ORCA

ORCA EXPLORATION GROUP INC.

Q1

2015 Q1 INTERIM REPORT

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

GLOSSARY

mcf	Thousands of standard cubic feet	**1P**	Proven reserves
MMcf	Millions of standard cubic feet	**2P**	Proven and probable reserves
Bcf	Billions of standard cubic feet	**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$'000 except where otherwise stated	**31 March 2015**	Restated (4) **31 March 2014**	*% Change*	**31 December 2014**	*% Change*
	THREE MONTHS ENDED / AS AT				
FINANCIAL					
Revenue	**9,720**	13,477	(28)	9,645	1
(Loss)/income before tax	**(787)**	2,942	n/m	(42,295)	98
Net (loss)/income	**(1,677)**	1,174	n/m	(45,616)	97
per share - basic and diluted (US$)	**(0.05)**	0.03	n/m	(1.30)	96
Working capital (1)	**34,870**	11,690	198	34,148	2
Cash	**62,640**	31,058	102	57,659	9
Working capital deficiency (excluding cash) (3)	**(27,770)**	(19,368)	43	(23,511)	18
TANESCO receivable (1)	**61,714**	68,586	(10)	64,630	(5)
Shareholders' equity	**74,944**	115,967	(35)	76,635	(2)
Funds flow from operating activities (2)	**3,712**	5,411	(31)	8,733	(57)
per share - basic and diluted (US$)	**0.11**	0.15	(27)	0.25	(56)
Capital expenditures	**1,139**	483	136	718	59
Outstanding Shares ('000)					
Class A shares	**1,751**	1,751	–	1,751	–
Class B shares	**33,164**	33,072	–	33,164	–
Total shares outstanding	**34,915**	34,823	–	34,915	–
Options	**400**	1,742	(77)	400	–
OPERATING					
Daily average gas production (MMcfd)					
Protected Gas	**39.0**	37.3	5	38.8	1
Additional Gas					
Industrial	**10.3**	12.9	(20)	11.8	(13)
Power	**38.8**	44.5	(13)	36.7	6
Total Additional Gas	**49.1**	57.4	(14)	48.5	1
Total gas production	**88.1**	94.7	(7)	87.3	1
Average price per mcf					
Industrial (US$/mcf)	**7.54**	8.11	(7)	8.24	(8)
Power (US$/mcf)	**3.49**	3.52	(1)	3.49	–
Total (US$/mcf)	**4.34**	4.55	(5)	4.64	(6)
Operating netback (US$/mcf)	**1.86**	2.03	(8)	1.69	10

(1) Working capital as at 31 March 2015 includes a TANESCO receivable (excluding interest) of US$4.1 million (31 December 2014: US$7.7 million). Management has placed a doubtful debt provision against the long-term receivables in excess of 60 days totaling US$52.2 million (31 December 2014: US$52.2 million). The total of long- and short-term TANESCO receivables, including interest, as at 31 March 2015 was US$61.7 million. The financial statements do not recognise the interest receivable from TANESCO as it does not meet IAS 18 income recognition criteria. The Company is however actively pursuing the collection of all the receivables and the interest that has been charged to TANESCO.

(2) See MD&A – Non-GAAP Measures.

(3) Working capital deficiency (excluding cash) is defined as current assets less cash less current liabilities.

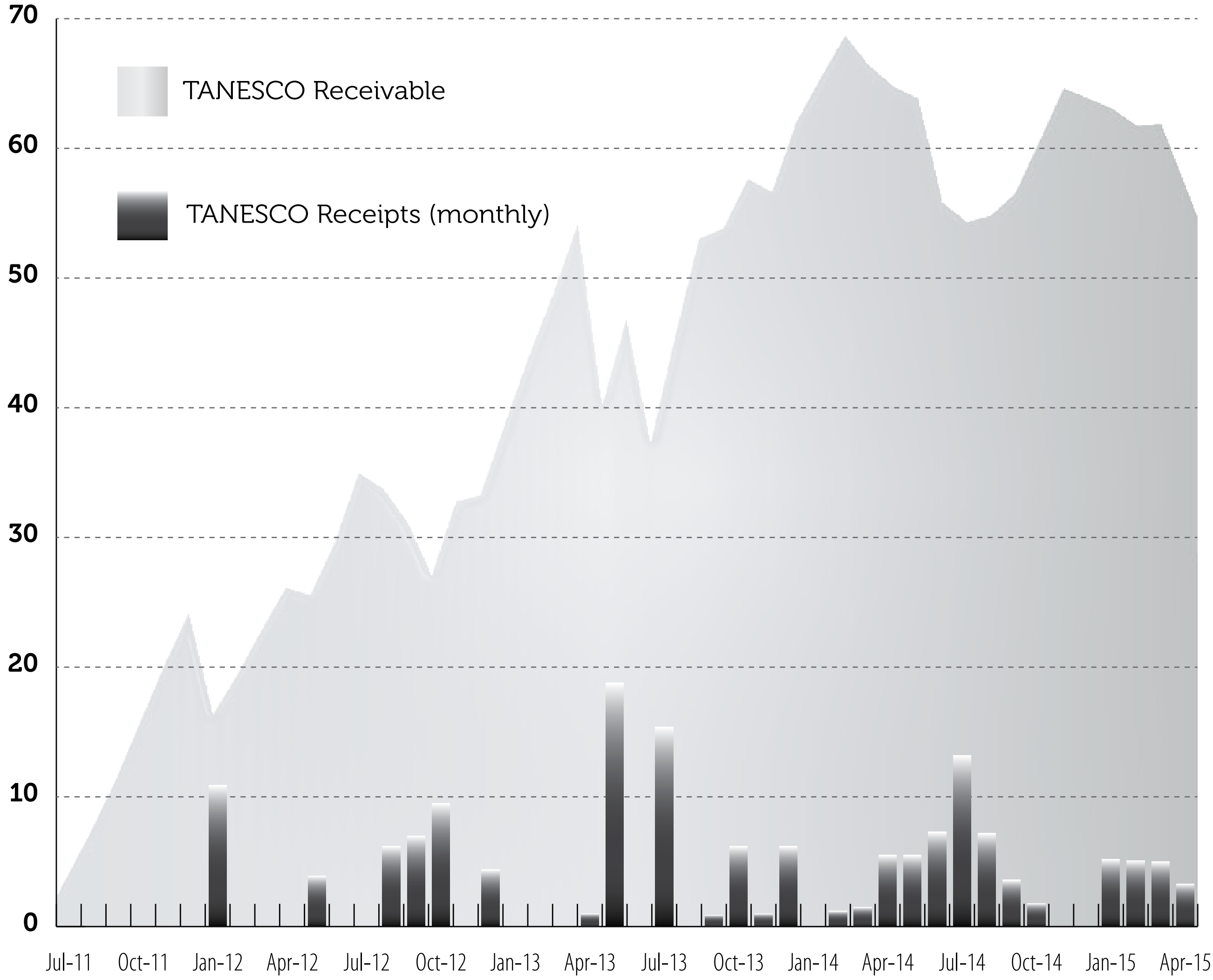
(4) See note on restatement on page 13

Q1 2015 Operating Highlights

- Total Songo Songo field production of Protected Gas plus Additional Gas averaged 88.1 million standard cubic feet per day ("MMcfd") for the first quarter of 2015 down 7% from Q1 2014, and up 1% over Q4 2014. Additional Gas sales volumes averaged 49.1 MMcfd, a decrease of 14% over the prior period (Q1 2014: 57.4 MMcfd), due largely to declining field productivity and reduced consumption by TANESCO.
- Power sector sales volumes decreased by 13% to 38.8 MMcfd, compared to 44.5 MMcfd in Q1 2014 as a result of a decrease in production from the Songo Songo field due to infrastructure constraints and TANESCO's non-renewal of a power generation contract with an emergency power plant that utilised Additional Gas. Maximum gas production has decreased from an average of 96 MMcfd in Q1 2014 to 88 MMcfd in Q1 2015. In accordance with the Portfolio Gas Supply Agreement ("PGSA") with TANESCO, a decrease in field gas production impacts the overall gas volumes available to the state utility. Quarter over quarter, Q1 Power sales volumes increased by 6% over Q4 2014 (36.7 MMcfd) principally as a result of increased nominations by TANESCO owing to reduced seasonal hydro availability during the period compared with Q4 2014.
- Q1 Industrial sales volumes decreased by 20% to 10.3 MMcfd from 12.9 MMcfd in Q1 2014. The decrease was primarily due to a reduction in natural gas consumption by a large cement company customer, a textile company and an edible oil company in Dar es Salaam all as a result of unscheduled maintenance. Industrial gas volumes decreased by 13% over Q4 2014 (11.8 MMcfd) as a result of maintenance work by some major industrial customers.
- Weekly payments by TANESCO resumed in 2015 and TANESCO renewed its commitment to remain current for ongoing gas deliveries and to work towards a solution for the arrears. At 31 March 2015, TANESCO owed the Company US$56.2 million excluding interest (of which arrears were US$52.2 million) compared to US$59.8 million (including arrears of US$52.2 million) as at 31 December 2014. During the quarter, the Company received a total of US$15.3 million (Q4 2014: US$1.8 million) from TANESCO against sales totaling US$11.7 million (Q4 2014: US$11.2 million). Current TANESCO receivables as at 31 March 2015 amounted to US$4.1 million (Q4 2014 US$7.7 million). Since the quarter end, TANESCO has paid the Company US$6.6 million, and as at the date of this report the total TANESCO receivable is US$53.0 million (US$52.2 million of which is the subject of a doubtful debt provision).
- Working capital as at 31 March 2015 has tripled compared with Q1 2014 to US$34.9 million (Q1 2014: US$11.7 million), and increased by a further 2% from 31 December 2014 (US$34.1 million).
- During the quarter capital expenditure was US$1.1 million primarily in relation to ongoing engineering and planning relating to well workovers and subsequent drilling activities.
- Net loss for the quarter was US$1.7 million or US$0.05 per share basic and diluted, as compared to income of US$1.2 million or US$0.03 per share basic and diluted in Q1 2014.

- Average gas prices were down 5% in Q1 2015 to US$4.34/mcf over Q1 2014 (US$4.55/mcf). Industrial gas prices were down 7% in Q1 2015 to US$7.54/mcf (Q1 2014: US$8.11/mcf). The decrease over the same period for the prior year is primarily due to a change in sales mix, partially offset by annual price indexation. Precipitous declines in heavy fuel oil ("HFO") prices (to which a majority of Industrial contracts are tied) were mitigated by floor prices in the contracts. Average Power sector gas prices decreased 1% over the prior year quarter to US$3.49/mcf (Q1 2014: US$3.52/mcf), largely as a result of reduced sales volumes to the Power sector which in turn reduced the amount sales subject to premium pricing in accordance with the PGSA with TANESCO, this more than offset the impact of annual price indexation.
- Revenue for the quarter was US$9.7 million, a decrease of 28% from Q1 2014 ($13.5 million). Funds flow from operating activities in 2015 was US$3.7 million or US$0.11 per share diluted, a 31% decrease from Q1 2014 (US$5.4 million or US$0.15 per share diluted) primarily the result of lower revenue during the period.
- The US$1.2 billion government sponsored Tanzania National Natural Gas Infrastructure Project ("NNGIP") is substantially complete, with first gas expected by the end of 2015. During 2014, the Mnazi Bay partners and Kiliwani North partners separately announced that they had signed gas purchase agreements with the Tanzania Petroleum Development Corporation ("TPDC") for an initial 80 MMcfd and 20 MMcfd respectively. Discussions between TPDC, the Ministry of Energy and Minerals and the Company on commercial terms for future incremental gas sales showed no progress during the quarter and to the date of this report. Commercial terms remain a key condition to the Company's commitment to expand Songo Songo development beyond the existing Songas infrastructure and to supply gas to the NNGIP.
- Despite the stalled efforts to reach agreement on commercial terms for production expansion to the NNGIP, the Company continued to advance work on Songo Songo development. Provided that TANESCO maintains its weekly payments and subject to financing, the Company intends to proceed with the first phase of a workover and drilling programme commencing Q3 2015. The initial US$120 million of the US$150 million first phase expenditure is intended to maintain deliverability and provide sufficient capacity to fill the existing Songas infrastructure until the Company can secure commercial terms for additional gas sales to the NNGIP.
- International Finance Corporation ("IFC") of the World Bank Group is in the process of requesting its internal approvals to provide approximately half the capital cost of the initial phase, or US$60 million, in quasi-equity financing to the Company's operating subsidiary, PanAfrican Energy Tanzania Limited. Definitive terms have yet to be agreed and any financing will require board approval by both IFC and the Company and be subject to a number of terms and conditions, including with respect to the assurance of ongoing TANESCO payments. There is no assurance such financing will be concluded on mutually agreeable terms.

TANESCO receivables since Emergency Power Plan mid-2011



ORCA EXPLORATION GROUP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed unaudited consolidated interim financial statements for the three month period ended March 31, 2015.

