ORCA EXPLORATION GROUP INC.

Q3

2015 Q3 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

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 and nine month period ended 30 September 2015.

Financial and Operating Highlights

(Expressed in US$'000 unless indicated otherwise)	THREE MONTHS ENDED 30 SEPTEMBER 2015	THREE MONTHS ENDED 30 SEPTEMBER Restated [1] 2014	NINE MONTHS ENDED 30 SEPTEMBER 2015	NINE MONTHS ENDED 30 SEPTEMBER Restated [1] 2014
Operating				
Daily average gas production *(MMcfd)*				
Protected Gas	**38.0**	35.9	**38.6**	35.8
Additional Gas	**46.4**	57.0	**46.7**	54.8
Industrial	**11.9**	14.2	**11.1**	12.9
Power	**34.5**	42.8	**35.6**	41.9
Total gas production	**84.4**	92.9	**85.2**	90.6
Average price *(US$/mcf)*				
Industrial	**7.70**	8.85	**7.57**	8.73
Power	**3.62**	3.60	**3.53**	3.58
Total	**4.66**	4.91	**4.48**	4.79
Operating netback *(US$/mcf)*	**2.67**	2.12	**2.40**	2.36
Financial				
Revenue	**15,943**	14,632	**38,216**	46,962
Funds flow from operating activities [2]	**9,462**	6,641	**18,063**	23,704
per share - basic and diluted *(US$)*	**0.27**	0.19	**0.52**	0.67
Net income	**6,112**	4	**8,001**	7,315
per share - basic and diluted *(US$)*	**0.18**	0.00	**0.23**	0.21
Working capital [3]	**39,660**	42,001	**39,660**	42,001
Cash	**49,540**	63,116	**49,540**	63,116
Capital expenditures	**8,275**	324	**13,871**	594
Outstanding shares *('000)*				
Class A	**1,751**	1,751	**1,751**	1,751
Class B	**33,106**	33,164	**33,106**	33,164
Total shares outstanding	**34,857**	34,915	**34,857**	34,915

[1] *2014 financial information has been restated. See MD&A "Restatement of Previously Issued Condensed Consolidated Interim Financial Statements."*

[2] *See MD&A – Non-GAAP Measures.*

[3] *Working capital as at 30 September 2015 includes a TANESCO receivable (excluding interest) of US$10.0 million (31 December 2014: US$7.7 million). The total of long- and short-term TANESCO receivables, including interest, as at 30 September 2015 was US$62.2 million. Management placed a doubtful debt provision against the long-term receivables in excess of 60 days totaling US$52.2 million as at 30 September 2015 and 31 December 2014. As at 30 September 2015, TANESCO was US$3.2 million overdue with payments for gas delivered in 2015, subsequent to the quarter end these arrears were settled. As at the date of this report TANESCO was up to date with payments for gas delivered in 2015 except for August gas deliveries of US$3.5 million. (see MD&A for more detail).*

Q3 2015 Operating Highlights

- Songo Songo field production of Protected Gas plus Additional Gas for Q3 2015 decreased 9% to an average of 84.4 million standard cubic feet per day ("MMcfd") compared to 92.9 MMcfd in Q3 2014; total production for the nine months ended 30 September 2015 decreased 6% to an average of 85.2 MMcfd compared to 90.6 MMcfd in the comparable prior year period. Additional Gas sales volumes averaged 46.4 MMcfd for Q3 2015, a decrease of 19% compared to 57.0 MMcfd for Q3 2014; Additional Gas sold in the nine months ended 30 September 2015 averaged 46.7 MMcfd and is down 15% compared to 54.8 MMcfd for the comparable prior year period. The reduction in Additional Gas sold is partly a consequence of declining well production capability, (being addressed by the current well workover programme) and partly due to reduced nominations by TANESCO.
- Q3 2015 power sector sales volumes decreased by 19% to 34.5 MMcfd compared to 42.8 MMcfd in Q3 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 was running using Additional Gas. Maximum gas production has decreased 6% to an average of 88 MMcfd in Q3 2015 compared to 94 MMcfd in Q3 2014. In accordance with the Portfolio Gas Supply Agreement ("PGSA") with TANESCO, a decrease in field gas production impacts on the volume supplied to the state utility.
- Q3 2015 industrial sales volumes decreased by 16% to 11.9 MMcfd compared to 14.2 MMcfd in Q3 2014. The decrease is primarily due to temporary intermittent reductions in natural gas consumption by a cement company in Dar es Salaam resulting from unscheduled maintenance and the cessation of gas consumption by a textile company at the end of its contract period. These reductions were partly offset by an increase in gas consumption by edible oil companies.
- Average gas prices were down 5% in Q3 2015 to US$4.66/mcf compared to US$4.91/mcf in Q3 2014, and down 6% to US$4.48 over the nine months ended 30 September 2015 compared to US$4.79/mcf for the comparable prior year period. Industrial gas prices were down 13% in Q3 2015 to US$7.70/mcf compared to US$8.85/mcf in Q3 2014. The decrease is primarily due to a change in sales mix, partially offset by annual price indexation. A 40% decline 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 increased 1% to US$3.62/mcf in Q3 2015 compared to US$3.60 in Q3 2014.

