Q1

2013 Q1 Interim Report

ORCA EXPLORATION GROUP INC.

Orca Exploration Group Inc. is an international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania and oil appraisal and gas exploration in Italy. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

Glossary

mcf	Thousands of standard cubic feet	*1P*	Proven reserves
MMcf	Millions of standard cubic feet	*2P*	Proven and probable reserves
Bcf	Billions of standard cubic feet	*Kwh*	Kilowatt hour
Tcf	Trillions of standard cubic feet	*MW*	Megawatt
MMcfd	Millions of standard cubic feet per day	*US$*	US dollars
MMbtu	Millions of British thermal units	*CDN$*	Canadian dollars
HHV	High heat value	*bar*	Fifteen pounds pressure per square inch
LHV	Low heat value		

Financial and Operating Highlights

US$'000 except where otherwise stated	THREE MONTHS ENDED /AS AT **31 MAR 2013**	31 MAR 2012	Change	**31 DEC 2012**	Change
Financial					
Revenue	**13,197**	17,207	(23%)	20,713	(36%)
Profit before taxation	**4,660**	10,154	(54%)	10,319	(55%)
Operating netback *(US$/mcf)*	**2.15**	2.55	(16%)	3.01	(29%)
Cash and cash equivalents	**13,421**	30,635	(56%)	16,047	(16%)
Working capital [(1)]	**54,757**	47,063	16%	46,819	17%
Shareholders' equity	**128,885**	113,051	14%	125,935	2%
Total comprehensive income	**2,950**	6,392	(54%)	5,593	(47%)
Earnings per share - basic *(US$)*	**0.08**	0.19	(58%)	0.16	(50%)
Earnings per share - diluted *(US$)*	**0.08**	0.18	(56%)	0.16	(50%)
Funds flow from operating activities	**8,699**	9,888	(12%)	11,699	(26%)
Funds per share from operating activities - basic *(US$)*	**0.25**	0.28	(11%)	0.34	(26%)
Funds per share from operating activities - diluted *(US$)*	**0.25**	0.28	(11%)	0.33	(24%)
Net cash flows from operating activities	**(5,748)**	6,653	(186%)	9,138	(163%)
Net cash flows per share from operating activities - basic *(US$)*	**(0.17)**	0.19	(189%)	0.26	(165%)
Net cash flows per share from operating activities - diluted *(US$)*	**(0.16)**	0.19	(184%)	0.26	(162%)
Outstanding Shares ('000)					
Class A shares	**1,751**	1,751	0%	1,751	0%
Class B shares	**32,892**	32,743	0%	32,892	0%
Options	**1,922**	2,257	(15%)	1,922	0%
Operating					
Additional Gas sold *(MMcf)* - industrial	**1,176**	835	41%	1,127	4%
Additional Gas sold *(MMcf)* - power	**4,363**	3,973	10%	4,417	(1%)
Additional Gas sold *(MMcfd)* - industrial	**13.1**	9.2	42%	12.2	7%
Additional Gas sold *(MMcfd)* - power	**48.5**	43.7	11%	48.0	1%
Additional Gas sold *(MMcfd)*	**61.6**	52.9	16%	60.2	2%
Average price per mcf *(US$)* - industrial	**7.78**	9.63	(19%)	8.56	(9%)
Average price per mcf *(US$)* - power	**3.55**	2.72	30%	3.61	(2%)

1. *Working capital as at 31 March 2013 includes a TANESCO receivable of US$48.8 million (31 December 2012: US$33.3 million) and a net Songas receivable of US$5.5 million (31 December 2012: US$5.9 million). Subsequent to the end of the quarter, TANESCO paid US$19.8 million, and the current TANESCO arrears total US$29.1 million.*

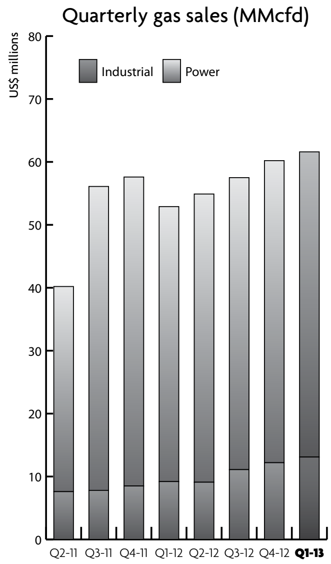
Q1 Highlights:

- During the quarter there were no payments received from TANESCO. At 31 March 2012, TANESCO owed the Company US$48.8 million (including arrears of US$44.0 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012.
- Subsequent to the end of the quarter, the Company has received US$19.8 million from TANESCO and current arrears total US$29.1 million.
- Additional Gas sales continued at capacity during Q1 averaging 61.6 MMcfd being an increase of 16% over the prior period (Q1 2012: 52.9 MMcfd) and up 2% over Q4 2012 (60.2 MMcfd).
- Industrial sales volume increased by 7% to 13.1 MMcfd from 12.2 MMcfd in Q4 2012. Power sector sales volumes essentially unchanged over Q4 2012 at 48.5 MMcfd.
- Average Industrial gas price for the quarter was US$7.78/mcf down down 9% from Q4 2012 (US$8.56/mcf) a result of applying contract terms applicable for 2013 as agreed with the largest industrial off-taker of natural gas which took effect in January 2013, together with the sales mix.
- Power sector gas price for the quarter was US$3.55/mcf down 2% over Q4 2012 price of US$3.61/mcf, a result of slightly lower volumes to the power sector which combined for a lower price under the terms of the PGSA.
- Cost pools were depleted in Q4 2012, which resulted in a significant reduction in net revenues, earnings and funds from operations. Accordingly, revenue of US$13.2 million was down 36% over Q4 2012 (US$20.7 million).
- Funds from operations before working capital changes of US$8.7 million (US$0.25 per share diluted) were down 26% from Q4 2012 (US$11.7 million or US$0.33 per share diluted).
- Q1 earnings were US$2.95 million or US$0.08 per share diluted, down 47% from Q4 2012 (US$5.6 million or US$0.16 per share diluted).
- Working capital increased by 16% to US$54.8 million at 31 March 2013 (US$46.8 million as at 31 December 2012) as a consequence of negligible capital expenditures during the quarter.
- Subsequent to the end of the quarter, in April 2013, the Company tabled a proposed amendment to the Songo Songo PSA for review and consideration by the Government of Tanzania. No further progress was made on the GNT issues.
- In April 2013, the Company commenced negotiations with TPDC as aggregator for the sale of incremental gas volumes of up to approximately 120 MMcfd.
- In May 2013, the Government of Tanzania tabled a second draft Natural Gas Policy in Parliament which limited the policy to mid-and down-stream issues, indicating a separate policy was being prepared on upstream issues.
- Development of Songo Songo production capacity, including workovers of existing wells and the drilling of an additional production well SS-12, continues to be on hold until TANESCO arrears are fully paid, GNT issues are fully resolved and acceptable commercial terms for the sale of incremental gas has been agreed.

Chairman & CEO's Letter to the Shareholders

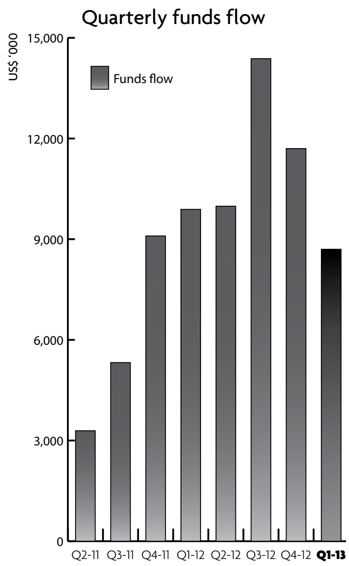
Strong market demand drives operating and financial results

During the first quarter of 2013, Orca continued to operate at maximum field and infrastructure capacity. Additional Gas production for the quarter totalled 61.6 million cubic feet per day ("MMcfd") up 4% over Q4 2012. With capital cost pools fully recovered in Q4 2012, there was a significant reduction in cost gas revenues during the first quarter of 2013 which resulted in reductions of net revenues, earnings and funds from operations. Total comprehensive income for the quarter was US$2.95 million (US$0.08 per share) down 47% from Q4 2012 (US$0.16 per share). The limited cost recoveries reduced Q1 funds from operations by 26% from Q4 to US$8.7 million or US$0.25 per share.



At the same time delayed payments from TANESCO have continued to seriously impact Orca's cash balances. In Q1 TANESCO continued to fall behind and no payments were received over the quarter, leaving the Company with a US$48.8 million TANESCO receivable at the end of the quarter, of which US$44.0 million was arrears.

As a result Q1 cash on hand was reduced to US$13.4 million, down 16% from US$16.0 million at 31 December 2012. Capital spending was negligible during the quarter as Songo Songo development plans remained on hold. Working capital as at 31 March 2012 was US$54.8 million, which included a TANESCO receivable of US$48.8 million.



The weighted average gas price received during the quarter was US$4.45/mcf. Industrial Gas prices averaged US$7.78/mcf down 9% compared with Q4 2012 prices. Power sector prices were down 2% to US$3.55/mcf. Reduced Industrial Gas prices are contractually driven by world liquid fuels prices which strengthened over the quarter.

TANESCO receivables begin to reduce

Late in the quarter, the Government of Tanzania ("GoT") closed a US$600 million debt financing in international capital markets and further received US$100 million in a first of three tranches of a World Bank Tanzania Budget Support Package.

Since the end of the quarter, the GoT directed funds to TANESCO from which Orca received US$19.8 million in arrears payments. Currently the TANESCO arrears have been reduced 41% to US$29.1 million. The Government continues to assure Orca that another significant payment will be made in the near future.

Whilst the Company can currently maintain operations from Industrial Gas sales alone, Orca continues to require payments from TANESCO to comply with the Company's TANESCO-related statutory VAT and Excise Tax obligations to the Tanzania Revenue Authority ("TRA"). We are current with the Company's tax obligations to the TRA, however without further payments from TANESCO, Orca could be forced reduce operations to avoid accumulating unfunded liabilities. Prompt payment of the remaining TANESCO arrears is critical to our ability to proceed with additional Songo Songo development.

Clearing the path to increased Songo Songo gas production

Increasing the production capacity at Songo Songo requires approximately 18 months lead-time for planning, procurement, executing work programmes and commissioning, as well as requiring significant capital investment by the Company. In addition to the full payment of TANESCO arrears, the key issues to be resolved before the Company can proceed with Songo Songo development are (i) the resolution of the Production Sharing Agreement ("PSA") and related GNT matters; and (ii) the establishment of commercial terms for incremental gas sales. We believe that progress has been made on both.

