2013 Q2 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.

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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	*3P*	Proven, probable and possible reserves
Tcf	Trillions of standard cubic feet	*Kwh*	Kilowatt hour
MMcfd	Millions of standard cubic feet per day	*MW*	Megawatt
MMbtu	Millions of British thermal units	*US$*	US dollars
HHV	High heat value	*CDN$*	Canadian dollars
LHV	Low heat value	*bar*	Fifteen pounds pressure per square inch

Financial and Operating Highlights

US$'000 except where otherwise stated	**30 JUNE 2013**	30 JUNE 2012	*% Change*	**31 MAR 2013**	**31 MAR % Change**
	THREE MONTHS ENDED /AS AT				
Revenue	**11,996**	16,914	*(29)*	**13,197**	*(9)*
Profit / (loss) before taxation	**(8,509)**	8,672	*(198)*	**4,660**	*(283)*
Operating netback *(US$/mcf)*	**2.10**	2.56	*(18)*	**2.15**	*(2)*
Cash and cash equivalents	**18,752**	20,194	*(7)*	**13,421**	*40*
Working capital [1]	**22,257**	38,689	*(42)*	**54,758**	*(59)*
Shareholders' equity	**122,068**	118,938	*3*	**128,885**	*(5)*
Total comprehensive income	**(6,817)**	5,167	*(232)*	**2,950**	*(331)*
Earnings per share - basic *(US$)*	**(0.19)**	0.15	*(227)*	**0.08**	*(338)*
Earnings per share - diluted *(US$)*	**(0.19)**	0.15	*(227)*	**0.08**	*(338)*
Funds flow from operating activities	**10,546**	9,982	*6*	**8,699**	*21*
Funds per share from operating activities - basic *(US$)*	**0.30**	0.29	*7*	**0.25**	*20*
Funds per share from operating activities - diluted *(US$)*	**0.30**	0.28	*7*	**0.25**	*20*
Net cash flows from operating activities	**8,101**	5,689	*42*	**(5,748)**	*241*
Net cash flows per share from operating activities - basic *(US$)*	**0.23**	0.16	*44*	**(0.17)**	*235*
Net cash flows per share from operating activities - diluted *(US$)*	**0.23**	0.16	*44*	**(0.16)**	*244*
Outstanding Shares *('000)*					
Class A shares	**1,751**	1,751	*0*	**1,751**	*0*
Class B shares	**32,892**	32,892	*0*	**32,892**	*0*
Options	**1,922**	2,172	*12*	**1,922**	*0*
Operating					
Additional Gas sold *(MMcf)* - industrial	**1,067**	829	*29*	**1,176**	*(9)*
Additional Gas sold *(MMcf)* - power	**4,250**	4,172	*2*	**4,363**	*(3)*
Additional Gas sold *(MMcfd)* - industrial	**11.7**	9.1	*29*	**13.1**	*(11)*
Additional Gas sold *(MMcfd)* - power	**46.7**	45.8	*2*	**48.5**	*(4)*
Additional Gas sold *(MMcfd)*	**58.4**	54.9	*6*	**61.6**	*(5)*
Average price per mcf *(US$)* - industrial	**8.60**	10.14	*(15)*	**7.78**	*11*
Average price per mcf *(US$)* - power	**3.63**	2.80	*30*	**3.55**	*2*

1. Working capital as at 30 June 2013 includes a TANESCO receivable of US$11.5 million (31 December 2012: US$33.3 million) and a net Songas receivable of US$5.2 million (31 December 2012: US$5.9 million).Given the payment pattern, US$34.9 million of TANESCO receivables in excess of 60 days have been discounted by US$7.9 million and classified as long-term receivables. Total long and short-term TANESCO receivables as at 30 June 2013 total US$46.3 million prior to discounting. Subsequent to the end of the quarter, TANESCO paid US$15.4 million, and the current TANESCO arrears total US$31.2 million.

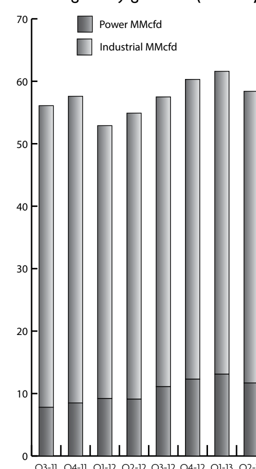
Q2 Highlights

- A total of US$35.2 million has been received from TANESCO since the end of Q1 2013 –US$19.8 million during Q2 and a subsequent payment of US$15.4 million in July 2013.
- At 30 June 2013, TANESCO owed the Company US$46.3 million including arrears of US$39.7 million (31 March 2013: US$48.8 million, including arrears of US$44.0 million). Current TANESCO arrears are US$31.2 million.
- Additional Gas sales continued near field capacity during Q2 averaging 58.4 MMcfd being an increase of 6% over the prior period (Q2 2012: 54.9 MMcfd) and down 5% over Q1 2013 (61.6 MMcfd).
- Industrial sales volume decreased by 11% to 11.7 MMcfd from 13.1 MMcfd in Q1 2013. Power sector sales volumes during Q2 averaged 46.7 MMcfd down 4% over Q1 2013 at 48.5 MMcfd.
- Average Industrial gas price for the quarter was US$8.60/mcf up 11% from Q1 2013 (US$7.78/mcf) and Power sector gas prices averaged US$3.63/mcf for the quarter up 2% over Q1 2013 price of US$3.55/mcf.
- Cost pools were depleted in Q4 2012, which together with capital spending of only US$0.1 million adding to cost pools, constraining earnings and funds from operations. Accordingly, revenue of US$12.0 million was down 9% over Q1 2013 (US$13.2 million).
- Stronger gas sales prices and cost reductions drove Q2 funds from operations before working capital changes of US$10.5 million (US$0.30 per share diluted), up 20% from Q1 2013 (US$8.7 million or US$0.25 per share diluted).
- Q2 posted a loss of US$6.8 million or US$0.19 per share diluted, down 331% from Q1 2013 earnings of US$3.0 million or US$0.08 per share diluted. Whilst the Company continues to believe it will collect the full TANESCO receivable, the outstanding amount has been discounted by US$7.9 million reflecting the time value of money resulting from delays in collection, such charge applied directly to earnings.
- Working capital decreased by 59% during the quarter to US$22.5 million as at 30 June 2013 (US$54.8 million as at 31 March 2013) as a consequence of reclassifying that portion of TANESCO receivables in excess of 60 days as a long-term receivable and providing US$7.1 million for doubtful accounts.
- Substantive negotiations to conclude an agreed form of amendment to the Songo Songo PSA and resolution of the remaining issues continued with the Government Negotiating Team and the Company has committed to work together with the Government to expedite the conclusion of these negotiations.
- Active negotiations which commenced in April 2013 with TPDC in its capacity as gas aggregator and continued during the quarter and subsequent regarding a long-term sales agreement for incremental gas volumes of up to approximately 110 MMcfd.
- The Company has continued in good faith during the quarter preparing a full field development plan for Songo Songo whilst issues are being resolved, and in July 2013 submitted a plan to the Ministry of Energy and Minerals. The execution of the plan, including workovers of existing wells and the drilling of an additional production well SS-12, continue to be on hold until TANESCO arrears and surety of payments is addressed, 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

At the end of June, the American White House announced Power Africa, a US$7 billion new initiative by the United States to double access to power in sub-Saharan Africa. The United States and its development and finance agency partners will work with an initial set of Power Africa partner countries, including Ethiopia, Ghana, Kenya, Liberia, Nigeria, and Tanzania. These countries have set ambitious goals in electric power generation and are making the utility and energy sector reforms to pave the way for investment and growth. Against this backdrop, electric power generation was front and centre in the July 2013 high profile economic development visit of United States President Barack Obama to Tanzania. Initiatives to dramatically increase power production and connect more Tanzanians to secure sources of power are at the top of the Government of Tanzania's ("GoT") recently announced "Big Results Now" initiative.

In recognition of its role as a key player in the development of Tanzania's energy resources Orca Exploration (as PanAfrican Energy Tanzania Limited) was recently invited and participated fully in a combined industry and government "energy lab" to support the GOT's "Big Results Now" plan. This bold new Government initiative led by Energy Minister Professor Sospeter Muhongo is targeting a 50% increase in power generation capacity and energy delivered to residents by 2015. Restructuring TANESCO and the active participation of the private sector are also key elements of "Big Results Now."