Management's Discussion & Analysis

THIS MD&A OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2015 SHOULD BE READ IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TOGETHER WITH MD&A FOR THE YEAR ENDED 31 DECEMBER 2014. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON 29 May 2015.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis ("**MD&A**") contains forward-looking statements or information (collectively, "**forward-looking statements**") within the meaning of applicable securities legislation. More particularly, this MD&A contains, without limitation, forward-looking statements pertaining to the following: under "Contractual Obligations and Committed Capital Investment", the Company's expectation that it will not have a shortfall during the term of the Protected Gas delivery obligation to July 2024; the Company's expectation that the Elsa-2 appraisal well will be drilled in 2016; the Company intention, subject to financing, to proceed with a workover and drilling programme offshore Songo Songo in order to maintain production capability and fill the existing Songas infrastructure to capacity for the life of the Songo Songo licence, being 2026; and the Company's estimated spending for the programme between 2015 and 2017. In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. The recovery and reserve estimates of Orca's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca's control, and many factors could cause Orca's actual results to differ materially from those expressed or implied in any forward-looking statements made by Orca, including, but not limited to: failure to receive payments from TANESCO; failure to reach a sales agreement with TPDC for incremental gas volumes; potential negative effect on the Company's rights under the PSA as a result of the National Natural Gas Policy; risk that the contingencies related to the development work for the full field development plan for Songo Songo are not satisfied; risk that the onstream date for the National Natural Gas Infrastructure Project is delayed; failure to obtain funding for full field development plan for Songo Songo; risk that, without extending or replacing the Re-Rating Agreement, Songas Limited may de-rate the plant back to its original capacity, resulting in a material reduction in the Company's sales volumes of Additional Gas; risk that the Company will be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which Orca operates; civil unrest; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, drilling equipment and skilled personnel; failure to obtain required equipment for drilling; delays in drilling plans; failure to obtain expected results from drilling of wells; effect of changes to the PSA on the Company; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; risks associated with negotiating with foreign governments; inability to access sufficient capital; failure to successfully negotiate agreements; and risk that the Company will not be able to fulfil its obligations.

In addition there are risks and uncertainties associated with oil and gas operations, therefore Orca's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits Orca will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by Orca in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors Orca believes are appropriate in the circumstances, including, but not limited to that TPDC will exercise its right under the PSA to 'back in' for 20% of all new drilling activities in the future as determined by the Company's current development plan for the Songo Songo field; that there will continue to be no restrictions on the movement of cash from Mauritius or Tanzania; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company will have adequate funding to continue operations; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of Orca to increase production at a consistent rate; infrastructure capacity; commodity prices will not deteriorate significantly; the ability of Orca to obtain equipment and services in a timely manner to carry out exploration, development and exploitation activities; future capital expenditures; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company will obtain funding for full field development plan for Songo Songo; that the Company's appeal of the tax assessment by the TRA will be successful; that the enactment of a Gas Act in Tanzania will not impair the Company's rights under the PSA to develop and market natural gas in Tanzania; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and other matters.

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

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 CHANGES. 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 FLOW FROM OPERATING ACTIVITIES PER SHARE IS CALCUALATED ON THE BASIS OF THE FUNDS FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.
- CASH FLOW FROM OPERATING ACTIVITIES PER SHARE 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.

NATURE OF OPERATIONS

The Company'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 United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The gas in the Songo Songo field is divided between "Protected Gas" as defined and "Additional Gas" as defined. 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 processed and delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island.

Songas utilizes the Protected Gas 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. The Company 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.

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

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry of Energy and Minerals ("MEM"). TANESCO is responsible for the generation, transmission and distribution of electricity throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydro power and a more cost effective alternative to liquid fuels. The Company currently supplies gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas which in turn generates and sells power to TANESCO. The state utility is the Company's largest customer and the gas supplied by the Company to TANESCO today fires approximately 60% of the electrical power generated in Tanzania.

In addition to gas supplied to Songas and TANESCO for the generation of power, the Company has developed and supplies an industrial gas market in the Dar es Salaam area consisting of some 39 industrial customers.

BUSINESS RISKS

See "Business Risks" in MD&A for the year-ended 31 December 2014 for a complete discussion of business risks of the Company.

Collectability of Receivables

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. Both Songas and the Company have been impacted by TANESCO's inability to pay.

Amounts collected with respect to the long-term receivable in the future will be reflected in earnings when payment is received. Notwithstanding this provision, the Company and TANESCO continue to operate in accordance with the terms of the Portfolio Gas Supply Agreement whereby natural gas continues to be delivered by the Company and TANESCO payments remain current on current deliveries. This provision against the TANESCO net long-term receivable will not prejudice the Company's rights to payment in full or its ability to pursue collection in accordance with the terms of the agreement with TANESCO.

At 31 March 2015, TANESCO owed the Company US$56.2 million excluding interest (of which arrears were US$52.2 million) compared to US$59.8 million (including arrears of US$52.2 million) as at 31 December 2014. During the quarter, the Company received a total of US$15.3 million (Q4 2014: US$1.8 million) from TANESCO against sales totaling US$11.7 million (Q4 2014: US$11.2 million). Current TANESCO receivables as at 31 March 2015 amounted to US$4.1 million (Q4 2014 US$7.7 million). Since the quarter end, TANESCO has paid the Company US$6.6 million, and as at the date of this report the total TANESCO receivable is US$53.0 million (of which US$52.2 million has been provided for). The amounts owed do not include interest billed to TANESCO.

As at 31 March 2015, Songas owed the Company US$21.3 million (Q4 2014: US$43.2 million), whilst the Company owed Songas US$2.9 million (Q4 2014: US$30.4 million). There was no contractual right to offset these amounts at 31 March 2015. Amounts due to Songas primarily relate to pipeline tariff charges payable of US$1.0 million (Q4 2014: US$28.9 million), whereas the amounts due to the Company are mainly for sales of gas of US$1.1 million (Q4 2014: US$23.9 million) and for the operation of the gas plant for US$20.2 million (Q4 2014: US$19.3 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.

All amounts due to and from Songas have been summarized in the net Songas balance (see Note 14, Trade and Other Payables, to the unaudited condensed consolidated interim financial statements) of US$18.4 million (Q4 2014: US$12.7 million). A provision for doubtful debts of US$9.8 million (Q4 2014: US$9.8 million) has been recognised against the gas plant operation receivable of US$20.2 million (Q4 2014: US$19.3 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's 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 materially 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 2014.

See "Critical Accounting Estimates and Judgements" in the MDA for the year ended 31 December 2014 for a complete discussion.

Collectability of Receivables

Management reviews the accounts receivable aging and payment history on a weekly basis. Accounts which are in excess of 60-days in arrears are identified as potential doubtful accounts. When sustained arrears performance is exhibited over a quarter, together with an assessment by management of the customer's willingness and ability to pay, an account is deemed "doubtful" and a provision against that account is made for the reporting period based on an assessment of that amount of arrears which are unlikely to be paid in the immediate future. Both Songas and the Company have been impacted by TANESCO's inability to pay.

Notwithstanding the previous reclassification of TANESCO arrears as a long-term receivable and the subseqent provision against same (see Note 12 – Trade and Other Receivables), the Company and TANESCO continue to operate in accordance with the terms of the PGSA and in accordance with the understanding between the Company and TANESCO whereby natural gas continues to be delivered by the Company and TANESCO would pay for current deliveries on a current basis with payments to be applied firstly to pay for the current deliveries and excess amounts applied to accumulated arrears.

Historically, TANESCO has paid outstanding quarterly balances in full subsequent to each quarter. The delays in payments from TANESCO first began in late 2011 as a result of TANESCO experiencing financial difficulties due to its dependence on high cost power generation based on liquid fuels following severe droughts in Tanzania. TANESCO's financial difficulties increased as a result being mandated by the Government under an Emergency Power Plan to provide additional power generation. Whilst the Company received assurances from the Government of Tanzania that it was arranging financing for TANESCO, the receivables continued to build to levels where it became apparent in 2013 that some time would be required for the ultimate payment of the arrears.

In Q2 2013 the Company reclassified all amounts of the TANESCO receivable in excess of 60 days in arrears as a long-term receivable. Having established a long-term receivable, the Company then estimated the discount to apply reflecting the estimated cost of the delay in timing of receipts. In parallel with the reclassification, the Company, through a series of meetings with TANESCO, reached an understanding with the state utility that the Company would continue to supply gas only if TANESCO remained current on payments for current gas deliveries, and any excess payments received over and above the current balances would be applied to the arrears balance.

In late 2013, the Company issued formal demands to TANESCO for payment, and in April 2014 issued a formal Notice of Dispute as a first step in the collection process set out in the PGSA.

In April 2014 and again in May, TANESCO advised the Company of its intention to make weekly payments of TZS 3 billion (approximately US$1.8 million) against ongoing deliveries of gas, and undertook to obtain outside financing and pay the balance of the arrears by the end of 2014. Weekly payments substantially ceased during Q4 and TANESCO failed to clear the arrears by year-end 2014. Following certain changes to senior officials within TANESCO and the Ministry of Energy and Minerals (which has statutory oversight of TANESCO), weekly payments resumed in Q1 2015. TANESCO has confirmed its understanding with the parties that payments would be applied firstly to pay for the current gas deliveries and that remaining amounts, if any, would be applied to the accumulated arrears.

The Company has a substantial "Tax Recoverable" balance. 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. These amounts are collected by way of an offset against TPDC's share of revenue, as and when the Company pays its tax.

Results for the quarter ended 31 March 2015

SUMMARY

The Company recorded a loss for the quarter of US$1.7 million, the result of several contributory factors. Demand for gas by Industrial and Power customers was down compared with Q1 2014, partly as a result of unscheduled maintenance by customers. Industrial demand was also down compared to Q4 2014. Sales for the quarter averaged just under the 50 MMcfd the threshold that qualifies the Company for a 55% share of Profit Gas revenues and, as a result, the Company received a 40% share for the second successive quarter. The declining value of the Tanzanian Shilling against the US Dollar is primarily responsible for a US$1.8 million loss on foreign exchange during the quarter. The Company also recognized a US$1.1 million charge in relation to stock based compensation, a direct consequence of a higher share price.

Having made only one payment during Q4, TANESCO resumed regular payments in Q1 which, despite the Company and Songas settling in fully their long outstanding gas sales and tariff invoices, resulted in a further increase in the Company's cash balance.

RESTATEMENT OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Orca has restated its condensed consolidated interim financial statements as at and for the three months ended 31 March 2014.

In the course of preparing the Company's consolidated financial statements for the year ended 31 December 2014, errors were discovered involving the computation of Tanzania income tax from 2005 through and to 30 September 2014. In addition, the Company corrected reported finance income and finance costs previously recognized on overdue trade receivables for 2013 and 2014. The restatement adjustments are described in the paragraphs following the tables below.

The following tables present the impact of the restatement adjustments on the Company's previously reported condensed consolidated interim financial statements of financial position as at and for the three months ended 31 March 2014. The "Restated" columns for 2014 reflect final adjusted balances after the restatement.