A basis of resolution was achieved in negotiations in mid-2012 for the major issues, including PSA profit sharing ratios, Tanzania Petroleum Development Corporation ("TPDC") back-in rights, TANESCO payments, downstream unbundling and disputed cost pool recoveries. The Company has continued negotiations in good faith since and in April 2013 tabled a form of PSA amendment with the Government for its review and consideration. No further progress was made on the remaining GNT issues and in light of the need to enable additional Songo Songo productive capacity commensurate with the commissioning of the infrastructure project, the Company is working closely with the Government to close the remaining issues and remove the impediments to development proceeding.

The Government of Tanzania has made meeting the country's growing power and electrification needs an absolute priority. Over the coming years significantly increased domestic natural gas production is at the heart of the Government's strategy. Songo Songo can play a critical role in quickly increasing natural gas production. Of course further Songo Songo development has to be economically viable, and that the commercial terms for future gas sales resulting from this development are critical to its viability.

To deliver on its strategy, in 2012 the Government committed to a US$1.2 billion Natural Gas Infrastructure Project to expand capacity and recently entered into discussions with both the Company and Mnazi Bay producers regarding gas supply. The challenge to be met will be finding agreeable terms which can both result in the supply of reasonably priced gas to the power sector in Tanzania and deliver the necessary economic returns to producers to make the required capital investment in expanding gas production. It is important to have an agreement soon in order to provide the needed time to plan, finance and complete capital projects to increase Songo Songo production and expand infrastructure to deliver 190 MMcfd from Songo Songo. Orca is committed to work cooperatively with the GoT to find a mutually satisfactory solution.

Progress on the development of Tanzania's Natural Gas Policy

In November 2012 the Government's Ministry of Energy and Mines issued a draft natural gas policy for review and consultation with stakeholders. The draft policy addressed a number of issues including Government participation in the upstream, mid-stream and downstream sectors of the industry through a national oil company. The draft policy also addressed regulation of the industry through a new regulatory authority, a restructuring of TPDC, establishment of a national gas aggregator and provisions to control natural gas pricing. The draft policy further addressed management of natural gas revenues, local content, community & social responsibilities and issues of transparency and accountability.

A second draft policy has now been tabled by the Ministry of Energy and Minerals in the Parliament of Tanzania. This draft has limited its scope to mid and downstream segments of the industry. Upstream activities are recommended to be governed by a separate policy. Orca commends the Government for listening to the submissions of stakeholders and incorporating a greater recognition of the role of the private sector and investors in the development of Tanzania's gas resources. The Company is in the process of preparing its comments for submission on the second draft policy.

Strong fundamentals and fiscal discipline

Orca is encouraged and entirely supportive of the stronger role that the Government is taking in the development of Tanzania's resources. We have a 20-year history as a partner in the development of Tanzania's natural gas sector and we know the challenges involved. We have successfully partnered with the Government and the World Bank to create the first natural gas-to-electricity project in East Africa, and the first industrial gas market in East Africa.

Orca continues to believe in Tanzania's strong fundamentals. We see clear evidence of a Government that is strongly committed to a path of growth and prosperity in Tanzania and is delivering on that commitment. Financial discipline within Government has gained the confidence of the IMF and World Bank, as well as that of international credit markets. Since the end of 2012, the Government has raised US$600 million in debt, plus the first of three US$100 million tranches of budget support from the World Bank.

Other sovereign governments are showing strong support for Tanzania. Recently the Government of Brazil announced that it would forgive and/or restructure some US$237 million in Tanzania government debt in a show of confidence in the country and its longer-term strategic importance. Renewed interest in the strategic importance of Tanzania was also dramatically demonstrated by the US Government when President Obama chose Tanzania for an official visit to East African countries.

Orca is confident in the relations that we are developing within a new Tanzania Government approach to energy security and economic development. We are optimistic that continued progress will be made on our outstanding issues. We also deeply appreciate the patience and support of shareholders and look forward to the next steps in the development of Tanzania's natural gas resources.

W. David Lyons
Chairman & CEO

29th May 2013

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MD&A OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013 AND NOTES THERETO AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO AS AT AND FOR YEAR ENDED 31 DECEMBER 2012. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON 29 MAY 2013.

CERTAIN STATEMENTS IN THIS MD&A INCLUDING (I) STATEMENTS THAT MAY CONTAIN WORDS SUCH AS "ANTICIPATE", "COULD", "EXPECT", "SEEK", "MAY", "INTEND", "WILL", "BELIEVE", "SHOULD", "PROJECT", "FORECAST", "PLAN" AND SIMILAR EXPRESSIONS, INCLUDING THE NEGATIVES THEREOF; (II) STATEMENTS THAT ARE BASED ON CURRENT EXPECTATIONS AND ESTIMATES ABOUT THE MARKETS IN WHICH ORCA EXPLORATION GROUP INC., ITS SUBSIDIARIES AND AFFILIATES (COLLECTIVELY, "ORCA EXPLORATION", OR THE "COMPANY" OPERATES AND (III) STATEMENTS OF BELIEF, INTENTIONS AND EXPECTATIONS ABOUT DEVELOPMENTS, RESULTS AND EVENTS THAT WILL OR MAY OCCUR IN THE FUTURE, CONSTITUTE "FORWARD-LOOKING STATEMENTS" AND ARE BASED ON CERTAIN ASSUMPTIONS AND ANALYSIS MADE BY ORCA EXPLORATION. FORWARD-LOOKING STATEMENTS IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO FUTURE CAPITAL EXPENDITURES, INCLUDING THE AMOUNT, NATURE AND TIMING THEREOF, NATURAL GAS PRICES AND DEMAND.

SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO IMPORTANT RISKS AND UNCERTAINTIES, WHICH ARE DIFFICULT TO PREDICT AND THAT MAY AFFECT ORCA EXPLORATION'S OPERATIONS, INCLUDING, BUT NOT LIMITED TO: THE IMPACT OF GENERAL WORLD ECONOMIC CONDITIONS AND SPECIFCALLY IN TANZANIA, ITALY AND CANADA; INDUSTRY CONDITIONS, INCLUDING THE ADOPTION OF NEW ENVIRONMENTAL, SAFETY AND OTHER LAWS AND REGULATIONS AND CHANGES IN HOW THEY ARE INTERPRETED AND ENFORCED; SANCTITY OF CONTRACT; VOLATILITY OF OIL AND NATURAL GAS PRICES; OIL AND NATURAL GAS PRODUCT SUPPLY AND DEMAND, RIG AVAILABILITY; RISKS INHERENT IN ORCA EXPLORATION'S ABILITY TO GENERATE SUFFICIENT CASH FLOW FROM OPERATIONS, THIRD PARTY FINANCE OR ASSETS SALES TO MEET ITS CURRENT AND FUTURE OBLIGATIONS; INCREASED COMPETITION; THE FLUCTUATION IN FOREIGN EXCHANGE OR INTEREST RATES; STOCK MARKET VOLATILITY; COST POOL AUDITS AND OTHER FACTORS, MANY OF WHICH ARE BEYOND THE CONTROL OF ORCA EXPLORATION.

ORCA EXPLORATION'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS COULD DIFFER MATERIALLY FROM THOSE EXPRESSED IN, OR IMPLIED BY, THESE FORWARD-LOOKING STATEMENTS AND, ACCORDINGLY, NO ASSURANCE CAN BE GIVEN THAT ANY OF THE EVENTS ANTICIPATED BY THE FORWARD-LOOKING STATEMENTS WILL TRANSPIRE OR OCCUR, OR IF ANY OF THEM DO TRANSPIRE OR OCCUR, WHAT BENEFITS ORCA EXPLORATION WILL DERIVE THEREFROM. SUBJECT TO APPLICABLE LAW, ORCA EXPLORATION DISCLAIMS ANY INTENTION OR OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. ALL FORWARD-LOOKING STATEMENTS CONTAINED IN THIS DOCUMENT ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT.

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE USING A NUMBER OF NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) MEASURES. THESE NON-GAAP MEASURES ARE NOT STANDARDISED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES.

- **FUNDS FLOW FROM OPERATING ACTIVITIES** IS A TERM THAT REPRESENTS CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS.
- **OPERATING NETBACKS** REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS PROCESSING AND TRANSPORTATION TARIFFS, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY.
- **FUNDS PER SHARE FROM OPERATING ACTIVITIES** IS CALCUALATED ON THE BASIS OF THE FUNDS FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.
- **NET CASH FLOWS PER SHARE FROM OPERATING ACTIVITIES** IS CALCULATED AS CASH FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.

ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT www.sedar.com.

BACKGROUND

Tanzania

Orca Exploration's principal operating asset is its interest in a Production Sharing Agreement ("PSA") with the Tanzania Petroleum Development Corporation ("TPDC") and the Government of Tanzania in the Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo gas field.

The gas in the Songo Songo field is divided between Protected Gas and Additional Gas. The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 2024) to Songas Limited ("Songas"). 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, 232 kilometres of pipeline to Dar es Salaam and a 16 kilometre spur to the Wazo Hill Cement Plant.

Songas utilizes the Protected Gas (maximum 45.1 MMcfd) as feedstock for its gas turbine electricity generators at Ubungo, for onward sale to the Wazo Hill cement plant and for electrification of some villages along the pipeline route. Orca Exploration receives no revenue for the Protected Gas delivered to Songas and operates the field and gas processing plant on a 'no gain no loss' basis.

Orca Exploration has the right to produce and market all gas in the Songo Songo field in excess of the Protected Gas requirements ("Additional Gas").

Italy

During 2010 Orca Exploration farmed in to an oil appraisal block in the Adriatic Sea in Italy and to a gas exploration prospect in the Po Valley in Northern Italy. In early August 2012, the operator of the La Tosca well in the Po Valley commenced drilling operations. On 27 August 2012 the well was plugged and abandoned having reached total depth, the gas shows encountered and data obtained during drilling having not warranted completion and testing of the well. The costs of the well have been written off in 2012.

Orca has earned a 70% working interest in the block and, subject to government approval, operatorship of the block. The Company intends to review the technical and drilling data to determine whether to continue exploration on the block.

PRINCIPAL TERMS OF THE TANZANIAN PSA AND RELATED AGREEMENTS

The principal terms of the Songo Songo PSA and related agreements are as follows:

Obligations and restrictions

(a) The Company has the right to conduct petroleum operations, market and sell all Additional Gas produced and share the net revenue with TPDC for a term of 25 years expiring in October 2026.

