosed in this MD&A do not have any standardized meaning under IFRS and may not be comparable to similar financial measures disclosed by other issuers. These non-GAAP financial measures and ratios should not, therefore, be considered in isolation or as a substitute for, or superior to, measures and ratios of Company's financial performance defined or determined in accordance with IFRS. These non-GAAP financial measures and ratios are calculated on a consistent basis from period to period.

Capital expenditures

Capital expenditures is a useful measure as it provides an indication of our investment activities. The most directly comparable financial measure is net cash from (used in) investing activities. A reconciliation to the most directly comparable financial measure is as follows:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Pipelines, well workovers and infrastructure	**2,918**	1,214	**5,917**	18,521
Other capital expenditures	**10**	8	**121**	270
Capital expenditures	**2,928**	1,222	**6,038**	18,791
Change in non-cash working capital	**294**	4,653	**547**	2,858
Net cash used by investing activities	**3,222**	5,875	**6,585**	21,649

Operating netback

Operating netback is calculated as revenue less processing and transportation tariffs, TPDC's revenue share, and operating and distribution costs. (see "Operating Netback"). The operating netback summarizes all costs that are associated with bringing the gas from the Songo Songo gas field to the market, and is a measure of profitability. A reconciliation to the most directly comparable financial measure is as follows:

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Revenue	**27,374**	30,537	**85,787**	86,212
Production, distribution and transportation expenses	**(5,132)**	(4,835)	**(14,621)**	(13,212)
Net Production Revenue	**22,242**	25,702	**71,166**	73,000
Less current income tax adjustment (recorded in revenue)	**(4,118)**	(5,334)	**(13,631)**	(11,322)
Operating netback	**18,124**	20,368	**57,535**	61,678
Sales volumes MMcf	**7,624**	8,478	**23,821**	22,891
Netback $/mcf	**2.38**	2.41	**2.42**	2.69

Non-GAAP Ratios

Operating netback per mcf

Operating netback per mcf represents the profit margin associated with the production and sale of Additional Gas and is calculated by taking the operating netback and dividing it by the volume of Additional Gas delivered and sold. This is a key measure as it demonstrates the profit generated from each unit of production.

Supplementary Financial Measures

Working capital

Working capital is defined as current assets less current liabilities, as reported in the Company's Consolidated Statements of Financial Position. It is an important measure as it indicates the Company's ability to meet its financial obligations as they fall due.

Net cash flows from operating activities per share

Net cash flows from operating activities per share is calculated as net cash flows from operating activities divided by the weighted average number of shares, similar to the calculation of earnings per share. Net cash flow from operations is an important measure as it indicates the cash generated from the operations that is available to fund ongoing capital commitments.

Management's Discussion & Analysis cont.

Supplementary Financial Measures cont.

Weighted average Class A and Class B Shares

In calculating the weighted average number of shares outstanding during any period, the Company takes the opening balance multiplied by the number of days until the balance changes. It then takes the new balance and multiplies that by the number of days until the next change, or until the period end. The resulting multiples of shares and days are then aggregated and the total is divided by the total number of days in the period.

Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reader is referred to the Company's December 31, 2022 audited consolidated financial statements for a description of estimates and judgments.

Business Risks

The Company operates internationally in the oil and gas industry and is exposed to various market and operational risks. For a discussion of these risks, please see "Business Risks" in the MD&A for the year ended December 31, 2022 available on SEDAR at www.sedar.com or on the Company's website.

Country Risk

The disputed actions taken by the TRA in 2020 to seize funds from PAET's bank account using Agency Notices further highlight the country risks of operating in Tanzania. There is no assurance that such disputes will be resolved in favour of the Company and such actions may have a material adverse effect on our activities and ability to operate and monetize our interests in Tanzania.

Forward Looking Statements

This MD&A contains forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. All statements, other than statements of historical fact included in this MD&A, which address activities, events or developments that Orca expects or anticipates to occur in the future, are forward-looking statements. Forward-looking statements often contain terms such as may, will, should, anticipate, expect, continue, estimate, believe, project, forecast, plan, intend, target, outlook, focus, could and similar words suggesting future outcomes or statements regarding an outlook. More particularly, this MD&A contains, without limitation, forward looking statements pertaining to the following: the Company's expectations regarding the demand for gas supply to satisfy power demand; assumptions pertaining to the use of gas fired capacity on a continuous basis; anticipated average gas sales, including Additional Gas sales for 2023 and average production guidance (Additional Gas) for 2024; ongoing negotiation of new commercial terms and discussion of requirements under the Gas Agreement with Songas and TPCPLC; planned intervention in offshore well SS-7 and anticipated increased gas delivery; planned installation of a new common well inlet manifold and its anticipated effects; implementation of a new work program at the Songas plant and forecasted production improvement as a result; planned production logging program at various wells and its anticipated effects; the Company's expectation that all capital allocation decisions will be based upon prudent economic evaluations and returns; extension of the development license by TPDC and the Company's expectation to continue to actively engage with the GoT to progress the license extension; maintenance of gas sale contract discipline by the Company in accordance with its gas supply agreements; entrance into settlement discussions with the FCC with respect to its alleged claims; forecasts regarding future development capital spending and the anticipated source of funding; the timing and effective rate of the APT payable by the Company and credit to the cost pool; the receipt of the payment of arrears from TANESCO; anticipated award amount payable under the Long Term Retention Plan and achievement of its intended positive effects; continued accrual of participation interest until the specified date; the Company's expectation that there will be no future restrictions on the movement of cash from Jersey, Mauritius or Tanzania; continued work by the Company with the GoT on alternative development plan for longer term field development; expectations regarding the recovery of workover costs from Songas under the settlement agreement and receipt of such payments in Q4 2023 and Q2 2024; the Company's plans to purchase Class B Shares under the 2023 NCIB; availability of necessary regulatory approvals; the Company's debt and interest payments and capital expenditure forecasts; the Company's expectation that it will maintain adequate working capital to cover the Company's long-term and short-term obligations; all planned capital expenditures can be funded from cash flow generated by current operations; the Company's expectations that no circumstances will significantly impact the Company's cash flow or liquidity; the Company's expectations that it will be able to convert Tanzanian shillings into US dollars during and after the current foreign exchange deficiency; the Company does not expect to incur any loses from debtors in 2023; the Company's expectations regarding supply and demand of natural gas; the Company's expectations regarding changes to its tax liabilities and the results of its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017 and the implementation of further legislation; and Company's expectation and evaluations on the timing and results of its position, objections and appeals to the decisions and assessments of the TRA and TRAB under "Contingencies – Taxation" in this MD&A. In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be produced profitably in the future. The recovery and reserve estimates of the Company's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, access to resources and infrastructure, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