- Revenue for Q3 2015 was US$15.9 million, an increase of 9% compared to $14.6 million in Q3 2014. The increased revenue is the result of investment in the current workover programme which has increased Cost Gas resulting in a smaller Profit Gas allocation to TPDC. Revenue over the nine months ended 30 September 2015 decreased 19% to US$38.2 million compared to US$47.0 million for the comparable prior year period. Funds flow from operating activities in Q3 2015 was US$9.5 million or US$0.27 per share diluted, a 42% increase compared to US$6.6 million or US$0.19 per share in Q3 2014, primarily the result of higher revenue. Funds flow for the nine months ended 30 September 2015 was down 24% to US$18.1 million or US$0.52 per share compared to US$23.7 million or US$0.67 per share for the comparable prior year period primarily as a result of the 19% decrease in revenues.
- Net income for Q3 2015 was US$6.1 million or US$0.18 per share basic and diluted, as compared to income of US$4.0 thousand or US$0.00 per share basic and diluted in Q3 2014. Net income for the nine months ended 30 September 2015 was US$8.0 million or US$0.23 per share, as compared to income of US$7.3 million or US$0.21 per share for the comparable prior year period.
- Working capital as at 30 September 2015 decreased 6% to US$39.7 million compared to US$42.0 million as at 30 September 2014.
- During the quarter capital expenditures were US$8.3 million in relation to ongoing well workovers.
- In June 2015 the Company entered into a drilling contract with Paragon Offshore plc for the use of its M826 Mobile Drilling Workover Rig, as well the provision of associated services, in order to execute the offshore phase of the development programme for the Songo Songo gas field (the "Offshore Programme"). The Paragon M826 Mobile Drilling Workover Rig was selected to operate in the somewhat unique shallow water operating environment around Songo Songo Island. On 2 September 2015 the drilling programme commenced upon pre-loading being completed on the Company's first well location in Songo Songo.
- The Offshore Programme includes workovers on three existing wells (SS-5, SS-7 and SS-9) under the Operatorship Agreement with Songas to address the operational requirement to either restore or abandon the wells, and provide assurance of Protected Gas volumes to TPDC/Songas. As at the date of this report, workovers on wells SS-5, SS-7 and SS-9 were successfully completed. In addition, the Offshore Programme contemplates the drilling of one new well (SS-J). Total cost of the programme was originally estimated to be approximately US$120 million; however, given the workover results to date, the revised estimate is US$83 million.

- The US$1.2 billion government sponsored Tanzania National Natural Gas Infrastructure Project ("NNGIP") is substantially complete. Discussions between TPDC and the Company on commercial terms for future incremental gas sales resumed in October 2015. TPDC is currently working on a revised gas sales agreement with the Company to allow direct gas delivery to the NNGIP. Commercial terms remain a key condition to the Company's commitment to expanded Songo Songo development beyond the existing Songas infrastructure and to supply gas to the NNGIP.
- On 29 October 2015, the Company and IFC completed a debt financing agreement for the Company's operating subsidiary, PanAfrican Energy Tanzania Limited to borrow up to US$60 million. The financing is a subordinated, income participating loan with flexible repayment terms and a maximum tenor of approximately 10 years. Drawdowns of the facility are subject to a number of terms and conditions.
- During the third quarter of 2015, The Petroleum Act, 2015 (the "Act"), was passed into law by Presidential decree. The Act repeals earlier legislation, provides a regulatory framework over mid-stream and downstream gas activity, and as well consolidates and puts in place a single, effective and comprehensive legal framework for regulating the oil and gas industry in the country. The Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority (PURA). The mid and downstream petroleum as well as gas activities are proposed to be regulated by the current authority, the Energy and Water Utilities Regulatory Authority (EWURA).
- The Act also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in the petroleum operations as well as mid and downstream natural gas activities. The Act vests TPDC with exclusive rights in the entire petroleum upstream value chain and the natural gas mid and downstream value chain. However, the exclusive rights of the National Oil Company does not extend to mid and downstream petroleum supply operations. The Company believes the potential impact on its business in Tanzania will not be significant as the PSA was signed prior to passing of the new Act which specifically states that the new regulations govern contracts signed subsequent to the Act being approved.