Effect on Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited)

	THREE MONTHS ENDED 31 MARCH 2014		
(US$'000 except per share amounts)	**As reported**	**Adjustment**	**Restated**
REVENUE	13,698	(221)	13,477
Expenses			
Production and distribution expenses	(1,260)	–	(1,260)
Depletion expense	(3,563)	–	(3,563)
	8,875	(221)	8,654
General and administrative expenses	(3,794)	(25)	(3,819)
Net Finance costs	(1,835)	(58)	(1,893)
Income before tax	**3,246**	**(304)**	**2,942**
Income tax	(1,660)	(108)	(1,768)
Net income	**1,586**	**(412)**	**1,174**
Foreign currency translation loss on foreign operations	(13)	–	(13)
Total comprehensive income	**1,573**	**(412)**	**1,161**
Earnings per share			
Basic	0.05	(0.02)	0.03
Diluted	0.04	(0.01)	0.03
Weighted average shares outstanding (millions)			
Basic	34.8		34.8
Diluted	35.4		35.4

Effect on Condensed Consolidated Interim Statement of Financial Position (Unaudited)

	AS AT 31 MARCH 2014		
US$'000	**As reported**	**Adjustment**	**Restated**
ASSETS			
Current Assets			
Cash and cash equivalents	31,058	–	31,058
Trade and other receivables	35,346	3,276	38,622
Tax recoverable	14,364	(3,940)	10,424
Prepayments	712	–	712
	81,480	(664)	80,816
Non-Current assets			
Long-term trade receivable	42,192	(3,276)	38,916
Exploration and evaluation assets	5,564	–	5,564
Property, plant and equipment	87,600	–	87,600
	135,356	(3,276)	132,080
Total Assets	216,836	(3,940)	212,896
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	61,681	915	62,596
Tax payable	739	5,791	6,530
	62,420	6,706	69,126
Non-Current Liabilities			
Deferred income taxes	11,165	(4,762)	6,403
Deferred Additional Profits Tax	21,400	–	21,400
	32,565	(4,762)	27,803
Total Liabilities	94,985	1,944	96,929
Equity			
Capital stock	85,428	–	85,428
Contributed surplus	6,482	–	6,482
Accumulated other comprehensive (loss)	(290)	–	(290)
Accumulated income	30,231	(5,884)	24,347
	121,851	(5,884)	115,967
Total Equity and Liabilities	216,836	(3,940)	212,896

Effect on Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

	THREE MONTHS ENDED 31 MARCH 2014		
US$'000	**As reported**	**Adjustment**	**Restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**1,586**	**(412)**	**1,174**
Adjustment for :			
Depletion and depreciation	3,715	–	3,715
Provision for doubtful debts	2,571	(640)	1,931
Stock-based compensation	277	–	277
Deferred income taxes	(967)	(699)	(1,666)
Deferred additional profits tax	(279)	–	(279)
Interest expense	24	–	24
Unrealised foreign exchange loss	177	58	235
Funds flow from operating activities	**7,104**	**(1,693)**	**5,411**
Increase in trade and other receivables	(624)	–	(624)
Decrease in tax recoverable	221	221	442
Increase in prepayments	(431)	–	(431)
Increase in trade and other payables	7,890	–	7,890
(Decrease)/Increase in taxation payable	(1,219)	832	(387)
(Increase)/decrease in long-term receivable	(12,281)	640	(11,641)
Net cash flows from operating activities	**660**	**–**	**660**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Property, plant and equipment expenditures	(483)	–	(483)
Net cash used in investing activities	**(483)**	**–**	**(483)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Medium term loan	(1,659)	–	(1,659)
Interest paid	(24)	–	(24)
Net cash flow used in financing activities	**(1,683)**	**–**	**(1,683)**
Decrease in cash and cash equivalents	(1,506)	–	(1,506)
Cash and cash equivalents at the beginning of the period	32,588	–	32,588
Effect of change in foreign exchange on cash in hand	(24)	–	(24)
Cash and cash equivalents at the end of the period	**31,058**	**–**	**31,058**

Effect on Accumulated Income (Unaudited)

US$'000	As reported	Adjustment	Restated
	AS AT 31 MARCH 2014		
Accumulatd Income			
Balance, beginning of period	28,645	(5,472)	23,173
Net income	1,586	(412)	1,174
Balance end of period	30,231	(5,884)	24,347

Net changes to prior periods

The following is a description of the matters corrected in the restatement adjustments.

Incorrect computation of Tanzania income tax

The Songo Songo PSA, which governs substantially all of the Company's business in Tanzania, provides a mechanism to keep the Company whole for income taxes paid in Tanzania. Pursuant to the PSA, the Company is reimbursed for all income tax payable on income derived from Petroleum Operations (as defined) by way of an "adjustment factor", under which the Company is allocated additional Profit Gas of a value equal to the taxes payable, thus reducing the allocation to the Company's partner in the field, the TPDC. The adjustment factor is determined by grossing up tax payable on the current year's profit, to the level necessary for the Company to remain neutral in the payment of income tax.

Computation of the adjustment factor, over a number of years, incorrectly included tax paid in respect of prior years' taxes in the gross up calculation instead of only including tax payable in relation to the current period profits. The net effect of which was to overstate reported revenue, deferred tax expense, net income and funds flow from operating activities, as well as tax recoverable and deferred income taxes payable.

In Tanzania, taxpayers are required to pay at least 80% of the estimated year's taxes in four quarterly instalments during the year, with a final tax payment for the balance owing to be made in the following year after completion of the financial statements. The PSA requires that taxable income for any year include the tax paid in respect of the previous year. The calculation of taxable income for any given year incorrectly included only the final payment for the previous year, rather than the sum of all of the five payments. This resulted in the understatement of taxable income.

The combined effect of these errors was an understatement of taxable income and a cumulative underpayment of tax from 2005 to 31 March 2014 of US$4.3 million, which the Company has reported and paid. The Tanzania Revenue Authority has the right to assess penalties and interest on overdue taxes, which if assessed could be up to US$1.5 million and would not be recoverable under the PSA. An estimate of these penalties and interest has been included in the restatement reflected in the periods for which they relate.

The cumulative impact of the income tax errors, including applicable penalties and interest, as at 31 March 2014 results in a decrease in accumulated income of US$5.2 million, a decrease in tax recoverable from TPDC of US$3.9 million, an increase in tax payable of US$5.8 million, a decrease in deferred income taxes payable of US$4.5 million.

Elimination of Finance Income and Finance Costs relating to TANESCO receivables

The Company is correcting reported finance income and finance costs previously recognized on overdue trade receivables for 2013 and 2014. Finance income and finance costs in the amount of US$0.6 million were eliminated in the three months ended 31 March 2014. As the finance income was fully provided for as finance cost, there is no impact on the net loss after tax, accounts receivable or cash flows from operating activities for the three months ended 31 March 2014. The Company determined that the recognition of finance income, reflecting interest on amounts overdue from TANESCO, coupled with a full provision of the same amount was in error, as collection was not probable.

Foreign exchange

The Company is correcting reported trade and other payables in relation to the calculation of foreign exchange on amounts due to TPDC whereby payments made to TPDC are required to be made in the currency collected for gas sales. The cumulative impact on the condensed consolidated financial statements to 31 March 2014 results in an increase in trade and other payables of US$0.9 million, a decrease in deferred income taxes of US$0.3 million and a decrease in accumulated income of US$0.6 million.

Cumulative impact of combined income tax, finance income and foreign exchange errors

The cumulative impact of the combined income tax, finance income and foreign exchange errors, including applicable penalties and interest, on the condensed consolidated interim financial statements to 31 March 2014 results in a decrease of revenue from US$13.7 million to US$13.5 million, a minor increase in general and administrative expenses and an increase in net finance costs from US$1.8 million to US$1.9 million, an increase in income tax expense from US$1.7 million to US$1.8 million, a decrease in net income from US$1.6 million to US$1.2 million, a decrease in tax recoverable from TPDC from US$14.4 million to US$10.4 million, an increase in trade and other payables from US$61.7 million to US$62.6 million, an increase in the tax payable from US$0.7 million to US$6.5 million (including interest and penalties), a decrease in deferred income taxes from US$11.2 million to US$6.4 million, and a decrease in accumulated income from US$30.2 million to US$24.3 million.

OPERATING VOLUMES

The total production volume of Protected Gas and Additional Gas for the three months ended 31 March 2015 was 7,931 MMcf (Q1 2014: 8,528 MMcf) or average daily volumes of 88.1 MMcfd (Q1 2014: 94.7 MMcfd), net of approximately 0.3 MMcfd (Q1 2014: 0.4 MMcfd) consumed locally for fuel gas. The Additional Gas sales volumes for the quarter were 4,419 MMcf (Q1 2014: 5,172 MMcf) or average daily volumes of 49.1 MMcfd (Q1 2014: 57.4 MMcfd). This represents a decrease in average daily volumes of 15% over the prior year period and a 1% decrease over Q4 2014. Additional Gas sales volumes for Q4 2014 were 4,461 MMcf or average daily volumes of 48.5 MMcfd. The reduction in Additional Gas volumes in Q1 over the prior year period is a result of declining overall field productivity and reduced nominations by TANESCO. Increased nominations by TANESCO in Q1 over Q4 2014 offset declines in field productivity quarter over quarter.

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

	THREE MONTHS ENDED 31 MARCH	
	2015	2014
Gross sales volume (MMcf)		
Industrial sector	**925**	1,164
Power sector	**3,494**	4,008
Total sales volumes	**4,419**	5,172
Gross average daily sales volume (MMcfd)		
Industrial sector	**10.3**	12.9
Power sector	**38.8**	44.5
Total daily sales volume	**49.1**	57.4

Industrial sector

Current quarter Industrial sales volume decreased by 21% to 925 MMcf (10.3 MMcfd) from 1,164 MMcf (12.9 MMcfd) in Q1 2014. The decrease is primarily due to decrease in natural gas consumption by the cement company, a textile company and an edible oil company in Dar es Salaam all as a result of unscheduled maintenance. Industrial gas volumes decreased by 15% over Q4 2014 (1,084 MMcf or 11.8 MMcfd) as a result of maintenance work of some major industrial customers.

Power sector

Power sector sales volumes decreased by 13% to 3,494 MMcf or 38.8 MMcfd, compared to 4,008 MMcf or 44.5 MMcfd in Q1 2014 as a result of a decrease in production from the Songo Songo fields due to infrastructure constraints and TANESCO's non-renewal of a power generation contract with an emergency power plant that was running using Company's Additional Gas. Maximum gas production has decreased from an average of 96 MMcfd in Q1 2014 to 88 MMcfd in Q1 2015. In accordance with the PGSA with TANESCO, a decrease in field gas production impacts the gas volumes available to the state utility. Power sales volumes increased by 6% over Q4 2014 (3,377 MMcf or 36.7 MMcfd) principally as a result of increased nominations by TANESCO owing to reduced seasonal hydro availability during the period compared with Q4 2014.

SONGO SONGO DELIVERABILITY

As at 31 March 2015, the Company had a field productive capacity of approximately 88 MMcfd, with the expansion of production volumes limited to 102 MMcfd by the available Songas infrastructure. Production wells SS-3, SS-5 and SS-9 remain suspended pending workovers. SS-4 continues to be monitored and may have to be suspended in the future. See "Contractual Obligations and Committed Capital Investment".

COMMODITY PRICES

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

	THREE MONTHS ENDED 31 MARCH	
US$/mcf	**2015**	2014
Average sales price		
Industrial sector [(1)]	**7.54**	8.11
Power sector	**3.49**	3.52
Weighted average price	**4.34**	4.55

(1) In Q1 2014 the Company recognized income of US$0.4 million deferred from 2010 under a take-or-pay provision in an Industrial contract. Under the contract the customer has three years in which to utilise the deferred income, after which it is released to revenue. This has been deducted from revenue in calculating the average sales prices achieved in the quarter.

Industrial sector

The average sales price for Industrial Gas during the first quarter was US$7.54/mcf, down 7% over Q1 2014 (US$8.11/mcf). Whilst the majority of Industrial contract prices are tied to Heavy Fuel Oil prices, the contracts incorporate price floors and ceilings, both of which are increased 2% annually. Accordingly, a 50% decline in average HFO prices from Q1 2014 to Q1 2015 (41% decline from Q4 2014 to Q1 2015) was largely mitigated by price floors. The decrease over the same period for the prior year is primarily due to a change in sales mix, partially offset by annual price indexation. The reduction in Industrial prices from Q4 2014 to Q1 2015 is primarily a result of a change in sales mix.

Power sector

The average sales price to the Power sector was US$3.49/mcf for the quarter, down 1% compared with US$3.52/mcf in the prior year period. The decrease is the result of reduced sales to the power sector which in turn reduced amount of sales subject to premium pricing in accordance with the Portfolio Gas Supply Agreement ("PGSA") that have offset the impact of annual price indexation which is applied in July each year. The average sales price remained flat compared with Q4 2014 as a result of a slight increase in sales volumes that did not have an impact in the average sales price. Sales to Songas are made under the Amended and Restated Gas Agreement ("ARGA"), which is not in full force and effect. As at the date of this report, the ARGA remains unsigned; however, the parties thereto, in certain respects, are conducting themselves as though the ARGA is in full force and effect.

OPERATING REVENUE

The Additional Gas sales volumes for the first three months of 2015 were 49.1 MMcfd (Q1 2014: 57.4 MMcfd), slightly less than the 50 MMcfd threshold entitling the Company to a 55% share of Profit Gas revenue (net of Cost Gas recoveries from revenue). As in Q4 2014, when Additional Gas sales volumes fell to 48.5 MMcfd the Company's share of Profit Gas revenue fell to 40%. See "Principal Terms of the Tanzanian PSA and Related Agreements."

Overall the Company's share of Net Revenue in Q1 2015 was 60% (Q1 2014: 60%) as a result of increased Cost Gas leading to a smaller pool of Profit Gas to be shared. The allocation of revenue to the Company may be analysed as follows:

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014 – Restated
Gross sales revenue	**19,178**	23,917
Gross tariff for processing plant and pipeline infrastructure	**(3,161)**	(3,726)
Gross revenue after tariff ("Net Revenues")	**16,017**	20,191
Analysed as to:		
Company Cost Gas	**5,332**	2,272
Company Profit Gas	**4,274**	9,856
Company operating revenue	**9,606**	12,128
TPDC share of revenue	**6,411**	8,063
	16,017	20,191

The Company's total revenues for the quarter amounted to US$9,720, after adjusting the Company's operating revenues of US$9,606 by:

i) subtracting US$999 for income tax for 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. To account for this, revenue is adjusted to include the current income tax charge grossed up at 30%; and,

ii) subtracting US$885 for deferred Additional Profits Tax charged in the quarter – this tax is considered a royalty and is presented as a reduction in revenue.