Forward Looking Statements cont.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, and many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: fluctuations in demand for natural gas and power supply in Tanzania; use of gas fired capacity different than anticipated; the Company's average gas sales including sale of Additional Gas and average production guidance (Additional Gas) are lower than anticipated; uncertainties involving the negotiation of new commercials terms under the Gas Agreement with Songas and TPCPLC and necessary requirements; risk that the timing of the completion and anticipated benefits from the Company's various development programs in 2023 and 2024 are different than expected; that not all capital allocation decisions will be based upon prudent economic evaluations and returns; inability to extend the development license and inability to maintain gas sale contract discipline; failure to reach settlement with the FCC; accrual of participation interest is different than expected; changes in the anticipated award amount payable under the Long Term Retention Plan and failure to achieve intended effects; changes to the timing and effective rate of the APT payable by the Company; changes to forecasts regarding future development capital spending and source of capital spending; failure to receive payments from TANESCO; risk of future restrictions on the movement of cash from Jersey, Mauritius or Tanzania; occurrence of circumstance or events which significantly impact the Company's cash flow and liquidity and the Company's ability cover its long-term and short-term obligations or fund planned capital expenditures; occurrence of loses from debtors in 2023; prolonged foreign exchange reserves deficiency in Tanzania; inability to convert Tanzanian shillings into US dollars as and when required; discontinuation of work by the Company with the GoT on alternative development plan for longer term field development; failure to receive or late receipt to recover workover costs from Songas; risk that the Company does not purchase the maximum number of Class B Shares or any Class B Shares under the 2023 NCIB; failure to obtain necessary regulatory approvals; risks regarding the uncertainty around evolution of Tanzanian legislation; future TRA assessment and the risks surrounding the Company's ability to make future deposits to object future TRA's assessments that may arise; risk that the Company will not be successful in appealing claims or decisions made by the TRA or TRAB and may be required to pay additional taxes and penalties; risk of unanticipated effects regarding changes to the Company's tax liabilities and its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017, the implementation of further legislation and the Company's interpretation of the same; risk of a lack of access to Songas processing and transportation facilities; risk that the Company may be unable to complete additional field development to support the Songo Songo production profile through the life of the license; risks associated with the Company's ability to complete sales of Additional Gas; negative effect on the Company's rights under the PSA and other agreements relating to its business in Tanzania as a result of recently enacted legislation, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; the impact of general economic conditions in the areas in which the Company operates; civil unrest; the susceptibility of the areas in which the Company operates to outbreaks of disease; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations; impact of local content regulations and variances in the interpretation and enforcement of such regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, oil and gas field services and skilled personnel; failure to obtain required equipment for field development; effect of changes to the PSA on the Company as a result of the implementation of new government policies for the oil and gas industry; imprecision in reserve estimates; incorrect forecasts in production and growth potential of the Company's assets; inability to obtain required approvals of regulatory authorities; risks associated with negotiating with foreign governments; failure to successfully negotiate agreements; risk that the Company will not be able to fulfill its contractual obligations; risk that trade and other receivables may not be paid by the Company's customers when due; inability to satisfy debt conditions of financing; changes to the Company's debt and interest payments and capital expenditure forecasts; the risk that the Company's Tanzanian operations will not provide near term revenue earnings; and such additional risks listed under "Business Risks" in the Company's MD&A for the year ended December 31, 2022. In addition, there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but not limited to: increased demand for gas supply; use of gas fired capacity on a continuous basis as expected; the Company's average Additional Gas sales and average guidance (Additional Gas) are in line with forecasts; successful negotiation of the Gas Agreement; successful implementation of various development programs at the budgeted expenditures; all capital allocation decisions will be based upon prudent economic evaluations and returns; successful extension of the development license and maintenance of gas sale contract discipline on a go-forward basis pursuant to the Company's gas supply agreements; successful resolution and settlement of FCC claims; anticipated award amount payable under the Long Term Retention Plan and achievement of its intended positive effects; accrual of participation interest as expected; correct forecast on the timing and effective rate of the APT payable by the Company; that the Company will receive payment of arrears from TANESCO; that there will continue to be no restrictions on the movement of cash from Mauritius, Jersey or Tanzania; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and debt and interest obligations as needed; the Company does not incur any loses from debtors in 2023 and 2024; absence of circumstances or events that significant impact the Company's cash flow and liquidity; the Company will continue to be able to convert Tanzanian shillings into US dollars; continued work by the Company with the GoT on alternative development plan for longer term field development as anticipated; the ability of the Company to complete the 2023 NCIB as planned; the Company's ability to obtain necessary regulatory approvals; the anticipated supply and demand of natural gas are in line with the Company's expectations; long term field development will be carried out as planned; that the Company will recover workover costs from Songas under the settlement agreement with receipt of such payments in Q4 2023 and Q1 2024; the Company's assessment of the merits of its appeal or claims before the TRA and TRAB regarding tax assessments and penalties; the Company's interpretation and prediction of the effects regarding changes to the Company's tax.

Management's Discussion & Analysis cont.

Forward Looking Statements cont.

liabilities and its operations as a result of amendments made to the ITA, 2004, the WLMAA, 2017, the implementation of further legislation; the Company's ability to obtain revenue earnings from its operations; access to customers and suppliers; availability of employees to carry out day-to-day operations, and other resources; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of the Company to increase production as required to meet demand; infrastructure capacity; commodity prices will not deteriorate significantly; the ability of the Company to obtain equipment and services in a timely manner to carry out exploration, development and exploitation activities; availability of skilled labour; timing and amount of capital expenditures and source of funding are in line with forecasts; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company's appeal of various tax assessments will be successful; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; the effect of any new environmental and climate change related regulations will not negatively impact the Company; the Company's ability to maintain strong commercial relationships with the GoT and other state and parastatal organizations; the current and future administration in Tanzania continues to honor the terms of the PSA and the Company's other principal agreements; and other matters.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Oil and Gas Advisory

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6Mcf: 1 Bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. For certainty, all referenced herein to "production", "gross daily sales", "gas sales" and "Additional Gas sales" are references to conventional natural gas production, conventional natural gas daily sales, conventional natural gas sales and conventional natural gas sales, which are classified as Additional Gas in accordance with the PSA, respectively.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Glossary

mcf	Thousand standard cubic feet
MMcf	Million standard cubic feet
Bcf	Billion standard cubic feet
Tcf	Trillion standard cubic feet
MMcfd	Million standard cubic feet per day
MMbtu	Million British thermal units
1P	Proven reserves
2P	Proven and probable reserves
kWh	Kilowatt hour
MW	Megawatt
$	United States dollars
CDN$	Canadian dollars

Q3 2023 Interim Financial Statements and Notes

NOTIFICATION OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine-month periods ended September 30, 2023.