Management's Discussion & Analysis

THIS MD&A OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 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 24 NOVEMBER 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: the full commissioning of the National Natural Gas Infrastructure Project which includes construction and commissioning of two gas processing facilities and a 505 kilometer pipeline supplying gas from the Mtwara Region of Tanzania to Dar es Salaam and a 28 kilometre pipeline supplying gas from Songo Songo to the mainland. ("NNGIP"); the level of financing available for drawdown under the International Finance Corporation ("IFC") financing agreement signed on 29 October 2015: completion of operations under the Offshore Programme which includes workovers on existing wells and drilling of new wells; the Company's estimated cost of completing the Offshore Programme, including the Company's estimated spending for the programme between 2015 and 2017; the potential impact of the Petroleum Act 2015 on the Company's business in Tanzania; the Company's belief that the parties to the unsigned Amended and Restated Gas Agreement ("ARGA") will continue to conduct themselves as though the ARGA is in full force and effect, and the Company's expectation that, despite the Re-Rating Agreement of the gas processing facility owned by Songas Limited ("Songas") having expired, the Songas gas processing plant will not be de-rated; the Company's expectation that if the Offshore Programme at Songo Songo is completed that it can expand the deliverability of the field to in excess of the existing Songas infrastructure; the Company's expectation that the SS-4 well may need to be suspended in the future; the forward-looking statements 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 following finalisation of an environmental impact study; and the Company's expectations in respect of its appeal of the decision of the Tax Revenue Appeals Tribunal and other statements under "Contingencies – Taxation". 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 the Company's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, and many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: failure to receive payments from the Tanzanian Electric Supply Company ("TANESCO"); risk that the NNGIP is not fully commissioned on the time frame anticipated; risk that the Tanzanian Production Development Corporation ("TPDC"), the Ministry of Energy and Minerals and the Company are unable to agree on commercial terms for future incremental gas sales and consequently the Company cannot expand the Songo Songo development beyond the existing Songas infrastructure and supply gas to the NNGIP; risk that additional gas volumes available to the NNGIP from third parties will replace all or a portion of the volumes currently nominated by TANESCO under the Portfolio Gas Sales Agreement ("PGSA") until additional gas-fired power generation is brought on-stream to consume all of the Company's available gas production; risk that additional external financing is not available to complete the Offshore Programme as planned; risk that the Offshore Programme is not completed as planned and the actual cost to undertake the Offshore Programme exceeds the Company's estimates; risk that the well workovers under the Offshore Programme are unsuccessful and determined to be infeasible; risk that the contingencies related to the development work for the full field development plan for Songo Songo are not satisfied; potential negative effect on the Company's rights under the Production Sharing Agreement ("PSA") and other agreements relating to its business in Tanzania as a result of the recently approved National Natural Gas Policy and the Petroleum Act, 2015, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risk that, without extending or replacing the Re-Rating Agreement, the gas processing plant may be re-rated back to its original capacity, resulting in a material reduction in the Company's sales volumes of Additional Gas; risk that Songas may dispute the amount of its share of capital expenditures associated with the workovers of SS-5 and SS-9 relating to the operatorship of the field and the assurance of Protected Gas volumes which may result in the Company funding all of the expenditures until the matter is resolved; risk that the Company will be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which the Company 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 contractual obligations. In addition there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but not limited to, that the NNGIP is fully commissioned; the TPDC, the Ministry of Energy and Minerals and the Company are able to agree on commercial terms for future incremental gas sales and the Company can expand Songo Songo development beyond the existing Songas infrastructure and supply gas to the NNGIP; that adequate external financing can be arranged so the Company can complete the Offshore Programme; the Offshore Programme will be completed within the timing anticipated; the estimated cost to undertake the Offshore Programme; 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 the Company to increase production at a consistent rate; infrastructure capacity; commodity prices will not further deteriorate significantly; the ability of the Company 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's appeal of various tax assessments will be successful; that the enactment of the Petroleum Act, 2015 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 the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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 PSA with TPDC and the Government of Tanzania in the United Republic of Tanzania. This PSA covers the exploration, development, production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The PSA defines gas from the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement (until July 2024) to 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 for onward sale to customers. 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").