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

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014 – Restated
Industrial sector	**6,971**	9,828
Power sector	**12,207**	14,089
Gross sales revenue	**19,178**	23,917
Processing and transportation tariff	**(3,161)**	(3,726)
TPDC share of revenue	**(6,411)**	(8,063)
Company operating revenue	**9,606**	12,128
Additional Profits Tax charge	**(885)**	(2,185)
Current income tax adjustment	**999**	3,534
Revenue	**9,720**	13,477

The 21% decrease in Company operating revenue compared to Q1 2014 is the result of several factors. A 15% decrease in sales volumes and a 5% decrease in weighted average gas prices have contributed to an overall 20% decrease in Gross Sales Revenue. At the same time TPDC's share of revenue decreased 20% to US$6.4 million (Q1 2014: US$8.1 million) as a result of the increased Cost Gas recoveries during Q1 2015, following the increased capital spending in preparation for workovers and drilling.

With the increased scope of investment contemplated in the new development plan, the total Additional Profits Tax ("APT") expected to be paid over the life of the licence has been reduced. However the 60% reduction in APT is primarily due to a reduction in Profit Gas, a consequence of reduced sales volumes and increased Cost Gas.

PROCESSING AND TRANSPORTATION TARIFF

The Company effectively pays a tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the regulated tariff of US$0.59/mcf payable to Songas. The Q1 2015 charge relating to the additional tariff was US$0.5 million (Q1 2014: US$0.7 million; Q4 2014: US$0.5 million). The 29% reduction in the Q1 2015 charge compared with the same quarter last year is a result of lower sales volumes during the quarter.

PRODUCTION AND DISTRIBUTION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas in proportion to their respective sales during the period. The total cost of maintenance for the quarter was US$179 (Q1 2014: US$200). The amount allocated for Additional Gas was US$100 (Q1 2014: US$125).

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

Distribution costs represent the direct cost of maintaining the ring main distribution pipeline and pressure reduction station (security, insurance and personnel). Ring main distribution costs were US$493 (Q1 2014: US$583) for the quarter. These production and distribution costs are summarized in the table below:

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014
Share of well maintenance	**100**	125
Other field and operating costs	**763**	552
	863	677
Ringmain distribution costs	**493**	583
Production and distribution expenses	**1,356**	1,260

OPERATING NETBACKS

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

	THREE MONTHS ENDED 31 MARCH	
US$/mcf	**2015**	2014
Gas price – Industrial	**7.54**	8.11
Gas price – Power	**3.49**	3.52
Weighted average price for gas	**4.34**	4.55
Tariff	**(0.72)**	(0.72)
TPDC share of revenue	**(1.45)**	(1.56)
Net selling price	**2.17**	2.27
Well maintenance and other operating costs	**(0.20)**	(0.13)
Distribution costs	**(0.11)**	(0.11)
Operating netback	**1.86**	2.03

The operating netback decreased by 8% from US$2.03/mcf in Q1 2014 to US$1.86/mcf in Q1 2015. This was the result of a 5% decrease in the weighted average gas price compounded by increase in well maintenance and other operating costs, partially offset by a 7% decrease in the TPDC share of revenue.

Despite a 6% fall in the weighted average gas price from US$4.64/mcf in Q4 2014, the operating netback increased 10% to US$1.86/mcf in Q1 2015 (Q4 2014: US$1.69/mdf), primarily as a result of 22% decrease in TPDC Profit Gas share quarter over quarter and decreases in both well maintenance and other operating costs and distribution costs.

The 5% decrease in the weighted average selling price to US$4.34/mcf (Q1 2014: US$4.55/mcf) results primarily from a change in the sales mix resulting into lower average Industrial prices and a 13% drop in the sales volumes to the power sector which led to a reduction in the average Power sales price.

The 54% increase in the well maintenance and other operating costs on a per mcf basis in Q1 2015 over the same period in 2014 is primarily the result of lower sales volumes and an increase in maintenance activities during the quarter. Maintenance costs are fairly fixed and reduction in sales volume result into higher average costs per Mcf sold.

GENERAL AND ADMINISTRATIVE EXPENSES

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

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014 – Restated
Employee & related costs	**1,484**	1,823
Stock based compensation	**1,129**	277
Office costs	**723**	730
Marketing & business development costs	**11**	15
Reporting, regulatory & corporate	**750**	949
Tax penalties	**–**	25
General and administrative expenses	**4,097**	3,819

G&A includes the costs of running the natural gas distribution business in Tanzania which is recoverable as Cost Gas and which is relatively fixed in nature. Excluding stock based compensation G&A averaged US$1.0 million (Q1 2014: US$1.3 million) per month during the quarter.

STOCK BASED COMPENSATION

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

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014
Stock appreciation rights	**763**	277
Restricted stock units	**366**	–
Stock-based compensation	**1,129**	277

400,000 stock options were outstanding as at 31 March 2015 compared to 400,000 at the end of 2014.

No options were granted during the quarter (Q4 2014: nil).

2,910,000 stock appreciation rights ("SARs") and 792,391 Restricted Stock Units ("RSUs") with an award price of CDN$0.01 were outstanding as at 31 March 2015 and 31 December 2014. As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognised in trade and other payables. In the valuation of SARs and RSUs at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50%; stock volatility of 44.3% to 61.5%; 0% dividend yield; 0% forfeiture; and a closing price of CDN$3.55 per Class B share.

As at 31 March 2015, a total accrued liability of US$4.5 million (Q4 2014: US$3.4 million) has been recorded in relation to SARs and RSUs which is included in other payables. The Company recognised a charge in the quarter relating to stock based compensation of US$1.1 million (Q1 2014: US$0.3 million) in G&A expenses.

The increase in stock based compensation expense for the quarter over 31 December 2014 is the result of the share price increasing to CDN$3.55 (Q4 2014: CDN$2.90), with the increase in expense due to the share price partially offset by a 9% decline in the Canadian Dollar against the US Dollar during the period.

NET FINANCE COSTS

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

	THREE MONTHS ENDED 31 MARCH	
	2015	2014 – Restated
Interest charged on overdue trade receivables	**4**	7
Net foreign exchange gain	**–**	55
Finance income	**4**	62
Interest expense	**–**	(24)
Net foreign exchange (loss)	**(1,831)**	–
Provision for doubtful debts	**–**	(1,931)
Finance costs	**(1,831)**	(1,955)
Net finance costs	**(1,827)**	(1,893)

The decrease in interest expense is the result of repaying the bank loan in full by the end of February 2014.

The foreign exchange gain/loss reflects the impact of movements in the value of the Tanzanian Shilling against the US Dollar during the period on outstanding customer/supplier balances and bank accounts in Tanzanian Shillings.

TAXATION

Income Tax

As at 31 March 2015, 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 deferred income tax of US$6.9 million (31 December 2014: US$7.6 million). During the quarter there was a deferred tax credit of US$0.7 million compared with a credit of US$1.0 million in Q1 2014. The deferred tax has no impact on cash flow until it becomes a current income tax, at which point the tax is paid and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

The effective Additional Profits Tax ("APT") rate of 20.7% (Q1 2014: 22.2 %) has been applied to Profit Gas of US$4.3 million (Q1 2014: US$9.4 million) for the quarter. Accordingly, US$0.9 million (Q1 2014: US$2.2 million) has been netted off revenue for the quarter.

DEPLETION AND DEPRECIATION

Natural gas properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2014 the proven reserves estimated to be produced over the term of the PSA licence, as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd., were 450 Bcf (2013: 476 Bcf). A depletion expense of US$3.2 million (Q1 2014: US$3.6 million) for the quarter has been recorded in the accounts; the reduction compared to Q1 2014 is the result of a 15% decrease in sales volumes offset by a 4% increase in the average depletion rate to US$0.73/mcf (Q1 2014: US$0.70/mcf).

FUNDS FLOW FROM OPERATING ACTIVITIES

Funds flow from operating activities before working capital changes was US$3.7 million, a decrease of 31% over Q1 2014 (US$5.4 million), primarily the result of a 28% decline in revenue period over period.

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014 – Restated
Funds flow from operating activities	**3,712**	5,411
Working capital adjustments [1]	**3,663**	(4,751)
Cash flows from operating activities	**7,375**	660
Cash used in investing activities	**(1,139)**	(483)
Cash used in financing activities	**–**	(1,683)
Increase/(decrease) in cash	**6,236**	(1,506)
Effect of change in foreign exchange on cash in hand	**(1,655)**	(24)
Net increase/(decrease) in cash	**4,581**	(1,530)

(1) See Condensed Consolidated Interim Statement of Cash Flows

Operating revenues with respect to TANESCO and Songas are not fully reflected in the overall cash position as a consequence of the failure of both TANESCO and Songas to pay their invoices in full during the period.

CAPITAL EXPENDITURE

The Company incurred US$1.0 million in relation to engineering and planning relating to planned well workovers and subsequent drilling activities during Q1 2015 (Q1 2014: nil), plus a further US$0.2 million (Q1 2014: US$0.5 million) in relation to Songo Songo infrastructure.

	THREE MONTHS ENDED 31 MARCH	
US$'000	**2015**	2014
Geological and geophysical and well drilling	**984**	–
Pipelines and infrastructure	**155**	305
Other equipment	**–**	178
	1,139	483

WORKING CAPITAL

Working capital as at 31 March 2015 was US$34.9 million (31 December 2014: US$34.1 million) and may be analysed as follows:

		AS AT		
US$'000		**31 March 2015**		31 December 2014
Cash		**62,240**		57,659
Trade and other receivables		**23,028**		49,324
TANESCO	4,093		7,671	
Songas	1,104		23,864	
Other trade debtors	5,314		7,532	
Songas gas plant operations	20,226		19,300	
Other receivables	2,107		773	
Provision for doubtful accounts	(9,816)		(9,816)	
Tax recoverable		**11,314**		11,815
Prepayments		**922**		642
		97,504		119,440
Trade and other payables		**54,039**		76,747
TPDC	38,350		33,409	
Songas	1,007		28,871	
Other trade payables	2,677		1,961	
Deferred income	2,780		2,780	
Accrued liabilities	9,225		9,726	
Tax payable		**8,595**		8,545
Working capital (1)		**34,870**		34,148

Notes:

(1) Working capital as at 31 March 2015 includes a TANESCO receivable (excluding interest) of US$4.1 million (31 December 2014: US$7.7 million). Management has placed a doubtful debt provision against the long-term receivables in excess of 60 days totaling US$52.2 million (31 December 2014: US$52.2 million). The total of long- and short-term TANESCO receivables, including interest, as at 31 March 2015 was US$61.7 million (31 December 2014 : US$64.3 million). The financial statements do not recognise the interest receivable from TANESCO as it does not meet IAS 18 income recognition criteria. The Company is however actively pursuing the collection of all the receivables and the interest that has been charged to TANESCO.

Working capital as at 31 March 2015 increased by 2% during the quarter, and the Company did not incur any major capital expenditure during the quarter. Other significant points are:

- There are no restrictions on the movement of cash from Mauritius or Tanzania, and currently the majority of cash is outside of Tanzania. As at the date of this report, approximately 89% of the Company's cash was held outside of Tanzania.
- Of the US$5.3 million relating to other trade debtors, US$3.4 million had been received as at the date of this report.
- The balance of US$38.4 million payable to TPDC represents the balance of its accumulated share of revenue as at 31 March 2014, prior to recovery of the tax recoverable balance of US$11.3 million. Recoverable tax is deducted from the sum due to TPDC as the Company pays income tax.
- At 31 March 2015, TANESCO owed the Company US$56.2 million excluding interest (of which arrears were US$52.2 million) compared to US$59.8 million (including arrears of US$52.2 million) as at 31 December 2014. During the quarter, the Company received a total of US$15.3 million (Q4 2014: US$1.8 million) from TANESCO against sales totaling US$11.7 million (Q4 2014: US$11.2 million). Current TANESCO receivables as at 31 March 2015 amounted to US$4.1 million (Q4 2014 US$7.7 million). Since the quarter end, TANESCO has paid the Company US$6.6 million, and as at the date of this report the total TANESCO receivable is US$53.0 million (of which US$52.2 million has been provided for). The amounts owed do not include interest billed to TANESCO.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34,914,932 million shares outstanding as at 31 March 2015 which may be analysed as follows:

	AS AT	
Number of shares ('000)	**31 March 2015**	31 December 2014
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**33,164**	33,164
Class A and Class B shares outstanding	**34,915**	34,915
Convertible securities		
Options	**400**	400
Fully diluted Class A and Class B shares	**35,315**	35,315
Weighted average		
Class A and Class B shares	**35,315**	34,863
Convertible securities		
Options	**–**	–
Weighted average diluted Class A and Class B shares	**35,315**	34,863

As at 28 May 2015, there were a total of 1,750,517 Class A Common Voting Shares ("Class A shares") and 33,164,415 Class B Subordinated Voting Shares ("Class B shares") outstanding.