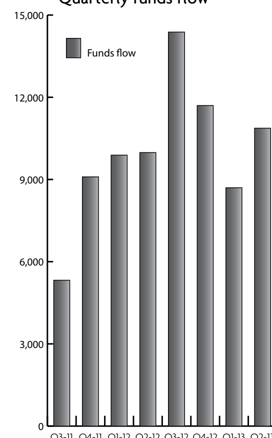


Orca's interests are now more clearly than ever aligned with the Government's initiatives to deliver tangible results across Tanzania and move the country to a new level of energy security and economic growth in which the private sector can work more collaboratively with the GoT. However to address urgent shareholder issues, Orca also continues to attach the highest priority to (i) the collection of TANESCO arrears; (ii) regularizing current and continuing payments to the Company for the production of natural gas from Songo Songo Island; (iii) resolution of all of the Production Sharing Agreement ("PSA") and other issues surrounding the Government Negotiating Team ("GNT"); and (iv) agreeing commercial terms for the sale of expanded volumes of Songo Songo gas into the new infrastructure -- all to allow development to proceed as soon as possible.

Collecting the TANESCO Arrears

The Tanzania Ministry of Energy and Minerals ("MEM") remains firmly committed to clearing the TANESCO arrears. At the end of Q1, the World Bank approved a Development Policy operation of US$100 million (the first of a series of three) intended to support the Government of Tanzania to:

(1) address the financial gap in the power sector, especially in TANESCO;
(2) help expand power generation using natural gas, including through public-private partnership;
(3) reform sector institutions; and
(4) strengthen policy and institutional foundations for maximizing the benefits of natural gas reserves to Tanzanians.



During Q2, the GoT directed funds to TANESCO from which Orca received US$19.8 million in arrears payments. Subsequent the end of the quarter, in July, the Company also received a further TANESCO payment of US$15.4 million bringing the TANESCO arrears to US$31.2 million as of the date of this report.

Establishing regular current payments is also a key Orca objective for management to stop the accumulation of arrears and ensure that operations can be maintained. As we reported in Q1, the Company can maintain operations from Industrial Gas sales alone. However Orca requires regular payments from TANESCO to honour its obligations to pay VAT and Excise Tax associated with continued deliveries of gas to TANESCO.

The Company remains confident that it will receive all amounts owing from TANESCO. Despite the diligent efforts of the GoT the ongoing irregularity of payments makes the assessment of timing difficult. Accordingly, the Company had no alternative but to reclassify US$34.9 million as a long-term receivable. In addition to reflect the effect of the timing of payments in the present value of the receivable management has taken a US$7.9 million charge against Q2 earnings to reflect our current estimate of the timing of collection and the cost of money.

Resolving PSA and other GNT Issues

Working with the GNT, a framework for resolving issues raised by TPDC and Tanzania's Parliament was achieved in July 2012. After further discussions with the GNT through the remainder of 2012, the Company tabled a draft PSA amendment early in Q2 2013. The amendment addressed the principal issues of the conversion of TPDC back-in rights into a carried working interest as well as the TPDC/Orca Profit Gas sharing ratios. During the current quarter, and subsequently, the Company stepped up its efforts to obtain resolution of the PSA and related issues and recently reviewed remaining issues with the GNT.

The unresolved TPDC Cost Pool audit for 2002 to 2009, and attendant claim of an over-recovery of US$34 million, remains outstanding and no discernible progress has been achieved since our last report to shareholders. The Company has been advised that TPDC has referred the matter for resolution to the Controller and Auditor General ("CAG"), head of the National Audit Office of Tanzania. Management is confident that in the final analysis the CAG will support the Company's position.

Another GNT matter related to Cost Pool recoveries originated with allegations in the report to Parliament tabled in November 2011 alleging that the Company and TPDC had fraudulently claimed ineligible Songas tariffs of US$21 million. These allegations are without merit and were fully addressed and resolved to the satisfaction of the Company and TPDC in GNT negotiations in July 2012. However, the Tanzania Prevention and Combating of Corruption Bureau ("PCCB") has subsequently been investigating the matter and may choose to pursue it by laying charges to assure the GoT that the issue was fully reviewed. Having itself a zero tolerance policy on corruption, the Company welcomes the investigation and has cooperated fully with the authorities. In the unlikely event that charges are laid, the Company will defend itself and its employees, however the laws of Tanzania restrict public commentary by the Company in such event.

A third area of discussion is the unbundling of the downstream business involving the distribution and sale of gas to Industrial buyers in Dar es Salaam. This has been an objective of the GoT, raised by the GNT and further articulated in recent drafts of the Natural Gas Policy. As part of has the GNT negotiations, the Company agreed to discuss unbundling and evaluate potential value-neutral structures to achieve this objective. The Company expects to propose a new draft structure to the GNT during Q3, negotiate agreement on a plan and move forward.

Q2 Financial and Operating Performance

Songo Songo wells continued to produce at capacity within the limits of the current infrastructure and declines associated with normal depletion of the reservoir. These limits will remain until the new infrastructure is in place and operational.

During the second quarter of 2013, Additional Gas production averaged 58.4 million cubic feet per day ("MMcfd") down 5% over Q1. Gas prices strengthened in Q2 to drive results. The average Industrial Gas price for the quarter was US$8.60/Mcf up 11% from Q1 2013 (US$7.78/Mcf). Power sector gas prices averaged US$3.63/Mcf for the quarter up 2% over Q1 2013 price of US$3.55/Mcf, resulting in a weighted average gas price of US$4.62/Mcf for the quarter.

As was the case in Q1, capital cost pools fully recovered by the end of 2012 combined with capital spending of only US$0.1 million during the quarter constrained net revenues, earnings and funds from operations. Total comprehensive loss for the quarter was US$6.8 million (a loss of US$0.19 per share) down 331% from Q1 2013 income of US$3.0 million (US$0.08 per share). However stronger gas sales prices, and cost reductions drove Q2 funds from operations before working capital changes of US$10.5 million (US$0.30 per share diluted) up 20% from Q1 (US$8.7 million or US$0.25 per share diluted).

Working capital decreased by 59% during Q2 to US$22.5 million, primarily due to the reclassification of US$34.9 million of TANESCO debt as long-term and a provision of US$7.1 million for doubtful accounts. Turning receivables into cash has continued to be a challenge and delayed payments from TANESCO have continued to seriously impact Orca's cash balances. After a US$19.8 million payment from TANESCO during the quarter, the Company ended Q2 with US$18.8 million in cash up from US$13.4 million in Q1. As of 30th June 2013, the Company carried a TANESCO receivable of US$46.3 million, of which US$39.7 million was in arrears.

Songo Songo development planning continues

Whilst the Company has been working to resolve the TANESCO and GNT issues, management has been preparing a Songo Songo full field development plan.

During the quarter, the Company completed additional reservoir modeling to assess the deliverability of the Songo Songo Main and North Fields. In its design for the National Natural Gas Infrastructure Project ("NNGIP"), the GoT had contemplated total Songo Songo Protected Gas and Additional Gas production of approximately 190 MMcfd to feed the new pipeline and the existing Songas infrastructure over the life of the Songo Songo licence. In this context, management delivered a development plan to the Ministry of Energy and Minerals in mid-July to meet the anticipated demand for gas and infrastructure capacity.

The plan contemplates a combination of workovers and capital drilling to fully exploit the Songo Songo Main and North Fields. It would require initial reworking and recompletion of wells SS-9, SS-5, SS-4 and SS-3 through 2014. Additional flowlines and cooling facilities would be added for SS-10, and SS-11. A further development well, SS-12, would still need to be added to meet the required production profile and is now planned for 2016. Songo Songo North development is currently contemplated to begin with 3D seismic in 2019. Four horizontal wells would need to be drilled beginning in 2020. Two shallow water platforms and flowlines would connect production to the Songo Songo plants.

Under this scenario, potential additional gas supply from the prospective Songo Songo West ("SSW") field is not required. However SSW is still being evaluated for its potential to either increase near-term gas production beyond 190 MMcfd or to support a longer flat-life from the block. Review and discussion with MEM, and particularly changes in scope or gas supply requirements as well as further refinements and modeling, could result in material revisions to the Company's plan for Songo Songo.

