ORCA

**Orca Energy Group Inc.**

2024 Q1 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 MONTHS ENDED MARCH 31, 2024 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH THE MD&A FOR THE YEAR ENDED DECEMBER 31, 2023. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON MAY 15, 2024. 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 indirect interest in the Songo Songo gas field, as set out in the Production Sharing Agreement ("PSA") between PanAfrican Energy Tanzania Limited ("PAET"), the Tanzanian Petroleum Development Corporation ("TPDC") and the Government of Tanzania ("GoT") in the United Republic of Tanzania. PAET is the Company's wholly owned subsidiary operating in Tanzania. The PSA covers the production and marketing of natural gas from the Songo Songo gas field offshore of Tanzania. The PSA defines the gas produced from the Songo Songo gas field as "Protected Gas" and "Additional Gas". Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 31, 2024) ("Gas Agreement") 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 of Protected Gas 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 (such gas is referred to in this document as "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"). The PGSA expires on July 31, 2024 and the LTGSA expires on October 10, 2026. Discussions are now ongoing with TANESCO to extend the PGSA, between the Company, TPDC and TANESCO. TANESCO has confirmed its intent to extend the PGSA to October 2026, however the timing of formal execution of such extension is not known at this stage.

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 Months Ended March 31, 2024

| (Expressed in $'000 unless indicated otherwise) | Three Months ended March 31 2024 | 2023 | % Change Q1/24 vs Q1/23 |
|---|---|---|---|
| **OPERATING** | | | |
| **Daily average gas delivered and sold** *(MMcfd)* | **74.3** | 94.8 | (22)% |
| Industrial | **14.0** | 13.4 | 4% |
| Power | **60.3** | 81.4 | (26)% |
| **Average price** *($/mcf)* | | | |
| Industrial | **8.94** | 8.37 | 7% |
| Power | **3.87** | 3.64 | 6% |
| Weighted average | **4.82** | 4.31 | 12% |
| **Operating netback** *($/mcf)*[1] | **2.79** | 2.35 | 19% |
| **FINANCIAL** | | | |
| Revenue | **24,937** | 30,407 | (18)% |
| **Net income attributable to shareholders** | **969** | 3,507 | (72)% |
| per share – basic and diluted *($)* | **0.05** | 0.18 | (72)% |
| **Net cash flows (used in)/from operating activities** | **(6,170)** | 7,472 | (183)% |
| per share – basic and diluted *($)*[1] | **(0.31)** | 0.38 | (183)% |
| **Capital expenditures**[1] | **1,470** | 1,705 | (14)% |
| **Weighted average Class A and Class B shares** *('000)* | **19,799** | 19,855 | 0% |

| | **March 31, 2024** | As at December 31, 2023 | % Change |
|---|---|---|---|
| **Working capital (including cash)**[1] | **72,993** | 67,323 | 8% |
| **Cash and cash equivalents** | **93,936** | 101,566 | (8)% |
| **Long-term loan** | **30,021** | 29,961 | 0% |
| **Outstanding shares** *('000)* | | | |
| Class A | **1,750** | 1,750 | 0% |
| Class B | **18,049** | 18,051 | 0% |
| **Total shares outstanding** | **19,799** | 19,801 | 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 Q1 2024

- Revenue for Q1 2024 decreased by 18% compared to the same prior year period, primarily as a result of lower sales to the power sector.
- Total gross conventional natural gas production, including fuel gas, averaged 113.1 MMcfd for Q1 2024, of which 74.3 MMcfd was Additional Gas. Gas deliveries decreased by 22% for Q1 2024 compared to the same prior year period. After 20 years of continuous production, natural gas deliverability from current producing wells and reservoir compartments in the Songo Songo field is declining. As a result of meeting significantly higher than forecasted demand in 2022 and early 2023, the concomitant reservoir pressure decline and the early onset of the wet season in 2024 (leading to increased availability of hydro power), liftings by power customers have been significantly lower in Q1 2024.
- We currently forecast average Additional Gas sales for 2024 to be in the range of 80-90 MMcfd for the full year, based on current contracted volumes continuing and the end of the Protected Gas regime on July 31, 2024.
- Discussions are ongoing with Songas and TPCPLC to negotiate new gas sales contracts from August 1, 2024 to sell the volumes which are currently supplied as Protected Gas under the Gas Agreement. The obligation to supply Protected Gas ends on July 31, 2024.
- Discussions are also ongoing with TANESCO to extend the PGSA, which currently ends on July 31, 2024, between PAET, TPDC and TANESCO. TANESCO has confirmed its intent to extend the PGSA to October 2026, however the timing of formal execution of the PGSA extension is not known at this stage.
- Net income attributable to shareholders decreased by 72% for Q1 2024 compared to the same prior year period, primarily as a result of the decreased revenue and higher net foreign exchange loss due to the devaluation of the Tanzanian shilling and exchange conversions.
- Net cash flows from operating activities decreased by 183% for Q1 2024 compared to the same prior year period, primarily as a result of negative changes in non-cash working capital, particularly increases in trade and other receivables.
- Capital expenditures decreased by 14% for Q1 2024 compared to the same prior year period. The capital expenditures in Q1 2024 primarily related to the costs of the planned SS-7 well workover program. The capital expenditures in Q1 2023 primarily related to the 3D seismic acquisition program.
- Mobilization has commenced for the production logging program planned in conjunction with the SS-7 intervention. Operations will commence early June 2024, at an estimated cost of $1.1 million. This work program will provide detailed reservoir information, in addition to annual pressure surveys, to improve the accuracy of forecasting future reservoir performance. The key targeted wells under this program are wells SS-3, SS-5 and SS-10.
- An intervention in the offshore well SS-7 is planned to take place in 2024, subject to the continued ability to convert Tanzanian shillings to US dollars in Tanzania, and further subject to extension of the PGSA and contracting of new gas sales from August 1, 2024. Mobilization orders to Mombasa, Kenya have been issued to all suppliers and service providers. Following mobilization to Songo Songo Island, well site operations are expected to commence in Q3 2024, with a forecast return to production for the well in early Q4 2024. The total expected project cost has increased to $13.9 million from $8.5 million. The work program is designed to shut off water production which caused the well to die and be shut in from 2019. The cause of the water production is interpreted to be a failed cement bond outside the production liner which created a flow path for water into the well. If successful, the SS-7 well is expected to increase field deliverability by 20-25 MMcfd from the currently non-producing southern reservoir compartment.
- The Company continues to carry out front-end engineering on the new common inlet manifold, which is designed to optimise gas flow between the Songas gas plant and the NNGI plant, both of which are supplied with gas from the Songo Songo gas field. This project is subject to final investment decision and stakeholder approvals, at an estimated cost of $5-6 million. If sanctioned to proceed, construction and installation is expected to occur in Q4 2024 - Q1 2025.
- The Company successfully installed positive chokes on all wells in Q1 2024, which increased field deliverability by 3 – 4 MMcfd. The Company continues to carry out studies to identify opportunities to improve the efficiency of operations at the Songas plant.
- Funding of capital projects will be from working capital. All capital allocation decisions will be based upon access to US dollars and prudent economic evaluation to achieve the necessary return given the short time remaining on the PSA, which expires in October 2026.
- 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 Government Negotiating Committee held a preliminary meeting with the Company in March 2024 to discuss timing around negotiations. We await confirmation of these timings for negotiations. The Company continues to seek dialogue with TPDC and the MoE to expedite license extension discussions and will maintain gas sales contract discipline going forward by operating in line with our gas supply agreements.
- The Company exited the period with $73.0 million in working capital (December 31, 2023: $67.3 million), cash and cash equivalents of $93.9 million (December 31, 2023: $101.6 million) and long-term debt of $30.0 million (December 31, 2023: $30.0 million).
- As at March 31, 2024, the current receivable from TANESCO was $10.0 million (December 31, 2022: $5.9 million). The TANESCO long-term receivable as at March 31, 2024 and as at December 31, 2023 was $22.0 million with a provision of $22.0 million. Subsequent to March 31, 2024, the Company has invoiced TANESCO $3.8 million for April 2024 gas deliveries and TANESCO has paid the Company $9.1 million to date.
- In Q4 2023, the Company terminated the contract with the contractor responsible for the 3D seismic acquisition program on the basis that the contractor suspended its operations. On March 20, 2024 PAET received a summons from the Tanzanian High Court (Commercial Division) to file a written statement of defense against a claim made by the contractor for losses arising from PAET's termination of the contract on October 25, 2023. The contractor seeks to claim $30.0 million for losses incurred plus legal costs, interest and general damages. The Company in consultation with its legal advisors believes that there are limited merits to the claim and the Company in early May lodged its own counterclaim for specific damages in the amount of $5.5 million and general damages in the amount of $25.8 million.