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.05 million (Q1 2014: US$0.04 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. 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 (Q1 2014 US$0.1 million) to this firm for services provided. As at 31 March 2015 the Company has a total of US$ nil (Q1 2014: US$0.1 million) recorded in trade and other payables in relation to the related parties.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

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 escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (132.1 Bcf as at 31 March 2015). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Capital Commitments

Italy

No activity has occurred on the Adriatic Sea Italy block during 2015 to date. The Elsa-2 appraisal well is now expected to be drilled in 2016 following finalisation of an environmental impact study. The Company will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed. As of the date of this report, there is no rig contract. There are no further capital commitments in Italy.

Songo Songo

There are no contractual commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania is discretionary and dependent on, among other things: (i) agreeing commercial terms with TPDC or other buyers regarding the sale of incremental gas volumes from Songo Songo; (ii) TANESCO receivables being brought up to date, guaranteed or other arrangements for payment satisfactory to the Company, (iii) the establishment of payment guarantees with the World Bank or other multi-lateral lending agencies to secure future receipts under any contracts with Government entities; and (iv) the arrangement of financing with the IFC or other lenders.

Significant additional capital expenditure will be required to both maintain production levels and fill the existing Songas infrastructure to 105 MMscfd capacity, as well as enable the Songo Songo field to produce 190 MMcfd in line with gas supply requirements of the NNGIP anticipated to be commissioned in 2015. In the absence of a commercial agreement with TPDC for volumes dedicated to the NNGIP, and with TANESCO maintaining its weekly payments for current gas deliveries and a small amount towards arrears, the Company intends, subject to finance, to proceed with the first phase of a discretionary workover and drilling programme to maintain deliverability and fill the existing Songas infrastructure to capacity for the life of the Songo Songo licence (2026). Phase I spending is estimated to be approximately US$150 million, of which the first US$120 million to be spent on offshore workovers and drilling (the "Offshore Programme") is expected to be spent over 2015 to 2017, which spending would be intended to restore field deliverability and provide sufficient natural gas production to fill the Songas plant and pipeline to capacity for the greater portion of the remaining life of the Songo Songo licence. When commercial terms are agreed with TPDC for the supply of gas to the NNGIP, and in so doing justify bringing field production to approximately 190 MMscfd, the Company would contemplate undertaking the balance of Phase I at an additional cost estimated to be approximately US$30 million.

The Offshore Programme is estimated to be approximately US$120 million of which the Company is seeking finance for half. There is no assurance that financing is available and on acceptable commercial terms.

Summary of planned capital expenditure

	Tanzania – Songo Songo		Italy	
(US$ millions)	**Offshore Programme**	**Onshore Programme**	**Elsa (1)**	**Total**
Well workovers	75.4	26.0	–	101.4
Development drilling	32.6	–	–	32.6
Exploration/appraisal drilling	–	–	12.3	12.3
Refrigeration and facilities	8.5	4.0	–	12.5
Geological, geophysical and other	3.8		–	3.8
Total capital spending	**120.3**	**30.0**	**12.3**	**162.6**

1) The expenditure in relation to Elsa is not discretionary after a rig contract is signed. At the date of this report no rig contract has been signed.

CONTINGENCIES

See "Contingencies" in MD&A for the year-ended 31 December 2014. There have been no changes in contingencies to 31 March 2015.

However, on 28 May 2015 the Company was advised that its appeal to the Tax Revenue Appeals Board ("TRAB") in relation to an assessment for additional PAYE and penalties totaling US$0.6 million had been unsuccessful. This decision was not unexpected and the Company now intends to appeal to the Tax Revenue Appeals Tribunal ("TRAT"). Based on advice from Counsel the Company believes it has a good case and expects to successfully appeal to the TRAT.

With regard to disputed income tax assessments, the Company has also been informed that its initial appeal against an assessment of additional income tax relating to 2009, in the amount of US$2.3 million, will be heard by the TRAB on 8 June 2015. The Company, based on legal counsel's advice, believes it has strong support, on the basis of tax legislation and the terms of the PSA, for its objection to the additional tax. However, should the outcome be unfavourable the Company intends to pursue the matter with the TRAT and, if necessary, the Court of Appeal.

SUMMARY QUARTERLY RESULTS OUTSTANDING

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

	2015			2014				2013
(US$'000 except where otherwise stated)	Q1	Q4	Q3 restated	Q2 restated	Q1 restated	Q4 restated	Q3 restated	Q2 restated
Financial								
Revenue	**9,720**	9,645	14,631	18,854	13,477	14,829	14,260	11,596
Net (loss)/income	**(1,677)**	(45,616)	4	6,137	1,174	(3,867)	1,383	(7,519)
Earnings/(loss) per share – diluted (US$)	**(0.05)**	(1.30)	–	0.17	0.03	(0.11)	0.04	(0.20)
Funds flow from operating activities	**3,712**	8,733	6,641	11,651	5,411	7,412	10,131	7,449
Funds flow per share – diluted (US$)	**0.11**	0.25	0.19	0.33	0.15	0.22	0.29	0.22
Operating netback (US$/mcf)	**1.86**	1.69	2.12	2.92	2.03	2.29	2.26	2.1
Working capital	**34,870**	34,148	42,001	30,399	11,690	20,857	22,896	15,056
Shareholders' equity	**74,944**	76,635	123,004	123,019	115,967	114,780	118,992	117,407
Capital expenditures								
Geological and geophysical and well drilling	**984**	522	273	9	109	(1,370)	391	103
Pipeline and infrastructure	**155**	193	12	(270)	198	397	296	31
Other equipment	**–**	3	39	48	176	1,111	57	4
Operating								
Additional Gas sold– industrial (MMcf)	**925**	1,084	1,304	1,046	1,164	1,143	1,092	1,067
Additional Gas sold– power (MMcf)	**3,494**	3,377	3,935	3,503	4,008	4,385	4,959	4,250
Average price per mcf– industrial (US$)	**7.54**	8.24	8.85	9.27	8.11	8.38	8.43	8.60
Average price per mcf– power (US$)	**3.49**	3.49	3.60	3.65	3.52	3.68	4.10	3.63

PRIOR EIGHT QUARTERS

Throughout the two-year period TANESCO's payment performance has had a material impact on the results of the Company, impacting cash and receivables and leading to a series of provisions affecting income. Payments have been erratic and unpredictable going from no receipts in Q1 2013, through significant single payments related to World Bank and external funding in Q2 and Q4 2013, to the commencement of weekly payments in Q2 and Q3 2014, which ceased in Q4 2014 and subsequently resumed in Q1 2015. Overall the TANESCO receivable built from US$48.8 million at the end of Q1 2013 to US$56.2 million (excluding interest) as at 31 March 2015, of which US$52.2 is in arrears and fully provided against. The financial statements do not recognise the interest receivable from TANESCO as it does not meet IAS 18 income recognition criteria. However, the Company is actively pursuing the collection of all arrears and interest that has been charged to TANESCO.

Revenues over the two-year period fluctuated quarter over quarter due to overall sales volumes, changing demand for Power sector and Industrial sector volumes, which in turn reflected the average price received for natural gas in each period, and declining productive capacity at Songo Songo. Greater access to hydro power beginning in Q1 2014 served to reduce demand by TANESCO, and this continued throughout much of the year. Power sector sales were declining quarter over quarter during 2014, with the exception of a 13% increase in Q3, reflecting the seasonally higher demand. Q1 2015 saw a small increase in Power sector demand due to reduced hydro availability. Maintenance at TANESCO facilities also reduced Power sector volumes during Q4 2014. Reduced sales volumes to TANESCO results in a reduction in the amount of gas which is sold at premium pricing under the PGSA. A precipitous drop in crude-oil linked HFO prices, mitigated by contractual price floors, and together with changes in the sales mix combined to yield a 19% decline in average Industrial gas prices from Q2 2014 to 31 March 2105.

Revenue in Q4 2014 and Q1 2015 saw a sharp reduction as sales volumes dropped below 50MMcfd for the first time since since Q2 2011, when the additional volumes sold to TANESCO under the PGSA were brought onstream (see "Principal Terms of the Tanzanian PSA and Related Agreements"). This resulted in the Company's share of Profit Gas revenue dropping from 55% to 40% with a consequent reduction in revenue, funds flow and earnings.

Net income has fluctuated significantly over the last two years. Most significantly as a result of the Company recognising provisions against amounts receivable from TANESCO and Songas. These started with a US$15 million provision in Q2 2013, followed by a series of additional provisions each quarter up to Q1 2014. Q3 2014 was further impacted by a US$3.7 million stock-based compensation charge. The loss of US$46.5 million in Q4 is the result of management's decision to fully provide for the overdue TANESCO receivable which resulted in an additional provision of US$37.0 million, impairment of exploration and evaluation assets and foreign exchange losses primarily resulting from the fall in the value of the Tanzanian Shilling against the US Dollar.

With minimal capital spending over the two-year period, the Company's cash balances have steadily increased. The US$8.1 million decrease in working capital in Q1 2014 over Q4 2013 was due to a US$12.0 million rise in the TANESCO long-term receivable with the resultant TPDC share of Profit Gas being recorded as a current liability.

ORCA EXPLORATION GROUP INC.

FINANCIAL STATEMENTS & NOTES

NOTIFICATION OF CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed unaudited consolidated interim financial statements for the three month period ended March 31, 2015.

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

ORCA EXPLORATION GROUP INC.

US$'000 except per share amounts	NOTE	THREE MONTHS ENDED 31 MARCH **2015**	 2014 (restated - note 2)
REVENUE	*7, 8*	**9,720**	13,477
Expenses			
Production and distribution expenses		**(1,356)**	(1,260)
Depletion expense		**(3,227)**	(3,563)
		5,137	8,654
General and administrative expenses		**(4,097)**	(3,819)
Net finance costs	*9*	**(1,827)**	(1,893)
(Loss)/income before tax		**(787)**	2,942
Income tax	*10*	**(890)**	(1,768)
Net (loss)/income		**(1,677)**	1,174
Foreign currency translation (loss) from foreign operations		**(14)**	(13)
Total comprehensive (loss)/income		**(1,691)**	1,161
(Loss)/earnings per share			
Basic and diluted	*17*	**(0.05)**	0.03
Weighted average shares outstanding (millions)			
Basic		**34.9**	34.8
Diluted		**34.9**	35.5

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	*NOTE*	AS AT **31 March 2015**	 31 December 2014
ASSETS			
Current Assets			
Cash and cash equivalents		**62,240**	57,659
Trade and other receivables	*12*	**23,028**	49,324
Tax recoverable	*10*	**11,314**	11,815
Prepayments		**922**	642
		97,504	119,440
Non-Current Assets			
Long-term trade receivable	*12*	**622**	634
Property, plant and equipment	*13*	**76,203**	78,418
		76,825	79,052
Total Assets		**174,329**	198,492
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	*14*	**54,039**	76,747
Tax payable	*10*	**8,595**	8,545
		62,634	85,292
Non-Current Liabilities			
Deferred income taxes	*10*	**6,907**	7,606
Deferred Additional Profits Tax	*11*	**29,844**	28,959
		36,751	36,565
Total Liabilities		**99,385**	121,857
Equity			
Capital stock	*16*	**85,637**	85,637
Contributed surplus		**6,356**	6,356
Accumulated other comprehensive loss		**(244)**	(230)
Accumulated (loss)/income		**(16,805)**	(15,128)
		74,944	76,635
Total Equity and Liabilities		**174,329**	198,492

See accompanying notes to the condensed consolidated Interim financial statements. Nature of Operations (Note 1); Restatement of previously issued condensed consolidated interim financial statements (Note 2); Contractual obligations and committed capital investment (Note 19); Contingencies (Note 20).
The unaudited condensed consolidated financial statements were approved by the Board of Directors on 29 May 2015.

Director

Director

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	NOTE	THREE MONTHS ENDED 31 MARCH 2015	2014 (restated - note 2)
NET CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss)/income		**(1,677)**	1,174
Adjustment for:			
Depletion and depreciation	13	**3,354**	3,715
Provision for doubtful debts	9	**–**	1,931
Stock-based compensation	16	**1,129**	277
Deferred income taxes	10	**(699)**	(1,666)
Deferred Additional Profits Tax	4,11	**885**	(279)
Interest expense	9	**–**	24
Unrealised foreign exchange loss		**720**	235
Funds flow from operating activities		**3,712**	5,411
Decrease/(increase) in trade and other receivables		**27,670**	(624)
Decrease in tax recoverable		**501**	442
Increase in prepayments		**(280)**	(431)
(Decrease)/increase in trade and other payables		**(24,290)**	7,890
Increase/(decrease) in tax payable		**50**	(387)
Decrease/(increase) in long-term receivable		**12**	(11,641)
Net cash flows from operating activities		**7,375**	660
CASH FLOWS USED IN INVESTING ACTIVITIES			
Property, plant and equipment expenditures	13	**(1,139)**	(483)
Net cash used in investing activities		**(1,139)**	(483)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Medium term loan		**–**	(1,659)
Interest paid	9	**–**	(24)
Net cash flow used in financing activities		**–**	(1,683)
Increase/(decrease) in cash		**6,236**	(1,506)
Cash at the beginning of the period		**57,659**	32,588
Effect of change in foreign exchange on cash in hand		**(1,655)**	(24)
Cash and cash equivalents at the end of the period		**62,240**	31,058

See accompanying notes to the unaudited condensed consolidated interim financial statements.