(b) The PSA covers the two licenses in which the Songo Songo field is located ("Discovery Blocks"). The Proven Section is essentially the area covered by the Songo Songo field within the Discovery Blocks.

(c) No sale of Additional Gas may be made from the Discovery Blocks if in Orca Exploration's reasonable judgment such sales would jeopardise the supply of Protected Gas. Any Additional Gas contracts entered into are subject to interruption. Songas has the right to request that the Company and TPDC obtain security reasonably acceptable to Songas prior to making any sales of Additional Gas from the Discovery Block to secure the Company's and TPDC's obligations in respect of Insufficiency (see (d) below).

(d) "Insufficiency" occurs if there is insufficient gas from the Discovery Blocks to supply the Protected Gas requirements or is so expensive to develop that its cost exceeds the market price of alternative fuels at Ubungo.

Where there have been third party sales of Additional Gas by Orca Exploration and TPDC from the Discovery Blocks prior to the occurrence of the Insufficiency, Orca Exploration and TPDC shall be jointly liable for the Insufficiency and shall satisfy its related liability by either replacing the Indemnified Volume (as defined in (e) below) at the Protected Gas price with natural gas from other sources; or by paying money damages equal to the difference between: (a) the market price for a quantity of alternative fuel that is appropriate for the five gas turbine electricity generators at Ubungo without significant modification together with the costs of any modification; and (b) the sum of the price for such volume of Protected Gas (at US$0.55/Mmbtu) and the amount of transportation revenues previously credited by Songas to the state electricity utility, the Tanzania Electric Supply Company ("TANESCO"), for the gas volumes.

(e) The "Indemnified Volume" means the lesser of the total volume of Additional Gas sales supplied from the Discovery Blocks prior to an Insufficiency and the Insufficiency Volume. "Insufficiency Volume" means the volume of natural gas determined by multiplying the average of the annual Protected Gas volumes for the three years prior to the Insufficiency by 110% and multiplied by the number of remaining years (initial term of 20 years) of the power purchase agreement entered into between Songas and TANESCO in relation to the five gas turbine electricity generators at Ubungo from the date of the Insufficiency.

Access and development of infrastructure

(f) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas. Ndovu Resources Limited, with support from TPDC and the Ministry of Energy and Mines, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. The Tanzania Natural Gas Infrastructure Project contemplates additional processing and transportation capacity on Songo Songo to handle these additional gas volumes. Access has not yet been granted and it is not clear when, or if, this will occur.

Songas is not required to incur capital costs with respect to additional processing and transportation facilities unless the construction and operation of the facilities are, in the reasonable opinion of Songas, financially viable. If Songas is unable to finance such facilities, Songas shall permit the seller of the gas to construct the facilities at its expense, provided that, the facilities are designed, engineered and constructed in accordance with good pipeline and oilfield practices.

Revenue sharing terms and taxation

(g) 75% of the gross revenues less processing and pipeline tariffs and direct sales taxes in any year ("Net Revenues") can be used to recover past costs incurred. Costs recovered out of Net Revenues are termed "Cost Gas".

The Company pays and recovers costs of exploring, developing and operating the Additional Gas with two exceptions: (i) TPDC may recover reasonable market and market research costs as defined under the PSA (US$1.1 million as at 31 March 2012 and 31 December 2012 for marketing costs that have been incurred by TPDC since start up); and (ii) TPDC has the right to elect to participate in the drilling of at least one well for Additional Gas in the Discovery Blocks for which there is a development program as detailed in an Additional Gas plan ("Additional Gas Plan") as submitted to the Ministry of Energy and Minerals ("MEM") subject to TPDC being able to elect to participate in a development program only once and TPDC having to pay a proportion of the costs of such development program by committing to pay between 5% and 20% of the total costs ("Specified Proportion"). If TPDC does not notify the Company within 90 days of notice from the Company that the MEM has approved the Additional Gas Plan, then TPDC is deemed not to have elected. If TPDC elects to participate, then it will be entitled to a rateable proportion of the Cost Gas and their profit share percentage increases by the Specified Proportion for that development program.

TPDC has indicated that they wish to exercise their right to 'back in' to the field development. The implications and workings of the 'back in' have been discussed with the Government Negotiation Team ("GNT") and there may be the need for reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification as at 31 December 2012, it has been assumed that they will 'back in' for 20% for all future new wells and other developments and this is reflected in the Company's net reserve position.

(h) On 27 February 2009, the energy regulator, Energy and Water Utility Regulatory Authority ("EWURA"), issued an order that saw the introduction of a flat rate tariff of US$0.59/mcf from 1 January 2010. The Company's long-term gas price to the power sector as set out in the initialed Amended and Restated Gas Agreement ("ARGA") and the Portfolio Gas Sales Agreement ("PGSA") is based on the price of gas at the wellhead. As a consequence, the Company is not impacted by the changes to the tariff paid to Songas or other operators in respect of sales to the power sector.

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

The Re-rating Agreement expired 31 December 2012, however Songas has agreed to operations continuing at the increased capacity until the end of August 2013, whilst discussions take place on a new agreement.

(i) The cost of maintaining the wells and flowlines is split between the Protected Gas and Additional Gas users in proportion to the volume of their respective sales. The cost of operating the gas processing plant and the pipeline to Dar es Salaam is covered through the payment of the pipeline tariff.

(j) Profits on sales from the Proven Section ("Profit Gas") are shared between TPDC and the Company, the proportion of which is dependent on the average daily volumes of Additional Gas sold or cumulative production.

The Company receives a higher share of the net revenues after cost recovery, based on the higher the cumulative production or the average daily sales. The Profit Gas share is a minimum of 25% and a maximum of 55%.

Average daily sales of Additional Gas	Cumulative sales of Additional Gas	TPDC's share of Profit Gas	Company's share of Profit Gas
MMcfd	*Bcf*	*%*	*%*
0 - 20	0 – 125	75	25
> 20 <= 30	> 125 <= 250	70	30
> 30 <= 40	> 250 <= 375	65	35
> 40 <= 50	> 375 <= 500	60	40
> 50	> 500	45	55

For Additional Gas produced outside of the Proven Section, the Company's Profit Gas share is 55%.

Where TPDC elects to participate in a development program, their profit share percentage increases by the Specified Proportion (for that development program) with a corresponding decrease in the Company's percentage share of Profit Gas.

The Company is liable to income tax. Where income tax is payable, there is a corresponding deduction in the amount of the Profit Gas payable to TPDC.

(k) Additional Profits Tax ("APT") is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenues plus an annual return 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 when costs have been recovered with an annual return of 35% plus PPI return. The PSA is, therefore, structured to encourage the Company to develop the market and the gas fields in the knowledge that the profit share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before APT becomes payable. APT can have a significant negative impact on the project economics if only limited capital expenditure is incurred.

Operatorship

(l) The Company is appointed to develop, produce and process Protected Gas and operate and maintain the Songas gas production facilities and processing plant, including the staffing, procurement, capital improvements, contract maintenance, maintain books and records, prepare reports, maintain permits, handle waste, liaise with the Government of Tanzania and take all necessary safe, health and environmental precautions all in accordance with good oilfield practices. In return, the Company is paid or reimbursed by Songas so that the Company neither benefits nor suffers a loss as a result of its performance.

(m) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, Orca Exploration, or insurance coverage, then Orca Exploration is liable to a performance and operation guarantee of US$2.5 million when (i) the loss is caused by the gross negligence or wilful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Consolidation

The companies that are being consolidated are:

Company	Incorporated
Orca Exploration Group Inc.	British Virgin Islands
Orca Exploration Italy Inc.	British Virgin Islands
Orca Exploration Italy Onshore Inc.	British Virgin Islands
PAE PanAfrican Energy Corporation	Mauritius
PanAfrican Energy Tanzania Limited	Jersey
Orca Exploration UK Services Limited	United Kingdom

Results for the Quarter ended 31 March 2013

OPERATING VOLUMES

The sales volumes for the quarter were 5,539 MMcf or 61.6 MMcfd. This represents an increase of 16% over Q1 2012 and an increase of 2% over Q4 2012.

The Company's sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED	
Operating Volumes	**31 MAR 2013**	31 MAR 2012
Gross sales volume *(MMcf)*		
Industrial sector	**1,176**	835
Power sector	**4,363**	3,973
Total volumes	**5,539**	4,808
Gross daily sales volume *(MMcfd)*		
Industrial sector	**13.1**	9.2
Power sector	**48.5**	43.7
Total daily sales volume	**61.6**	52.9

Industrial sector

Current quarter industrial sales volume increased by 41% to 1,176 MMcf (13.1 MMcfd) from 835 MMcf (9.2MMcfd) in Q1 2012. The increase is primarily due to increased sales to a major cement producer in the Dar es Salaam area. Industrial gas volumes increased by 7% over Q4 2012 (1,127 MMcf or 12.2 MMcfd).

Power sector

Power sector sales volumes increased by 10% to 4,363 MMcf or 48.5 MMcfd, compared to 3,973 MMcf or 43.7 MMcfd in Q1 2012 as a result of increased reliance on gas to generate power. Power sales volumes were essentially unchanged over Q4 2012 (4,417 MMcf or 48.0 MMcfd).

Capacity constraints

As a result of the plant re-rating which occurred in June 2011 the capacity of the Songas plant was increased to 110 MMcfd, limited by pipeline capacity of 102 MMcfd. The Re-rating Agreement which was signed between the Company, Songas and TPDC, expired on 31 December 2012. The parties to the agreement have agreed to maintain the plant at the re-rated capacity until the end of August 2013, whilst a new agreement is negotiated. Without the Re-rating Agreement in place plant capacity will be restored to the original 70 MMcfd, which will result in a material reduction in the Company's sales volumes of Additional Gas.

SONGO SONGO DELIVERABILITY

As at 31 March 2013, the Company had a production capacity of approximately 98 MMcfd, with expansion currently restricted to 102 MMcfd by the available infrastructure.

The new production well SS-11 was successfully brought on stream in October 2012 and is currently producing approximately 38 MMcfd. With SS-9 and SS-3 having been suspended due to production tubing integrity issues and rising casing annulus pressures, SS-4 continues to be monitored and it may have to be suspended in the future.