## Operating Volumes

The average gross daily sales volume decreased by 22% for Q1 2024 over the comparable prior year period. After 20 years of continuous production, natural gas deliverability from current producing wells and reservoir compartments in the Songo Songo field is declining. As a result of meeting significantly higher than forecasted demand in 2022 and early 2023, the concomitant reservoir pressure decline and the early onset of the wet season in 2024 (leading to increased availability of hydro power), liftings by power customers have been significantly lower in Q1 2024.

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

| | Three Months ended March 31 | |
|---|---|---|
| | **2024** | 2023 |
| **Gross sales volume** *(MMcf)* | | |
| Industrial sector | **1,272** | 1,208 |
| Power sector | **5,492** | 7,324 |
| **Total volumes** | **6,764** | 8,532 |
| | | |
| **Gross daily sales volume average** *(MMcfd)* | | |
| Industrial sector | **14.0** | 13.4 |
| Power sector | **60.3** | 81.4 |
| **Gross daily sales volume average total** | **74.3** | 94.8 |

### Industrial Sector

Industrial sector gross daily sales volumes increased by 4% for Q1 2024 over the comparable prior year period. The increase was primarily a result of the impact of unscheduled maintenance at a cement plant in Q1 2023.

### Power Sector

Power sector gross daily sales volumes decreased by 26% for Q1 2024 over the comparable prior year period. Although the deliverability from the currently producing wells and reservoir compartments in the Songo Songo field is declining over time, the early onset of the wet season in 2024 leading to increased availability of hydro power caused significantly lower lifting from power customers.

### Protected Gas Volumes

Protected Gas volumes for Q1 2024 decreased by 3% to 3,363 MMcf (37.0 MMcfd) compared to 3,460 MMcf (38.4 MMcfd) for Q1 2023. 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.

## Commodity Prices

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

| | Three Months ended March 31 | |
|---|---|---|
| $/mcf | **2024** | 2023 |
| **Average sales price** | | |
| Industrial sector | **8.94** | 8.37 |
| Power sector | **3.87** | 3.64 |
| **Weighted average price** | **4.82** | 4.31 |

### Industrial Sector

The average sales price for the industrial sector increased by 7% for Q1 2024 over the comparable prior year period. The increase is 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 6% for Q1 2024 over the comparable prior year period. 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.

## Management's Discussion & Analysis cont.

### 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" of the Company's MD&A for the year ended December 31, 2023).

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 Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited) 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 March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Industrial sector | **11,367** | 10,109 |
| Power sector | **21,250** | 26,634 |
| **Gross field revenue** | **32,617** | 36,743 |
| TPDC share of revenue | **(9,406)** | (11,573) |
| **Company operating revenue** | **23,211** | 25,170 |
| Current income tax adjustment | **1,726** | 5,237 |
| | **24,937** | 30,407 |

Revenue decreased by 18% for Q1 2024 over the comparable prior year period. The decrease is primarily a result of lower sales to the power sector and lower current income tax adjustment, partially offset by the decrease in the TPDC share of revenue.

The average Additional Gas sales volumes for the quarters ended March 31, 2024 and March 31, 2023 were above 50 MMcfd, which entitled the Company to a 55% share of Profit Gas revenue. The Company was allocated a total of 68% of the Additional Gas net field revenue for Q1 2024 (Q1 2023: 66%).

### Production, Distribution and Transportation Expenses

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

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Operating costs | **825** | 915 |
| Tariff for processing and pipeline infrastructure | **2,932** | 3,075 |
| Ring-main distribution costs | **553** | 1,145 |
| | **4,310** | 5,135 |

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 decreased by 10% for Q4 2024 over the comparable prior year period, primarily as a result of decreased insurance costs. The amount paid under the tariff for processing and pipeline infrastructure decreased by 5% for Q4 2024 compared to the same prior year period, primarily as a result of decreased gas volumes processed and delivered through the Songas Infrastructure. Ring-main distribution costs decreased by 52% for Q1 2024 over the comparable prior year period, primarily as a result of higher compressor maintenance costs in Q1 2023.

## Operating Netbacks

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 March 31 | |
|---|---|---|
| $/mcf | **2024** | 2023 |
| **Weighted average price for gas** | **4.82** | 4.31 |
| TPDC Profit Gas revenue entitlement | **(1.39)** | (1.36) |
| Production, distribution and transportation expenses | **(0.64)** | (0.60) |
| **Operating netback** | **2.79** | 2.35 |

The operating netback increased by 19% for Q1 2024 over the comparable prior year period, primarily as a result of higher weighted average price for natural gas.

## 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 March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Tanzania | **1,988** | 1,926 |
| Corporate | **2,312** | 1,517 |
| | **4,300** | 3,443 |

General and administrative expenses are detailed in the tables below:

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Employee and related costs | **2,227** | 1,772 |
| Office costs | **941** | 884 |
| ESG, marketing and business development costs | **24** | 78 |
| Reporting, regulatory and corporate | **1,108** | 709 |
| | **4,300** | 3,443 |

General and administrative expenses averaged $1.4 million per month during Q1 2024 (Q1 2023: $1.1 million). The 26% increase in employee and related costs for Q1 2024 over the comparable prior year period was mainly a result of the introduction of the long-term retention award plan ("Long Term Retention Plan") in 2023. Office costs as well as environmental, social and governance ("ESG"), marketing and business development costs for Q1 2024 have not significantly changed as compared to Q1 2023. The 56% increase in reporting, regulatory and corporate costs for Q1 2024 over the comparable prior year period was due to an increase in costs related to professional services, mainly legal services.

## Management's Discussion & Analysis cont.

## 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 for the quarter ended March 31, 2024 was $1.10/mcf compared to $1.13/mcf for the comparable prior year period.

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Natural gas interests | **7,451** | 9,601 |
| Office and other | **34** | 24 |
| Right-of-use assets | **77** | 70 |
| | **7,562** | 9,695 |

The depletion for natural gas interests decreased by 22% for Q1 2024 compared to Q1 2023. The decrease was primarily the result of decreased gas produced and sold.