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 the 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 45% 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 38 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 PGSA 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 30 September 2015, TANESCO owed the Company US$62.2 million excluding interest (of which arrears were US$55.3 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$4.0 million (Q3 2014: US$24.0 million) from TANESCO against sales totaling US$10.4 million (Q3 2014: US$14.2 million). Current TANESCO receivables as at 30 September 2015 amounted to US$10.1 million (31 December 2014: US$7.7 million). At 30 September 2015 TANESCO was US$3.2 million behind with payments for current gas deliveries in 2015. Since the quarter end, TANESCO has paid the Company US$3.2 million, and as at the date of this report the total TANESCO receivable is US$62.9 million (of which US$52.2 million has been provided for and US$3.5 million relates to August gas deliveries and is over 60 days in arrears). The payments from TANESCO continue to be erratic and unpredictable and there is still no set schedule or repayment plan for TANESCO arrears agreed with the Company. However during the nine months ended 30 September 2015 the Company has received US$29.6 million from TANESCO against sales totaling US$32.0 million.

As at 30 September 2015, Songas owed the Company US$22.4 million (31 December 2014: US$43.2 million), whilst the Company owed Songas US$2.5 million (31 December 2014: US$30.4 million). There was no contractual right to offset these amounts at 30 September 2015. Amounts due to Songas primarily relate to pipeline tariff charges payable of US$1.0 million (31 December 2014: US$28.9 million), whereas the amounts due to the Company are for sales of gas of US$3.3 million (31 December 2014: US$23.9 million), operation of the gas plant of US$13.3 million (31 December 2014: US$19.3 million), and in respect of workover operations US$5.9 million (31 December 2014: US$ nil). 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 30 September 2015 there was a net Songas receivable balance of US$19.9 million (31 December 2014: US$12.7 million). A provision for doubtful debts of US$9.8 million (31 December 2014: US$9.8 million) has been recognised against the gas plant operation receivable of US$13.3 million (31 December 2014: US$19.3 million). Songas has stated it does not believe US$5.9 million in respect of the workover operations on SS-5 and SS-9 to be payable, it is management's view that this sum is chargeable in accordance with the gas agreement and as such will ultimately be collected. All amounts due to and from Songas have been summarized in the net Songas balance (see Note 14 to the unaudited condensed consolidated interim financial statements).

Access to Songas processing and transportation

Whilst the Company operates the Songo Songo gas processing plant, Songas is the owner of plant and pipeline system which transports natural gas from Songo Songo to Dar es Salaam. The Company's ability to deliver gas to its customers in Dar es Salaam is dependent upon it having access to the Songas infrastructure. Although there are agreements with Songas to allow the Company to process and transport gas, there is no assurance that these rights could not be challenged or curtailed by Songas. The inability to access Songas plant and processing facilities would materially impair the Company's ability to realise revenue from natural gas sales.

As a result of the Ubungo power plant re-rating that occurred in 2011 pursuant to the Re-Rating Agreement, the capacity of the Songas gas processing plant was increased to a maximum of 110 MMcfd (restricted to 102 MMcfd because of pipeline and pressure requirements). The Re-Rating Agreement expired on 31 December 2012 and, although it was initially extended to 31 December 2013, no new agreement is currently in place.

Without the Re-Rating Agreement, the Songas gas processing plant capacity could be de-rated to 70 MMcfd (the capacity originally agreed to), which would result in a material reduction in the Company's sales volumes of Additional Gas.