The Company plans to make up any production shortfall from SS-4 with additional volumes from SS-10 and SS-11. As a result no material change in field production levels of approximately 98 MMcfd is currently anticipated. **There will, however, be no redundant capacity in the facility or pipeline until additional wells can be drilled in the field or existing wells worked over and facilities expanded. A loss or material reduction in the production of any given well will have a material adverse effect on the total production and funds flow from operations of the Company.**

Production equipment originally installed in the SS-9, SS-5, SS-4 and SS-3 wells drilled by TPDC between 1976 and 1983 has reached the end of its useful life. The SS-10 well was drilled by the Company in 2007 and SS-11 was drilled in 2012. Expanding the field productive capacity requires the reworking and recompletion of SS-9, SS-5, SS-4 and SS-3, as well as the drilling of an additional development well, SS-12. These development plans have been placed on hold until the re-negotiation of certain terms of the Songo Songo PSA and related issues arising from the GNT discussions have been fully resolved as well as the significant outstanding TANESCO receivable having been fully collected, substantive progress on the Tanzania Natural Gas Infrastructure Project and financing arranged.

COMMODITY PRICES

The commodity prices achieved in the different sectors during the quarter are shown in the table below:

	THREE MONTHS ENDED	
US$/mcf	**31 MAR 2013**	31 MAR 2012
Average sales price		
Industrial sector	**7.78**	9.63
Power sector	**3.55**	2.72
Weighted average price	**4.45**	3.92

Industrial sector

The average gas price for the quarter was US$7.78/mcf down 19% from Q1 2012: US$9.63/mcf and down 9% from Q4 2012 (US$8.56/mcf). This is the result of applying 2013 contract terms agreed with the largest industrial off-taker of natural gas which took effect in January 2013, together with the sales mix which resulted in two industrial customers with relatively low gas prices accounting for 70% of the industrial sales volume for the quarter.

Power sector

The average sales price to the power sector was US$3.55/mcf for the quarter (Q1 2012: US$2.72/mcf). The 30% increase is the result of a step change in the wellhead price, a component of the price to the power sector, from US$2.06/MMbtu to US$2.76/MMbtu with effect from 1st July 2012 as provisioned in the PGSA and ARGA. The ARGA and PGSA provide for indexation at the lower of US CPI and 2% with effect from each 1st July. The power sector price for the quarter was down 2% over Q4 2012 price of US$3.61/mcf, a result of slightly lower volumes to the power sector which combined for a lower price under the terms of the PGSA.

OPERATING REVENUE

Under the terms of the Songo Songo PSA, Orca Exploration is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales.

Orca Exploration is able to recover all costs incurred on the exploration development and operations of the project out of 75% of the Net Revenues ("Cost Gas"). Any costs not recovered in any period are carried forward for recovery out of future revenues. Once the cost pool has been recovered TPDC will again be able to recover its past marketing costs, being an estimated US$1.1 million accrued to date in accordance with the terms of the PSA. TPDC marketing costs are treated as a reduction to Orca Exploration's Cost Gas entitlement.

The Additional Gas sales volumes for both Q1 2013 and Q1 2012 were in excess of 50 MMcfd entitling the Company to a 55% share of "Profit Gas" (Revenue less cost recovery share of revenue).

From January 2011, a significant proportion of the gas production was from the SS-10 well, which has been deemed "backed into" by TPDC. As a result TPDC's profit share increased by 20% for the production attributable to SS-10. The same approach has been taken with respect to SS-11. The implications and workings of the 'back in' have been discussed with the GNT, but further discussion is required to finalise the arrangement by way of an amendment to the PSA.

Orca Exploration was allocated a total of 62% in Q1 2013 (Q1 2012: 88%) of the Net Revenues as follows:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Gross sales revenue	**24,629**	18,837
Gross tariff for processing plant and pipeline infrastructure	**(4,076)**	(3,485)
Gross revenue after tariff ("Net Revenues")	**20,533**	15,352
Analysed as to:		
Company Cost Gas	**3,593**	11,514
Company Profit Gas	**9,113**	2,021
Company operating revenue	**12,706**	13,535
TPDC share of revenue	**7,847**	1,817
	20,553	15,352

The Company's total revenues for Q1 2013 amounted to US$13,197 after adjusting the Company's operating revenue of US$12,706 by:

i) adding US$3,526 for income tax in the quarter – the Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable and to account for this, revenue is adjusted to reflect the current year income tax charge or loss; and

ii) subtracting US$3,035 for the deferred effect of Additional Profits Tax -- this tax is considered a royalty and is netted against revenue.

Revenue presented on the Condensed Consolidated Interim Statement of Comprehensive Income may be reconciled to the operating revenue as follows:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Industrial sector	**9,124**	8,037
Power sector	**15,505**	10,800
Gross sales revenue	**24,629**	18,837
Processing and transportation tariff	**(4,077)**	(3,485)
TPDC share of revenue	**(7,846)**	(1,817)
Company operating revenue	**12,706**	13,535
Additional Profits Tax	**(3,035)**	(672)
Current income tax adjustment	**3,526**	4,343
Revenue	**13,197**	17,207

The 23% decrease in revenue compared to Q1 2012 is the result of several factors. A 15% increase in sales volumes and a 14% increase in weighted average gas prices have contributed to an overall increase in Gross Sales Revenue. At the same time TPDC's share of revenue increased to US$7.8 million (Q1 2012: US$1.8 million) as a consequence of the Company having fully recovered its cost pool in 2012. With the cost pool recovered, there was a significant increase in Additional Profits Tax as compared with the prior period. Q4 2012 revenue of US$20.7 million reflected the recovery of $14.2 million in Cost Gas and significantly lower levels of Profit Gas (US$3.8 million) resulting in Additional Profits Tax of US$1.2 million.

PROCESSING AND TRANSPORTATION TARIFF

Since early 2011, the Company has paid a flat rate regulated gas processing and transportation tariff of US$0.59/mcf to Songas. Under the terms of the gas contracts with the power sector, the Company will pass on any increase or decrease in the EWURA approved charges to its customers. This protocol insulates Orca Exploration from any increases in the gas processing and pipeline infrastructure costs.

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of this agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the regulated tariff of US$0.59/mcf payable to Songas. The Q1 2013 charge for the additional tariff was US$0.8 million (Q1 2012: US$0.6 million), the increase over the prior period a result of higher sales volumes.

PRODUCTION AND DISTRIBUTION EXPENSES

The well maintenance costs are allocated between Protected and Additional Gas based on the proportion of their respective sales during the period. The total costs of maintenance for the period was US$134 (Q1 2012: US$250) of which US$84 (Q1 2012: US$107) was allocated for the Additional Gas.

Other field and operating costs include an apportionment of the annual PSA licence costs, regulatory fees and some costs associated with the evaluation of the reserves and the cost of personnel that are not recoverable from Songas.

Distribution costs represent the direct cost of maintaining the ringmain distribution pipeline and pressure reduction station (security, insurance and personnel).

In the context of the GNT negotiations and the recently announced draft Natural Gas Policy, TPDC and MEM have indicated that they wish Orca Exploration to unbundle the downstream distribution business in Tanzania. The methodology for this is currently being discussed with the government and may lead to future modifications to the accounts.

These production and distribution costs are summarized in the table below:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Share of well maintenance	**84**	107
Other field and operating costs	**318**	370
	402	477
Ringmain distribution costs	**392**	839
Production and distribution expenses	**794**	1,316

OPERATING NETBACKS

The netback per mcf before general and administrative costs, overhead, tax and APT may be analysed as follows:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Gas price – industrial	**7.78**	9.63
Gas price – power	**3.55**	2.72
Weighted average price for gas	**4.45**	3.92
Tariff	**(0.74)**	(0.72)
TPDC share of revenue	**(1.42)**	(0.38)
Net selling price	**2.29**	2.82
Well maintenance and other operating costs	**(0.07)**	(0.10)
Ringmain distribution pipeline	**(0.07)**	(0.17)
Operating netback	**2.15**	2.55

The operating netback decreased by 16% from US$2.55/mcf in Q1 2012 to US$2.15/mcf in Q1 2013. A 14% increase in the weighted average gas price and savings in operating and distribution costs were more than offset by the cost pool recovery effect which resulted in a tripling of the TPDC share of revenue. Against a weighted average gas price of US$4.62/mcf in Q4 2012, cost recoveries limited TPDC share of revenue to US$0.62/mcf and resulted in an operating netback of US$3.01/mcf for Q4 2012.

The 15% increase in the weighted average selling price from US$3.92/mcf to US$4.45/mcf in 2013 is partly a consequence of a change in the sales mix resulting in lower average industrial prices, offset by a 41% increase in Industrial gas volumes, and partly the result of a 31% increase in the Power price as a consequence of contractual step change in wellhead price effective July 2012.

In Q4 2012, the Company recovered its capital cost pool in full. As a result, TPDC's share of revenue in Q1 2013 has increased significantly benefiting from the reduction in Cost Gas. The Company's Cost Gas recovery for the quarter was only 17% of Net Revenues comparing to 75% of Q1 2012.

The 30% reduction in the well maintenance and other operating costs on a per mcf basis is primarily the result of higher sales volumes and decrease in some activities during the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

The administrative expenses ("G&A") may be analysed as follows:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Employee & related costs	**1,883**	2,075
Stock based compensation	**(271)**	6
Office costs	**800**	893
Marketing costs including legal fees	**163**	240
Reporting, regulatory and corporate	**955**	450
General and administrative expenses	**3,530**	3,664

G&A includes the costs of running the natural gas distribution business in Tanzania which is recoverable as Cost Gas and is relatively fixed in nature. G&A averaged approximately US$1.2 million per month during the first quarter of 2013 and 2012. G&A per mcf decreased to US$0.64/mcf (Q1 2012: US$0.76/mcf) principally as a result of increased sales volumes.

NET FINANCE COSTS

The movement in net financing costs is summarized in the table below:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Finance charges		
Net Interest (income)/expense	**205**	(1)
Net foreign exchange loss	**1,286**	136
	1,491	135
Net finance costs	**1,491**	135

The increase in loan interest and related financing costs year over is a result of the Company drawing down a US$10.0 million bank facility, as to US$6.0 million in September 2012 and US$4.0 million in February 2013.

The foreign exchange loss reflects the impact of a 5% fall in the value of the Tanzanian Shilling against the US Dollar on outstanding customer balances and bank accounts denominated in Tanzanian Shilling.

TAXATION

Income Tax

Under the terms of the PSA with TPDC and the Government of Tanzania, the Company is liable for income tax in Tanzania at the corporate tax rate of 30%. However, where income tax is payable, this is recovered from TPDC by deducting an amount from TPDC's profit share. This is reflected in the accounts by increasing the Company's revenue by the appropriate amount.

As at 31 March 2013, there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes under the Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognised a deferred tax liability of US$19.8 million (Q1 2012: US$15.9 million) which represents a decrease in deferred future income tax charge of US$0.6 million for the quarter (Q1 2012: increase of US$0.7 million). This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"), an Additional Profits Tax ("APT") is payable.