## Finance Income and Expense

Finance income is detailed in the table below:

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Interest income | **949** | 263 |
| | **949** | 263 |

Finance expense is detailed in the table below:

| $'000 | **2024** | 2023 |
|---|---|---|
| Base interest expense | **1,077** | 1,326 |
| Participation interest expense | **–** | 543 |
| Lease interest expense | **14** | 3 |
| Interest expense | **1,091** | 1,872 |
| Net foreign exchange loss | **2,970** | 972 |
| Indirect tax | **315** | 337 |
| | **4,376** | 3,181 |

Base interest expense and participation interest expense relate to the long-term loan ("Loan") from the International Finance Corporation ("IFC") to PAET. 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 decrease in participation interest expense in Q1 2024 compared to Q1 2023 is primarily a result of the decrease in PAET's net cash flows from operating activities net of net cash used in investing activities.

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 gains or losses represent temporary changes in the fair value of cash balances denominated in Tanzanian shillings. Following a prolonged period of weakness in the value of the Tanzanian shilling versus the US dollar, these movements are now considered permanent in nature and recognized as realized exchange losses. 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.

## Additional Profits Tax

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| APT | **2,183** | 2,204 |

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 March 31, 2024, the current portion of APT payable was $2.1 million (December 31, 2023: $16.0 million) with a long-term APT payable of $7.6 million (December 31, 2023: $7.5 million). APT of $16.0 million was paid in Q1 2024 based on the 2023 results (Q1 2023: $13.1 million paid based on 2022 results).

The effective APT rate of 20.2% for the quarter (Q1 2023: 15.6%) has been applied to Company Profit Gas revenue of $10.8 million (Q1 2023: $14.1 million). Accordingly, $2.2 million (Q1 2023: $2.2 million) of APT has been recorded in the Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited) for the quarter.

## Working Capital

Working capital as at March 31, 2024 was $73.2 million (December 31, 2023: $67.3 million) and is detailed in the table below (see also "Non-GAAP Financial Measures and Ratios"):

| | As at | | | |
|---|---|---|---|---|
| $'000 | **March 31, 2024** | | December 31, 2023 | |
| **Cash and cash equivalents** | | **93,936** | | 101,566 |
| **Trade and other receivables** | | | | |
| Songas | **7,661** | | 8,146 | |
| TPDC | **7,047** | | 3,841 | |
| TANESCO | **9,981** | | 5,851 | |
| Industrial customers and other receivables | **13,201** | | 16,176 | |
| Loss allowance | **(1,177)** | **36,713** | (1,177) | 32,837 |
| **Prepayments** | | **1,388** | | 1,637 |
| | | **132,037** | | 136,040 |
| **Trade and other liabilities** | | | | |
| TPDC share of Profit Gas revenue[1] | **22,485** | | 17,199 | |
| Songas | **2,731** | | 2,981 | |
| Deferred income – take or pay contracts | **1,144** | | 1,144 | |
| Other trade payables and accrued liabilities | **15,899** | | 17,083 | |
| Current portion of long-term loan | **10,000** | | 10,000 | |
| Current portion of APT | **2,059** | **54,318** | 15,984 | 64,391 |
| **Tax payable** | | **4,726** | | 4,326 |
| | | **59,044** | | 68,717 |
| **Working capital** | | **72,993** | | 67,323 |

1 The balance of $22.5 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 $2.4 million in February 2024 and $3.8 million in April 2024.

Management's Discussion & Analysis cont.

## Working Capital cont.

### 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 the Tanzanian cash holdings 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 (other than Tanzanian shillings) outside of Tanzania in reputable international financial institutions primarily in Jersey and Mauritius which reduces the Company's exposure to geo-political risks; (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; and (iii) seeking payments from its customers, when possible, in US dollars. As of March 31, 2024, over 90% of receipts from domestic customers are denominated in Tanzanian shillings. 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 for 2024, including forecasted debt and interest payments ($13.1 million) and capital expenditure ($17.4 million). The Company has not incurred any material losses from debtors in 2023 and Q1 2024. The Company maintains adequate US dollars and other hard currencies on hand to ensure it can meet all its foreign denominated capital expenditure obligations and deal with possible fluctuations in liquidity from operational problems and US dollar liquidity issues in Tanzania. 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 has seen an increased decline in foreign exchange reserves in Tanzania, which led to decreased availability of US dollars in Tanzania and impaired the Company's ability to convert Tanzanian shillings directly to US dollars in 2023 and Q1 2024. There is a risk that the Company may not be able to convert Tanzanian shillings to hard currencies, such as US dollars, in the future as and when required. It is not known when the foreign exchange reserve deficiency in Tanzania will be remedied, however the Company has noted greater availability of Euros in Tanzania in 2024.

### TANESCO receivable

As at March 31, 2024, the current receivable from TANESCO was $10.0 million (December 31, 2023: $5.9 million). During Q1 2024, the Company invoiced TANESCO $14.0 million for gas deliveries (Q1 2023: $6.9 million) and received $9.9 million in payments during Q1 2024 (Q1 2023: $11.1 million). These amounts are inclusive of VAT. Based on the consistent payments from TANESCO, the Company recognized all amounts invoiced for gas deliveries in Q1 2024 and Q1 2023 as revenue.

The TANESCO long-term receivable as at March 31, 2024 and December 31, 2023 was $22.0 million with a provision of $22.0 million. Subsequent to March 31, 2024, the Company has invoiced TANESCO $3.8 million for April 2024 gas deliveries and TANESCO has paid the Company $9.1 million to date.

## Capital Expenditures

The capital expenditures (see "Non-GAAP Financial Measures and Ratios") in Q1 2024 primarily related to the initial costs of the well workover program. The capital expenditures in Q1 2023 primarily related to the 3D seismic acquisition program.

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Pipelines, well workover and infrastructure | **1,169** | 1,694 |
| Other capital expenditures | **301** | 11 |
| | **1,470** | 1,705 |

### 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 with respect to the Songo Songo gas field. Any additional significant capital expenditure in Tanzania is discretionary.

An intervention in the offshore well SS-7 is planned to take place in 2024, subject to the continued ability to convert Tanzanian shilling balances to US dollars in Tanzania, and further subject to extension of the PGSA and contracting of new gas sales from August 1, 2024. Mobilization orders to Mombasa, Kenya have been issued to all suppliers and service providers. Following configuration of services and onward mobilization to Songo Songo Island, well site operations are expected to commence in Q3 2024, and the well is expected to return to production in early Q4 2024. The total expected project cost has increased to $13.9 million from $8.5 million. The work program is designed to shut off water production which caused the well to die and be shut in from 2019. The cause of the water production is interpreted to be a failed cement bond outside the production liner which created a flow path for water into the well. If successful, the SS-7 well is expected to increase field deliverability by 20-25 MMcfd from the currently non-producing southern compartment.

The Company continues to carry out front-end engineering on the new common inlet manifold, which is designed to optimise gas flow between the Songas gas plant and the NNGI plant, both of which are supplied with gas from the Songo Songo gas field. This project is subject to final investment decision and stakeholder approvals, at an estimated cost of $5-6 million. If sanctioned to proceed, construction and installation is expected to occur in Q4 2024 - Q1 2025.