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

		Three Months ended September 30		Nine Months ended September 30	
$'000	Note	2023	2022	2023	2022
Revenue	6, 7	**27,374**	30,537	**85,787**	86,212
Production, distribution and transportation		**5,132**	4,835	**14,621**	13,212
Net production revenue					
Operating expenses		**22,242**	25,702	**71,166**	73,000
General and administrative		**4,602**	3,382	**12,358**	9,728
Stock based compensation expense (recovery)	14	**(1)**	(74)	**6**	(119)
Depletion	10	**8,580**	7,144	**26,805**	19,288
Reversal of loss allowance for receivables	9	**(519)**	(5,378)	**(2,014)**	(7,427)
Finance income	8	**(422)**	(187)	**(1,140)**	(313)
Finance expense	8	**5,395**	2,766	**13,686**	7,292
Income before tax		**4,607**	18,049	**21,465**	44,551
Income tax expense – current		**3,962**	4,337	**12,779**	9,736
Income tax (recovery) expense – deferred		**(1,786)**	(769)	**(5,175)**	2,206
Additional Profits Tax		**2,175**	2,441	**6,409**	5,343
Net income		**256**	12,040	**7,452**	27,266
Net income attributable to non-controlling interest	20	**–**	597	**–**	1,865
Net income attributable to shareholders		**256**	11,443	**7,452**	25,401
Foreign currency translation gain (loss) from foreign operations		**(31)**	(66)	**7**	(148)
Comprehensive income		**225**	11,377	**7,459**	25,253
Net income attributable to shareholders per share *($)*					
Basic and diluted	15	**0.01**	0.57	**0.38**	1.27

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

		As at	
$'000	Note	September 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		**101,738**	96,321
Trade and other receivables	9	**25,731**	35,100
Prepayments		**930**	1,551
		128,399	132,972
Non-current assets			
Long-term receivables	12	**10**	2,215
Capital assets	10	**91,604**	112,896
		91,614	115,111
Total assets		**220,013**	248,083
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**31,587**	43,192
Tax payable		**9,972**	5,081
Current portion of long-term loan	13	**10,000**	10,000
Current portion of Additional Profits Tax		**12,564**	13,146
		64,123	71,419
Non-current liabilities			
Deferred income taxes		**21,081**	26,256
Lease liabilities	10	**–**	13
Long-term loan	13	**34,919**	39,762
Additional Profits Tax		**9,191**	15,347
		65,191	81,378
Total liabilities		**129,314**	152,797
SHAREHOLDERS' EQUITY			
Capital stock	14	**47,171**	47,257
Accumulated other comprehensive loss		**(265)**	(272)
Accumulated income		**43,793**	42,631
Non-controlling interest	20	**–**	5,670
		90,699	95,286
Total equity and liabilities		**220,013**	248,083

See accompanying notes to the condensed consolidated interim financial statements.

Nature of operations (Note 1); Contractual obligations (Note 17); Contingencies (Note 18).

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

		Three Months ended June 30		Six Months ended June 30	
$'000	Note	2023	2022	2023	2022
OPERATING ACTIVITIES					
Net income		**256**	12,040	**7,452**	27,266
Adjustment for:					
Depletion and depreciation	10	**8,673**	7,236	**27,089**	19,548
Indirect tax	8	**295**	307	**975**	772
Stock based compensation (recovery) expense	14	**(1)**	(74)	**6**	(119)
Deferred income tax (recovery) expense		**(1,786)**	(765)	**(5,175)**	2,210
Additional Profits Tax		**2,175**	2,441	**6,409**	5,343
Unrealized loss (gain) on foreign exchange		**2,764**	(132)	**2,880**	(430)
Interest expense	8	**1,911**	2,366	**6,031**	6,207
Finance income		**–**	–	**241**	–
Change in non-cash working capital	19	**708**	(3,875)	**(7,281)**	(8,575)
Net cash flows from operating activities		**14,995**	19,544	**38,627**	52,222
INVESTING ACTIVITIES					
Capital expenditures	10	**(3,222)**	(5,875)	**(6,585)**	(21,649)
Net cash used in investing activities		**(3,222)**	(5,875)	**(6,585)**	(21,649)
FINANCING ACTIVITIES					
Lease payments		**(13)**	–	**(166)**	(159)
Normal course issuer bid	14	**–**	(76)	**(132)**	(207)
Long-term loan repayment	13	**–**	–	**(5,000)**	–
Interest paid	8	**(1,144)**	(1,335)	**(6,627)**	(5,462)
Dividends paid to shareholders	14	**(1,454)**	(1,551)	**(4,408)**	(4,726)
Distribution to non-controlling interest shareholder		**(7,500)**	–	**(7,500)**	–
Net cash used in financing activities		**(10,111)**	(2,962)	**(23,833)**	(10,554)
Increase in cash		**1,662**	10,707	**8,209**	20,019
Cash and cash equivalents at the beginning of the period		**102,872**	82,445	**96,321**	72,985
Effect of change in foreign exchange on cash for the period		**(2,796)**	(34)	**(2,792)**	114
Cash and cash equivalents at the end of the period		**101,738**	93,118	**101,738**	93,118

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes In Shareholders' Equity (Unaudited)

$'000	Capital stock	Accumulated other comprehensive loss	Accumulated income	Non-Controlling interest	Total
Note	*14*		*14*	*20*	
Balance as at December 31, 2022	47,257	(272)	42,631	5,670	95,286
Share repurchase	(86)	–	(46)	–	(132)
Dividends declared	–	–	(4,414)	–	(4,414)
Distribution to non-controlling interest shareholder	–	–	(1,830)	(5,670)	(7,500)
Foreign currency translation adjustment on foreign operations	–	7	–	–	7
Net income	–	–	7,452	–	7,452
Balance as at September 30, 2023	**47,171**	**(265)**	**43,793**	**–**	**90,699**

$'000	Capital stock	Accumulated other comprehensive loss	Accumulated income	Non-Controlling interest	Total
Note	*14*		*14*	*20*	
Balance as at December 31, 2021	47,454	(177)	21,061	3,116	71,454
Share repurchase	(132)	–	(75)	–	(207)
Dividends declared	–	–	(4,598)	–	(4,598)
Foreign currency translation adjustment on foreign operations	–	(148)	–	–	(148)
Net income	–	–	25,401	1,865	27,266
Balance as at September 30, 2022	47,322	(325)	41,789	4,981	93,767

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

General Information

Orca Energy Group Inc. was incorporated on April 28, 2004 under the laws of the British Virgin Islands with its registered office located at PO Box 146, Road Town, Tortola, British Virgin Islands, VG110. The Company produces and sells natural gas to the power and industrial sectors in Tanzania.