The Company provides for APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The effective APT rate of 33.3% (Q1 2012: 31.8%) was then applied to Profit Gas of US$9.1 million in Q1 2013 (Q1 2012: US$2.0 million). Accordingly, US$3.0 million (Q1 2012: US$0.7 million) has been netted off revenue for the current quarter.

Management does not anticipate that any APT will be payable in 2013, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the PPI percentage change and the forecast expenditures for 2013. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

The APT can have a significant negative impact on the Songo Songo project economics as measured by the net present value of the cash flow streams. Higher revenue in the initial years leads to a rapid payback of the project costs and consequently accelerates the payment of the APT that can account for up to 55% of the Company's profit share. Therefore, the terms of the PSA rewards the Company for taking higher risks by incurring capital expenditure in advance of revenue generation.

DEPLETION AND DEPRECIATION

The 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 proven reserves. As at 31 December 2012 the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd., were 429.1 Bcf, after TPDC 'back-in', on a life of licence basis. A depletion expense of US$2,722 (Q1 2012: US$1,938) has been charged to the accounts, the increase is due to a 15% increase in sales volumes and an increase in the depletion rate to US$0.49/mcf (Q1 2012 US$0.40/mcf).

Non-Natural Gas Properties are depreciated as follows:

Leasehold improvements	Over remaining life of the lease
Computer equipment	3 years
Vehicles	3 years
Fixtures and fittings	3 years

CARRYING AMOUNT OF ASSETS

Capitalised costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalised costs are unlikely to be recovered in the future, they are impaired and recorded in the statement of comprehensive income.

FUNDS GENERATED BY OPERATIONS

Funds from operations before working capital changes were US$8.7 million for Q1 2012 (Q1 2012: US$9.9 million).

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Profit after taxation	**2,774**	6,392
Adjustments (i)	**5,925**	3,496
Funds from operations before working capital changes	**8,699**	9,888
Working capital adjustments (i)	**(14,447)**	(3,235)
Net cash flows from operating activities	**(5,748)**	6,653
Net cash flows (used in)/investing activities	**(270)**	(10,675)
Net cash flows from financing activities	**3,215**	–
Decrease in cash and cash equivalents	**(2,803)**	(4,022)
Effect of change in foreign exchange on cash on hand	**177**	–
Net decrease in cash and cash equivalents	**(2,626)**	(4,022)

(i) See consolidated interim statement of cash flows

The 12% decrease in funds from operations before working capital changes over 2012 is due primarily to depletion of the cost pool which resulted in a significant increase in TPDC's share of revenue, which rose to US$7.8 million (Q1 2012: US$1.8 million).

Operating revenue with respect to TANESCO and Songas is not reflected in the overall cash and cash equivalents as a consequence of TANESCO's and Songas' failure to pay their invoices during the period.

CAPITAL EXPENDITURES

Capital expenditures amounted to US$0.3 million during the quarter (Q1 2012: US$18.7 million). The significant reduction in capital expenditures is due to the lack of drilling activity during the quarter. The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED	
US$'000	**31 MAR 2013**	31 MAR 2012
Geological and geophysical and well drilling	**270**	18,418
Pipelines and infrastructure	**–**	219
Power development	**–**	91
Other equipment	**–**	20
	270	18,748

WORKING CAPITAL

Working capital as at 31 March 2013 was US$54.8 million (31 December 2012: US$46.8 million) and may be analysed as follows:

	AS AT			
US$'000	**31 MAR 2013**		31 DEC 2012	
Cash and cash equivalents		**13,421**		16,047
Trade and other receivables		**93,267**		73,495
TANESCO receivables	**48,834**		33,256	
Songas receivables	**16,549**		14,283	
Other receivables	**27,884**		25,956	
Taxation receivable		**14,371**		14,692
Prepayments		**208**		246
		121,267		104,480
Trade and other payables		**52,398**		45,496
Songas payables	**21,284**		28,037	
Other payables	**31,114**		17,459	
Loan		**9,058**		5,842
Taxation payable		**5,053**		6,322
Working capital (1)		**54,758**		46,820

Notes:

(1) Working capital as at 31 March 2013 includes a TANESCO receivable of US$48.8 million (31 December 2012: US$33.3 million) and a net Songas receivable of US$5.5 million (31 December 2012: US$5.9 million).

Working capital as at 31 March 2013 increased by 17% during the quarter, primarily as a result of higher share of revenue during the period comparing to expenditure incurred during the same period. The Company did not incur any major capital expenditure during the quarter.

At 31 March 2013 the majority of the Company's cash was held in Tanzania. There are no restrictions in Tanzania for converting Tanzania Shillings into US dollars.

Trade and other receivables at 31 March 2013 comprise trade receivables of US$77.7 million (31 December 2012: US$60.3 million) and other receivables of US$15.5 million (31 December 2012: US$13.2 million). Of the trade receivables US$48.8 million (31 December 2012: US$33.3 million) relates to sales to TANESCO. The increase in other receivables, relates principally to an increase in the amount due from Songas for operation of the gas processing plant and associated projects. The tax related receivable represents an additional share of revenue based on the current tax charge. The tax charge for the quarter is US$2.5 million (Q1 2012: US$3.0 million), this sum grossed up for income tax at 30%, is recovered from TPDC once the tax has been paid.

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 31 March 2013, US$12.4 million (31 December 2012: US$12.8 million) was due from industrial customers, the majority of which has subsequently been received. The balance of US$65.4 million (31 December 2012: US$47.5 million) is made up of amounts due from the two power customers, TANESCO and Songas.

The Company obtained 52% of its operating revenue during the quarter from TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is dependent on the Government of Tanzania for some of its funding. Despite having a history of delayed payments, TANESCO has previously settled in full the outstanding balance subsequent to each quarter end. Subsequent to quarter end, the Government of Tanzania directed funds to TANESCO to pay the Company US$19.8 million of the outstanding balance.

The balance due from Songas has increased but is partially offset by a similar increase in amounts due to Songas. As at 31st March 2013, the net Songas receivable was US$5.5 million (Q4 2012: US$5.9 million). The Company does not have a legal right to offset these amounts.

BANK LOAN

In September 2012, the Company closed a US$10 million 18-month bridge loan facility with a Tanzanian bank to finance the Company's working capital requirements in Tanzania. The facility is secured by an assignment of accounts receivable and a fixed and floating charge on the assets of the Company. The Company drew the final US$4.0 million in February 2013. The principal drawn under the facility is repayable in 12 equal monthly instalments which commenced in March 2013. Interest is payable monthly at three-month US LIBOR plus 8%. An additional interest rate of 2% will be applied for any period in which the TANESCO receivable is greater than 240-days.

FUTURE OPERATIONS

These financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the Company's ability to collect its receivables from government entities to fund ongoing operations and the exploration and development program. The continued deterioration of the financial position of the state utility, TANESCO, has created uncertainty whether the Company will be able to collect sufficient cash to continue operations and meet its commitments. The immediate need to collect from its debtors may create significant doubt about the Company's ability to continue as a going concern.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying amounts of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

The Company generates in excess of 60% of its operating revenue from sales to the power sector companies, Songas and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. The state utility, TANESCO, is dependent on the Government of Tanzania for some of its funding. Prior to 2012, despite having a history of delayed payments, TANESCO had settled in full the outstanding balance subsequent to each quarter end.

During the quarter no payments were received from TANESCO. At 31 March 2013, TANESCO owed the Company US$48.8 million (including arrears of US$44.0 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012. Subsequent to the end of the quarter, the Company has received US$19.8 million and, as of the date of this report, the arrears total US$29.1 million.

As at 31st March 2013, Songas owed the Company US$28.1 million, whilst the Company owed Songas US$22.4 million; there is no legal right to offset these amounts. Subsequent to the end of the year, the Company has neither received nor paid any amounts in settlement of these balances. Amounts due to Songas primarily relate to pipeline tariff charges of $21.3 million (31 December 2012: US$17.5 million), whereas the amounts due to the Company are for sales of gas of US$16.5 million (31 December 2012: US$14.3 million) and for the operation of the gas plant for US$10.3 million (31 December 2012: US$9.2 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis without profit margin. Following recent discussions with Songas management expects that these balances will be substantially cleared in Q2.

During 2012 and to the end of Q1 2013, there was no substantive progress on payment of arrears owed by TANESCO and as well the state utility failed to remain current. Subsequent to the end of the quarter, in April 2013, the Government of Tanzania has informed the Company that it raised approximately US$600 million in international credit markets as well as a World Bank budget support package of US$100 million, the first of an expected three tranches of World Bank funding. The Government of Tanzania has assured the Company that a portion of the proceeds of these financings will be used to repay all of the outstanding arrears of TANESCO. In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 31st March 2013 and TANESCO continues to be unable to pay the Company for subsequent 2013 gas deliveries, the Company will need additional funding for its ongoing operations within three to four months of the date of this report. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms.

During 2012, to help alleviate the funding gap caused by the delays in TANESCO payments the Company put in place a US$10 million facility with a bank in Tanzania. As at 31 December 2012, the Company had drawn down US$6.0 million of this facility, incurring financing charges of US$0.2 million. In February 2013, the Company drew the remaining US$4.0 million under the facility. Repayments commenced in March 2013.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34.6 million shares outstanding as at 31st March 2013 which may be analysed as follows:

	AS AT	
Number of shares ('000)	**31 MAR 2013**	31 DEC 2012
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**32,892**	32,892
Weighted average Class A and Class B	**34,643**	34,643
Weighted average		
Class A and Class B shares	**34,643**	34,642
Convertible securities		
Options	**767**	811
Weighted average diluted Class A and Class B shares	**35,410**	35,453

As at 30 May 2013, there were a total of 32,892,015 Class B shares and 1,751,195 Class A shares outstanding.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

CONTRACTUAL OBLIGATIONS

Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu) 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 (94.5 Bcf as at 31 March 2013). The Company did not have a shortfall during the reporting period does not anticipate a shortfall arising during the licence period.

The Gas Agreement may be superseded by an initialed ARGA. The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep them whole in the event of a Protected Gas insufficiency. Once the new IA is signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company shall fund an escrow account at a rate of US$2/Mmbtu on all industrial Additional Gas sales out of its and TPDC share of revenue, and TANESCO shall contribute the same amount on Additional Gas sales to the power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. The Company is actively monitoring the reservoir and, supported by the report of its independent engineers, does not anticipate that a liability will occur in this respect.