Mobilization has commenced for the production logging program planned in conjunction with the SS-7 intervention. Operations will commence early June 2024, at an estimated cost of $1.1 million. This work program will provide detailed reservoir information, in addition to annual pressure surveys, to improve the accuracy of forecasting future reservoir performance. Key targeted wells under the program include wells SS-3, SS-5, SS-7 and SS-10.

Following the successful installation of positive chokes on all wells, increasing field deliverability by 3 – 4 MMscfd, the Company continues to carry out studies to identify opportunities to improve the efficiency of operations at the Songas plant.

## Long-term Receivables

| | As at | |
|---|---|---|
| $'000 | **March 31, 2024** | December 31, 2023 |
| Lease deposit | **10** | 10 |
| | **10** | 10 |

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:

| | As at | |
|---|---|---|
| $'000 | **March 31, 2024** | December 31, 2023 |
| Total amounts invoiced to TANESCO | **96,006** | 89,809 |
| Trade receivable – TANESCO | **(9,981)** | (5,851) |
| Unrecognized amounts not meeting revenue recognition criteria[1] | **(64,007)** | (61,940) |
| Loss allowance | **(22,018)** | (22,018) |
| | **–** | – |

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

## Management's Discussion & Analysis cont.

### 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 the 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 fulfillment of all or part of its guarantee obligation in 2025. Pursuant to the sale of a non-controlling interest in PAE PanAfrican Energy Corporation ("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 7.933% ($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.

### 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.

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 March 31, 2024 the Company has repurchased for cancellation 43,400 Class B Shares at a weighted average price of CDN$4.58 pursuant to the 2023 NCIB. As at May 15, 2024, the Company had repurchased 72,700 Class B Shares at a weighted average price of CDN$4.38 pursuant to the 2023 NCIB. 1,749,895 Class A Shares and 18,048,914 Class B Shares were outstanding as at March 31, 2024; 1,749,895 Class A Shares and 18,019,614 Class B Shares were outstanding as at May 15, 2024. See "Normal Course Issuer Bid and Dividends" in this MD&A.

### Cash Flow Summary

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| **Operating activities** | | |
| **Net income** | **969** | 3,914 |
| Non-cash adjustments | **7,469** | 10,879 |
| Interest expense | **1,091** | 1,872 |
| Changes in non-cash working capital[1] | **(15,699)** | (9,193) |
| **Net cash flows (used in)/from operating activities** | **(6,170)** | 7,472 |
| **Net cash used in investing activities** | **(1,385)** | (1,497) |
| **Net cash used in financing activities** | **(2,530)** | (2,881) |
| **(Decrease)/increase in cash** | **(10,085)** | 3,094 |

1 See Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

The Company's net income decreased by 75% for Q1 2024 over the comparable prior year period primarily as a result of the decreased revenue and higher net foreign exchange loss due to the devaluation of the Tanzanian shilling and exchange conversions. The Company's net cash flows from operating activities decreased by 183% for Q1 2024 over the comparable prior year period primarily a result of the annual 2023 current liability associated with APT paid in Q1 2024. The decrease in net cash used in investing activities for Q1 2024 over the comparable prior year period was mainly a result of higher expenditure in Q1 2023 in relation to the 3D seismic program. The decrease in net cash used in financing activities for Q1 2024 over the comparable prior year period was mainly an outcome of the lower interest payment in Q1 2024 as a result of repayments of two instalments of the Loan in Q2 2023 and Q4 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. During the quarter ended March 31, 2024 fees for services provided by this firm totalled $0.3 million (Q1 2023: $0.1 million). As at March 31, 2024 the Company had a total of $0.3 million (December 31, 2023: $0.6 million) recorded in trade and other payables in relation to related parties.

## Normal Course Issuer Bid and Dividends

On July 5, 2022 the Company announced a normal course issuer bid ("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 Corporation ("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 May 15, 2024, the Company has repurchased for cancellation 72,700 Class B Shares at a weighted average price of CDN$4.38 pursuant to the 2023 NCIB.

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

### Dividend Summary

| Declaration date | Record date | Payment date | Amount per share (CDN$) |
|---|---|---|---|
| February 1, 2024 | March 29, 2024 | April 12, 2024 | 0.10 |
| November 15, 2023 | December 29, 2023 | January 12, 2024 | 0.10 |
| 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 |

## 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 7.933% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc ("Swala TZ"), Swala (PAEM) Limited ("Swala UK"), in 2018 for $15.4 million cash and $4.0 million of Swala TZ's preference phares ("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 to 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 Preference Shares by February 15, 2023.

On April 3, 2023, Swala TZ announced that its creditors resolved that 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 7.933% shares in PAEM held by Swala UK for $7.5 million and the non-controlling interest is therefore eliminated in 2023.

## Contingencies

### Taxation

| Amounts in $' millions | | | | | As at March 31, 2024 | As at December 31, 2023 |
|---|---|---|---|---|---|---|
| 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 income taxes paid (2015 to 2017). | 20.5 | 13.4 | **33.9** | 34.1 |
| Tax on repatriated income | 2012-21 | Applicability of withholding tax on repatriated income (2012 to 2021). | 20.0 | 4.2 | **24.2** | 24.4 |
| 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 | 1.3 | **1.5** | 1.5 |
| | | | 40.7 | 18.9 | **59.6** | 60.0 |

## 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. In May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016 agreeing 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.

In Q4 2023, during the TRAB hearing of the appeals against the notice of assessment for tax on repatriated income for the years of 2012 to 2014 ($13.7 million), the TRA was allowed to file a preliminary objection. In Q1 2024, the parties filed their written submissions and are now awaiting TRAB's decision.

In Q2 2023, the Company filed statements of appeal at the TRAB against the TRA's notices of assessment in respect of the corporation income tax for the years of 2012 to 2014. The appeals for the years 2013 and 2014 are coming for hearing on June 6, 2024. The hearing for the year of 2012 is on notice. The parties are also awaiting a hearing date at the TRAB with respect to the corporation income tax assessments for the years of 2015 and 2016.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.5 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 to appeal and in Q4 2023, the Company filed statements of appeal at the TRAB. In Q1 2024 and subsequent to March 31, 2024, the parties filed their respective final written submissions and are awaiting TRAB's decision.

In Q4 2022, the TRA issued six assessments for 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 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 a final determination on the objections within the statutory time limit, the Company filed notices of intention to appeal and in Q4 2023, the Company filed statements of appeal at the TRAB. In Q1 2024, the appeals came for a hearing at the TRAB and the parties are now awaiting TRAB's decision.

In Q4 2022, the TRA issued an assessment for VAT ($0.1 million) for the years of 2019 and 2020. The Company objected to the assessment on the grounds that the 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 to appeal and in Q1 2024, the Company filed statements of appeal at the TRAB. In Q1 2024, the appeals came for a hearing at the TRAB and the parties are now awaiting TRAB's decision.