Songo Songo Development Programme

On 15 June 2015, the Company announced that that it is proceeding with the first phase of the Songo Songo development programme (the "Offshore Programme") following World Bank board approval of the International Finance Corporation ("IFC") financing. On 29 October 2015, the Company and IFC completed the financing of up to US$60 million in the Company's operating subsidiary, PanAfrican Energy Tanzania Limited. The investment is a subordinated, income participating loan with flexible repayment terms and a maximum tenor of approximately 10 years. Drawdowns of the facility are subject to a number of terms and conditions.

Subsequent to the approval of the IFC financing, the Company entered into a drilling contract with Paragon Offshore plc for the use of its M826 Mobile Drilling Workover Rig, as well the provision of associated services, in order to execute the offshore phase of the development programme for the Songo Songo gas field. The Paragon M826 Mobile Drilling Workover Rig was selected to operate in the somewhat unique shallow water operating environment around Songo Songo Island. On 2 September 2015 the drilling programme commenced upon pre-loading being completed on the Company's first well location in Songo Songo.

Operations are planned to include workovers (being the removal and replacement of production tubing strings) on three existing wells (SS-5, SS-7 and SS-9) under the Operatorship Agreement with Songas to address the operational requirement to either restore or abandon the wells, and provide assurance of Protected Gas volumes to TPDC/Songas. In addition, the Offshore Programme contemplates the drilling of one new well (SS-J). As at the date of this report, workovers on wells SS-5, SS-7 and SS-9 were successfully completed. Whilst the Company has sufficient cash to fund the minimum rig commitment, it does require external financing to undertake the entire programme as planned. Total cost of the programme was originally estimated to be approximately US$120 million, however given the workover results to date, the revised estimate is US$83 million. Drilling and workover operations are subject to risk and there is no assurance that the Offshore Programme can be completed as planned and at the estimated cost. Under the Operatorship Agreement between the Company and Songas, the Company operates the Songo Songo field and Songas gas processing plant on a 'no gain no loss' basis.

The Petroleum Act, 2015

During the third quarter of 2015, The Petroleum Act, 2015 ("Act"), was passed into law by Presidential decree. The Act repeals earlier legislation, provides a regulatory framework over mid-stream and downstream gas activity, and as well consolidates and puts in place a single, effective and comprehensive legal framework for regulating the oil and gas industry in the country. The Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory (PURA). The mid and downstream petroleum as well as gas activities are proposed to be regulated by the current authority, the Energy and Water Utilities Regulatory Authority (EWURA).

The Act also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in the petroleum operations as well as mid and downstream natural gas activities. The Act vests TPDC with exclusive rights in the entire petroleum upstream value chain and the natural gas mid and downstream value chain. However, the exclusive rights of the National Oil Company does not extend to mid and downstream petroleum supply operations. The Company believes the potential impact on its business in Tanzania will not be significant as the PSA was signed prior to passing of the new Act which specifically states that the new regulations govern contracts signed subsequent to the Act being approved.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's unaudited 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 unaudited 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 subsequent provision against same (see Note 12 to the unaudited condensed consolidated interim financial statements), 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.

Prior to 2011, TANESCO paid outstanding quarterly balances in full subsequent to each quarter. The delays in payments from TANESCO 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. 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. As a result, the Company reclassified the arrears to a long-term receivable.

In April 2014 the Company issued a formal Notice of Dispute as a first step in the collection process set out in the PGSA. Subsequent to the Notice of Dispute, TANESCO advised the Company of its intention to make weekly payments of TZS 3 billion (approximately US$1.4 million at current exchange rates) against ongoing deliveries of gas, and undertook to obtain outside financing and pay the balance of the arrears. To date, TANESCO has been unable to successfully clear the arrears and weekly payments have been erratic but generally sufficient to pay for current deliveries. As at 30 September 2015 US$3.2 million of 2015 sales to TANESCO was in excess of 60 days, this was settled subsequent to the quarter end. As at the date of this report US$3.5 million of 2015 sales to TANESCO was in excess of 60 days. The amount remains classified in current receivables as the Company expects these amounts will be received during the fourth quarter of 2015.