Re-rating Agreement

During Q2 2011, the Company signed a re-rating agreement with TANESCO and Songas (the "Re-Rating Agreement") to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The Re-rating Agreement expired on 31st December 2012, however Songas has agreed to operations continuing at the increased capacity until the end of August 2013, whilst discussions take place on a new agreement.

Portfolio Gas Sales Agreement

On 17 June 2011, a long term (to June 2023) PGSA was signed between Orca Exploration and TANESCO. Under the PGSA, Orca is obligated, subject to infrastructure capacity, to sell a maximum of approximately 37 MMcfd for use in any of TANESCO's current power plants except those operated by Songas at Ubungo. Under the agreement, the current basic wellhead gas price of US$2.82/mcf is due to increase to approximately US$2.88/mcf on 1 July 2013.

Operating leases

The Company has two office rental agreements. One in Dar es Salaam which expires on 30 November 2013 at an annual rental of US$238 and one in Winchester (UK) which expires on 25 September 2022 at an annual rental of GBP35 (US$58) per annum for the first two years and GBP71 (US$115) thereafter. Both are recognised in the General and Administrative expenses.

CAPITAL COMMITMENTS

Italy

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

Petroceltic was due to spud the Elsa-2 well prior to 31 October 2010, but the Italian government passed a decree, following the blowout of the Macondo well in the U.S., that prevented the drilling in the Italian seas within five nautical miles of the coastline and within 12 nautical miles around the perimeter of protected Marine Parks. In view of this, Petroceltic suspended the permit until such time as the Ministry of Environment issued a decree of environmental compatibility for the drilling program. Legislative Decree 83/2012 (the "Decree"), was published on 26 June 2012 and was approved by both houses of the Italian Parliament with no substantial modifications. On 12th August, the Decree became law following publication in the Italian Official Journal. The new law modifies restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. The well is now expected to be drilled following finalisation of an environmental impact study currently expected in 2014. Orca will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

There are no further capital commitments in Italy.

Songo Songo

There are no contractual commitments for capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania remains dependent on TANESCO receivables being brought up to date, the satisfactory conclusion of the GNT issues, material progress on infrastructure expansion, the conclusion of commercial terms and the subsequent raising of finance. Significant additional capital expenditure will be required to enable the Songo Songo field to produce 190 MMcfd in line with the anticipated infrastructure expansion.

CONTINGENCIES

Downstream unbundling

In connection with the GNT negotiations and the recently announced draft Natural Gas Policy, TPDC and MEM have indicated that they wish Orca Exploration to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with the GNT along with other issues. The Company anticipates further negotiations will be necessary before this matter is concluded.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and MEM, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. The Tanzania Natural Gas Infrastructure Project contemplates additional processing and transportation capacity on Songo Songo to handle these additional gas volumes. Access has not yet been granted and it is not clear when, or if, this will occur.

TPDC Back in

TPDC has indicated that they wish to exercise its right under the PSA to 'back in' to the Songo Songo field development. The implications and workings of the 'back in' have been discussed with the GNT along with other issues. The issues are not yet fully resolved, however, there may be the need for additional reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification as at 31 December 2012, it was assumed that they will 'back in' for 20% for all future new drilling activities and other developments and this is reflected in the Company's net reserve position.

Cost recovery

The Company's cost pool in Tanzania has been fully recovered resulting in a reduction in the percentage of net revenue attributable to the Company.

TPDC conducted an audit of the historic cost pool and in 2011 disputed approximately US$34 million of costs that had been allocated to the cost pool from 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. This matter was not resolved during the year in conjunction with the GNT negotiations and while the Company remains confident that the final outcome will be satisfactory, it is prepared to utilise the extensive dispute resolution mechanisms outlined in the PSA if necessary. This matter has had no impact on the results for the year.

Taxation

During 2012 the Company received an assessment for additional withholding tax from the Tanzanian Revenue Authority (TRA), which together with interest penalties totals approximately US$2.0 million. The Company considered the assessment to be without merit and appealed to the Tax Revenue Appeals Board. The Tax Revenue Appeals Board considered the appeal in March 2013 and upheld the assessment. The Company has now appealed to Tax Revenue Appeals Tribunal.

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.1 million (Q1 2012: US$0.1 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. As at 31 March 2013 the Company has a total of US$0.2 million recorded in trade and other payables in relation to the related party. The Chief Financial Officer provided services to the Company through a consulting agreement with personal services company, during the quarter the Company incurred fees of US$0.1 million.

NEW ACCOUNTING POLICIES

On January 1, 2013, the Company adopted the following new standards and amendments, which became effective for periods on or after January 1, 2013:

- IFRS 10, "Consolidated Financial Statements," supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard had no impact on the amounts recorded in the Company's condensed consolidated interim financial statements.
- IFRS 11, "Joint Arrangements," whereby joint arrangements are classified as either joint operations or joint ventures, each with their own accounting treatment. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard had no impact on the amounts recorded in the Company's condensed consolidated interim financial statements.
- IFRS 12, "Disclosure of Interest in Other Entities," combines the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, and associates as well as unconsolidated structured entities. The adoption of this standard had no impact on the Company's condensed consolidated interim financial statements.
- IFRS 13, "Fair Value Measurement," establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard had no material impact on the Company's condensed consolidated interim financial statements.
- IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no impact on the Company's condensed consolidated interim financial statements.

Future accounting policies:

- For annual periods beginning on or after January 1, 2015, IFRS 9 will replace the guidance of IAS 39, "Financial Instruments: Recognition and Measurement." This standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans receivable. Financial assets will be classified into one of two categories: amortized cost or fair value. The Company intends to adopt IFRS 9 in the financial statements for the year beginning on January 1, 2015. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

CRITICAL ACCOUNTING POLICES AND ESTIMATES

The preparation of these condensed consolidated interim 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 from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the 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 31 December 2012.

SUMMARY QUARTERLY RESULTS

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

(US$'000 except where otherwise stated)	**2013**	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenue	**13,197**	20,712	22,425	16,915	17,207	17,500	10,457	8,296
Comprehensive income (loss) after tax	**2,950**	5,504	1,266	5,167	6,392	5,267	(54)	383
Earnings per share - diluted *(US$)*	**0.08**	0.16	0.04	0.15	0.18	0.15	0.00	0.01
Funds flow from operating activities	**8,699**	11,699	14,379	9,982	9,888	9,096	5,323	3,292
Per share - diluted *(US$)*	**0.25**	0.33	0.41	0.28	0.28	0.25	0.15	0.09
Operating netback *(US$/mcf)*	**2.15**	3.01	3.14	2.56	2.55	2.41	1.78	1.80
Working capital	**54,758**	46,820	37,730	38,689	47,063	56,006	58,369	57,070
Shareholders' equity	**128,885**	125,935	120,204	118,938	113,051	106,659	101,563	100,956
Capital expenditures								
Geological and geophysical and well drilling	**270**	2,160	14,749	17,732	18,418	10,989	3,463	1,124
Pipeline and infrastructure	**–**	(258)	261	563	219	11	421	364
Power development	**–**	(15)	22	84	91	22	–	11
Other equipment	**–**	562	1	86	20	239	41	94
Operating								
Additional Gas sold – industrial *(MMcfd)*	**13.1**	12.2	11.1	9.1	9.2	8.5	7.8	7.6
Additional Gas sold – power *(MMcfd)*	**48.5**	48.0	46.4	45.8	43.7	49.1	48.3	32.6
Average price per mcf – industrial *(US$)*	**7.78**	8.56	9.21	10.14	9.63	9.94	10.47	10.28
Average price per mcf – power *(US$)*	**3.55**	3.61	3.55	2.80	2.72	2.97	2.76	2.64

Condensed Consolidated Interim Statement of Comprehensive Income (UNAUDITED)

		THREE MONTHS ENDED	
US$'000 except per share amounts	NOTE	**31 MAR 2013**	31 MAR 2012
Revenue	*4*	**13,197**	17,207
Cost of sales			
Production and distribution expenses		**(794)**	(1,316)
Depletion expense		**(2,722)**	(1,938)
		9,681	13,953
General and administrative expenses		**(3,530)**	(3,664)
Net finance costs		**(1,491)**	(135)
Profit before taxation		**4,660**	10,154
Taxation	*5*	**(1,886)**	(3,762)
Profit after taxation		**2,774**	6,392
Foreign currency translation gain from foreign operations		**176**	–
Total comprehensive income for the period		**2,950**	6,392
Earnings per share			
Basic *(US$)*	*11*	**0.08**	0.19
Diluted *(US$)*	*11*	**0.08**	0.18

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position (UNAUDITED)

US$'000	NOTE	AS AT 31 MAR 2013	31 DEC 2012
ASSETS			
Current assets			
Cash and cash equivalents		**13,421**	16,047
Trade and other receivables	6	**93,267**	73,495
Taxation receivable	5	**14,371**	14,692
Prepayments		**208**	246
		121,267	104,480
Non-current assets			
Exploration and evaluation assets	7	**5,722**	5,720
Property, plant and equipment	8	**99,503**	102,044
		105,225	107,764
Total assets		**226,492**	212,244
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	9	**52,398**	45,496
Bank loan	10	**9,058**	5,842
Taxation payable	5	**5,053**	6,322
		66,509	57,660
Non-current liabilities			
Deferred income taxes	5	**19,813**	20,399
Deferred additional profits tax	5	**11,285**	8,250
		31,098	28,649
Total liabilities		**97,607**	86,309
Equity			
Capital stock	11	**84,983**	84,983
Contributed surplus		**6,753**	6,753
Accumulated other comprehensive income		**265**	89
Accumulated income		**36,884**	34,110
		128,885	125,935
Total equity and liabilities		**226,492**	212,244

See accompanying notes to the condensed consolidated interim financial statements.
Future operations (Note 1)
Contractual obligations and committed capital investment (Note 13)
Contingencies (Note 14)

The consolidated condensed interim financial statements were approved by the Board of Directors on 29 May 2013.