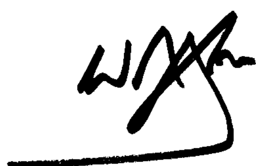
Gas Sales Agreement Progress

Tangible progress is being made on Tanzania's National Natural Gas Infrastructure Project ("NNGIP"). Pipe and construction personnel are arriving in country and construction is underway. As a result the need to confirm a secure gas supply to fill the infrastructure by the commissioning date is a key GoT priority. Orca continued negotiations with TPDC and MEM during and subsequent to Q2 to confirm a long-term gas sales agreement for an incremental 110 MMcfd from Songo Songo. From the Company's perspective, our field development plan lays the economic foundation for a discussion of a new Gas Sales Agreement. The GoT is driven by its power tariff structure and infrastructure costs in seeking the lowest cost gas supply to the power sector. Orca is confident that we can achieve an agreement that satisfies both GoT objectives and the Company's commercial requirements and management is working diligently with GoT to conclude contract discussions.

"Big Results Now"

As mentioned at the beginning of this letter, the Government of Tanzania has initiated a vigorous, results focused power development program. The Minister for Energy and Minerals has emphasized the seriousness of the GoT's commitment to results by requiring Directors General and CEOs in companies and agencies under MEM to sign contracts to deliver on expectations or resign upon failure to deliver. This has brought a new sense of urgency and a commitment to the achievement of clear goals to our discussions with MEM and the GNT.

We fully support the GoT's commitment to the "Big Results Now" initiative and are excited to be working with a greater sense of collaboration and purpose. There is much to be done and Orca Exploration and PanAfrican Energy Tanzania are more than ready to step up and play our part.



W. David Lyons
Chairman and Chief Executive Officer
26th August 2013

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MD&A OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2013 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 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 26 AUGUST 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 30th June 2013

OPERATING VOLUMES

Additional Gas sales volumes for the quarter were 5,317 MMcf or 58.4 MMcfd. This represents an increase of 6.3% over Q2 2012 and a decrease of 4.0% over Q1 2013. The total sales volumes for the six months ended 30 June 2013 were 10,856 MMcf or 60.0 MMcfd an increase of 10.7% over 2012.

The Company's sales volumes were split between the Industrial and Power sectors as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 June 2013	30 June 2012	**30 June 2013**	30 June 2012
Gross sales volume *(MMcf)*				
Industrial sector	**1,067**	829	**2,243**	1,664
Power sector	**4,250**	4,172	**8,613**	8,145
Total volumes	**5,317**	5,001	**10,856**	9,809
Gross daily sales volume *(MMcfd)*				
Industrial sector	**11.7**	9.1	**12.4**	9.1
Power sector	**46.7**	45.8	**47.6**	44.8
Total daily sales volume	**58.4**	54.9	**60.0**	53.9

Industrial sector

Current quarter Industrial sales volume increased by 29% to 1,067 MMcf (11.7 MMcfd) from 829 MMcf (9.1 MMcfd) in Q2 2012. The increase is primarily due to increased sales to a major cement producer in Dar es Salaam area and to a glass manufacturer which accounts for about 51% of industrial volumes. Industrial sales have decreased by 9.3% comparing to Q1 2013 (1,176 MMcf or 13.1 MMcfd) as a consequence of decrease in gas supply to the cement company in June 2013 which shut down its kilns for maintenance work. The customer resumed its normal gas consumption in mid-July 2013. In Q2 2012 the customer also shut down its major kiln for maintenance work.

Industrial sales volumes for the six months ended 30 June 2013 have increased by 34.8% to 2,243 MMcf from 1,664 MMcf in 2012. The increase is primarily due to increased sales to the cement and glass companies.

Power sector

Power sector sales volumes increased by 1.9% to 4,250 MMcf or 46.7 MMcfd, compared to 4,172 MMcf or 45.8 MMcfd in Q2 2012 as a result of continued reliance on gas to generate power. Power sales volumes decreased slightly over Q1 2013 (4,363 MMcf or 48.5 MMcfd) which management attributes to improved hydro utilisation during the quarter. TANESCO gas consumption peaked in June 2013 following deterioration of hydro during the month and availability of additional volumes of gas displaced by a cement factory which was under maintenance.

Power sector volumes for the six months ended 30 June 2013 have increased by 5.7% to 8,613 MMcf from 8,145 MMcf in 2012. The increase is primarily due to overall increased reliance on gas to generate power.

Capacity constraints

As a result of the plant re-rating which occurred in June 2011 the capacity of the Songas gas processing 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 by Songas to the original 70 MMcfd, which will result in a material reduction in the Company's sales volumes of Additional Gas. Discussions on the re-rating involving the Government, TPDC, TANESCO, Songas and Orca are on-going. Large dams feeding TANESCO hydro generation plants are still lacking enough water. As a consequence, the utility is still heavily reliant on natural gas and expensive liquid fuels for generation of electricity. In the event of de-rating of the gas processing plant, the country would likely face severe power rationing whilst it establishes additional liquid fuel generation capability, and incur an even greater cost for power from thermo generation plants, a situation which in the opinion of management is neither in the country's interest nor economically sustainable. Accordingly, it is management's expectation that some agreement to continue to extend the Re-Rating Agreement will be reached, however there are no assurances that this will occur.

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 production well SS-11, brought on stream in October 2012, 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.

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. Whilst the Company continues to refine a full field development plan submitted to the Ministry of Energy and Minerals in mid-July 2013, it is not possible to proceed with the plan 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 addressed, substantive progress on the Tanzania National 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		SIX MONTHS ENDED	
US$/mcf	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Average sales price				
Industrial sector	**8.60**	10.14	**8.15**	9.88
Power sector	**3.63**	2.80	**3.59**	2.76
Weighted average price	**4.62**	4.02	**4.53**	3.97

Industrial sector

The average Industrial gas price for the quarter was US$8.60/mcf down 15% from Q2 2012: US$10.14/mcf and up 11% from Q1 2013 (US$7.78/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 61% of the industrial sales volume for the quarter.

Power sector

The average Power sales price to the power sector was US$3.63/mcf for the quarter (Q2 2012: US$2.80/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 up 2% over Q1 2013 price of US$3.55/mcf; slightly lower volumes to the power sector achieved a marginally higher price under the terms of the PGSA.

OPERATING REVENUE

Under the terms of the Songo Songo PSA, the Company 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 the PSA partner, 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 Q2 2013 and Q2 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 converting the 'back in' into a working interest have been discussed with the GNT, but further negotiations are required to finalise the arrangement by way of an amendment to the PSA

Orca Exploration was allocated a total of 56.8% in Q2 2013 (Q2 2012: 88.6%) of the Net Revenues as follows:

	THREE MONTHS ENDED		**SIX MONTHS ENDED**	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Gross sales revenue	**24,568**	20,088	**49,196**	38,925
Gross tariff for processing plant and pipeline infrastructure	**(3,832)**	(3,660)	**(7,907)**	(7,145)
Gross revenue after tariff ("Net Revenues")	**20,736**	16,428	**41,289**	31,780
Analysed as to:				
Company Cost Gas	**1,601**	12,321	**5,194**	23,835
Company Profit Gas	**10,178**	2,233	**19,291**	4,254
Company operating revenue	**11,779**	14,554	**24,485**	28,089
TPDC share of revenue	**8,957**	1,874	**16,804**	3,691
	20,736	16,428	**41,289**	31,780

The Company's total revenues for Q2 2013 amounted to US$11,996 after adjusting the Company's operating revenue of US$11,779 by:

i) adding US$3,607 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$3,390 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		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Industrial sector	9,156	8,412	18,280	16,449
Power sector	15,412	11,676	30,916	22,476
Gross sales revenue	24,568	20,088	49,196	38,925
Processing and transportation tariff	(3,831)	(3,660)	(7,907)	(7,145)
TPDC share of revenue	(8,958)	(1,874)	(16,804)	(3,691)
Company operating revenue	11,779	14,554	24,485	28,089
Additional Profits Tax	(3,390)	(717)	(6,425)	(1,389)
Current income tax adjustment	3,607	3,078	7,133	7,421
Revenue	11,996	16,915	25,193	34,121

The 29% decrease in revenue compared to Q2 2012 is the result of several factors. A 6% increase in sales volumes and a 4% 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$9.0 million (Q2 2012: US$1.8 million) as a consequence of the Company having fully recovered its cost pool in 2012 resulting in a greater proportion of Profit Gas which in turn is shared with TPDC. With the cost pool recovered, there was a significant increase in Additional Profits Tax as compared with the prior period. Q1 2013 revenue of US$13.2 million reflected the recovery of $3.6 million in Cost Gas and Profit Gas of US$ 9.1 million resulting in Additional Profits Tax of US$3.0 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 passes 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 Q2 2013 charge for the additional tariff was US$0.8 million (Q2 2012: US$0.8 million).