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

ORCA EXPLORATION GROUP INC.

US$'000	Capital stock	Contributed surplus	Cumulative Translation adjustment	Accumulated Loss	Total
Note	*16*				
Restated balance as at 1 January 2015	85,637	6,356	(230)	(15,128)	76,635
Foreign currency translation adjustment on foreign operations	–	–	(14)	–	(14)
Net loss	–	–	–	(1,677)	(1,677)
Balance as at 31 March 2015	**85,637**	**6,356**	**(244)**	**(16,805)**	**74,944**

US$'000	Capital stock	Contributed surplus	Cumulative Translation adjustment	Accumulated Income	Total
Balance as at 1 January 2014	85,428	6,482	(303)	23,173	114,780
Foreign currency translation adjustment on foreign operations	–	–	13	–	13
Net income	–	–	–	1,174	1,174
Restated balance as at 31 March 2014	85,428	6,482	(290)	24,347	115,967

See accompanying notes to the unaudited condensed consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

General Information

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

The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2015 comprise accounts of the Company and all its wholly owned subsidiaries (collectively, the "Company" or "Orca Exploration") and were authorised for issue in accordance with a resolution of the directors on 29 May 2015. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2014.

1 NATURE OF OPERATIONS

The Company'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 United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The gas in the Songo Songo field is divided between "Protected Gas" as defined and "Additional Gas" as defined. 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.

Songas utilizes the Protected Gas 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. The Company 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.

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

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the Ministry of Energy and Minerals ("MEM"). TANESCO is responsible for the generation, transmission and distribution of electricity throughout Tanzania. The Company currently supplies gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas which in turn generates and sells power to TANESCO. The state utility is the Company's largest customer and the gas supplied by the Company to TANESCO today fires approximately 60% of the electrical power generated in Tanzania. See Note 12 – Trade and Other Receivables.

In addition to gas supplied to Songas and TANESCO for the generation of power, the Company has developed and supplies an industrial gas market in the Dar es Salaam area consisting of some 39 industrial customers.

2 RESTATEMENT OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Orca has restated its condensed consolidated interim financial statements as at and for the three months ended 31 March 2014.

In the course of preparing the Company's consolidated financial statements for the year ended 31 December 2014, errors were discovered involving the computation of Tanzania income tax from 2005 through and to 30 September 2014. In addition, the Company corrected reported finance income and finance costs previously recognized on overdue trade receivables for 2013 and 2014. The restatement adjustments are described in the paragraphs following the tables below.

The following tables present the impact of the restatement adjustments on the Company's previously reported condensed consolidated interim financial statements of financial position as at and for the three months ended 31 March 2014. The "Restated" columns for 2014 reflect final adjusted balances after the restatement.

Effect on Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited)

	THREE MONTHS ENDED 31 MARCH 2014		
(US$'000 except per share amounts)	**As reported**	**Adjustment**	**Restated**
REVENUE	13,698	(221)	13,477
Expenses			
Production and distribution expenses	(1,260)	–	(1,260)
Depletion expense	(3,563)	–	(3,563)
	8,875	(221)	8,654
General and administrative expenses	(3,794)	(25)	(3,819)
Net Finance costs	(1,835)	(58)	(1,893)
Income before tax	**3,246**	**(304)**	**2,942**
Income tax	(1,660)	(108)	(1,768)
Net income	**1,586**	**(412)**	**1,174**
Foreign currency translation (loss) from foreign operations	(13)	–	(13)
Total comprehensive income	**1,573**	**(412)**	**1,161**
Earnings per share			
Basic	0.05	(0.02)	0.03
Diluted	0.04	(0.01)	0.03
Weighted average shares outstanding (millions)			
Basic	34.8	–	34.8
Diluted	35.5	–	35.5

Effect on Condensed Consolidated Interim Statement of Financial Position (Unaudited)

	AS AT 31 MARCH 2014		
US$'000	**As reported**	**Adjustment**	**Restated**
ASSETS			
Current Assets			
Cash and cash equivalents	31,058	–	31,058
Trade and other receivables	35,346	3,276	38,622
Tax recoverable	14,364	(3,940)	10,424
Prepayments	712	–	712
	81,480	(664)	80,816
Non-Current assets			
Long-term trade receivable	42,192	(3,276)	38,916
Exploration and evaluation assets	5,564	–	5,564
Property, plant and equipment	87,600	–	87,600
	135,356	(3,276)	132,080
Total Assets	216,836	(3,940)	212,896
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	61,681	915	62,596
Tax payable	739	5,791	6,530
	62,420	6,706	69,126
Non-Current Liabilities			
Deferred income taxes	11,165	(4,762)	6,403
Deferred Additional Profits Tax	21,400	–	21,400
	32,565	(4,762)	27,803
Total Liabilities	94,985	1,944	96,929
Equity			
Capital stock	85,428	–	85,428
Contributed surplus	6,482	–	6,482
Accumulated other comprehensive (loss)	(290)	–	(290)
Accumulated income	30,231	(5,884)	24,347
	121,851	(5,884)	115,967
Total Equity and Liabilities	216,836	(3,940)	212,896

Effect on Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

	THREE MONTHS ENDED 31 MARCH 2014		
US$'000	**As reported**	**Adjustment**	**Restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**1,586**	**(412)**	**1,174**
Adjustment for :			
Depletion and depreciation	3,715	–	3,715
Provision for doubtful debts	2,571	(640)	1,931
Stock-based compensation	277	–	277
Deferred income taxes	(967)	(699)	(1,666)
Deferred additional profits tax	(279)	–	(279)
Interest expense	24	–	24
Unrealised foreign exchange loss	177	58	235
Funds flow from operating activities	**7,104**	**(1,693)**	**5,411**
Increase in trade and other receivables	(624)	–	(624)
Decrease in tax recoverable	221	221	442
Increase in prepayments	(431)	–	(431)
Increase in trade and other payables	7,890	–	7,890
(Decrease)/Increase in taxation payable	(1,219)	832	(387)
(Increase)/decrease in long-term receivable	(12,281)	640	(11,641)
Net cash flows from operating activities	**660**	**–**	**660**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Property, plant and equipment expenditures	(483)	–	(483)
Net cash used in investing activities	**(483)**	**–**	**(483)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Medium term loan	(1,659)	–	(1,659)
Interest paid	(24)	–	(24)
Net cash flow used in financing activities	**(1,683)**	**–**	**(1,683)**
Decrease in cash and cash equivalents	(1,506)	–	(1,506)
Cash and cash equivalents at the beginning of the period	32,588	–	32,588
Effect of change in foreign exchange on cash in hand	(24)	–	(24)
Cash and cash equivalents at the end of the period	**31,058**	**–**	**31,058**

Effect on Accumulated Income (Unaudited)

	AS AT 31 MARCH 2014		
US$'000	**As reported**	**Adjustment**	**Restated**
ACCUMULATED INCOME			
Balance, beginning of period	28,645	(5,472)	23,173
Net income	1,586	(412)	1,174
Balance end of period	30,231	(5,884)	24,347

Net changes to prior periods

The following is a description of the matters corrected in the restatement adjustments.

Incorrect computation of Tanzania income tax

The Songo Songo PSA, which governs substantially all of the Company's business in Tanzania, provides a mechanism to keep the Company whole for income taxes paid in Tanzania. Pursuant to the PSA, the Company is reimbursed for all income tax payable on income derived from Petroleum Operations (as defined) by way of an "adjustment factor", under which the Company is allocated additional Profit Gas of a value equal to the taxes payable, thus reducing the allocation to the Company's partner in the field, the TPDC. The adjustment factor is determined by grossing up tax payable on the current year's profit, to the level necessary for the Company to remain neutral in the payment of income tax.

Computation of the adjustment factor, over a number of years, incorrectly included tax paid in respect of prior years' taxes in the gross up calculation instead of only including tax payable in relation to the current period profits. The net effect of which was to overstate reported revenue, deferred tax expense, net income and funds flow from operating activities, as well as tax recoverable and deferred income taxes payable.

In Tanzania, taxpayers are required to pay at least 80% of the estimated years' taxes in four quarterly instalments during the year, with a final tax payment for the balance owing to be made in the following year after completion of the financial statements. The PSA requires that taxable income for any year include the tax paid in respect of the previous year. The calculation of taxable income for any given year incorrectly included only the final payment for the previous year, rather than the sum of all of the five payments. This resulted in the understatement of taxable income.

The combined effect of these errors was an understatement of taxable income and a cumulative underpayment of tax from 2005 to 31 March 2014 of US$4.3 million, which the Company has reported and paid. The Tanzania Revenue Authority has the right to assess penalties and interest on overdue taxes, which if assessed could be up to US$1.5 million and would not be recoverable under the PSA. An estimate of these penalties and interest has been included in the restatement reflected in the periods for which they relate.

The cumulative impact of the income tax errors, including applicable penalties and interest, as at 31 March 2014 results in a decrease in accumulated income of US$5.2 million, a decrease in tax recoverable from TPDC of US$3.9 million, an increase in tax payable of US$5.8 million, a decrease in deferred income taxes payable of US$4.5 million.

Elimination of Finance Income and Finance Costs relating to TANESCO receivables

The Company is correcting reported finance income and finance costs previously recognized on overdue trade receivables for 2013 and 2014. Finance income and finance costs in the amount of US$0.6 million were eliminated in the three months ended 31 March 2014. As the finance income was fully provided for as finance cost, there is no impact on the net loss after tax, accounts receivable or cash flows from operating activities for the three months ended 31 March 2014. The Company determined that the recognition of finance income, reflecting interest on amounts overdue from TANESCO, coupled with a full provision of the same amount was in error, as collection was not probable.

Foreign exchange

The Company is correcting reported trade and other payables in relation to the calculation of foreign exchange on amounts due to TPDC whereby payments made to TPDC are required to be made in the currency collected for gas sales. The cumulative impact on the condensed consolidated interim financial statements to 31 March 2014 results in an increase in trade and other payables of US$ 0.9 million, a decrease in deferred income taxes of US$0.3 million and a decrease in accumulated income of US$0.6 million.

Cumulative impact of combined income tax, finance income and foreign exchange errors

The cumulative impact of the combined income tax, finance income and foreign exchange errors, including applicable penalties and interest, on the condensed consolidated interim financial statements to 31 March 2014 results in a decrease of revenue from US$13.7 million to US$13.5 million, a minor increase in general and administrative expenses and an increase in net finance costs from US$1.8 million to US$1.9 million, an increase in income tax expense from US$1.7 million to US$1.8 million, a decrease in net income from US$1.6 million to US$1.2 million, a decrease in tax recoverable from TPDC from US$14.4 million to US$10.4 million, an increase in trade and other payables from US$61.7 million to US$62.6 million, an increase in tax payable from US$0.7 million to US$6.5 million (including interest and penalties), a decrease in deferred income taxes from US$11.2 million to US$6.4 million, and a decrease in accumulated income from US$30.2 million to US$24.3 million.

3

BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared on a historical cost basis using the accrual basis of accounting, and are presented in US Dollars. They 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 during the period and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2014 Annual Report approved on 6 May 2015. There have been no changes in the basis of preparation for the three-month period as at and ended 31 March 2015.

4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are set forth in Note 4 to the audited financial statements for the year ended 31 December 2014. There have been no changes in accounting policies for the three-month period as at and ended 31 March 2015 and these policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

A) REVENUE RECOGNITION, PRODUCTION SHARING AGREEMENTS AND ROYALTIES

Pursuant to the terms of the PSA , the Company has exclusive rights to (i) to carry on Exploration Operations in the Songo Songo Gas Field; (ii) to carry on Development Operations in the Songo Songo Gas Field and (iii) jointly with Tanzania Petroleum Development Corporation ("TPDC"), a "parastatal entity" to sell or otherwise dispose of Additional Gas. Additional Gas is all the gas produced in excess of Protected Gas. Songas utilizes the Protected Gas (maximum 45.1 MMcfd on any given day, non-cumulative) as feedstock for its gas turbine electricity generators at Ubungo, for onward sale to the Wazo Hill cement plant and for electrification of certain villages along the pipeline route. The Company receives no revenue for the Protected Gas delivered to Songas.

The Company recognises revenue related to Additional Gas sales from the sale of gas to all customers, including both TANESCO and Songas, when title passes to the customer at fiscal gas meters which are installed at the respective customer's plant gate in Dar es Salaam. Under the terms of the PSA, the Company pays both its share and the parastatal's share of operating, administrative and capital costs. The Company recovers all reasonably incurred operating, administrative and capital costs including the parastatal's share of these costs from future revenues over several years ("Cost Gas"). The parastatal's share of operating and administrative costs, are recorded in operating and general and administrative costs when incurred and capital costs are recorded in 'Property, plant and equipment'. All recoveries are recorded as Cost Gas in the year of recovery.