W H Smith

Director

Director

Condensed Consolidated Interim Statement of Cash Flows (UNAUDITED)

US$'000	NOTE	THREE MONTHS ENDED 31 MAR 2013	31 MAR 2012
CASH FLOWS (USED IN)/ FROM OPERATING ACTIVITIES			
Profit after taxation		**2,774**	6,392
Adjustment for:			
Depletion and depreciation		**2,809**	2,019
Impairment of assets		**–**	–
Stock-based compensation		**(271)**	6
Deferred income taxes	5	**(582)**	722
Deferred additional profits tax	5	**3,035**	672
Interest received		**–**	(1)
Unrealised loss on foreign exchange		**934**	78
Funds flow from operating activities		**8,699**	9,888
Increase in trade and other receivables		**(20,928)**	(2,118)
Decrease/increase in taxation receivable		**320**	(3,828)
Decrease in prepayments		**38**	(40)
Increase in trade and other payables		**7,392**	534
Increase in taxation payable		**(1,269)**	2,217
Net cash flows from operating activities		**(5,748)**	6,653
CASH FLOWS USED IN INVESTING ACTIVITIES			
Exploration and evaluation expenditures		**(2)**	(1,578)
Property, plant and equipment expenditures		**(268)**	(17,170)
Interest received		**–**	1
(Decrease)/increase in trade and other payables		**–**	8,072
Net cash used in investing activities		**(270)**	(10,675)
CASH FLOWS (used in)/FROM FINANCING ACTIVITIES			
Bank loan proceeds		**4,000**	–
Bank loan repayments		**(785)**	–
Net cash flow from/(used in) financing activities		**3,215**	–
Decrease in cash and cash equivalents		**(2,803)**	(4,022)
Cash and cash equivalents at the beginning of the period		**16,047**	34,680
Effect of change in foreign exchange		**177**	(23)
Cash and cash equivalents at the end of the period		**13,421**	30,635

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (UNAUDITED)

US$'000	Capital stock	Contributed surplus	Cumulative Translation adjustment	Accumulated Income	Total
Balance as at 1 January 2013	84,983	6,753	89	34,110	125,935
Foreign currency translation adjustment on foreign operations	–	–	176	–	176
Total comprehensive income for the period	–	–	–	2,774	2,774
Balance as at 31 March 2013	**84,983**	**6,753**	**265**	**36,884**	**128,885**

US$'000	Capital stock	Contributed surplus	Cumulative Translation adjustment	Accumulated Income	Total
Balance as at 1 January 2012	84,610	6,268	–	15,781	106,659
Foreign currency translation adjustment on foreign opertions	–	–	–	–	–
Total comprehensive income for the period	–	–	–	6,392	6,392
Balance as at 31 March 2012	**84,610**	**6,268**	**–**	**22,173**	**113,051**

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

General Information

Orca Exploration Group Inc. ("Orca Exploration" or the "Company") was incorporated on 28 April 2004 under the laws of the British Virgin Islands. The Company produces and sells natural gas to the power and industrial sectors in Tanzania and has gas and oil exploration interests in Italy.

The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2013 comprise accounts of the Company and all its wholly owned subsidiaries (collectively, the "Company") and were authorised for issue in accordance with a resolution of the directors on 29 May 2013.

1 FUTURE OPERATIONS

These financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the Company's ability to collect its receivables from government entities to fund ongoing operations and the exploration and development program. The continued deterioration of the financial position of the state utility, the Tanzanian Electrical Supply Company ("TANESCO"), has created uncertainty as to whether the Company will be able to collect cash to continue operations and meet its commitments. The immediate need to collect from its debtors may create significant doubt about the Company's ability to continue as a going concern.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying amounts of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications.

The Company generates in excess of 60% of its operating revenue from sales to the power sector companies, Songas Limited ("Songas") and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is dependent on the Government of Tanzania for some of its funding. Prior to 2012, despite having a history of delayed payments, TANESCO had settled in full the outstanding balance subsequent to each quarter end.

At 31 March 2013, TANESCO owed the Company US$48.8 million (including arrears of US$44.0 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012. Subsequent to the end of the quarter, the Government of Tanzania directed funds to TANESCO to pay the Company US$19.8 million of the outstanding balance and, as of the date of this report, the arrears total US$29.1 million.

At 31 March 2013 Songas owed the Company US$28.1 million, whilst the Company owed Songas US$22.4 million; there is no legal right to offset these amounts. Subsequent to the end of last year, the Company has neither received nor paid any amounts in settlement of these balances. Amounts due to Songas primarily relate to pipeline tariff charges of $21.3 million (31 December 2012: US$17.5 million), whereas the amounts due to the Company are for sales of gas of US$16.5 million (31 December 2012: US$14.3 million) and for the operation of the gas plant for US$10.3 million (31 December 2012: US$9.2 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis without profit margin. Following recent discussions with Songas management expects that these balances will be substantially cleared in Q2.

During 2012 and to the end of Q1 2013, there was no substantive progress on payment of arrears owed by TANESCO and as well the state utility failed to remain current. Subsequent to the end of the quarter, in April 2013, the Government of Tanzania has informed the Company that it raised approximately US$600 million in international credit markets as well as a World Bank budget support package of US$100 million, the first of an expected three tranches of World Bank funding. The Government of Tanzania has assured the Company that a portion of the proceeds of these financings will be used to repay all of the outstanding arrears of TANESCO. In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 31st March 2013 and TANESCO continues to be unable to pay the Company for subsequent 2013 gas deliveries, the Company will need additional funding for its ongoing operations within three to four months of the date of this report. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms.

During 2012, to help alleviate the funding gap caused by the delays in TANESCO payments the Company put in place a US$10 million facility with a bank in Tanzania. As at 31 December 2012, the Company had drawn down US$6.0 million of this facility, incurring financing charges of US$0.2 million. In February 2013, the Company drew the remaining US$4.0 million under the facility. Repayments commenced in March 2013.

2 BASIS OF PREPARATION

A) Statement of Compliance

These consolidated financial statements are prepared by management, presented in US dollars and have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for the full annual financial statements prepared in accordance with International Financial Reporting Standards as issued by the IASB. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2012 Annual Report.

B) Judgements and estimates

The preparation of these condensed consolidated interim 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 from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2012.

C) Significant accounting policies

The same accounting policies have been applied in the preparation of these condensed consolidated interim financial statements as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2012, except as highlighted below.

New accounting policies:

On January 1, 2013, the Company adopted the following new standards and amendments, which became effective for periods on or after January 1, 2013:

- IFRS 10, "Consolidated Financial Statements," supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard had no impact on the amounts recorded in the Company's condensed consolidated interim financial statements.

- IFRS 11, "Joint Arrangements," whereby joint arrangements are classified as either joint operations or joint ventures, each with their own accounting treatment. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard had no impact on the amounts recorded in the Company's condensed consolidated interim financial statements.
- IFRS 12, "Disclosure of Interest in Other Entities," combines the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, and associates as well as unconsolidated structured entities. The adoption of this standard had no impact on the Company's condensed consolidated interim financial statements.
- IFRS 13, "Fair Value Measurement," establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard had no material impact on the Company's condensed consolidated interim financial statements.
- IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no impact on the Company's condensed consolidated interim financial statements.

Future accounting policies:

- For annual periods beginning on or after January 1, 2015, IFRS 9 will replace the guidance of IAS 39, "Financial Instruments: Recognition and Measurement." This standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans receivable. Financial assets will be classified into one of two categories: amortized cost or fair value. The Company intends to adopt IFRS 9 in the financial statements for the year beginning on January 1, 2015. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

3 SEGMENT INFORMATION

The Company has one reportable segment which is international exploration, development and production of petroleum and natural gas. The Company currently has producing assets in Tanzania and exploration interests in Italy.

	31 March 2013			31 March 2012		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External revenue	**–**	**13,197**	**13,197**	–	17,207	17,207
Segment income	**–**	**2,774**	**2,774**	–	6,392	6,392
Total assets	**834**	**225,659**	**226,493**	2,213	168,270	170,483
Total liabilities	**714**	**96,894**	**97,608**	1,490	55,941	57,431
Capital additions	**–**	**270**	**270**	1,302	17,446	18,748
Depletion & depreciation	**–**	**2,809**	**2,809**	–	2,019	2,019

4 REVENUE

US$'000	THREE MONTHS ENDED 31 March 2013	31 March 2012
Operating revenue	**12,706**	13,535
Current income tax adjustment	**3,526**	4,343
Deferred additional profits tax	**(3,035)**	(672)
Revenue	**13,197**	17,207

5 TAXATION

Under the terms of the PSA with TPDC and the Government of Tanzania, the Company is liable to pay income tax at the corporate rate of 30% on profits generated in Tanzania. The amount paid is then recovered in full from TPDC by adjusting its share of Profit Gas when the current tax liability is paid.

The tax charge is as follows:

US$'000	THREE MONTHS ENDED 31 March 2013	31 March 2012
Current tax	**2,468**	3,040
Deferred tax	**(582)**	722
	1,886	3,762

Taxes of US$3.0 million (Q1 2012: nil) were paid during the period in relation to the settlement of the 2012 tax liability. In addition provisional tax payments of US$0.8 million (Q1 2012: US$0.5 million) relating to the current year were made, these are included in Tax Payable on the balance sheet.

TAX RATE RECONCILIATION US$'000	THREE MONTHS ENDED 31 March 2013	31 March 2012
Profit before taxation	**4,660**	10,154
Provision for income tax calculated at the statutory rate of 30%	**1,398**	3,046
Add the tax effect of non-deductible income tax items:		
Administrative and operating expenses	**556**	603
Exploration assets impairment	**–**	–
Financing charge	**(10)**	29
Stock-based compensation	**(90)**	2
Permanent differences	**32**	82
	1,886	3,762

As at 31 March 2013, there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 31 March 2013.

A deferred tax asset of US$2.2 million in respect of Longastrino Italy E&E costs has not been recognised because it is not probable that there will be future profits against which this can be utilised.

The deferred income tax liability includes the following temporary differences:

	THREE MONTHS ENDED	
US$'000	**31 March 2013**	31 March 2012
Differences between tax base and carrying value of property, plant and equipment	**16,586**	14,540
Income tax recoverable	**6,850**	3,091
Other liabilities		
Employee bonuses	**(66)**	(21)
TPDC Additional Profit Gas	**(171)**	(56)
Additional Profits Tax	**(3,386)**	(1,638)
	19,813	15,916

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"), an Additional Profits Tax ("APT") is payable.

The Company provides for Deferred APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The effective APT rate of 33.3% is then applied to Profit Gas of US$9.1 million in Q1 2013 (Q1 2012: US$2.0 million), accordingly, US$3.0 million (Q1 2012: US$0.7 million) has been netted off revenue for the quarter ended 31 March 2013.

Management does not anticipate that any APT will be payable in 2013, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the PPI percentage change and the forecast expenditures for 2013. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

Tax Receivable

The Company has a "Tax Receivable" balance of US$14,371 (Q4 2012: US$14,692). This arises from the revenue sharing mechanism within the PSA which entitles the Company to a share of revenue equivalent to its tax charge, grossed up at the prevailing rate. This amount is collected by way of an offset against TPDC's share of revenue, as and when the Company pays its tax.