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$123 (Q2 2012: US$310) of which US$76 (Q2 2012: US$234) was allocated for the Additional Gas. The reduction in costs in both the quarter and in the six-month period ended 30 June 2013 compared with the respective periods is primarily due to the absence of major maintenance activities.

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 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 the final mechanism agreed may lead to future modifications to the accounts.

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

	THREE MONTHS ENDED		**SIX MONTHS ENDED**	
US$/mcf	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Share of well maintenance	**76**	234	**158**	341
Other field and operating costs	**452**	785	**770**	1,154
	528	1,019	**928**	1,495
Ringmain distribution costs	**92**	794	**486**	1,632
Production and distribution expenses	**620**	1,813	**1,414**	3,127

OPERATING NETBACKS

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

	THREE MONTHS ENDED		**SIX MONTHS ENDED**	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Gas price – industrial	**8.60**	10.14	**8.15**	9.88
Gas price – power	**3.63**	2.80	**3.59**	2.76
Weighted average price for gas	**4.62**	4.02	**4.53**	3.97
Tariff	**(0.72)**	(0.73)	**(0.73)**	(0.73)
TPDC share of revenue	**(1.68)**	(0.37)	**(1.55)**	(0.38)
Net selling price	**2.22**	2.92	**2.25**	2.86
Well maintenance and other operating costs	**(0.10)**	(0.20)	**(0.09)**	(0.15)
Distribution costs	**(0.02)**	(0.16)	**(0.04)**	(0.17)
Operating netback	**2.10**	2.56	**2.12**	2.54

The operating netback decreased by 18% from US$2.56/mcf in Q2 2012 to US$2.10/mcf in Q2 2013. A 15% 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 nearly five-fold increase in the TPDC share of revenue. Against a weighted average gas price of US$4.45/mcf in Q1 2013, cost recoveries limited TPDC share of revenue to US$1.42/mcf and resulted in an operating netback of US$2.15/mcf for Q1 2013.

The 15% increase in the weighted average selling price from US$4.02/mcf to US$4.62/mcf in Q2 2013 is partly a consequence of a change in the sales mix resulting in lower average Industrial prices, offset by a 29% increase in Industrial gas volumes, and partly the result of a 30% 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 cost pool in full. As a result, TPDC's share of revenue in Q2 2013 has increased significantly benefiting from the reduction in Cost Gas. The Company's Cost Gas recovery for the quarter was only 8% of Net Revenues comparing to 75% of Q2 2012.

The 95% reduction in the well maintenance and other operating costs on a per mcf basis is primarily the result of higher sales volumes and reduced activities during the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

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

	THREE MONTHS ENDED		**SIX MONTHS ENDED**	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Employee & related costs	**1,600**	2,125	**3,483**	4,200
Stock based compensation	**(42)**	615	**(313)**	621
Office costs	**721**	1,040	**1,521**	1,933
Marketing & business development cost including legal fees	**426**	308	**589**	548
Reporting, regulatory & corporate	**725**	274	**1,680**	724
General and administrative expenses	**3,430**	4,362	**6,960**	8,026

The 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$1.1 million per month during the second quarter of 2013 (Q2 2012: US$1.4 million). G&A per mcf decreased to US$0.57/mcf (Q2 2012: US$0.87/mcf). Employee costs are down as a result of reduced personnel levels. Office costs have dropped as a result of releasing provisions which have proved excessive. Office costs are expected to rise going forward as the Company is in the process of establishing a new office in Dar es Salaam and, for a short period, will incur costs for this as well as the existing offices.

NET INCOME AND FINANCE COSTS

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Interest income	**1,865**	1	**1,865**	2
Finance income	**1,865**	1	**1,865**	2
Interest expense	**(223)**	–	**(428)**	–
Discount of long-term receivable	**(7,900)**	–	**(7,900)**	–
Net Foreign exchange loss	**(485)**	(52)	**(1,770)**	(190)
Net Foreign exchange loss	**(8,608)**	(52)	**(10,098)**	(190)
Net finance costs	**(6,743)**	(51)	**(8,233)**	(188)

The increase in loan interest and related financing costs compared to the previous year 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.

Interest income of US$1.6 million is due from TANESCO, under the terms of the PGSA, for late payment of gas supplied. This forms part of the current TANESCO account receivable balance, part of which has been discounted and is carried as a long-term receivable, reflecting uncertainty over the timing of collection.

Given the irregular and unpredictable history of TANESCO payments, during the quarter the Company reclassified US$34.9 million of TANESCO receivables as a long-term receivable and applied a discount of US$7.9 million to the receivable to reflect the value of the receivable in present dollar terms, given management's estimate of the time to collect and the risk adjusted discount rate of 15% applied to the estimated future payment stream.

The foreign exchange loss reflects the impact of a 3.5% 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 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 30 June 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$15.4 million (Q2 2012: US$17.3 million) which represents a decrease in deferred future income tax charge of US$4.4 million for the quarter (Q2 2012: increase of US$1.3 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% (Q2 2012: 31.73%) was then applied to Profit Gas of US$10.2 million in Q2 2013 (Q2 2012: US$2.2 million). Accordingly, US$3.4 million (Q2 2012: US$0.7 million) has been netted off revenue for the current quarter.

Although all costs have now been recovered, management does not anticipate that any APT will be payable in 2013, as the forecast profit gas share is not anticipated to exceed annual return of 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$2,612 (Q2 2012: US$2,017) has been charged to the accounts, the increase is due to a combination 4% decrease in sales volumes and 22% increase in the depletion rate to US$0.49/mcf (Q2 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$10.5 million for Q2 2013 (Q2 2012: US$10.0 million).

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Profit / (loss) after taxation	**(6,566)**	5,167	**(3,792)**	11,559
Adjustments [1]	**17,112**	4,815	**23,035**	8,312
Funds from operations before working capital changes	**10,546**	9,982	**19,243**	19,871
Working capital adjustments [1]	**(2,278)**	(4,293)	**(16,724)**	(7,529)
Net cash flows from operating activities	**8,268**	5,689	**2,519**	12,342
Net cash flows used in investing activities	**(138)**	(16,131)	**(408)**	(26,806)
Net cash flows from / (used in) financing activities	**(2,455)**	-	**761**	-
Increase / (decrease) in cash and cash equivalents	**5,675**	(10,442)	**2,872**	(14,464)
Effect of change in foreign exchange on cash in hand	**(344)**	2	**(167)**	(22)
Net increase/(decrease) in cash and cash equivalents	**5,331**	(10,440)	**2,705**	(14,486)

[i] *See consolidated interim statement of cash flows*

The 6% increase 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$9.0 million (Q2 2012: US$1.9 million) and in Additional Profits Tax which increased to US$3.4 million (Q2 2012: US$ 0.7 million).

Operating revenue with respect to TANESCO and Songas is not reflected in the overall cash and cash equivalents as a consequence of non-payment by TANESCO of its invoices during the period and the outstanding Songas payment which is pending agreement on setting off inter-company payables and receivables.

The US$2.7 million increase in cash and cash equivalents for the six months ended 30 June 2013 is a result of the US$19.2 million of funds generated from operations before working capital changes during the period, offset by an overall net decrease in working capital of US$16.8 million and a net loan receipt of US$0.8 million.