In Q3 2023, the Tax Revenue Appeals Tribunal ("TRAT") pronounced its judgment on the corporate income tax appeal for the year 2011 ($1.6 million) in favor of the TRA. The Company filed a Notice of Intention to Appeal at the Court of Appeal of Tanzania ("CAT"). In Q4 2023, the Company filed a Memorandum 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 the TRA starts by initially filing an appeal with the 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, 2023 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

| | 2024 | | 2023 | | | | 2022 | |
|---|---|---|---|---|---|---|---|---|
| Figures in $'000 except where otherwise stated | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue | **24,937** | 24,448 | 27,374 | 28,006 | 30,407 | 31,877 | 30,537 | 28,223 |
| Net income/(loss) attributable to shareholders | **969** | (438) | 256 | 3,282 | 3,507 | 2,325 | 11,443 | 6,567 |
| Earnings/(loss) per share – basic and diluted ($) | **0.05** | (0.02) | 0.02 | 0.17 | 0.18 | 0.12 | 0.57 | 0.33 |
| Net cash flows (used in)/ from operating activities | **(6,170)** | 9,858 | 14,995 | 16,160 | 7,472 | 15,438 | 19,544 | 28,601 |
| Capital expenditures | **1,470** | 2,065 | 2,928 | 1,405 | 1,705 | 3,615 | 1,222 | 3,306 |

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 the industrial sector 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. Revenue decreased in Q4 2023 as a result of a decrease in sales to the industrial sector, an increase in TPDC share of revenue and a lower current income tax adjustment. Revenue increased in Q1 2024 as a result of an increase in sales to the industrial sector and decreased TPDC share of revenue, partially offset by a decrease in sales to the power sector and a lower current income tax adjustment.

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

- 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;
- 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;
- the decrease in Q4 2023 was a result of a higher depletion expense; and
- the increase in Q1 2024 was a result of a lower depletion expense, partially offset by a reversal of allowance in the previous quarter.

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 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. The decrease in Q4 2023 was primarily a result of the changes in the non-cash working capital, namely the increase in trade and other receivables. The decrease in Q1 2024 was primarily a result of the annual 2023 current liability associated with APT paid in Q1 2024.

Capital expenditures in 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. Capital expenditures in Q4 2023 and Q1 2024 were mainly related to well planning activities.

## 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.

## Non-GAAP Financial Measures

### 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 March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Pipelines, well workovers and infrastructure | **1,169** | 1,694 |
| Other capital expenditures | **301** | 11 |
| **Capital expenditures** | **1,470** | 1,705 |
| Change in non-cash working capital | **(85)** | (208) |
| **Net cash used by investing activities** | **1,385** | 1,497 |

### 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" in this MD&A). 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 March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Revenue | **24,937** | 30,407 |
| Production, distribution and transportation expenses | **(4,310)** | (5,135) |
| **Net Production Revenue** | **20,627** | 25,272 |
| Less current income tax adjustment (recorded in revenue) | **(1,726)** | (5,237) |
| **Operating netback** | **18,901** | 20,035 |
| **Sales volumes MMcf** | **6,764** | 8,532 |
| **Netback $/mcf** | **2.79** | 2.35 |

## 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 Condensed Consolidated Interim Statements of Financial Position (Unaudited). 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.

### 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.

## Management's Discussion & Analysis cont.

### 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, 2023 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, 2023 available on SEDAR+ at www.sedarplus.ca or on the Company's website.

### 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 natural gas and power supply; anticipated Additional Gas sales for 2024; ongoing negotiation of new commercial terms and discussion of requirements under the Gas Agreement with Songas and TPCPLC; ongoing discussion with TANESCO regarding the extension of the PGSA; assessment by the Company of the merits of the claims made by the seismic contractor and the counterclaimed filed by the Company; the Company's liabilities pursuant to the claims brought forth by the seismic contract and recoverability of damages claimed by the Company; the planned capital projects including the installation of a new common well inlet manifold, implementation of production logging programs at various wells and intervention in the offshore well SS-7 and the anticipated timing, costs and effects of such projects; continued studies aimed at improving efficiencies of operations at the Songas plant; the Company's expectation that all capital allocation decisions will be based upon prudent economic evaluations and returns; extension of the development license 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; anticipated award amount payable under the Long Term Retention Plan; continued accrual of participation interest until the specified date; the receipt of the payment of arrears from TANESCO; forecasts regarding future development capital spending and the anticipated source of funding; the timing and effective rate of the APT payable by the Company; 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; 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; the Company's expectation that it will maintain adequate working capital to cover the Company's long-term and short-term obligations; that the Company does not expect to incur any loses from debtors in 2024; the Company's expectations that no circumstances will significantly impact the Company's cash flow or liquidity other than disclosed in this MD&A, as applicable; 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's expectations regarding supply and demand of natural gas; the Company's expectation and evaluations on the timing and results of its objections and appeals to the decisions and assessments of the TRA, TRAB and CAT under "Contingencies – Taxation" in this MD&A; and 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. 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.

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; the Company's average gas sales including the sale of Additional Gas are different than anticipated; uncertainties involving the negotiation of new commercial terms under the Gas Agreement with Songas and TPCPLC and necessary requirements; risk that the Company may incur losses and legal expenses as a result of the claims brought forth by the seismic contractor; uncertainties regarding quantum of damages payable by the seismic contractor and/or the Company; risk that the budgeted expenditures, timing of the completion and anticipated benefits from the Company's various development programs and studies in 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; various uncertainties involved in the extension of the PGSA; changes in the anticipated award amount payable under the Long Term Retention Plan; accrual of participation interest is different than expected; failure to receive payment of arrears from TANESCO; 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; 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; incurrence of losses from debtors in 2024; 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; changes to the Company's debt and interest payments; failure to obtain necessary regulatory approvals; risk that the Company does not purchase the maximum number of Class B Shares or any Class B Shares under the 2023 NCIB; future TRA assessment and the risks surrounding the Company's ability to

## Forward Looking Statements cont.

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, TRAB or CAT and may be required to pay additional taxes and penalties; risks regarding the uncertainty around evolution of Tanzanian legislation; 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; risk of pandemic; 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; inaccuracy 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 fulfil 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; the risk that the Company's Tanzanian operations will not provide near term revenue earnings; and such additional risks listed under "Business Risks" in this report. 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; the Company's average Additional Gas sales are in line with forecasts; successful negotiation of new gas sales contracts under the Gas Agreement; successful extension of the PGSA; successful implementation of various development and study programs at the budgeted expenditures, including the planned intervention in the SS-7 well, production logging program, installation of the common inlet manifold and optimization studies at the Songas plant; that 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; anticipated award amount payable under the Long Term Retention Plan; accrual of participation interest as expected; that the Company will receive payment of arrears from TANESCO; correct forecast on the timing and effective rate of the APT payable by the Company; 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 losses from debtors in 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; long term field development will be carried out as planned; continued work by the Company with the GoT on alternative development plan for longer term field development as anticipated; timing and amount of capital expenditures and source of funding are in line with forecasts; the Company's ability to obtain necessary regulatory approvals; the ability of the Company to complete the 2023 NCIB as planned; the anticipated supply and demand of natural gas are in line with the Company's expectations; accurate assessment by the Company of the merits of claims brought forward by the seismic contractor and the Company's counterclaim; that the amount of damages recoverable by the Company will be in line with expectations; accurate assessment by the Company of the merits of its appeal or claims before the TRA, TRAB and CAT regarding tax assessments and penalties and expectations in respect of submission and hearing timelines; the Company's interpretation and prediction of the 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 and the implementation of further legislation is accurate in all material respects; 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; 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.