The condensed consolidated interim financial statements of the Company as at September 30, 2023 and for the three and nine months ended September 30, 2023 comprise the accounts of the Company and its subsidiaries (collectively, the "Company" or "Orca Energy") and were authorized for issue in accordance with a resolution of the directors on November 15, 2023. The Company is controlled by Shaymar Limited who is the registered holder of 24.8% of the equity and controls 71.6% of the total votes of the Company. The shares are held in a trust that is independently managed for the beneficiaries.

1. Nature of Operations

The Company's principal operating asset is an interest held by a subsidiary, PanAfrican Energy Tanzania Limited ("PAET"), in a Production Sharing Agreement ("PSA") with the Tanzania Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement until July 2024 ("Gas Agreement") to Songas Limited ("Songas") and Tanzania Portland Cement PLC. Songas is the owner of the infrastructure that enables the gas to be delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island ("Songas Infrastructure"). The Company operates the gas processing plant and field on a "no gain no loss" basis and receives no revenue for the Protected Gas delivered to Songas.

Under the PSA, the Company has the right to produce and market all gas in the Songo Songo Block in excess of the Protected Gas requirements ("Additional Gas") until the PSA expires in October 2026.

The Tanzania Electricity Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the GoT, with oversight by the Ministry for Energy ("MoE"). TANESCO is responsible for the majority of electricity generation, transmission and distribution throughout Tanzania. The Company and TPDC as joint sellers currently supply Additional Gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas. The Company also delivers gas to TPDC through a long-term gas sales agreement ("LTGSA") to the TPDC operated National Natural Gas Infrastructure ("NNGI") on Songo Songo Island where the natural gas is processed before being transported to Dar es Salaam for power and industrial use.

In addition to gas supplied to TPDC, Songas and TANESCO, the Company has developed and supplies an industrial gas market in the Dar es Salaam area.

2. Basis of Preparation

Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and do not include all information required for full annual financials and should be read in conjunction with the audited financial statements for the year ended December 31, 2022.

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting. The consolidated financial statements are presented in United States dollars ("$") unless otherwise stated.

Climate change regulations

Risks related to climate change may have an impact on the Company's operations and the Company may be subject to additional disclosure requirements in the future. The International Sustainability Standards Board issued an IFRS Sustainability Disclosure Standard with the objective to develop a global framework for environmental sustainability disclosure. In addition, the Canadian Securities Administrators also issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters which sets forth additional reporting requirements for Canadian Public Companies. We continue to monitor developments on these reporting requirements and the impact they may have on the Company's financial position and results of operating activities in future periods.

3. Summary of Significant Accounting Policies

The Company's accounting policies are set forth in Note 3 to the audited consolidated financial statements for the year ended December 31, 2022. There have been no changes in accounting policies for the nine month period ended September 30, 2023 and the policies have been applied consistently to all periods presented in the condensed consolidated interim financial statements.

4. Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from these estimates. In preparing these interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2022.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2022 for a full discussion.

5. Risk Management

The Company, by its activities in gas exploration, development and production, is exposed to the risk associated with the unpredictable nature of the financial markets as well as political risk associated with conducting operations in an emerging market. The Company seeks to manage its exposure to these risks wherever possible.

A. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from TANESCO, Songas and TPDC. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at September 30, 2023 and December 31, 2022, loss allowance exists against all of the long-term TANESCO receivable, gas plant operations and capital expenditure receivables from Songas, and a receivable of $0.5 million from one industrial customer.

The Company manages the credit exposure related to cash and cash equivalents by selecting counterparties based on credit ratings and monitoring all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Company's cash resources are placed with reputable financial institutions with no history of default.

B. Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. At September 30, 2023 the Company has working capital, defined as total current assets less total current liabilities, of $64.3 million which is net of $64.1 million of financial liabilities with regards to trade and other liabilities of which $31.0 million is due within one to three months, $17.6 million is due within three to six months, and $15.5 million is due within six to twelve months (see Note 11).

As at September 30, 2023 approximately 28% of the current liabilities relate to TPDC (see Note 11). The amounts due to TPDC represent its share of Profit Gas. In accordance with the terms of the PSA, TPDC is entitled to the payment of its share of Profit Gas on a quarterly basis proportional to the cash receipts during the quarter. A substantial proportion of the TPDC liability is associated with the long-term TANESCO arrears and payments to TPDC are made when cash is received for the arrears.

COVID-19 reduced travel throughout the world. Tourism is a major source of revenue and foreign currency for Tanzania and the decrease in travel combined with global economic slowdown and the Ukraine war has seen a widening decline in foreign exchange reserves in Tanzania. It has been more difficult for the Company to convert Tanzanian shillings to United States dollars as of Q3 2023, however, as at the date of this report, this has not significantly impacted PAET's ability to meet its United States dollar liabilities or obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to United States dollars or other hard currencies as and when required. It is unknown how long this risk will continue.

6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During 2022 and Q1, Q2 and Q3 2023 the Company's producing assets were entirely located in Tanzania.

7. Revenue

	Three Months ended September 30		Nine Months ended September 30	
$/000	2023	2022	2023	2022
Industrial sector	**11,614**	10,381	**32,666**	32,081
Power sector	**23,479**	26,300	**73,536**	68,729
Gross field revenue	**35,093**	36,681	**106,202**	100,810
TPDC share of revenue	**(11,837)**	(11,478)	**(34,046)**	(25,920)
Company operating revenue	**23,256**	25,203	**72,156**	74,890
Current income tax adjustment	**4,118**	5,334	**13,631**	11,322
	27,374	30,537	**85,787**	86,212

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during the first nine months of 2022 and 2023.

During Q3 2023 the Company invoiced TANESCO $3.4 million for gas deliveries (Q3 2022: $7.2 million) and received $6.9 million in payments for current receivables (Q3 2022: $16.9 million). These amounts are inclusive of value added tax ("VAT"). Based on the consistent payments from TANESCO, the Company: (i) recognized all amounts invoiced for gas deliveries in Q3 2023 and Q3 2022 as revenue; and (ii) recognized $ nil during Q3 2023 (Q3 2022: $5.6 million) as a reversal of loss allowance relating to the amounts collected during the year that were applied toward the long-term TANESCO receivables previously allowed for (see Note 9). During Q3 2023 TANESCO paid the Company $3.4 million against the 2021 take or pay invoice. TANESCO have now settled all outstanding principal take or pay invoices (related interest balances remain outstanding).