CAPITAL EXPENDITURES

Capital expenditures amounted to US$0.1 million during the quarter (Q2 2012: US$17.3 million). The significant reduction in capital expenditures is due to the suspension of field development during the quarter whilst TANESCO and GNT issues are being resolved. The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Geological and geophysical and well drilling	**103**	17,731	**373**	36,150
Pipelines and infrastructure	**31**	563	**31**	782
Power development	**–**	84	**–**	175
Other equipment	**4**	86	**4**	106
	138	18,464	**408**	37,213

WORKING CAPITAL

Working capital as at 30 June 2013 was US$22.5 million (31 December 2012: US$46.8 million) and may be analysed as follows:

	AS AT			
US$'000	**30 JUNE 2013**		31 DEC 2012	
Cash and cash equivalents		**18,752**		16,047
Trade and other receivables		**48,852**		73,495
TANESCO receivables	**11,461**		33,256	
Songas receivables	**19,565**		14,283	
Other receivables	**24,926**		25,956	
Provision for doubtful accounts	**(7,100)**		–	
Taxation receivable		**14,285**		14,692
Prepayments		**429**		246
		82,318		104,480
Trade and other payables		**49,758**		45,496
TPDC payables	**10,384**		4,378	
Songas payables	**24,716**		17,459	
Other payables	**14,658**		23,659	
Loan		**6,603**		5,842
Taxation payable		**3,430**		6,322
Working capital [1]		**22,257**		46,820

Notes:

(i) Working capital as at 30 June 2013 includes a TANESCO receivable of US$11.4 million (31 December 2012: US$33.3 million) and a net Songas receivable of US$5.2 million (31 December 2012: US$5.9 million). Given the payment pattern, US$34.9 million of TANESCO receivables in excess of 60 days have been discounted by US$7.9 million and classified as long-term receivables. Total long and short-term TANESCO receivables as at 30 June 2013 total US$46.3 million prior to discounting. Subsequent to the end of the quarter, TANESCO paid US$15.4 million, and the current TANESCO arrears total US$31.2 million.

Working capital as at 30 June 2013 decreased by 59% during the quarter, primarily as a result of reclassifying US$34.9 million of the TANESCO receivable as a long-term receivable, a provision of US$7.1 million for doubtful debts but also due to a slightly lower share of revenue during the period. The Company did not incur any major capital expenditure during the quarter.

At 30 June 2013 the majority of the Company's cash was held in Mauritius. There are no restrictions in Tanzania for converting Tanzania Shillings into US dollars.

Trade and other receivables at 30 June 2013 comprise trade receivables of US$40.5 million (31 December 2012: US$60.3 million), a provision of US$7.1 million for doubtful debts (31 December 2012 US$ Nil) and other receivables of US$15.5 million (31 December 2012: US$13.2 million). Of the trade receivables US$11.5 million (31 December 2012: US$33.3 million) relates to sales to TANESCO. 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 (Q2 2012: US$2.2 million). This sum is grossed up for income tax at a rate of 30%, and is recovered from TPDC once the tax has been paid.

Under the contract terms with the Industrial customers, payments for deliveries of Additional Gas must be received within 30 days of the month end. As at 30 June 2013, US$9.5 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$65.9 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 53% 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 Company received US$15.4 million from TANESCO. Whilst the management remains confident the full TANESCO balance will be received, in light of the history of irregular and unpredictable payments and in the absence of a payment plan, a discount of US$7.9 million has been applied.

The balance due from Songas has increased but is partially offset by a similar increase in amounts due to Songas. As at 30 June 2013, the net Songas receivable was US$5.2 million (Q4 2012: US$5.9 million). The Company does not have a legal right to offset these amounts, but in practice the amounts are offset and a net payment is made by Songas.

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 continuing weakness in the financial position of the state utility, "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 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 30 June 2013, TANESCO owed the Company US$46.3 million (including arrears of US$39.7 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012. During the quarter the Company received a total of US$19.8 million from TANESCO and, subsequent to the end of the quarter, the Government of Tanzania directed funds to TANESCO and TANESCO paid the Company a further US$15.4 million. As of the date of this report, the outstanding balance is US$37.1 million of which US$31.2 million is in arrears. During the quarter the Government received proceeds of US$100 million from the first of three expected tranches of World Bank budget support funding. The Government has continued to reassure the Company that it intends to clear all TANESCO arrears and utilise funds from the Government Treasury, as well as two additional tranches of World Bank budget support funding expected by the end of the year plus additional external financing.

Working closely with the Government, management remains confident that the Government will ensure that TANESCO will ultimately settle its debts. As at the date of the report, however, there is no set schedule or repayment plan for TANESCO arrears and payments have been irregular and unpredictable. Based on the actual repayment history, US$11.5 million of the TANESCO receivable was classified as current and US$34.9 million was classified as long-term, net of a US$7.9 million discount of the long-term receivable to reflect the delay in collections. The long-term portion of the trade receivable was discounted using a risk adjusted discount rate of 15% to reflect the delayed timing of collections from TANESCO. The discount rate and the expected timing of the collections will be reviewed at each period end with any adjustments recorded in the period the estimates are changed. In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 30th June 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.

As at 30 June 2013, Songas owed the Company US$31.3 million, whilst the Company owed Songas US$26.1 million; there is no legal right to offset these amounts, although in practice prior to 2012 the companies have set off the receivable and payable and Songas has paid the Company the net amount. Subsequent to the end of the quarter, 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 US$24.2 million (December 31, 2012: US$17.5 million), whereas the amounts due to the Company are for sales of gas of US$19.6 million (December 31, 2012: US$14.3 million) and for the operation of the gas plant for US$11.7 million (December 31, 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 by the end of the year.

During 2012, to help alleviate the funding gap caused by the delays in TANESCO payments the Company entered into a US$10 million debt facility with a bank in Tanzania. As at 31 December 2012, the Company had drawn down US$6.0 million of this facility and 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)	**30 JUNE 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 shares	**34,643**	34,643
Weighted average		
Class A and Class B shares	**34,643**	34,642
Convertible securities		
Options	**738**	811
Weighted average diluted Class A and Class B shares	**35,381**	35,453

As at 26 August 2013, there were a total of 32,892,015 Class B shares and 1,751,195 Class A shares outstanding.

Earnings per share

The calculation of basic earnings per share is based on the comprehensive loss for the quarter of US$6.8 million (Q2 2012: income US$5.2 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,643,210 (Q2 2012: 34,493,710). Earnings per share for the six months ended 30 June 2013 is based on the comprehensive loss for the period of US$3.9 million (2012: income US$11.5 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,643,210 (2012: 34,639,958)

In computing the diluted earnings per share, the dilutive effect of the stock options was 704,365 (Q2 2012: 669,367) 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 35,347,575 for the quarter ended 30 June,2013 (Q2 2012: 35,306,074). No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.1million (Q2 2012: US$0.2 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. As at 30 June 2013 the Company has a total of US$Nil 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.

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 (96.7Bcf as at 30 June 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 it 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. The Company anticipates this agreement will be extended given the Government's interest in pursuing further development and increasing gas production, however there are no assurances that this will occur.

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 was effectively increased to approximately US$2.88/mcf on 1 July 2013.

Operating leases

The Company has three office rental agreements, two in Dar es Salaam and one in Winchester (UK). The first agreement in Dar es Salaam expires on 30 November 2013 at an annual rent of US$238 thousand. The second office rental agreement in Dar es Salaam was entered into on 1 September 2013 and expires on 31 August 2015 at an annual rent of US$401 thousand. The agreement in Winchester expires on 25 September 2022 and is at an annual rental of GBP35 thousand (US$58 thousand) per annum during 2012 and 2013 and GBP71 thousand (US$115 thousand) thereafter. The costs of all three 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. Negotiations have been ongoing and the Company anticipates further discussions 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 and further wish to convert this into a carried interest in the PSA. The implications and workings of the working interest 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 2011, 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 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. Undertakings to resolve this matter were an outcome of GNT negotiations and the matter is currently with Controller and Auditor General ("CAG"), head of the National Audit Office of Tanzania. Whilst the Company remains confident that the final outcome will be satisfactory, it reserved its rights 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 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 then appealed to Tax Revenue Appeals Tribunal and, whilst its decision is awaited, there has been a similar appeal that has been decided in favour of TRA. Despite two internal TRA rulings in favour of TRA, management believes this assessment to be flawed and will now pursue the case in the High Court.