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 and nine months ended 30 September 2015

SUMMARY

The Company recorded income for the quarter of US$6.1 million (Q3 2014: US$ nil) and US$8.0 million (Q3 2014: US$7.3 million) for the nine months ended 30 September 2015. Several factors contributed to these results. Total Protected and Additional Gas production averaged 84.4 MMcfd, down 9% from Q3 2014 (92.9MMcfd). Protected Gas volumes were up 6% at 38.0 MMcfd (Q3 2014: 35.9 MMcfd), whereas sales of Additional Gas for the quarter averaged 46.4 MMcfd, down 19% from Q3 2014 (57.0 MMcfd), and well below the 50 MMcfd threshold that entitles the Company to a 55% share of Profit Gas revenues. The Company has now received, in line with the PSA, a volume linked 40% share of Profit Gas revenues for the fourth successive quarter compared with 55% for the first nine months of 2014.

In monetary terms revenue for the quarter increased 9% to US$15.9 million compared to Q3 2014 (US$14.6 million). Revenue over the nine months ended 30 September 2015 decreased 19% to US$38.2 million compared to US$47.0 million for the comparable prior year period. Funds flow from operating activities was US$9.5 million, up 42% over Q3 2014 US$6.6 million, and US$18.1 million for the nine months, down 24% over the prior year nine month period (Q3 2014: US$23.7 million) reflecting both the reduction in revenue and share of Profit Gas.

Having made only one payment during Q4 2014, TANESCO resumed payments in Q1 2015 which continued, albeit erratically, on into Q3 2015. As at 30 September 2015 TANESCO was US$3.2 million overdue with respect to gas supplied by the Company during the nine months ending on that date. These amounts were cleared subsequent to the quarter end. The US$52.2 million impairment against the long-term TANESCO receivable charged in Q4 2014 remains unchanged, as does the US$9.8 million provision for doubtful accounts against the Songas operatorship receivable.

RESTATEMENT OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Orca has restated its condensed consolidated interim financial statements as at and for the three and nine months ended 30 September 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 and nine months ended 30 September 2014. The "Restated" columns for 2014 reflect final adjusted balances after the restatement.

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

	THREE MONTHS ENDED 30 SEPTEMBER 2014			NINE MONTHS ENDED 30 SEPTEMBER 2014		
(US$'000)	As reported	Adjustment	Restated	As reported	Adjustment	Restated
Revenue	14,852	(220)	14,632	47,624	(662)	46,962
Expenses						
Production and distribution	(1,179)	–	(1,179)	(3,825)	–	(3,825)
Depletion	(3,653)	–	(3,653)	(10,430)	–	(10,430)
	10,020	(220)	9,800	33,369	(662)	32,707
General and administrative	(7,475)	(25)	(7,500)	(14,626)	(75)	(14,701)
Net finance income/(costs)	170	(60)	110	(2,395)	(178)	(2,573)
Income before tax	2,715	(305)	2,410	16,348	(915)	15,433
Income tax	(2,352)	(54)	(2,406)	(7,872)	(246)	(8,118)
Net income	363	(359)	4	8,476	(1,161)	7,315
Foreign currency translation (loss)/gain from foreign operations	(111)	–	(111)	52	–	52
Total comprehensive income/(loss) for the period	252	(359)	(107)	8,528	(1,161)	7,367
Earnings per share *(US$)*						
Basic and diluted	0.01	(0.01)	0.00	0.24	(0.03)	0.21
Weighted average shares outstanding *(millions)*						
Basic and diluted	34.9	–	34.9	34.8	–	34.8

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

US$'000	AS AT 30 SEPTEMBER 2014 As reported	Adjustment	Restated
Assets			
Current assets			
Cash and cash equivalents	63,116	–	63,116
Trade and other receivables	44,232	4,297	48,529
Tax recoverable	15,975	(4,381)	11,594
Prepayments	512	–	512
	123,835	(84)	123,751
Non-current assets			
Long-term trade receivable	27,920	(4,297)	23,623
Exploration and evaluation assets	5,564	–	5,564
Property, plant and equipment	80,519	–	80,519
	114,003	(4,297)	109,706
Total assets	237,838	(4,381)	233,457
Equity and liabilities			
Current liabilities			
Trade and other payables	74,217	1,035	75,252
Tax payable	–	7,591	7,591
	74,217	8,626	82,843
Non-current liabilities			
Deferred income taxes	12,313	(6,374)	5,939
Deferred Additional Profits Tax	22,436	–	22,436
	34,749	(6,374)	28,375
Total liabilities	108,966	2,252	111,218
Equity			
Capital stock	85,663	–	85,663
Contributed surplus	6,339	–	6,339
Accumulated other comprehensive loss	(251)	–	(251)
Accumulated income	37,121	(6,633)	30,488
	128,872	(6,633)	122,239
Total equity and liabilities	237,838	(4,381)	233,457