Subsequent to September 30, 2023 the Company has invoiced TANESCO $5.6 million for October 2023 gas deliveries and TANESCO has paid the Company $3.3 million to date.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

8. Finance Income and Expense

Finance Income

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Interest income	**422**	187	**1,140**	313
	422	187	**1,140**	313

Finance Expense

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Base interest expense	**1,213**	1,482	**3,758**	4,402
Participation interest expense	**697**	878	**2,268**	1,786
Lease interest expense	**1**	6	**5**	19
Interest expense	**1,911**	2,366	**6,031**	6,207
Net foreign exchange loss	**3,189**	93	**4,475**	313
Indirect tax	**295**	307	**975**	772
Long-term receivable write off	**–**	–	**2,205**	–
	5,395	2,766	**13,686**	7,292

Base interest expense and participation interest expense relate to the long-term loan ("Loan") with the International Finance Corporation ("IFC"). Base interest on the Loan is payable quarterly in arrears at 10% per annum on a "pay-if-you-can-basis" using a formula to calculate the net cash available for such payments as at any given interest payment date. The participation interest expense is paid annually in arrears and equates to 6.4% of PAET's net cash flows from operating activities net of net cash flows used in investing activities for the year. Such participation interest will continue to accrue until October 15, 2026 regardless of whether the Loan is repaid prior to its contractual maturity date (see Note 13).

Net foreign exchange loss includes realized and unrealized revaluation gains and losses. Specifically, unrealized revaluation loss represents changes in fair value of cash balances denominated in Tanzanian shillings. The indirect tax includes VAT on the invoices to TANESCO for interest on late payments. Long-term receivable write off is related to VAT on the workovers that had already been paid and was reclassified as a long-term receivable in 2017 (see Note 12).

9. Current Trade and Other Receivables

	As at	
$'000	September 30, 2023	December 31, 2022
Trade receivables		
Songas	**3,991**	2,511
TPDC	**7,047**	4,694
TANESCO	**68**	3,736
Industrial customers	**9,914**	11,072
Loss allowance	**(452)**	(452)
	20,568	21,561
Other receivables		
Songas gas plant operations	**1,380**	2,304
Songas well workover program	**–**	7,825
Other	**4,508**	4,135
Loss allowance	**(725)**	(725)
	5,163	13,539
	25,731	35,100

9. Current Trade and Other Receivables cont.

Songas

As at September 30, 2023 the Company recognizes a receivable from Songas of $5.4 million (December 31, 2022: $12.6 million), while the Company owed Songas $3.0 million (December 31, 2022: $2.9 million). The amounts due to the Company are mainly for sales of gas of $4.0 million (December 31, 2022: $2.5 million) and for the operation of the gas plant of $1.4 million (December 31, 2022: $2.3 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2022: $0.7 million). In Q2 2023, Songas agreed to pay the Company $7.6 million as full and final settlement of their share of the workover costs of the SS-5 and SS-9 wells. The impact of this settlement will be recognized on its receipt in monthly instalments across Q4 2023 and Q1 2024. The amounts due to Songas primarily relate to pipeline tariff charges of $2.4 million (December 31, 2022: $2.4 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

TPDC

The current receivable from TPDC is for gas deliveries through the NNGI pursuant to the signing of the LTGSA. In accordance with the LTGSA, any unpaid, overdue amounts are offset against TPDC profit share.

Reversal of loss allowance for receivables

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Reversal of loss allowance	**(519)**	(5,573)	**(2,014)**	(7,622)
Loss allowance	**–**	195	**–**	195
	(519)	(5,378)	**(2,014)**	(7,427)

The reversal of loss allowance of $0.5 million in Q3 2023 and $2.0 million for the nine months ended September 30, 2023 is associated with the indirect taxation related to the TANESCO 2020 and 2021 take or pay invoices which were paid in Q2 and Q3 2023 and had been previously not recognized.

The reversal of loss allowance in Q3 2022 follows collection of TANESCO arrears of $5.6 million which had been previously allowed for and represents the excess of receipts over gas sales invoiced during the year. The reversal of loss allowance of $7.6 million for the nine months ended September 30, 2022 also includes indirect taxation of $2.0 million related to the TANESCO 2017 take or pay invoice which was paid in Q2 2022 and had been previously not recognized.

The loss allowance of $0.2 million in Q3 2022 and for the nine months ended September 30, 2022 represents the net amount of: (i) $0.5 million previously allowed for in Q4 2021 with respect to the dispute with the Tanzanian Revenue Authority ("TRA") on the issue of withholding tax on services performed outside Tanzania by non-resident persons in 2010 and 2015-16; and (ii) $0.7 million representing the settlement amount with respect to the above withholding tax dispute. In Q3 2022 the Company, with advice from its legal counsel, agreed to settle the dispute and made the payment to TRA on August 24, 2022.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

10. Capital Assets

$'000	Natural gas interests	Office and other	Right-of-use	Total
Costs				
As at December 31, 2022	290,001	3,189	1,135	294,325
Additions	5,917	121	–	6,038
Disposals	(958)	(199)	–	(1,157)
As at September 30, 2023	**294,960**	**3,111**	**1,135**	**299,206**
Accumulated depletion and depreciation				
As at December 31, 2022	177,541	2,971	917	181,429
Additions	26,805	85	199	27,089
Disposals	(717)	(199)	–	(916)
As at September 30, 2023	**203,629**	**2,857**	**1,116**	**207,602**
Net book values				
As at September 30, 2023	**91,331**	**254**	**19**	**91,604**

In determining the depletion charge the Company takes into account an estimate of future development costs, the capital expenditure required to ensure the Company can produce the required gas volumes to meet its contractual obligations for the remaining life of the license. As at September 30, 2023 the estimated future development costs required to bring the total proved reserves to production were $53.3 million (December 31, 2022: $59.2 million). During the nine months ended September 30, 2023 the Company recorded depreciation of $0.3 million (nine months ended September 30, 2022: $0.3 million) in general and administrative expenses.

Right-of-use assets

$'000	
As at December 31, 2022	218
Depreciation	(199)
As at September 30, 2023	**19**

Lease liabilities

$'000	
As at December 31, 2022	170
Lease interest expense	5
Lease payments	(166)
As at September 30, 2023	**9**

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.01 million (December 31, 2022: $0.2 million), $0.01 million (December 31, 2022: $0.2 million) is current and is presented in trade and other liabilities.

Subsequent to September 30, 2023, the Company entered into two office rental agreements, for the office in Dar es Salaam, Tanzania. The agreements were entered into on November 1, 2023 and will expire in October 2026 at an annual rent of $0.1 million.