During the quarter the Company received an assessment for additional income tax in relation to 2009 amounting to approximately US$2.5 million. Having reviewed the basis of the assessment management has filed an objection which is currently being reviewed by TRA. At this time management does not consider any further provision necessary.

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.
- 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.

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 IASB has tentatively decided to defer the effective date of IFRS 9, which previously had been effective for annual periods beginning on January 1, 2015. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

Financial Instruments and Fair Value measurement

Credit risk

The Company's maximum credit risk is equal to the carrying value of its trade, other and long-term receivables. Trade receivables are comprised predominantly of amounts due in respect of gas sales to two power companies; the state owned utility the Tanzania Electricity Supply Company Limited ("TANESCO"), and Songas Limited ("Songas") and amounts due from a number of Industrial customers. Other receivables are mainly due from Songas for operation of their gas plant.

The long-term receivable represents amounts due from TANESCO for supplies of gas which have remained outstanding for more than 60 days. Given the irregular and unpredictable pattern of payments this figure has been discounted using a risk adjusted discount rate of 15%.

Financial instrument classification and measurement

The Company's financial instruments that are carried at fair value on the condensed consolidated interim statement of financial position include long-term receivables. The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rate, share prices, and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

Valuation of the Company's long-term receivable is considered a Level 3 measurement. Fair value is estimated as the present value of future cash flows, discounted at the risk-adjusted rate at the reporting date.

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$'000 except where otherwise stated)	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Revenue	**11,996**	13,197	20,712	22,425	16,915	17,207	17,500	10,457
Comprehensive income (loss) after tax	**(6,817)**	2,950	5,504	1,266	5,167	6,392	5,267	(54)
Earnings per share - diluted *(US$)*	**(0.19)**	0.08	0.16	0.04	0.15	0.18	0.15	0.00
Funds flow from operating activities	**10,546**	8,699	11,699	14,379	9,982	9,888	9,096	5,323
Per share - diluted *(US$)*	**0.30**	0.25	0.33	0.41	0.28	0.28	0.25	0.15
Operating netback *(US$/mcf)*	**2.10**	2.15	3.01	3.14	2.56	2.55	2.41	1.78
Working capital	**22,257**	54,758	46,820	37,730	38,689	47,063	56,006	58,369
Shareholders' equity	**122,068**	128,885	125,935	120,204	118,938	113,051	106,659	101,563
Capital expenditures								
Geological and geophysical and well drilling	**103**	270	2,160	14,749	17,732	18,418	10,989	3,463
Pipeline and infrastructure	**31**	–	(258)	261	563	219	11	421
Power development	**–**	–	(15)	22	84	91	22	–
Other equipment	**4**	–	562	1	86	20	239	41
Operating								
Additional Gas sold – industrial *(MMcf)*	**1,067**	1,176	1,127	1,022	829	835	786	719
Additional Gas sold – power *(MMcf)*	**4,250**	4,363	4,417	4,270	4,172	3,973	4,521	4,442
Average price per mcf – industrial *(US$)*	**8.60**	7.78	8.56	9.21	10.14	9.63	9.94	10.47
Average price per mcf – power *(US$)*	**3.63**	3.55	3.61	3.55	2.80	2.72	2.97	2.76

Condensed Consolidated Interim Statement of Comprehensive Income/(Loss) (UNAUDITED)

		THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000s except per share amounts	NOTE	**30 JUNE 2013**	30 June 2012	**30 JUNE 2013**	30 June 2012
Revenue	*4*	**11,996**	16,915	**25,193**	34,121
Cost of sales					
Production and distribution expenses		**(620)**	(1,813)	**(1,414)**	(3,127)
Depletion expense	*9*	**(2,612)**	(2,017)	**(5,335)**	(3,955)
		8,764	13,085	**18,444**	27,039
General and administrative expenses		**(3,430)**	(4,362)	**(6,960)**	(8,026)
Provision for doubtful accounts	*7*	**(7,100)**	–	**(7,100)**	–
Net finance costs	*5*	**(6,743)**	(51)	**(8,233)**	(188)
Profit/(loss) before taxation		**(8,509)**	8,672	**(3,849)**	18,825
Taxation	*6*	**1,943**	(3,505)	**57**	(7,266)
Profit/(loss) after taxation		**(6,566)**	5,167	**(3,792)**	11,559
Foreign currency translation gain from foreign operations		**(251)**	–	**(75)**	–
Total comprehensive income/(loss) for the period		**(6,817)**	5,167	**(3,867)**	11,559
Earnings per share					
Basic *(US$)*	*12*	**(0.19)**	0.15	**(0.11)**	0.33
Diluted *(US$)*	*12*	**(0.19)**	0.15	**(0.11)**	0.33

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position (UNAUDITED)

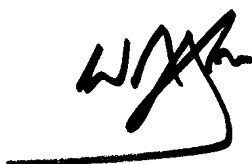
US$'000s	NOTE	AS AT 30 JUNE 2013	AS AT 31 DEC 2012
ASSETS			
Current Assets			
Cash and cash equivalents		**18,752**	16,047
Trade and other receivables	7	**48,852**	73,495
Taxation receivable	6	**14,285**	14,692
Prepayments		**429**	246
		82,318	**104,480**
Non-Current Assets			
Long-term trade receivable	7	**26,979**	–
Exploration and evaluation assets	8	**5,722**	5,720
Property, plant and equipment	9	**96,948**	102,044
		129,649	107,764
Total Assets		**211,967**	**212,244**
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	10	**49,758**	45,496
Bank loan	11	**6,603**	5,842
Taxation payable		**3,430**	6,322
		59,791	**57,660**
Non-Current Liabilities			
Deferred income taxes	6	**15,432**	20,399
Deferred additional profits tax	6	**14,676**	8,250
		30,108	28,649
Total Liabilities		**89,899**	**86,309**
Equity			
Capital stock		**84,983**	84,983
Contributed surplus		**6,753**	6,753
Accumulated other comprehensive income		**14**	89
Accumulated income		**30,318**	34,110
		122,068	125,935
Total Equity and Liabilities		**211,967**	**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 26th August 2013.

Director



Director

Condensed Consolidated Interim Statement of Cash Flows (UNAUDITED)

US$'000s	NOTE	THREE MONTHS ENDED 30 June 2013	THREE MONTHS ENDED 30 June 2012	SIX MONTHS ENDED 30 June 2013	SIX MONTHS ENDED 30 June 2012
CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES					
Profit/(loss) after taxation		**(6,566)**	5,167	**(3,792)**	11,559
Adjustment for:					
Depletion and depreciation	9	**2,693**	2,136	**5,502**	4,156
Provision for doubtful debt	7	**7,100**	–	**7,100**	–
Discount on long-term receivable	5, 7	**7,900**	–	**7,900**	–
Stock-based compensation	12	**(44)**	615	**(315)**	621
Deferred income taxes	6	**(4,381)**	1,350	**(4,967)**	2,072
Deferred additional profits tax	6	**3,390**	717	**6,425**	1,389
Interest received		**–**	(1)	**–**	(2)
Unrealised loss on foreign exchange		**454**	(2)	**1,390**	76
Funds flow from operating activities		**10,546**	**9,982**	**19,243**	**19,871**
Decrease/(increase) in trade and other receivables		**29,597**	(9,373)	**8,669**	(11,491)
Decrease/(increase) in taxation receivable		**86**	(3,077)	**407**	(6,905)
(Increase)/decrease in prepayments		**(221)**	(500)	**(183)**	(540)
(Decrease)/increase in trade and other payables		**(3,138)**	6,503	**4,254**	7,036
(Decrease)/increase in taxation payable		**(1,623)**	2,154	**(2,892)**	4,371
(Increase) in long-term receivable		**(26,979)**	–	**(26,979)**	–
Net cash flows from operating activities		**8,268**	**5,689**	**2,519**	**12,342**
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**–**	(2,978)	**(2)**	(4,557)
Property, plant and equipment expenditures		**(138)**	(15,486)	**(406)**	(32,656)
Interest received		**–**	1	**–**	2
Increase in trade and other payables		**–**	2,332	**–**	10,405
Net cash used in investing activities		**(138)**	**(16,131)**	**(408)**	**(26,806)**
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES					
Bank loan proceeds		**–**	–	**4,000**	–
Bank loan repayments	11	**(2,455)**	–	**(3,239)**	–
Net cash flow from/ (used in) financing activities		**(2,455)**	–	**761**	–
Increase/(Decrease) in cash and cash equivalents		**5,675**	**(10,442)**	**2,872**	**(14,464)**
Cash and cash equivalents at the beginning of the period		**13,421**	30,634	**16,047**	34,680
Effect of change in foreign exchange on cash in hand		**(344)**	2	**(167)**	(22)
Cash and cash equivalents at the end of the period		**18,752**	**20,194**	**18,752**	**20,194**