The Company has a gas sales contract under which the customer is required to take, or pay for, a minimum quantity of gas. In the event that the customer has paid for gas that was not delivered, the additional income received by the Company is carried on the balance sheet as "deferred income". During the following three years, if the customer consumes volumes in excess of the minimum, it will be charged at the current rate, but may receive a credit for volumes paid but not delivered. At the end of each reporting period the Company reassesses the volumes for which the customer may receive credit, any remaining balance is credited to income.

In any given year, the Company is entitled to recover as Cost Gas up to 75% of the net revenue (gross revenue less processing and pipeline tariffs). Any net revenue in excess of the Cost Gas ("Profit Gas") is shared between the Company and TPDC in accordance with the terms of the PSA. Under the PSA the Company's share of Profit Gas is further increased by the amount necessary to fully pay and discharge any liability for taxes on income. Revenue represents the Company's share of Profit Gas and Cost Gas during the period.

Historically, TANESCO has paid outstanding quarterly balances in full subsequent to each quarter. The delays in payments from TANESCO first began in late 2011 as a result of TANESCO experiencing financial difficulties due to its dependence on high cost power generation based on liquid fuels following severe droughts in Tanzania. TANESCO's financial difficulties increased as a result being mandated by the Government under an Emergency Power Plan to provide additional power generation. Whilst the Company received assurances from the Government of Tanzania that it was arranging financing for TANESCO, the receivables continued to build to levels where it became apparent in 2013 that some time would be required for the ultimate payment of the arrears.

In Q2 2013 the Company reclassified all amounts of the TANESCO receivable in excess of 60 days in arrears as a long-term receivable. Having established a long-term receivable, the Company then estimated the discount to apply reflecting the estimated cost of the delay in timing of receipts. In parallel with the reclassification, the Company, through a series of meetings with TANESCO, reached an understanding with the state utility that the Company would continue to supply gas only if TANESCO remained current on payments for current gas deliveries, and any excess payments received over and above the current balances would be applied to the arrears balance.

In late 2013, the Company issued formal demands to TANESCO for payment, and in April 2014 issued a formal Notice of Dispute as a first step in the collection process set out in the PGSA.

In April 2014 and again in May, TANESCO advised the Company of its intention to make weekly payments of TZS 3 billion (approximately US$1.8 million) against ongoing deliveries of gas, and undertook to obtain outside financing and pay the balance of the arrears by the end of 2014. Weekly payments substantially ceased during Q4 and TANESCO failed to clear the arrears by year-end 2014. Following certain changes to senior officials within TANESCO and the Ministry of Energy and Minerals (which has statutory oversight of TANESCO), weekly payments resumed in Q1 2015. TANESCO has confirmed the understanding between the parties that payments would be applied firstly to pay for the current gas deliveries and that remaining amounts, if any, would be applied to the accumulated arrears. There is no assurance that consistent weekly payments will be made. See Note 12 – Trade and Other Receivables.

5 USE OF ESTIMATES AND JUDGEMENTS

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 materially 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 2014.

See Note 5 "Uses of Estimates and Judgements" of the audited financial statements for the year ended 31 December 2014 for a full discussion.

A) COLLECTABILITY OF RECEIVABLES

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. Both Songas and the Company have been impacted by TANESCO's inability to pay.

Notwithstanding the previous reclassification of TANESCO arrears as a long-term receivable and the subsequent provision against same (see Note 12 – Trade and Other Receivables), the Company and TANESCO continue to operate in accordance with the terms of the PGSA and in accordance with the understanding between the Company and TANESCO whereby natural gas continues to be delivered by the Company and TANESCO would pay for current deliveries on a current basis with payments to be applied firstly to pay for the current deliveries and excess amounts applied to accumulated arrears.

In April and in May 2014, TANESCO advised the Company of its intention to make weekly payments of TZS 3 billion (approximately US$1.8 million) against ongoing deliveries of gas, and undertook to obtain outside financing and pay the balance of the arrears by the end of 2014. Weekly payments substantially ceased during Q4 and TANESCO failed to clear the arrears by year-end 2014. Following certain changes to senior officials within TANESCO and MEM (which has statutory oversight of TANESCO), weekly payments resumed in Q1 2015. TANESCO has confirmed the understanding between the parties that payments would be applied firstly to pay for the current gas deliveries and that remaining amounts, if any, would be applied to the accumulated arrears. There is no assurance that consistent weekly payments will be made. See also Note 12 – Trade and Other Receivables.

6 RISK MANAGEMENT

The Company, by its activities in oil and gas exploration, development and production, is exposed to the risk associated with the unpredictable nature of the financial markets as well as political risk associated with conducting operations in an emerging market. The Company seeks to manage its exposure to these risks wherever possible. For a complete discussion of risks, please see Note 6 to the Company's audited financial statements for the year-ended 31 December 2014.

I) CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from TANESCO and Songas. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As of 31 March 2015 and 31 December 2014, other than the provisions against the long-term TANESCO receivable and gas plant operations charges receivable from Songas, the Company does not have an allowance for doubtful accounts against any other receivables nor was it required to write-off any receivables.

All of the Company's production is currently derived in Tanzania. The sales are made to the Power sector and the Industrial sector. In relation to sales to the Power sector, the Company has a contract with Songas for the supply of gas to the Ubungo power plant and a contract with TANESCO to supply approximately 37 MMcfd in Q1 2015 to fire 147 MW of TANESCO power generation. The contracts with Songas and TANESCO accounted for 60% of the Company's operating revenue during Q1 2015 and US$77.6 million of the short- and long-term receivables prior to provision at 31 March 2015. Songas itself is heavily reliant on the payment of capacity and energy charges by TANESCO for its liquidity.

TANESCO is in financial difficulty, which has resulted in irregular and inconsistent payments for gas deliveries, which has resulted in the provision for the entire amount of arrears due from TANESCO in the amount of US$52.2 million as at 31 December 2014. The provision remains unchanged at 31 March 2015.

Current TANESCO receivables as at 31 March 2015 amounted to US$4.1 million (31 December 2014 US$7.7 million). Since 31 March 2015 TANESCO has paid the Company US$6.6 million in respect of 2015 sales, and as at the date of this report the total TANESCO receivable is US$53.0 million (of which US$52.2 million is provided for).

Sales to the Industrial sector, currently 39 customers, are subject to an internal credit review to minimize the risk of non-payment. As of the date of this report, US$3.4 million of the US$5.3 million due from industrial customers at the quarter end has been collected, management expects to collect the balance during Q2.

II) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. The Company has US$54.0 million of financial liabilities with regards to trade and other payables of which US$46.4 million is due within one to three months, nil is due within three to six months, and US$7.6 million is due within six to twelve months. See Note 14 – Trade and Other Payables. As at 31 March 2015 the Company had a current tax liability of US$8.6 million, which after recent payments is US$5.2 million as at the date of this report.

As at 31 March 2015 a significant proportion of the current liabilities related to Songas and TPDC, though overall transactions between the Company and Songas resulted in a net receivable from Songas. Since 31 March 2015 Songas and the Company have settled outstanding tariff and gas sales invoices, leaving a net receivable from Songas in respect of the gas plant operations. The amounts due to TPDC represent a distribution of its share of Profit Gas; however given the difficulties in collecting from TANESCO, the Company has been settling and intends to continue to settle these amounts on a pro rata basis in accordance with amounts received from TANESCO. See Note 12 – Trade and Other Receivables.

7

SEGMENT INFORMATION

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

THREE MONTHS ENDED 31 MARCH

	2015			Restated (note 2) 2014		
US$'000	**Italy**	**Tanzania**	**Total**	**Italy**	**Tanzania**	**Total**
External Revenue	**–**	**9,720**	**9,720**	–	13,477	13,477
Segment Income	**–**	**1,677**	**1,677**	–	1,174	1,174
Non-cash charge [1]	**–**	**–**	**–**	–	1,931	1,931
Depletion & Depreciation	**–**	**3,354**	**3,354**	–	12,498	3,715
Capital Additions	**–**	**1,139**	**1,139**	–	483	483
Total Assets	**1,931**	**172,398**	**174,329**	226	212,670	212,896
Total Liabilities	**272**	**99,113**	**99,385**	216	96,713	96,929

(1) Non-cash charge represent amounts provided for doubtful accounts receivable from TANESCO and Songas.

8

REVENUE

THREE MONTHS ENDED 31 MARCH

US$'000	**2015**	Restated (note 2) 2014
Operating revenue	**9,606**	12,128
Current income tax adjustment	**999**	3,534
Additional Profits Tax (Note 11)	**(885)**	(2,185)
Revenue	**9,720**	13,477

The Company's total revenues for the quarter amounted to US$9,720 after adjusting the Company's operating revenue of US$9,606 by:

i) adding US$999 for income tax for the current 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. To account for this, revenue is adjusted to include the current income tax charge grossed up at 30% (see Note 10); and

ii) subtracting US$885 for deferred Additional Profits Tax charged in the quarter – this tax is considered a royalty and is presented as a reduction in revenue.

9 NET FINANCE COSTS

US$'000	THREE MONTHS ENDED 31 MARCH 2015	Restated (note 2) 2014
Interest charged on overdue trade receivables	**4**	7
Net foreign exchange gain	**–**	55
Finance income	**4**	62
Interest expense	**–**	(24)
Net foreign exchange loss	**(1,831)**	–
Provision for doubtful accounts	**–**	(1,931)
Finance costs	**(1,831)**	(1,955)
Net finance costs	**(1,827)**	(1,893)

During Q1 2015, the Company billed TANESCO US$0.6 million (Q1 2014: US$0.6 million) of interest for late payments. The interest income is not recorded in the financial statements because it does not meet IAS 18 revenue recognition criteria. The Company is pursuing collection and amounts will be recognised in earnings when collected.

10 INCOME TAXES

The tax charge is as follows:

US$'000	THREE MONTHS ENDED 31 MARCH 2015	Restated (note 2) 2014
Current tax	**1,589**	3,434
Deferred tax recovery	**(699)**	(1,666)
	890	1,768

A provisional tax payment of US$1.5 million (Q1 2014: US$4.0 million) was made in respect of the current quarter. This is presented as a reduction in tax payable on the balance sheet.

Tax Rate Reconciliation

US$'000	THREE MONTHS ENDED 31 MARCH 2015	Restated (note 2) 2014
(Loss)/income before taxation	**(787)**	2,942
Provision for income tax calculated at the statutory rate of 30%	**(236)**	883
Tax effect of non-deductible income tax items:		
Administrative and operating expenses	**439**	619
Tax penalties	**–**	8
Unrealised exchange loss	**136**	2
Stock-based compensation	**339**	83
Impact of not recognizing interest income (Note 9)	**167**	190
Other permanent differences	**45**	(17)
	890	1,768

The deferred income tax asset (liability) includes the following temporary differences:

US$'000	AS AT 31 March 2015	31 December 2014
Differences between tax base and carrying value of property, plant and equipment	**(15,532)**	(15,498)
Tax recoverable from TPDC	**(4,531)**	(5,116)
Discount on receivable and provision for doubtful debt	**2,945**	2,945
Deferred Additional Profits Tax	**8,953**	8,688
Unrealised exchange losses/other provisions	**1,258**	1,375
	(6,907)	(7,606)

Tax Recoverable

The Company has a "Tax Recoverable" balance of US$11.3 million as at 31 March 2015 (Q4 2014: US$11.8 million). This arises from the revenue sharing mechanism within the PSA, which entitles the Company to recover from TPDC, by way of a deduction from TPDC's Profit Gas share an amount, the "adjustment factor", equal to the actual income taxes payable by the Company. The recovery, by deduction from TPDC's share of revenue, is dependent upon payment of income taxes relating to prior period adjustment factors as they are assessed.

	AS AT	
US$'000	**31 March 2015**	31 December 2014
Tax Recoverable	**11,314**	11,815

11 ADDITIONAL PROFITS TAX

The Company provides for deferred Additional Profits Tax ("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 20.7% (Q1 2014: 22.9%) has been applied to Profit Gas of US$4.3 million for the quarter (Q1 2014: US$9.9 million). Accordingly, US$0.9 million (Q1 2014: US$2.2 million) has been netted off revenue for the quarter ended 31 March 2015.