11. Trade and Other Payables

$'000	As at September 30, 2023	As at December 31, 2022
Songas	**3,046**	2,933
Other trade payables	**906**	2,738
Trade payables	**3,952**	5,671
TPDC Profit Gas entitlement, net	**17,878**	19,440
Deferred income – take or pay contracts	**193**	10,665
Accrued liabilities	**9,564**	7,416
	31,587	43,192

In Q2 2023, the Company approved the "Long Term Retention Plan" to encourage retention of its employees, to further the delivery of results that increase shareholder value over the four year period from October 1, 2022 to September 30, 2026 and to align the Company's approach to compensation with the Company's strategy to continue and expand its operations in Tanzania. The total potential payable to eligible participants (employees and directors) under the plan is $4.8 million, with an award payment date of September 30, 2026. This payable is being recognized on a straight line basis over the four year period. Accordingly, as at September 30, 2023, $1.2 million has been recognized as an expense and as an outstanding liability.

TPDC share of Profit Gas

$'000	As at September 30, 2023	As at December 31, 2022
TPDC share of Profit Gas	**32,858**	28,677
Less "Adjustment Factor"	**(14,980)**	(9,237)
TPDC Profit Gas entitlement, net	**17,878**	19,440

Under the PSA revenue sharing mechanism, the Company adjusts TPDC's Profit Gas share by the "Adjustment Factor". The Adjustment Factor is equal to the amount necessary to fully pay and discharge the PAET liability for taxes on income derived from petroleum operations. A significant percentage of the settlement of the $17.9 million liability to TPDC is dependent on receipt of payment from TANESCO for long-term arrears that have been fully allowed for.

12. Long-term Receivables

$'000	As at September 30, 2023	As at December 31, 2022
Amounts invoiced to TANESCO	**82,074**	92,547
Trade receivables – TANESCO	**(68)**	(3,736)
Unrecognized amounts not meeting revenue recognition criteria[1]	**(59,988)**	(66,793)
Loss allowance	**(22,018)**	(22,018)
Net TANESCO receivable	**–**	–
VAT – Songas workovers	**–**	2,205
Lease deposit	**10**	10
	10	2,215

1 The amount includes invoices for interest on late payments from TANESCO.

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during 2022 and the first nine months of 2023. During 2022, the amounts received from TANESCO were in excess of the revenue recognized for gas sales to TANESCO and $5.6 million of cumulative excess cash receipts over sales invoiced were recorded in Q3 2022, reducing the long-term arrears and allowing the reversal of the associated loss allowances.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

12. Long-term Receivables cont.

In 2017, based on agreement with TPDC, $12.3 million relating to the Songas share of workover costs of the wells SS-5 and SS-9 was transferred to the cost pool to recover the costs via the PSA cost recovery mechanism. This resulted in $2.2 million relating to VAT on the workovers that had already been paid being reclassified as a long-term receivable. In Q2 2023, Songas agreed to pay the Company $7.6 million as full and final settlement of their share of the workover costs of the SS-5 and SS-9 wells. Pursuant to the agreement with Songas, the originally issued invoices will not be settled, hence the recovery of the associated VAT of $2.2 million has been written off in Q2 2023. On receipt of the $7.6 million cash from Songas, due to be paid in monthly instalments across Q4 2023 and Q1 2024, the Company will credit the PSA cost pool accordingly. As of September 30, 2023, $2.0 million has been received from Songas and credited to the PSA cost pool.

13. Long-term Loan

In 2015 PAET obtained the Loan with the IFC, a member of the World Bank Group, for $60 million. The Loan was fully drawn down in 2016.

The Loan is to be paid out through six semi-annual payments of $5.0 million starting October 15, 2022 and one final payment of $25.2 million due on October 15, 2025. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. The Loan is an unsecured subordinated obligation of PAET and was initially guaranteed by the Company to a maximum of $30.0 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company, at its discretion, may issue shares in fulfillment of all or part of its guarantee obligation in 2025. Pursuant to the sale of the non-controlling interest in PAEM, the parent company of PAET, in 2018, the Company agreed with the IFC to reduce the outstanding amount of the Loan by the percentage interest sold of 7.9% ($4.8 million) before the fourth anniversary of the first drawdown. PAET made this payment on October 16, 2019.

Dividends and distributions from PAET are restricted, if at any time amounts of interest, principal or participating interest are due and outstanding. All amounts due under the Loan have been paid when due.

	As at	
$'000	September 30, 2023	December 31, 2022
Loan principal	**45,240**	50,240
Financing costs	**(321)**	(478)
Current portion of long-term loan	**(10,000)**	(10,000)
	34,919	39,762

14. Capital Stock

Authorised

50,000,000	Class A common shares ("Class A Shares")	No par value
100,000,000	Class B subordinate voting shares ("Class B Shares")	No par value
100,000,000	First preference shares	No par value

The Class A and Class B Shares rank pari passu in respect of dividends and repayment of capital in the event of winding-up. Class A Shares carry twenty (20) votes per share and Class B Shares carry one (1) vote per share. The Class A Shares are convertible at the option of the holder at any time into Class B Shares on a one-for-one basis. The Class B Shares are convertible into Class A Shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A Shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A Shares and which is not concurrently made to holders of Class B Shares.

14. Capital Stock cont.

Changes in the Capital Stock

	As at					
	September 30, 2023			December 31, 2022		
Number of shares	Authorised (000)	Issued (000)	Amount ($'000)	Authorised (000)	Issued (000)	Amount ($'000)
Class A Shares	**50,000**	**1,750**	**983**	50,000	1,750	983
Class B Shares	**100,000**	**18,092**	**46,188**	100,000	18,126	46,274
First preference shares	**100,000**	**–**	**–**	100,000	–	–
	250,000	**19,842**	**47,171**	250,000	19,876	47,257

The normal course issuer bid announced on July 5, 2022 ("2022 NCIB") was in effect from July 11, 2022 until July 11, 2023. During 2023 the Company repurchased and cancelled 33,800 Class B Shares at a weighted average price of CDN$4.92 per Class B Share under the 2022 NCIB. In total, the Company has repurchased and cancelled 81,000 Class B Shares at a weighted average price of CDN$4.89 per share pursuant to the 2022 NCIB.

On November 1, 2023 the Company announced a normal course issuer bid ("2023 NCIB") to commence on November 6, 2023 to purchase Class B Shares through the facilities of the TSXV and alternative trading systems in Canada. As at November 15, 2023 the Company has repurchased for cancellation 11,400 Class B Shares at a weighted average price of CDN$4.70 pursuant to the 2023 NCIB. All issued capital stock is fully paid.