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
Note	*12*				
Balance as at 1 January 2013	84,983	6,753	89	34,110	125,935
Foreign currency translation adjustment on foreign operations	–	–	(75)	–	(75)
Loss after tax for the period	–	–	–	(3,792)	(3,792)
Balance as at 30 June 2013	**84,983**	**6,753**	**14**	**30,318**	**122,068**

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	–	–	–	–	–
Stock based compensation	–	720	–	–	720
Profit after tax for the period	–	–	–	11,559	11,559
Balance as at 30 June 2012	**84,610**	**6,988**	**–**	**27,340**	**118,938**

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 six months ended 30 June 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 26 August 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 continuing weakness in the financial position of the state utility, "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 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 30 June 2013, TANESCO owed the Company US$46.3 million (including arrears of US$39.7 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012. During the quarter the Company received a total of US$19.8 million from TANESCO and, subsequent to the end of the quarter, the Government of Tanzania directed funds to TANESCO and TANESCO paid the Company a further US$15.4 million. As of the date of this report, the outstanding balance is US$37.1 million of which US$31.2 million is in arrears. During the quarter the Government received proceeds of US$100 million from the first of three expected tranches of World Bank budget support funding. The Government has continued to reassure the Company that it intends to clear all TANESCO arrears and utilise funds from the Government Treasury, as well as two additional tranches of World Bank energy support funding expected by the end of the year plus additional external financing.

Working closely with the Government, management remains confident that the Government will ensure that TANESCO will ultimately settle its debts. As at the date of the report, however, there is no set schedule or repayment plan for TANESCO arrears and payments have been irregular and unpredictable. Based on the actual repayment history, US$11.4 million of the TANESCO receivable was classified as current and US$34.9 million was classified as long-term, net of a US$7.9 million discount of the long-term receivable to reflect the delay in collections. The long-term portion of the trade receivable was discounted using a risk adjusted discount rate of 15% to reflect the delayed timing of collections from TANESCO. The discount rate and the expected timing of the collections will be reviewed at each period end with any adjustments recorded in the period the estimates are changed. In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 30th June

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.

As at 30 June 2013, Songas owed the Company US$31.3 million, whilst the Company owed Songas US$26.1 million; there is no legal right to offset these amounts, although in practice prior to 2012 the companies have set off the receivable and payable and Songas has paid the Company the net amount. Subsequent to the end of the quarter, 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 US$24.7 million (December 31, 2012: US$17.5 million), whereas the amounts due to the Company are for sales of gas of US$19.6 million (December 31, 2012: US$14.3 million) and for the operation of the gas plant for US$11.7 million (December 31, 2012: US$ 9.1 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 by the end of the year.

During 2012, to help alleviate the funding gap caused by the delays in TANESCO payments the Company entered into a US$10 million debt facility with a bank in Tanzania. As at 31 December 2012, the Company had drawn down US$6.0 million of this facility and 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 audited 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.
- 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.

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 IASB has tentatively decided to defer the effective date of IFRS 9, which previously had been effective for annual periods beginning on January 1, 2015. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

D) Financial Instruments and Fair Value measurement

Credit risk

The Company's maximum credit risk is equal to the carrying value of its trade, other and long-term receivables. Trade receivables are comprised predominantly of amounts due in respect of gas sales to two power companies, the state owned utility the Tanzania Electricity Supply Company Limited ("TANESCO") and Songas, and amounts due from a number of Industrial customers. Other receivables are mainly due from Songas for operation of their gas plant.

The long-term receivable represents amounts due from TANESCO for supplies of gas which have remained outstanding for more than 60 days. Given the irregular and unpredictable pattern of payments this figure has been discounted using a risk adjusted discount rate of 15%.

Financial instrument classification and measurement

The Company's financial instruments that are carried at fair value on the condensed consolidated interim statement of financial position long-term receivables. The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rate, share prices, and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

Valuation of the Company's long-term receivable is considered a Level 3 measurement. Fair value is estimated as the present value of future cash flows, discounted at the risk-adjusted rate at the reporting date.

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.

THREE MONTHS ENDED OR AS AT

	30 June 2013			30 June 2012		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External Revenue	**–**	**11,966**	**11,966**	–	16,915	16,915
Segment Income	**–**	**(6,817)**	**(6,817)**	–	5,167	5,167
Non-cash charge[1]	**–**	**(15,000)**	**(15,000)**	–	–	–
Total Assets	**830**	**211,137**	**211,967**	6,859	182,460	189,319
Total Liabilities	**454**	**89,445**	**89,899**	6,699	63,682	70,381
Capital Additions	**–**	**138**	**138**	296	18,169	18,465
Depletion & Depreciation	**–**	**2,809**	**2,809**	–	2,136	2,136

SIX MONTHS ENDED OR AS AT

	30 June 2013			30 June 2012		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External Revenue	**–**	**25,193**	**25,193**	–	34,121	34,121
Segment Income	**–**	**(3,867)**	**(3,867)**	–	11,559	11,559
Non-cash charge[1]	**–**	**(15,000)**	**(15,000)**	–	–	–
Total Assets	**830**	**211,137**	**211,967**	6,859	182,460	189,319
Total Liabilities	**454**	**89,445**	**89,899**	6,699	63,682	70,381
Capital Additions	**–**	**408**	**408**	1,598	35,615	37,213
Depletion & Depreciation	**–**	**5,502**	**5,502**	–	4,156	4,156

1 Material non-cash charges include a risk adjusted discount on long-term debt of US$7.9 million and a provision of US$7.1 million against doubtful receivable accounts.

4 REVENUE

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Operating revenue	**11,779**	14,554	**24,485**	28,089
Current income tax adjustment	**3,607**	3,078	**7,133**	7,421
Deferred additional profits tax	**(3,390)**	(717)	**(6,425)**	(1,389)
Revenue	**11,996**	16,915	**25,193**	34,121

5 NET FINANCE INCOME AND FINANCE COSTS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Interest income	**1,865**	1	**1,865**	2
Finance income	**1,865**	–	**1,865**	–
Interest expense	**(223)**	–	**(428)**	–
Net foreign exchange loss/(gain)	**(485)**	(52)	**(1,770)**	(190)
Discount of long-term receivable (see note 7)	**(7,900)**	–	**(7,900)**	–
Finance costs	**(8,608)**	(52)	**(10,098)**	(190)
Net finance costs	**(6,743)**	(51)	**(8,233)**	(188)

Interest income of US$1.9 million is due from TANESCO, under the terms of the PGSA, for late payment of gas supplied. This forms part of the current TANESCO account receivable balance, part of which has been discounted and is carried as a long-term receivable, reflecting uncertainty over the timing of collection.

6 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:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Current tax	**(2,451)**	(2,155)	**(4,910)**	(5,194)
Deferred tax	**4,394**	(1,350)	**4,967**	(2,072)
	1,943	(3,505)	**57**	(7,266)

Taxes of US$2.8 million (Q2 2012: Nil) were paid during the period in relation to the settlement of the 2012 tax liability. In addition provisional tax payments of US$1.2 million (Q2 2012: US$ Nil million) relating to the current year were made, these are included in Tax Payable on the balance sheet.