12 TRADE AND OTHER RECEIVABLES

Current Receivables

US$'000	AS AT **31 March 2015**	31 December 2014
TANESCO	**4,093**	7,671
Songas	**1,104**	23,864
Other debtors	**5,314**	7,532
Trade receivables	**10,511**	39,067
Songas gas plant operations	**20,226**	19,300
Other receivables	**2,107**	773
Less provision for doubtful accounts	**(9,816)**	(9,816)
	23,028	49,324

	AS AT 31 MARCH 2015				
US$'000	**Current**	**>30 <60**	**>60 <90**	**>90**	**Total**
TANESCO	3,504	589	–	–	4,093
Songas	1,104	–	–	–	1,104
Other debtors	2,957	1,455	536	366	5,314
Trade receivables	7,565	2,044	536	366	10,511

	AS AT 31 DECEMBER 2014				
US$'000	**Current**	**>30 <60**	**>60 <90**	**>90**	**Total**
TANESCO	3,893	3,778	–	–	**7,671**
Songas	1,107	1,067	1,135	20,555	**23,864**
Other debtors	3,469	2,758	810	495	**7,532**
Trade receivables	8,469	7,603	1,945	21,050	**39,067**

TANESCO

At 31 March 2015, TANESCO owed the Company US$56.2 million excluding interest (of which arrears were US$52.2 million) compared to US$59.8 million (including arrears of US$52.2 million) as at 31 December 2014. During the quarter, the Company received a total of US$15.3 million (Q4 2014: US$1.8 million) from TANESCO against sales totaling US$11.7 million (Q4 2014: US$11.2 million). Current TANESCO receivables as at 31 March 2015 amounted to US$4.1 million (Q4 2014 US$7.7 million). Since the quarter end, TANESCO has paid the Company US$6.6 million, and as at the date of this report the total TANESCO receivable is US$53.0 million (of which US$52.2 million has been provided for). Whilst weekly payments against current deliveries have re-commenced, there is still no set schedule or repayment plan for TANESCO arrears agreed with the Company and payments continue to be irregular and unpredictable.

As a result of increased uncertainty with respect to the timing and amount of ultimate collection of amounts in arrears, the Company recorded a provision for doubtful accounts against the entire long-term receivable of US$52.2 million as at 31 December 2014 and as at 31 March 2015. Amounts collected with respect to the long-term receivable in the future will be reflected in earnings when payment is received. Notwithstanding this provision, the Company and TANESCO continue to operate in accordance with the terms of the Portfolio Gas Supply Agreement and in accordance with the understanding between the Company and TANESCO whereby natural gas continues to be delivered by the Company and TANESCO would pay for current deliveries on a current basis with payments to be applied firstly to pay for the current deliveries and any excess amount applied to accumulated arrears. This provision against the TANESCO long-term receivable will not prejudice the Company's rights to payment in full or its ability to pursue collection in accordance with the terms of the agreement with TANESCO.

Long-Term Receivables	AS AT	
US$'000	**31 March 2015**	31 December 2014
TANESCO receivable > 60 days	**52,154**	52,154
Provision for doubtful debts	**(52,154)**	(52,154)
Net TANESCO receivable	**–**	–
VAT bond	**369**	369
Lease deposit	**253**	265
Total long-term receivables	**622**	634

Songas

As at 31 March 2015, Songas owed the Company US$21.3 million (Q4 2014: US$43.2 million), whilst the Company owed Songas US$2.9 million (Q4 2014: US$30.4 million). There was no contractual right to offset these amounts at 31 March 2015. Amounts due to Songas primarily relate to pipeline tariff charges of US$1.0 million (Q4 2014: US$28.9 million), whereas the amounts due to the Company are mainly for sales of gas of US$1.1 million (Q4 2014: US$23.9 million) and for the operation of the gas plant for US$20.2 million (Q4 2014: US$19.3 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.

As at 31 March 2015 the net amount owed by Songas to the Company was US$18.4 million (Q4 2014: US$12.7 million). A provision for doubtful debts of US$9.8 million (Q4 2014: US$9.8 million) has been recognised against the gas plant operation receivable of US$20.2 million (Q4 2014: US$19.3 million). All amounts due to and from Songas have been summarized in the net Songas balance (see Note 14 – Trade and other Payables).

Management has reviewed the current provision of US$9.8 million (Q4 2014: US$9.8 million) against the outstanding gas plant operating charges and has decided to retain the provision pending further progress in resolving disputed charges. The provision will be released as and when the Company is able to collect the outstanding debt amounts. Any amounts not agreed will likely be pursued by the Company through the mechanisms provided in its agreements with Songas.

As at the date of this report during the current year, the Company has paid US$32.2 million in respect of outstanding tariff charges and has received US$27.1 million in settlement of outstanding gas sales invoices and US$5.7 million towards settlement of outstanding gas plant operations charges.

13 PROPERTY, PLANT AND EQUIPMENT

US$'000	Oil and natural gas interests	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2015	140,653	699	1,233	149	1,125	143,859
Additions	1,139	–	–	–	–	1,139
As at 31 March 2015	**141,792**	**699**	**1,233**	**149**	**1,125**	**144,998**
Depletion and Depreciation						
As at 1 January 2015	63,534	170	955	120	662	65,441
Depletion and depreciation	3,227	44	14	3	66	3,354
As at 31 March 2015	**66,761**	**214**	**969**	**123**	**728**	**68,795**
Net Book Values						
As at 31 March 2015	75,031	485	264	26	397	76,203
As at 31 December 2014	**77,119**	**529**	**278**	**29**	**463**	**78,418**

In determining the depletion charge, it is estimated that future development costs of US$251 million (31 December 2014: US$252 million) will be required to bring the total proved reserves to production. During the quarter the Company recorded depreciation of US$0.1 million (Q1 2014: US$0.2 million) in General and Administrative expenses.

14 TRADE AND OTHER PAYABLES

US$'000	AS AT 31 March 2015	AS AT 31 December 2014
Songas [(1)]	**1,007**	28,871
Other trade payables	**2,677**	1,961
Trade payables	**3,684**	30,832
TPDC share of Profit Gas	**38,350**	33,409
Deferred income	**2,780**	2,780
Accrued liabilities	**9,225**	9,726
	54,039	76,747

(1) A summary of all Songas balances is presented below. This shows the opening position, movements during the year and details of post year-end settlements made in cash by the Company and by Songas. See Note 12 – Trade and Other Receivables.

US$'000	01-Jan-15	Transactions in quarter	Payments and receipts in quarter	Gross balance 31 March 2015	Post quarter end Transactions	Post quarter end Payments and receipts	Outstanding as at the date of this report
Pipeline tariff - payable	**(28,871)**	(3,124)	30,988	**(1,007)**	(951)	1,191	**(767)**
Gas sales - receivable	**23,864**	3,197	(25,957)	**1,104**	928	(1,104)	**928**
Gas plant operation - receivable	**19,300**	1,946	(1,020)	**20,226**	412	(4,682)	**15,956**
Other payable	**(1,574)**	(365)	29	**(1,910)**	–	364	**(1,546)**
Net balances	**12,719**	1,654	4,040	**18,413**	389	(4,231)	**14,571**

15 BANK LOAN

The loan was fully paid by February 2014. Total payments during the three months ended 31 March 2014 were US$1.7 million.

16 CAPITAL STOCK

There were no changes to the authorised capital stock of the Company during the quarter. The capital stock of the Company is as follows:

	2015		
	Authorised	**Issued**	**Amount**
Number of Shares	*('000)*	*('000)*	*(US$'000)*
Class A			
As at 1 January 2015 and 31 March 2015	50,000	1,751	**983**
Class B			
As at 1 January 2015	100,000	33,164	**84,654**
Normal course issuer bid	–	–	**–**
As at 31 March 2015	100,000	33,164	**84,654**
First Preference			
As at 1 January 2015 and 31 March 2015	100,000	–	**–**
Total Class A, Class B and First Preference	250,000	34,915	**85,637**

All of the issued capital stock is fully paid.

Stock Options

Thousands of options or CDN$	**Options**	**Exercise Price**
Outstanding as at 1 January 2015	400	3.60
Outstanding as at 31 March 2015	400	3.60

The weighted average remaining life and weighted average exercise prices of options at 31 March 2015 were as follows:

Exercise Price (CDN$)	**Number Outstanding as at 31 March 2015 ('000)**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable as at 31 March 2015 ('000)**	**Weighted Average Exercise Price (CDN$)**
3.60	400	2.75	400	3.60

Thousands of stock appreciation rights ("SARs") or CDN$	**SARs**	**Exercise Price**
Outstanding as at 1 January 2015	2,910	2.12 to 4.20
Outstanding as at 31 March 2015	2,910	2.12 to 4.20

The weighted average remaining life and weighted average exercise prices of stock appreciation rights as at 31 March 2015 were as follows:

Exercise Price (CDN$)	**Number Outstanding as at 31 March 2015 ('000)**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable as at 31 March 2015 ('000)**	**Weighted Average Exercise Price (CDN$)**
2.12 to 4.20	2,910	3.17	1,152	2.79

Restricted Stock Units

Thousands of restricted stock units ("RSUs") or CDN$	Number of RSUs ('000)	Price
Outstanding as at 1 January 2015	645	0.01
Outstanding as at 31 March 2015	645	0.01

The RSUs are fully vested with a term of ten years. RSUs provides the grantee with the entitlement to receive on exercise of an RSU a cash payment equal to the value of a Class B Subordinate Voting Share at the time of exercise of the RSU less the "Restricted Unit Price".

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognised in trade and other payables. In the valuation of SARs and RSUs at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50% stock volatility of 44.3% to 61.5%; 0% dividend yield; 0% forfeiture; a closing stock price of CDN$3.55 per share.

	AS AT	
US$'000	**31 March 2015**	31 December 2014
SARs	**2,530**	1,766
RSUs	**1,978**	1,613
	4,508	3,379

As at 31 March 2015, a total accrued liability of US$4.5 million (Q4 2014: US$3.4 million) has been recognised in relation to SARs and RSUs and which is included in other payables. The Company recognised a charge in the quarter relating to stock based compensation of US$1.1 million (Q1 2014: US$0.3 million) in G&A expenses.

The increase in stock based compensation expense for the quarter over 31 December 2014 is the result of the share price increasing to CDN$3.55 (Q4 2014: CDN$2.90), with the increase in expense due to the share price partially offset by a 9% decline in the Canadian Dollar against the US Dollar during the period.

17 EARNINGS PER SHARE

	AS AT	
Number of shares ('000)	**31 March 2015**	31 March 2014
Weighted average number of shares outstanding		
Class A and Class B shares	**34,915**	34,823
Convertible securities		
Stock options	**–**	643
Weighted average diluted Class A and Class B shares	**34,915**	35,466

The calculation of basic (loss)/earnings per share is based on the net loss for the quarter of US$1.7 million (Q1 2014: net income restated US$1.2 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,915,610 (Q1 2014: 34,823,210).

In computing the diluted earnings per share, the effect of stock options is added to the weighted average number of common shares outstanding during the year. For Q1 2015 the effective number was nil (Q1 2014: 642,853) shares, resulting in a diluted weighted average number of Class A and Class B shares of 34,915,610 (Q1 2014: 35,466,063). No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

18 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.05 million (Q1 2014: US$0.04 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. 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 (Q1 2014 US$0.1 million) to this firm for services provided. As at 31 March 2015 the Company has a total of US$ nil (Q1 2014: US$0.1 million) recorded in trade and other payables in relation to the related parties.

19 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENTS

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 escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (132.1 Bcf as at 31 March 2015). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

Capital Commitments

Italy

No activity has occurred on the Adriatic Sea block offshore Italy during Q1 2015. The Elsa-2 appraisal well is now expected to be drilled in 2016 following finalisation of an environmental impact study. The Company will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed. As of the date of this report, there is no rig contract. There are no further capital commitments in Italy.

Tanzania – Songo Songo

Until such a time as the Company enters into a drilling contract for the Phase I development of Songo Songo, there are no capital commitments in Tanzania.

20 CONTINGENCIES

Contingencies as at 31 March 2015 are unchanged from those reported in the 2014 annual accounts.

However, on 28 May 2015 the Company was advised that its appeal to the Tax Revenue Appeals Board ("TRAB") in relation to an assessment for additional PAYE and penalties totaling US$0.6 million had been unsuccessful. This decision was not unexpected and the Company now intends to appeal to the Tax Revenue Appeals Tribunal ("TRAT"). Based on advice from Counsel the Company believes it has a good case and expects to successfully appeal to the TRAT.

With regard to disputed income tax assessments, the Company has also been informed that its initial appeal against an assessment of additional income tax relating to 2009, in the amount of US$2.3 million, will be heard by the TRAB on 8 June 2015. The Company, based on legal counsel's advice, believes it has strong support, on the basis of tax legislation and the terms of the PSA, for its objection to the additional tax. However, should the outcome be unfavourable the Company intends to pursue the matter with the TRAT and, if necessary, the Court of Appeal.

Corporate Information

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Chief Executive Officer

Queensway
Gibraltar

David W. Ross
Non-Executive Director

Calgary, Alberta
Canada

William H. Smith
Non-Executive Director

Calgary, Alberta
Canada

Robert S. Wynne
Chief Financial Officer

Calgary, Alberta
Canada

Officers

W. David Lyons
Chairman and
Chief Executive Officer

Queensway
Gibraltar

Robert S. Wynne
Chief Financial Officer

Calgary, Alberta
Canada

Stephen Huckerby
Chief Accounting Officer

St. Peters, Jersey
Channel Islands

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