Changes in Stock Appreciation Rights ("SARs")

$'000	SARs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2022	14	5.02
Exercised	(14)	5.02
Outstanding as at September 30, 2023	**–**	**–**

Changes in Restrictive Stock Units ("RSUs")

$'000	RSUs (000)	Exercise price (CDN$)
Outstanding as at December 31, 2022	3	0.01
Exercised	(3)	0.01
Outstanding as at September 30, 2023	**–**	**–**

Dividend Summary

Declaration date	Record date	Payment date	Amount per share (CDN$)
August 16, 2023	September 29, 2023	October 13, 2023	0.10
May 17, 2023	June 30, 2023	July 14, 2023	0.10
February 24, 2023	March 31, 2023	April 14, 2023	0.10
November 16, 2022	December 31, 2022	January 13, 2023	0.10
September 28, 2022	October 14, 2022	October 28, 2022	0.10
May 20, 2022	June 30, 2022	July 15, 2022	0.10
February 24, 2022	March 31, 2022	April 15, 2022	0.10

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

15. Earnings Per Share

	Three Months ended September 30		Nine Months ended September 30	
(000)	2023	2022	2023	2022
Outstanding shares				
Weighted average number of Class A and Class B Shares, basic	**19,918**	19,918	**19,933**	19,933
Weighted average number of Class A and Class B Shares, diluted	**19,918**	19,918	**19,933**	19,933

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $0.3 million (Q3 2022: $11.4 million) and a weighted average number of Class A Shares and Class B Shares outstanding during the quarter ended September 30, 2023 of 19,842,209 (Q3 2022: 19,917,732). The calculation of earnings per share for the nine months ended September 30, 2023 is based on a net income of $7.5 million (nine months ended September 30, 2022: $25.4 million) and a weighted average number of Class A Shares and Class B Shares outstanding for the nine months ended September 30, 2023 of 19,846,509 (nine months ended September 30, 2022: 19,933,139).

16. Related Party Transactions

The Chair of the Company's Board of Directors is counsel to Burnet, Duckworth & Palmer LLP, a law firm that provides legal advice to the Company and its subsidiaries. Fees for services provided by this firm totalled $0.1 million during the quarter ended September 30, 2023 (Q3 2022: $0.1 million) and $0.5 million for the nine months ended September 30, 2023 (nine months ended September 30, 2022: $0.4 million).

As at September 30, 2023 the Company had a total of $0.5 million (December 31, 2022: $0.1 million) recorded in trade and other payables in relation to related parties.

17. Contractual Obligations

Protected Gas

Under the terms of the Gas Agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas ($0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold which was 313 Bcf as at September 30, 2023 (December 31, 2022: 289 Bcf). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was initialled by all parties but remains unsigned. In certain respects, the parties thereto are conducting themselves as though the ARGA is in effect. Management does not foresee a material risk with the conduct of the Company's business with an unsigned ARGA at this time.

18. Contingencies

Upstream and Downstream Activities

The Petroleum Act, 2015 (the "Petroleum Act") provides TPDC with exclusive rights over the distribution of gas in Tanzania. The Petroleum Act has grandfathering provisions upholding the rights of the Company to develop and market natural gas produced under the PSA as it was signed prior to the Petroleum Act coming into effect in 2015.

On October 7, 2016 the GoT issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (I) of the Petroleum Act. Article 260 (3) of the Petroleum Act preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party Natural Gas customers. To date there has been no impact on the Company as a result of the Natural Gas Pricing Regulation, however, any future impact cannot be determined at this time.

Cost Recovery

TPDC conducted an audit of historical costs (the "Cost Pool") and in 2011 objected approximately $34.0 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. In 2014 a portion of the objected costs were agreed to be cost recoverable by TPDC with $25.4 million remaining as being objected. Under the dispute mechanism outlined in the PSA, parties are to agree the appointment of an independent specialist to assist the parties in reaching agreement on costs that are still subject to queries. In 2014, prior to appointing an independent specialist, TPDC suspended the process. From 2010 to 2015 TPDC rejected a further $16.8 million of costs. In 2016 the Tanzanian Petroleum Upstream Regulatory Authority ("PURA") assumed the role of auditing the PSA cost pool from TPDC and for 2016 to 2020 have rejected all costs pertaining to downstream development amounting to $15.0 million and a further $9.5 million of other costs. In 2022 the Company and PURA negotiated a settlement on certain rejections with respect to 2016 to 2018 audits. As a result of this, $2.7 million was credited to the Cost Pool in Q2 2022. In 2023 the Company and PURA negotiated a settlement on certain rejections with respect to 2019 to 2020 audits. As a result of this, $0.7 million was credited to the Cost Pool in Q2 2023. To date there remains a total of $66.6 million of costs that have been queried or rejected by TPDC or PURA through the cost pool audit process.

18. Contingencies cont.

Tax

Amounts in $' millions					As at September 30, 2023	As at December 31, 2022
Area	Period	Reason for dispute	Principal	Interest	Total	Total
Income Tax	2008-09, 2011-20	Deductibility of capital expenditures and expenses (2012, 2015 and 2016), additional income tax (2008, 2011 and 2012), foreign exchange rate application (2013 to 2015, 2018 to 2020), underestimation of tax due (2014, 2016 and 2020) and methodology of grossing up of income taxes paid (2015 to 2017).	21.6	13.1	**34.7**	34.2
Tax on Repatriated Income	2012-21	Applicability of withholding tax on repatriated income (2012 to 2021)	20.6	3.8	**24.4**	24.9
VAT	2012-20	VAT already paid (2012 to 2014), VAT on imported services (2015 and 2016), interest on VAT decreasing adjustments (2017) and input VAT on services (2017 to 2020).	0.2	1.2	**1.4**	1.6
			42.4	18.1	**60.5**	60.7

During 2022, following the expiry of the statutory deadline for the TRA to respond to the Company's objections, the Company filed notices of intention to appeal to the Tanzania Revenue Appeals Board ("TRAB") against the corporate income tax assessments for the years of 2012 to 2016, tax on repatriated income for the years of 2012 to 2014, and VAT for the years of 2015 to 2016. On several occasions during 2022 these matters came for hearing, and in April 2023, the Company received determination letters from the TRA. Further to that, in May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016, in which the TRA agreed to drop certain claims with respect to previously assessed corporate income tax for the years of income of 2012 and 2016. These claims are no longer represented in the table above.

On May 22, 2023, the TRAB pronounced its judgement on the VAT appeal for the years of 2015 and 2016 ($0.2 million) in favour of the Company. A written judgement is still pending. The TRA did not file a Notice of Intention to Appeal at Tax Revenue Appeals Tribunal ("TRAT") by the statutory filing deadline. The Company continues to monitor actions taken by the TRA.

On May 15, 2023, the Company filed statements of appeal at the TRAB for the remainder of claims on TRA's notice of assessments with respect to the corporate income tax assessments for the years of 2012 to 2016 and tax on repatriated income for the years of 2012 to 2014, and is awaiting a hearing date.