# Management's Discussion & Analysis cont.

## 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.sedarplus.ca.

## Glossary

| | |
|---|---|
| **mcf** | Thousand standard cubic feet |
| **MMcf** | Million standard cubic feet |
| **Bcf** | Billion standard cubic feet |
| **MMcfd** | Million standard cubic feet per day |
| **MMbtu** | Million British thermal units |
| **$** | United States dollars |
| **CDN$** | Canadian dollars |

## Q1 2024 Interim Financial Statements and Notes

### NOTIFICATION OF CONDENSED UNAUDITED 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-month period ended March 31, 2024.

## Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

| | | Three Months ended March 31 | |
|---|---|---|---|
| $'000 | Note | **2024** | 2023 |
| **Revenue** | 6, 7 | **24,937** | 30,407 |
| Production, distribution and transportation | | **4,310** | 5,135 |
| **Net production revenue** | | **20,627** | 25,272 |
| **Operating expenses** | | | |
| General and administrative | | **4,300** | 3,443 |
| Stock based compensation expense | 14 | **–** | 2 |
| Depletion | 10 | **7,451** | 9,601 |
| Finance income | 8 | **(949)** | (263) |
| Finance expense | 8 | **4,376** | 3,181 |
| **Income before tax** | | **5,449** | 9,308 |
| Income tax expense – current | | **2,400** | 4,745 |
| Income tax recovery – deferred | | **(103)** | (1,555) |
| Additional Profits Tax | | **2,183** | 2,204 |
| **Net income** | | **969** | 3,914 |
| Net income attributable to non-controlling interest | 20 | **–** | 407 |
| **Net income attributable to shareholders** | | **969** | 3,507 |
| Foreign currency translation gain from foreign operations | | **–** | 22 |
| **Comprehensive income** | | **969** | 3,529 |
| | | | |
| **Net income attributable to shareholders per share** *($)* | | | |
| Basic and diluted | 15 | **0.05** | 0.18 |

See accompanying notes to the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Financial Position (Unaudited)

| $'000 | Note | As at March 31, 2024 | As at December 31, 2023 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **93,936** | 101,566 |
| Trade and other receivables | 9 | **36,713** | 32,837 |
| Prepayments | | **1,388** | 1,637 |
| | | **132,037** | 136,040 |
| **Non-current assets** | | | |
| Long-term receivables | 12 | **10** | 10 |
| Capital assets | 10 | **73,289** | 79,381 |
| | | **73,299** | 79,391 |
| **Total Assets** | | **205,336** | 215,431 |
| **EQUITY AND LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other liabilities | 11 | **42,259** | 38,407 |
| Tax payable | | **4,726** | 4,326 |
| Current portion of long-term loan | 13 | **10,000** | 10,000 |
| Current portion of Additional Profits Tax | | **2,059** | 15,984 |
| | | **59,044** | 68,717 |
| **Non-current liabilities** | | | |
| Deferred income taxes | | **19,992** | 20,095 |
| Lease liabilities | 10 | **441** | 456 |
| Long-term loan | 13 | **30,021** | 29,961 |
| Additional Profits Tax | | **7,649** | 7,524 |
| | | **58,103** | 58,036 |
| **Total Liabilities** | | **117,147** | 126,753 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock | 14 | **47,061** | 47,067 |
| Accumulated other comprehensive income | | **16** | 16 |
| Accumulated income | | **41,112** | 41,595 |
| | | **88,189** | 88,678 |
| **Total equity and liabilities** | | **205,336** | 215,431 |

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 March 31 | |
|---|---|---|---|
| $'000 | Note | **2024** | 2023 |
| **OPERATING ACTIVITIES** | | | |
| **Net Income** | | **969** | 3,914 |
| Adjustment for: | | | |
| Depletion and depreciation | 10 | **7,562** | 9,695 |
| Indirect tax | 8 | **315** | 337 |
| Stock based compensation expense | 14 | **-** | 2 |
| Deferred income taxes expense/(recovery) | | **(103)** | (1,555) |
| Additional Profits Tax | | **2,183** | 2,204 |
| Unrealized gain on foreign exchange | | **(2,488)** | (45) |
| Interest expense | 8 | **1,091** | 1,872 |
| Finance income | | **-** | 241 |
| Change in non-cash working capital | 19 | **(15,699)** | (9,193) |
| **Net cash flows (used in)/from operating activities** | | **(6,170)** | 7,472 |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Capital expenditures | 10 | **(1,385)** | (1,497) |
| **Net cash used in investing activities** | | **(1,385)** | (1,497) |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Lease payments | | **(13)** | (14) |
| Normal course issuer bid | 14 | **(8)** | (124) |
| Interest paid | 8 | **(1,028)** | (1,285) |
| Dividends paid to shareholders | 14 | **(1,481)** | (1,458) |
| **Net cash used in financing activities** | | **(2,530)** | (2,881) |
| **(Decrease)/increase in cash** | | **(10,085)** | 3,094 |
| Cash and cash equivalents at the beginning of the period | | **101,566** | 96,321 |
| Effect of change in foreign exchange on cash for the period | | **2,455** | 102 |
| **Cash and cash equivalents at the end of the period** | | **93,936** | 99,517 |

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 income | Accumulated income | Total |
|---|---|---|---|---|
| Note | *14* | | *14* | |
| Balance as at December 31, 2023 | 47,067 | 16 | 41,595 | 88,678 |
| Share repurchase | (6) | – | (2) | (8) |
| Dividends declared | – | – | (1,450) | (1,450) |
| Foreign currency translation adjustment on foreign operations | – | – | – | – |
| Net income | – | – | 969 | 969 |
| **Balance as at March 31, 2024** | **47,061** | **16** | **41,112** | **88,189** |

| $'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) | – | (38) | – | (124) |
| Dividends declared | – | – | (1,464) | – | (1,464) |
| Foreign currency translation adjustment on foreign operations | – | 22 | – | – | 22 |
| Net income | – | – | 3,507 | 407 | 3,914 |
| Balance as at March 31, 2023 | 47,171 | (250) | 44,636 | 6,077 | 97,634 |

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 registered offices located at Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola, British Virgin Islands, and VG110. The Company produces and sells natural gas to the power and industrial sectors in Tanzania. The Company maintains central management and control and has established tax residency in the United Kingdom.

The condensed consolidated interim financial statements of the Company as at March 31, 2024 and for the three months ended March 31, 2024 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 May 15, 2024. 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 Government of Tanzania, with oversight by the Ministry of 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. The PGSA expires on July 31, 2024 and the LTGSA expires on October 10, 2026.

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.

In 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 seek dialogue with TPDC and the MoE to expedite a license extension. However, there are currently no certainties on the timing, nature and extent of any such extensions. Until such extension has been finalized, a high degree of uncertainty exists with respect of the extent of the Company's operating activities subsequent to October 2026.

## 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, 2023.

### 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 condensed 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 reporting issuers. 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, 2023. There have been no changes in accounting policies for the three month period ended March 31, 2024 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, 2023.

See Note 4 of the audited consolidated financial statements for the year ended December 31, 2023 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 March 31, 2024 and December 31, 2023, loss allowance exists against all of the long-term TANESCO receivable, gas plant operations receivables from Songas, and a receivable of $0.5 million from one industrial customer. No write-off of any receivables occurred in Q1 2024 (see Note 9).

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.

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

## 5. Risk Management cont.

### 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 March 31, 2024 the Company has working capital, defined as total current assets less total current liabilities, of $73.0 million which is net of $59.0 million of financial liabilities with regards to trade and other liabilities of which $28.3 million is due within one to three months, $22.5 million is due within three to six months, and $8.2 million is due within six to twelve months (see Note 11).