Tax Rate Reconciliation	**THREE MONTHS ENDED**		SIX MONTHS ENDED	
US$'000	**30 June 2013**	30 June 2012	**30 June 2013**	30 June 2012
Profit before taxation	**(8,509)**	8,672	**(3,849)**	18,825
Provision for income tax calculated at the statutory rate of 30%	**(2,553)**	2,601	**(1,155)**	5,647
Add the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**540**	701	**1,096**	1,306
Discount on receivable		–		-
Financing charge	**13**	–	**2**	29
Stock-based compensation	**(13)**	185	**(102)**	187
Permanent differences	**70**	18	**102**	97
	(1,943)	3,505	**(57)**	7,266

As at 30 June 2013, there were temporary differences between the carrying amount 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 30 June 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:

	SIX MONTHS ENDED	
US$'000	**30 June 2013**	31 Dec 2012
Differences between tax base and carrying value of property, plant and equipment	**16,869**	16,341
Income tax recoverable	**8,035**	6,744
Discount on receivable & provision for doubtful accounts	**(4,573)**	–
Other liabilities		
Employee bonuses, rent and insurance	**(246)**	(109)
TPDC additional Profit Gas	**(250)**	(102)
Additional Profits Tax	**(4,403)**	(2,475)
	15,432	20,399

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$10.2 million in Q2 2013 (Q2 2012: US$2.2 million), accordingly, US$3.4 million (Q2 2012: US$0.7 million) has been netted off revenue for the quarter ended 30 June 2013. APT for the six months ended 30 June 2013 amounted to US$6.4 million (2012: US$1.4 million).

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$14,285 (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.

7 TRADE AND OTHER RECEIVABLES

Current Receivables

US$'000	AS AT 30 June 2013	31 Dec 2012
TANESCO	**11,461**	33,256
Songas	**19,565**	14,283
Other debtors	**9,464**	12,791
Trade receivables	**40,490**	60,330
Other receivables	**15,462**	13,165
Less provision for doubtful accounts	**(7,100)**	–
	48,852	73,495

In addition to the trade receivable from Songas of US$19.6 million, an additional US$11.5 million (31 December 2012 US$9.1 million) is due from Songas with respect to Gas Plant operations, which is included in Other Receivables.

Long-Term Receivables

US$'000	AS AT 30 June 2013	31 Dec 2012
TANESCO receivable > 60 days	**34,879**	–
Discount on long-term receivable	**(7,900)**	–
Net long-term receivable	**26,979**	–

Trade Receivables Age Analysis

	Current	›30 ‹60	›60 ‹90	›90	30 June 2013	31 Dec 2012
TANESCO	6,573	4,888	4,469	30,410	**46,340**	33,256
Songas	2,075	940	998	15,552	**19,565**	14,283
Other debtors	2,629	6,100	735	–	**9,464**	12,791
Trade receivables	11,277	11,928	6,202	45,962	**75,369**	60,330

Subsequent to 30 June 2013, US$15.4 million has been received from TANESCO, and US$5.0 million from other debtors. Management considers the TANESCO balance, more than 60 days old to be a long-term receivable and has discounted the value of the receivable - see Note 1.

8 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 30 June 2013	**8,442**	**5,564**	**14,006**
Impairment			
As at 1 January and 30 June 2013	**8,284**	**–**	**8,284**
Net book values			
As at 30 June 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.

9 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	371	31	4	–	–	406
As at 30 June 2013	**139,329**	**287**	**751**	**202**	**950**	**141,519**
Depletion and Depreciation						
As at 1 January 2013	37,801	219	649	194	206	39,069
Charge for period	5,335	14	36	6	111	5,502
As at 30 June 2013	**43,136**	**233**	**685**	**200**	**317**	**44,571**
Net Book Values						
As at 30 June 2013	**98,193**	**54**	**66**	**2**	**633**	**96,948**
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$106.7 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 (Q2 2012: US$0.1 million) in General and Administrative expenses. The depreciation charge for the six months ended 30 June 2013 was US$0.2 million (2012: US$0.2 million).

10 TRADE AND OTHER PAYABLES

	AS AT	
US$'000	**30 JUNE 2013**	31 DEC 2012
TPDC	**10,384**	4,378
Songas	**24,716**	17,459
Other trade payables	**3,077**	4,458
Trade payables	**38,177**	26,295
Accrued liabilities	**11,581**	19,030
Related party *(Note 13)*	**–**	171
	49,758	45,496

11 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.

12 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 30 June 2013	50,000	1,751	983
Class B			
As at 1 January 2013 and 30 June 2013	100,000	32,892	84,000
FIRST PREFERENCE			
As at 1 January 2013 and 30 June 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 30 June 2013	1,922	1.00 to 3.60

The weighted average remaining life and weighted average exercise prices of options at 30 June 2013 were as follows:

Exercise Price *(CDN$)*	**Number outstanding as at 30 June 2013** *('000)*	Weighted Average Remaining Contractual Life *(years)*	**Number Exercisable as at 30 June 2013** *('000)*	Weighted Average Exercise Price *(CDN$)*
1.00	**1,272**	1.17	**1,272**	1.00
3.18	**400**	3.19	**400**	3.18
3.60	**250**	3.25	**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**	**2.35 to 5.30**
Outstanding as at 31 March 2013	**745**	**2.35 to 5.30**

The Company records a charge to the income statement with respect to the stock appreciation rights using the Black-Scholes option pricing model every reporting period with a resulting liability being recognised in trade and other payables. In the valuation of stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.25% stock volatility of 53% to 57%; 0% dividend yield; 0% forfeiture; a closing stock price of CDN$2.12 per share.

As at 30 June 2013, a total accrued liability of US$0.3 million (Q2 2012: US$0.2 million) has been recognised in relation to the stock appreciation rights. A credit of US$0.1 million was recognised during the period compared to a credit of US$0.1 million in Q2 2012.

Shareholders' Equity and Outstanding Share Data

Number of shares ('000)	AS AT **30 JUNE 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	**738**	811
Weighted average diluted Class A and Class B shares	**35,381**	35,453

Earnings per share

The calculation of basic earnings per share is based on the comprehensive loss for the quarter of US$6.8 million (Q2 2012: income US$5.2 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,643,210 (Q2 2012: 34,493,710). Earnings per share for the six months ended 30 June 2013 is based on the comprehensive loss for the period of US$3.9 million (2012: income US$11.5 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,643,210 (2012: 34,639,958).

In computing the diluted earnings per share, the dilutive effect of the stock options was 704,365 (Q2 2012: 669,367) 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 35,347,575 for the quarter ended 30 June,2013 (Q2 2012: 35,306,074). No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

13 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 (Q2 2012: US$0.2 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. As at 30 June 2013 the Company has a total of US$Nil 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.

14 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 (96.7 Bcf as at 30 June 2013). The Company did not have a shortfall during the reporting period and, supported by the work of its independent engineers, and 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 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 agreed to operations continuing at the increased capacity until the end of August 2013, whilst discussions take place on a new agreement. The Company anticipates this agreement will be extended given government's interest in pursuing further development and increasing gas production, however there are no assurances that this will occur.

Operating leases

The Company has three office rental agreements, two in Dar es Salaam and one in Winchester (UK). The first agreement in Dar es Salaam expires on 30 November 2013 at an annual rent of US$238 thousand. The second office rental agreement in Dar es Salaam was entered into on 1 September 2013 and expires on 31 August 2015 at an annual rent of US$401 thousand. The agreement in Winchester expires on 25 September 2022 and is at an annual rental of GBP35 thousand (US$58 thousand) per annum during 2012 and 2013 and GBP71 thousand (US$115 thousand) thereafter. The costs of all three 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.

15 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. Negotiations have been ongoing and the Company anticipates further discussions will be necessary before this matter is concluded. The methodology for this has been discussed with the GNT along with other issues.

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 that they wish to exercise its right under the PSA to 'back in' to the Songo Songo field development and further wish to convert this into a carried working interest in the PSA. The implications and workings of the working interest 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 2011, 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. Undertakings to resolve this matter were an outcome of GNT negotiations and the matter is currently with Controller and Auditor General ("CAG"), head of the National Audit Office of Tanzania. Whilst the Company remains confident that the final outcome will be satisfactory, it reserved its rights 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 then appealed to Tax Revenue Appeals Tribunal and, whilst its decision is awaited, there has been a similar appeal that has been decided in favour of TRA. Despite two TRA internal rulings in favour of TRA, management believes this assessment to be flawed and will now pursue the case in the High Court.

During the quarter the Company received an assessment for additional income tax in relation to 2009 amounting to approximately US$2.5 million. Having reviewed the basis of the assessment, management believes the assessment is without merit and has filed an objection which is currently being reviewed by TRA. At this time management do not consider any provision is necessary.

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