In Q3 2023, the TRAT pronounced its judgement on the corporate income tax appeal for the year 2011 ($1.6 million) in favour of the TRA. The Company filed a Notice of Intention to Appeal at the Court of Appeal of Tanzania ("CAT"). Subsequent to the quarter end, the Company filed a Memorandum of Appeal and is awaiting a hearing date.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.8 million) for the years of 2015 to 2021. The Company objected to the assessments on the grounds of the assessments lacking merit; additionally, the assessments for the years of 2015 and 2016 were time-barred. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue final determination on the objections within the statutory time limit, the Company filed Notices of Intention at Appeal at the TRAB. Subsequent to the quarter end, the Company filed statements of appeal and is awaiting a hearing date.

In Q4 2022, the TRA issued six assessments for corporate income tax and for ensuing interest on deemed delayed payments ($0.5 million) for the years of 2018 to 2020. The Company objected to the assessments on the grounds of incorrect disallowance of expenses and use of exchange rates. In Q3 2023, following TRA's failure to issue final determination on the objections within the statutory time limit, the Company filed Notices of Intention at Appeal at the TRAB. Subsequent to the quarter end, the Company filed statements of appeal and is awaiting a hearing date.

In Q4 2022, the TRA issued an assessment for VAT ($0.1 million) for the years 2019 and 2020. The Company objected to the assessment on the grounds that TRA incorrectly disallowed input VAT on certain services. In Q1 2023, the Company received TRA's proposals to settle the objections. In Q2 2023, the Company responded to the proposals. In Q3 2023, following TRA's failure to issue final determination on the objections within the statutory time limit, the Company filed Notices of Intention at Appeal at the TRAB. Subsequent to the quarter end, the Company filed statements of appeal and is awaiting a hearing date.

Management, with advice from its legal counsel, has reviewed the Company's position on the objections and appeals related to the disputed amounts and has concluded that no further provision is required. However, if the TRA reassesses the Company's tax returns for open taxation years on a similar basis, the Company may be required to make future deposits to object such assessments.

The process of appealing assessments issued by TRA start by initially filing an appeal with TRA. If this is not successful, claims can be taken to higher authorities, starting with the TRAB, followed by an appeal to the TRAT and finally to the CAT. See Note 21 of the audited consolidated financial statements for the year ended December 31, 2022 for a full discussion.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited) cont.

18. Contingencies cont.

Tax cont.

In 2016 the TRA introduced significant changes in relation to the income tax treatment of the extractive sector with separate new chapters in Part V of the Income Tax Act 2004 ("ITA, 2004") for mining and for petroleum to be effective commencing in 2018. Further changes were subsequently made by the Written Laws (Miscellaneous Amendments) Act, 2017 ("WLMAA, 2017") and in particular section 36(a)(ii) of the WLMAA, 2017. The WLMAA, 2017 amended sections 65M and 65N of the ITA, 2004 to exclude cost oil/cost gas from inclusion in both income and expenditure. The Company continues to review the tax effects of the changes as there are a number of uncertainties and ambiguities as to the interpretation and application of certain provisions of the WLMAA, 2017. In the absence of guidance on these matters, the Company has used what it believes are reasonable interpretations and assumptions in applying the WLMAA, 2017 for purposes of determining its tax liabilities and the results of operations, which may change as it receives additional clarification and implementation guidance. The Company does not expect a significant impact from the changes as it is able to recover taxes payable from the TPDC Profit Gas revenue entitlement under the terms of the PSA.

19. Change in Non-Cash Operating Working Capital

	Three Months ended September 30		Nine Months ended September 30	
$'000	2023	2022	2023	2022
Decrease (increase) in trade and other receivables	**1,378**	1,518	**8,328**	(5,657)
Decrease in prepayments	**405**	312	**621**	657
Decrease in long-term receivables	**–**	–	**2,205**	–
(Decrease) increase in trade and other payables	**(3,037)**	(8,542)	**(10,180)**	435
Decrease in APT	**–**	–	**(13,146)**	(8,503)
Increase in tax payable	**1,962**	2,837	**4,891**	4,493
	708	(3,875)	**(7,281)**	(8,575)

20. Non-Controlling Interest

The Company sold 7.9% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc. ("Swala TZ") in 2018 for $15.4 million cash and $4.0 million of Swala TZ's Preference Shares pursuant to a share purchase agreement. The Preference Shares entitled the Company to a 10% per annum distribution payable 15 days after each quarter end commencing from the closing date, January 16, 2018. Payment of the quarterly distributions was at the discretion of Swala TZ based on funds available, however, the liability accrued if any amount was unpaid when due. For any distributable amount remaining unpaid at December 31, 2021, the Company may demand settlement and Swala TZ was obligated to comply by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these shares will equal the amount of the outstanding distributions.

Swala TZ was obligated to redeem 20% of the Preference Shares for cash annually starting from December 31, 2021 until all shares are redeemed. If at any time Swala TZ did not redeem in cash the required number of Preference Shares, Swala TZ was obligated to redeem the Preference Shares by transferring and returning the Class A common shares of PAEM sold to Swala TZ. The aggregate value of these Class A common shares is equal the amount of any outstanding redemption. On August 8, 2022, the Company issued a redemption notice to Swala TZ, requesting that Swala TZ redeem 20% of the outstanding Preference Shares by August 23, 2022. On January 31, 2023 the Company issued a further redemption notice to Swala TZ, requesting that Swala TZ redeem a further 20% of the outstanding Swala TZ's Preference Shares by February 15, 2023.

On April 3, 2023, Swala TZ announced that its creditors resolved that Swala TZ be placed into liquidation at a creditors' meeting held on March 31, 2023. On March 31, 2023, Apex Corporate Trustees (UK) Limited appointed representatives of Grant Thornton UK LLP as administrators of Swala UK. On July 21, 2023, the Company repurchased the 7.9% shares in PAEM held by Swala UK for $7.5 million and the non-controlling interest is therefore eliminated in Q3 2023.

A reconciliation of the non-controlling interest is detailed below:

	As at	
$'000	September 30, 2023	December 31, 2022
Balance, beginning of period	**5,670**	3,116
Net income attributable to non-controlling interest	**–**	2,554
Distribution to non-controlling interest shareholder	**(7,500)**	–
Elimination of non-controlling interest	**1,830**	–
Balance, end of period	**–**	5,670

Corporate Information

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Executive Director and
Chief Executive Officer
Vancouver, Canada

Lisa Mitchell
Executive Director and
Chief Financial Officer
London, UK

David W. Ross
Chairman and Non-Executive Director
Calgary, Canada

Dr Frannie Léautier
Non-Executive Director
Washington DC, United States

Linda Beal
Non-Executive Director
London, UK

Advisor to the Board and PAET

Lloyd Herrick
Director, PAET
Calgary, Canada

Officers

Jay Lyons
Chief Executive Officer
Vancouver, Canada

Lisa Mitchell
Chief Financial Officer
London, UK

Ewen Denning
Chief Operating Officer
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