As at March 31, 2024 approximately 38% 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 have seen an increasing decline in foreign exchange reserves in Tanzania. During Q1 2024 and 2023, it has been more difficult for the Company to convert Tanzanian shillings directly to US dollars in country, however, as at the date of this report, this has not significantly impacted PAET's ability to meet its US dollar liabilities or obligations. There is a risk that in the future the Company may not be able to convert Tanzanian shillings to US dollars or other hard currencies as and when required to attract capital. It is unknown how long this risk will continue, however the Company has noted the greater availability of Euros in Tanzania in 2024.

## 6. Segment Information

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. During Q1 2024 and 2023 the Company's producing assets were entirely located in Tanzania.

## 7. Revenue

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Industrial sector | **11,367** | 10,109 |
| Power sector | **21,250** | 26,634 |
| Gross field revenue | **32,617** | 36,743 |
| TPDC share of revenue | **(9,406)** | (11,573) |
| Company operating revenue | **23,211** | 25,170 |
| Current income tax adjustment | **1,726** | 5,237 |
| | **24,937** | 30,407 |

The Company recognized 100% of amounts invoiced for deliveries to TANESCO as revenue during Q1 2024 and Q1 2023. The Company invoiced TANESCO $14.0 million for gas deliveries (Q1 2023: $6.9 million) and received $9.9 million in payments during Q1 2024 (Q1 2023: $11.1 million). These amounts are inclusive of value added tax ("VAT"). Based on the consistent payments from TANESCO, the Company recognized all amounts invoiced for gas deliveries in Q1 2024 and Q1 2023 as revenue.

Subsequent to March 31, 2024 the Company has invoiced TANESCO $3.8 million for April 2024 gas deliveries and TANESCO has paid the Company $9.1 million to date.

## 8. Finance Income and Expense

### Finance income

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Interest income | **949** | 263 |
| | **949** | 263 |

### Finance expense

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| Base interest expense | **1,077** | 1,326 |
| Participation interest expense | **–** | 543 |
| Lease interest expense | **14** | 3 |
| Interest expense | **1,091** | 1,872 |
| Net foreign exchange loss | **2,970** | 972 |
| Indirect tax | **315** | 337 |
| | **4,376** | 3,181 |

Base interest expense and participation interest expense relate to the Loan. 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. The unrealized revaluation gain is mainly due to the reversal of previously recognized unrealized temporary changes in the fair value of cash balances denominated in Tanzanian shillings that are now considered permanent in nature and recognized as realized exchange losses. The indirect tax includes VAT on the invoices to TANESCO for interest on late payments.

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

## 9. Current Trade and Other Receivables

| | As at | |
|---|---|---|
| $'000 | **March 31, 2024** | December 31, 2023 |
| **Trade receivables** | | |
| Songas | **3,991** | 2,389 |
| TPDC | **7,047** | 3,841 |
| TANESCO | **9,981** | 5,851 |
| Industrial customers | **11,809** | 11,500 |
| Loss allowance | **(452)** | (452) |
| | **32,376** | 23,129 |
| **Other receivables** | | |
| Songas gas plant operations | **3,040** | 3,127 |
| Songas well workover program | **630** | 2,630 |
| Other | **1,392** | 4,676 |
| Loss allowance | **(725)** | (725) |
| | **4,337** | 9,708 |
| | **36,713** | 32,837 |

### Songas

As at March 31, 2024 Songas owed the Company $7.7 million (December 31, 2023: $8.1 million), while the Company owed Songas $2.7 million (December 31, 2023: $3.0 million). The amounts due to the Company are mainly for sales of gas of $4.0 million (December 31, 2023: $2.4 million), the well workover program of $0.6 million (December 31, 2023; $2.6 million) and for the operation of the gas plant of $3.0 million (December 31, 2023: $3.1 million) against which the Company has made a loss allowance of $0.7 million (December 31, 2023: $0.7 million). The amounts due to Songas primarily relate to pipeline tariff charges of $2.2 million (December 31, 2023: $2.3 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

There were no new allowances or reversals of loss allowance in Q1 2024 or Q1 2023.

## 10. Capital Assets

| $'000 | Natural gas interests | Office and other | Right-of-use | Total |
|---|---|---|---|---|
| **Costs** | | | | |
| As at December 31, 2023 | 297,027 | 3,106 | 1,987 | 302,120 |
| Additions | 1,169 | 301 | – | 1,470 |
| **As at March 31, 2024** | **298,196** | **3,407** | **1,987** | **303,590** |
| | | | | |
| **Accumulated depletion and depreciation** | | | | |
| As at December 31, 2023 | 218,681 | 2,889 | 1,169 | 222,739 |
| Additions | 7,451 | 34 | 77 | 7,562 |
| **As at March 31, 2024** | **226,132** | **2,923** | **1,246** | **230,301** |
| | | | | |
| **Net book values** | | | | |
| **As at March 31, 2024** | **72,064** | **484** | **741** | **73,289** |

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 March 31, 2024 the estimated future development costs required to bring the total proved reserves to production were $15.4 million (December 31, 2023: $16.6 million). In Q1 2024 the Company recorded depreciation of $0.1 million (Q1 2023: $0.1 million) in general and administrative expenses.

### Right-of-use assets

| $'000 | |
|---|---|
| As at December 31, 2023 | 818 |
| Depreciation | (77) |
| **As at March 31, 2024** | **741** |

### Lease liabilities

| $'000 | |
|---|---|
| As at December 31, 2023 | 717 |
| Lease interest expense | 14 |
| Lease payments | (13) |
| **As at March 31, 2024** | **718** |

Right-of-use assets are presented as part of capital assets on the Company's balance sheet. Of the total lease liability of $0.7 million (2023: $0.2 million), $0.3 million (2023: $0.2 million) is current and is presented in trade and other liabilities.

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

## 11. Trade and Other Liabilities

| | As at | |
|---|---|---|
| $'000 | **March 31, 2024** | December 31, 2023 |
| Songas | **2,731** | 2,981 |
| Other trade payables | **1,340** | 2,331 |
| Trade payables | **4,071** | 5,312 |
| TPDC Profit Gas entitlement, net | **22,485** | 17,199 |
| Deferred income – take or pay contracts | **1,144** | 1,144 |
| Accrued liabilities | **14,559** | 14,752 |
| | **42,259** | 38,407 |

### TPDC share of Profit Gas

| | As at | |
|---|---|---|
| $'000 | **March 31, 2024** | December 31, 2023 |
| TPDC share of Profit Gas | **31,087** | 26,075 |
| Less "Adjustment Factor" | **(8,602)** | (8,876) |
| TPDC share of Profit Gas entitlement | **22,485** | 17,199 |

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 $22.5 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

| | As at | |
|---|---|---|
| $'000 | **March 31, 2024** | December 31, 2023 |
| Amounts invoiced to TANESCO | **96,006** | 89,809 |
| Trade receivables – TANESCO | **(9,981)** | (5,851) |
| Unrecognized amounts not meeting revenue recognition criteria[1] | **(64,007)** | (61,940) |
| Loss allowance | **(22,018)** | (22,018) |
| Net TANESCO receivable | **–** | – |
| Lease deposit | **10** | 10 |
| | **10** | 10 |

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 2023 and Q1 2024.