6 TRADE AND OTHER RECEIVABLES

US$'000	THREE MONTHS ENDED 31 March 2013	31 Dec 2012
TANESCO	**48,834**	33,256
Songas	**16,549**	14,283
Other debtors	**13,352**	12,791
Trade receivables	**78,915**	60,330
Other receivables	**14,352**	13,165
	93,267	73,495

Aged analysis	Current	>30 <60	>60 <90	>90	31 Mar 2013	31 Dec 2012
TANESCO	4,839	5,323	5,416	33,256	**48,834**	33,256
Songas	997	866	1,083	13,603	**16,549**	14,283
Other debtors	4,316	2,218	2,557	4,441	**13,532**	12,791
Trade receivables	10,152	8,407	9,056	51,300	**78,915**	60,330

Subsequent to 31 March 2013, US$19.8 million has been received from TANESCO, and US$10.7 million from other debtors.

In addition to the trade receivable from Songas of US$16.6 million, an additional US$10.2 million (31 December 2012: US$9.1 million) is due from Songas with respect to Gas Plant operations, which is included in Other Receivables.

7 EXPLORATION AND EVALUATION ASSETS

US$'000	Italy	Tanzania	Total
Costs			
As at 1 January 2013	8,442	5,562	14,004
Additions	–	2	2
As at 31 March 2013	**8,442**	**5,564**	**14,006**
Impairment			
As at 1 January and 31 March 2013	**8,284**	**–**	**8,284**
Net book values			
As at 31 March 2013	**158**	**5,564**	**5,722**
As at 31 December 2012	**158**	**5,562**	**5,720**

TANZANIA

The exploration and evaluation asset represents site survey costs and materials purchased in preparation for the drilling of the first Songo Songo West well ("SSW-1"). The SSW-1 well is part of the initial evaluation of the Songo Songo West prospect which is required to determine the existence of proven and probable reserves.

8 PROPERTY, PLANT AND EQUIPMENT

US$'000	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2013	138,958	256	747	202	950	141,113
Additions	268	–	–	–	–	268
As at 31 March 2013	**139,226**	**256**	**747**	**202**	**950**	**141,381**
Depletion and Depreciation						
As at 1 January 2013	37,801	219	649	194	206	39,069
Charge for period	2,722	7	18	6	56	2,809
As at 31 March 2013	**40,523**	**226**	**667**	**200**	**262**	**41,878**
Net Book Values						
As at 31 March 2013	**98,703**	**30**	**80**	**2**	**688**	**99,503**
As at 31 December 2012	**101,157**	**37**	**98**	**8**	**744**	**102,044**

In determining the depletion charge, it is estimated that future development costs of US$106.8 million (31 December 2012: US$107.1 million) will be required to bring the total proved reserves to production. During the quarter the Company recognized depreciation of US$0.1 million (Q1 2012: US$0.1 million) in General and Administrative expenses.

9 TRADE AND OTHER PAYABLES

US$'000	AS AT 31 MAR 2013	31 DEC 2012
TPDC	**6,973**	4,378
Songas	**22,424**	17,459
Other trade payables	**2,019**	4,458
Trade payables	**31,416**	26,295
Accrued liabilities	**20,812**	19,030
Related party (Note 12)	**171**	171
	52,399	45,496

10 BANK LOAN

In September 2012, the Company closed a US$10 million 18-month bridge loan facility with a Tanzanian bank to finance the Company's working capital requirements in Tanzania. The facility is secured by an assignment of accounts receivable and a fixed and floating charge on the assets of the Company. The Company drew the final US$4.0 million in February 2013. The principal drawn under the facility is repayable in 12 equal monthly instalments which commenced in March 2013. Interest is payable monthly at three-month US LIBOR plus 8%. An additional interest rate of 2% will be applied for any period in which the TANESCO receivable is greater than 240-days.

11 CAPITAL STOCK

Authorized and Issued Share Capital

NUMBER OF SHARES *(000's)*	**Authorised**	**Issued**	**Amount** *(US$'000)*
Class A			
As at 1 January 2013 and 31 March 2013	**50,000**	**1,751**	**983**
Class B			
As at 1 January 2013 and 31 March 2013	**100,000**	**32,892**	**84,000**
FIRST PREFERENCE			
As at 1 January 2013 and 31 March 2013	**100,000**	**–**	**–**
Total Class A, Class B and First Preference shares	**250,000**	**34,643**	**84,983**

All of the issued capital stock is fully paid.

Stock Options

Thousands of options or CDN$	**Options**	**Exercise Price**
Outstanding as at 1 January 2013	**1,922**	**1.00 to 3.60**
Outstanding as at 31 March 2013	**1,922**	**1.00 to 3.60**

The weighted average remaining life and weighted average exercise prices of options at 31 March 2013 were as follows:

Exercise Price *(CDN$)*	**Number outstanding as at 31 March 2013** *('000)*	Weighted Average Remaining Contractual Life *(years)*	**Number Exercisable as at 31 March 2013** *('000)*	Weighted Average Exercise Price *(CDN$)*
1.00	**1,272**	1.41	**1,272**	1.00
3.18	**400**	4.04	**400**	3.18
3.60	**250**	3.50	**250**	3.60
	1,922		**1,922**	

Stock Appreciation Rights

Thousands of stock appreciation rights or CDN$	**SAR**	**Exercise Price**
Outstanding as at 1 January 2013	**745**	**2.70 to 5.30**
Outstanding as at 31 March 2013	**745**	**2.70 to 5.30**

The Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in trade and other payables. In the valuation of stock options and stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50% stock volatility of 54% to 66%; 0% dividend yield; 0% forfeiture; a closing stock price of CDN$2.20 per share.

As at 31 March 2013, a total accrued liability of US$0.3 million (Q1 2012: US$0.2 million) has been recognised in relation to the stock appreciation rights. A credit of US$0.3 million was recognised during the period compared to a charge of US$0.1 million in Q1 2012.

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**31 MAR 2013**	31 DEC 2012
SHARES OUTSTANDING		
Class A	**1,751**	1,751
Class B	**32,892**	32,892
Class A and B outstanding	**34,643**	34,643
WEIGHTED AVERAGE		
Class A and Class B shares	**34,643**	34,642
CONVERTIBLE SECURITIES		
Stock options	**767**	811
Weighted average diluted Class A and Class B shares	**35,410**	35,453

Earnings per share

The calculation of basic earnings per share is based on the profit after taxation and comprehensive income for the year of US$2.9 million (Q1 2012: US$6.4 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,643,210 (Q1 2012: 34,643,210).

In computing the diluted earnings per share, the dilutive effect of the stock options was 767,480 (Q1 2012: 869,742) shares. These are added to the weighted average number of common shares outstanding during the quarter resulting in a diluted weighted average number of Class A and Class B shares of 35,410,690 for the quarter ended 31 March,2013 Q1 (2012: 35,506,448). No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

12 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.1 million (Q1 2012: US$0.1 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. As at 31 March 2013 the Company has a total of US$0.2 million recorded in trade and other payables in relation to the related party. The Chief Financial Officer provided services to the Company through a consulting agreement with a personal services company, during the quarter the Company incurred US$0.1 million to this firm for services provided.

13 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENTS

CONTRACTUAL OBLIGATIONS

Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu) 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 (94.5 Bcf as at 31 March 2013). The Company did not have a shortfall during the reporting period and, supported by the work of its independent engineers, does not anticipate a shortfall arising during the term of the PSA.

Re-rating Agreement

During Q2 2011, the Company signed a re-rating agreement with TANESCO and Songas Limited (the "Re-Rating Agreement") to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Under the terms of this agreement, the Company agreed to indemnify Songas Limited for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The Re-rating Agreement expired on 31st December 2012, however Songas has agreed to operations continuing at the increased capacity until the end of August 2013, whilst discussions take place on a new agreement.

Operating leases

The Company has two office rental agreements. One in Dar es Salaam which expires on 30 November 2013 at an annual rental of US$238, and one in Winchester (UK) which expires on 25 September 2022 at an annual rental of GBP 35 (US$58) per annum for the first two years and GBP71 (US$ 115) thereafter. Both are recognised in the General and Administrative expenses.

CAPITAL COMMITMENTS

Italy

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

The well is now expected to be drilled following finalisation of an environmental impact study currently expected in 2014. Orca will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

Songo Songo commitments

Any significant additional capital expenditure in Tanzania remains dependent on TANESCO payments being brought up to date, the satisfactory conclusion of the GNT issues, conclusion of satisfactory commercial terms for the sale and transportation of incremental gas volumes, substantive progress on infrastructure expansion and the subsequent raising of finance. Currently there are no material commitments, although significant capital expenditure will be required to enable the Songo Songo field to produce 190 MMcfd in line with the anticipated infrastructure expansion.

14 CONTINGENCIES

Downstream Unbundling

In connection with the GNT negotiations and the draft Natural Gas Policy, TPDC and MEM have indicated that they wish Orca Exploration to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with the GNT along with other issues. The Company anticipates further negotiations will be necessary before this matter is concluded.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy and Mines, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. The Tanzania Natural Gas Infrastructure Project contemplates additional processing and transportation capacity on Songo Songo to handle these additional gas volumes. Access has not yet been granted and it is not clear when, or if, this will occur.

TPDC Back in

TPDC has indicated its wish to exercise that Company's right to 'back in' to the Songo Songo field development. The implications and workings of the 'back in' have been discussed with the GNT along with other issues. The issues are not yet fully resolved, however, and there may be the need for additional reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification as at 31 December 2012, it was assumed that TPDC will 'back in' for 20% for all future new drilling activities and other developments and this is reflected in the Company's net reserve position.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q4 2012 resulting in a reduction in the percentage of net revenue attributable to the Company.

TPDC conducted an audit of the historic cost pool and in 2011 disputed approximately US$34 million of costs that had been allocated to the cost pool from 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. This matter was not resolved during the period and while the Company remains confident that the final outcome will be satisfactory, it is prepared to utilise the extensive dispute resolution mechanisms outlined in the PSA if necessary. This matter has had no impact on the results for the period.

Taxation

During 2012 the Company received an assessment for additional withholding tax from the Tanzanian Revenue Authority (TRA), which together with interest and penalties totals approximately US$2.0 million. The Company considered the assessment to be without merit and appealed to the Tax Revenue Appeal Board. The Tax Revenue Appeals Board considered the appeal in March 2013 and upheld the assessment. The Company has now appealed to Tax Revenue Appeals Tribunal.

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David W. Ross
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Robert S. Wynne
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