## 13. Long-term Loan

In 2015 PAET took out 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 PAE PanAfrican Energy Corporation ("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 7.933% ($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 | **March 31, 2024** | December 31, 2023 |
| Loan principal | **40,240** | 40,240 |
| Financing costs | **(219)** | (279) |
| Current portion of long-term loan | **(10,000)** | (10,000) |
| | **30,021** | 29,961 |

## 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.

### Changes in the capital stock

| | As at | | | | | |
|---|---|---|---|---|---|---|
| | **March 31, 2024** | | | December 31, 2023 | | |
| 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** | **18,049** | **46,078** | 100,000 | 18,051 | 46,084 |
| First preference shares | **100,000** | **–** | **–** | 100,000 | – | – |
| | **250,000** | **19,799** | **47,061** | 250,000 | 19,801 | 47,067 |

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 TSX Venture Exchange and alternative trading systems in Canada. As at March 31, 2024 the Company has repurchased for cancellation 43,400 Class B Shares at a weighted average price of CDN$4.58 pursuant to the 2023 NCIB. All issued capital stock is fully paid.

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

## 14. Capital Stock cont.

### Dividend summary

| Declaration date | Record date | Payment date | Amount per share (CDN$) |
|---|---|---|---|
| February 1, 2024 | March 29, 2024 | April 12, 2024 | 0.10 |
| November 15, 2023 | December 29, 2023 | January 12, 2024 | 0.10 |
| 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 |

## 15. Earnings Per Share

| | Three Months ended March 31 | |
|---|---|---|
| (000) | **2024** | 2023 |
| **Outstanding shares** | | |
| Weighted average number of Class A and Class B Shares | **19,799** | 19,855 |
| Weighted average diluted number of Class A and Class B Shares | **19,799** | 19,855 |

The calculation of earnings per share is based on a net income attributable to shareholders for the quarter of $1.1 million (Q1 2023: $3.5 million) and a weighted average number of Class A Shares and Class B Shares outstanding during the quarter ended March 31, 2024 of 19,799,249 (Q1 2023: 19,855,253).

## 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. During the quarter ended March 31, 2024 fees for services provided by this firm totalled $0.3 million (Q1 2023: $0.1 million).

As at March 31, 2024 the Company had a total of $0.3 million (December 31, 2023: $0.6 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, 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 327 Bcf as at March 31, 2024 (December 31, 2023: 320 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 31, 2024.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was initialed 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 Government of Tanzania 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. In Q4 2023, the Company credited to the Cost Pool an additional $0.03 million with respect to 2021 audit. 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.

During 2019, discussions on the disputed amounts briefly resumed with TPDC. At the time of writing this report no independent specialist has been appointed and neither TPDC nor PURA have issued a formal dispute regarding cost recovery. If the matter is not resolved to the Company's satisfaction, the Company intends to proceed to arbitration via the International Centre for Settlement of Investment Disputes pursuant to the terms of the PSA. The Company's view is that all costs have been correctly included in the Cost Pool, however should any of the costs be rejected as not being cost recoverable, the Company would be required to retroactively adjust its share of revenue for the period under dispute.

### Taxation

| Amounts in $' millions | | | | | As at **March 31, 2024** | As at December 31, 2023 |
|---|---|---|---|---|---|---|
| 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 income taxes paid (2015 to 2017). | 20.5 | 13.4 | **33.9** | 34.1 |
| Tax on Repatriated income | 2012-21 | Applicability of withholding tax on repatriated income (2012 to 2021). | 20.0 | 4.2 | **24.2** | 24.4 |
| 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 | 1.3 | **1.5** | 1.5 |
| | | | 40.7 | 18.9 | **59.6** | 60.0 |

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

## 18. 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. In May 2023, the TRA issued final corporate income tax assessments for the years of 2012 to 2016 agreeing 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.

In Q4 2023, during the TRAB hearing of the appeals against the notice of assessment for tax on repatriated income for the years 2012 to 2014 ($13.7 million), the TRA was allowed to file a preliminary objection. In Q1 2024, the parties filed their written submissions and are now awaiting TRAB's decision.

In Q2 2023, the Company filed statements of appeal at the TRAB against the TRA's notices of assessment in respect of the corporation income tax for the years of 2012 to 2014. The appeals for the years 2013 and 2014 are coming for hearing on June 6, 2024. The hearing for the year of 2012 is on notice. The parties are also awaiting a hearing date at the TRAB with respect to the corporation income tax assessments for the years of 2015 and 2016.

In Q4 2022, the TRA issued seven assessments for tax on repatriated income ($10.5 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 to appeal and in Q4 2023, the Company filed statements of appeal at the TRAB. In Q1 2024 and subsequent to March 31, 2024, the parties filed their respective final written submissions and are awaiting TRAB's decision.

In Q4 2022, the TRA issued six assessments for 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 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 a final determination on the objections within the statutory time limit, the Company filed notices of intention to appeal and in Q4 2023, the Company filed statements of appeal at the TRAB. In Q1 2024, the appeals came for a hearing at the TRAB and the parties are now awaiting TRAB's decision.

In Q4 2022, the TRA issued an assessment for VAT ($0.1 million) for the years of 2019 and 2020. The Company objected to the assessment on the grounds that the 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 a final determination on the objections within the statutory time limit, the Company filed notices of intention to appeal and in Q1 2024, the Company filed statements of appeal at the TRAB. In Q1 2024, the appeals came for a hearing at the TRAB and the parties are now awaiting TRAB's decision.

In Q3 2023, the Tax Revenue Appeals Tribunal ("TRAT") pronounced its judgment on the corporate income tax appeal for the year 2011 ($1.6 million) in favor of the TRA. The Company filed a Notice of Intention to Appeal at the Court of Appeal of Tanzania ("CAT"). In Q4 2023, the Company filed a Memorandum 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 the TRA starts by initially filing an appeal with the 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, 2023 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.

## 19. Change in Non-Cash Operating Working Capital

| | Three Months ended March 31 | |
|---|---|---|
| $'000 | **2024** | 2023 |
| (Increase)/decrease in trade and other receivables | **(4,203)** | 5,161 |
| Decrease in prepayments | **249** | 128 |
| Increase/(decrease) in trade and other payables | **3,838** | (4,081) |
| Decrease in APT | **(15,983)** | (13,146) |
| Increase in tax payable | **400** | 2,745 |
| | **(15,699)** | (9,193) |

## 20. Non-Controlling Interest

The Company sold 7.933% (7,933 Class A common shares) of PAEM to a wholly owned subsidiary of Swala Oil & Gas (Tanzania) plc ("Swala TZ"), Swala (PAEM) Limited's ("Swala UK") 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 to 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 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 7.933% shares in PAEM held by Swala UK for $7.5 million and the non-controlling interest is therefore eliminated in 2023.

# Corporate Information

## Board of Directors

**Jay Lyons**

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
Gloucester, UK

**Andrew Hanna**

Managing Director, PAET
Surrey, UK

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**Lisa Mitchell**

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## Engineering Consultants

**McDaniel & Associates Consultants Ltd.**

Calgary, Canada

## Auditors

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Calgary, Canada

## Website

orcaenergygroup.com

## Lawyers

**Burnet, Duckworth & Palmer LLP**

Calgary, Canada

## Transfer Agent

**TSX Trust Company**

Calgary, Canada

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