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

	THREE MONTHS ENDED 30 SEPTEMBER 2014			NINE MONTHS ENDED 30 SEPTEMBER 2014		
US$'000	As reported	Adjustment	Restated	As reported	Adjustment	Restated
Cash flows from operating activities						
Net income/(loss)	363	(359)	4	8,476	(1,161)	7,315
Adjustment for:						
Depletion and depreciation	3,811	–	3,811	10,900	–	10,900
Provision for doubtful debts	459	(459)	–	3,665	(1,661)	2,004
Loss on disposal of fixture fittings	–	–	–	7	–	7
Stock-based compensation	4,221	–	4,221	4,583	–	4,583
Deferred income taxes	21	(889)	(868)	182	(2,311)	(2,129)
Deferred Additional Profits Tax	(120)	–	(120)	757	–	757
Interest expense	–	–	–	24	–	24
Unrealised foreign exchange (gain)/loss	(467)	60	(407)	65	178	243
Funds flow from operating activities	8,288	(1,647)	6,641	28,659	(4,955)	23,704
Increase in trade and other receivables	(3,172)	–	(3,172)	(10,032)	–	(10,032)
(Increase)/decrease in tax recoverable	(1,020)	220	(800)	(1,391)	662	(729)
Decrease/(increase) in prepayments	64	–	64	(231)	–	(231)
Increase in trade and other payables	11,442	–	11,442	14,955	–	14,955
(Decrease)/increase in tax payable	(185)	968	783	(1,958)	2,632	674
Decrease in long-term receivable	8,660	459	9,119	1,991	1,661	3,652
Net cash flows from operating activities	24,077	–	24,077	31,993	–	31,993
Cash flows used in investing activities						
Property, plant and equipment expenditures	(324)	–	(324)	(594)	–	(594)
Net cash used in investing activities	(324)	–	(324)	(594)	–	(594)
Cash flows used in financing activities						
Bank loan	–	–	–	(1,659)	–	(1,659)
Interest paid	–	–	–	(24)	–	(24)
Proceeds from exercise of options	92	–	92	92	–	92
Net cash flow from/(used in) financing activities	92	–	92	(1,591)	–	(1,591)
Increase in cash	23,845	–	23,845	29,808	–	29,808
Cash and cash equivalents at the beginning of the period	38,694	–	38,694	32,588	–	32,588
Effect of change in foreign exchange on cash	577	–	577	720	–	720
Cash and cash equivalents at the end of the period	63,116	–	63,116	63,116	–	63,116

Effect on Accumulated Income (unaudited)

US$'000	AS AT 30 SEPTEMBER 2014 As reported	Adjustment	Restated
Accumulated income			
Balance, beginning of period	28,645	(5,472)	23,173
Net income	8,476	(1,161)	7,315
Balance, end of period	37,121	(6,633)	30,488

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, 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 30 September 2014 of US$6.0 million, which the Company has reported and paid. The Tanzania Revenue Authority ("TRA") has raised an assessment for associated penalties and interest on overdue taxes. The calculation of these penalties is currently under discussion with TRA, but is not expected to exceed the initial estimate of US$1.6 million; these will not be recoverable under the PSA. The estimated penalties and interest have been included in the restatement reflected in the periods to which they relate.

The cumulative impact of the income tax errors, including applicable penalties and interest, as at 30 September 2014 results in a decrease in accumulated income of US$5.9 million, a decrease in tax recoverable from TPDC of US$4.4 million, an increase in tax payable of US$7.6 million, a decrease in deferred income taxes payable of US$6.0 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. Finance income and finance costs to the amount of US$0.5 million were eliminated for the three months ended 30 September 2014 and US$1.7 million for the nine months ending 30 September 2014.

As the finance income was fully provided for as finance costs, there is no impact on the net loss after tax, accounts receivable or cash flows from operating activities for either the three or nine months ended 30 September 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 30 September 2014 results in an increase in trade and other payables of US$1.0 million, a decrease in deferred income taxes of US$0.3 million and a decrease in accumulated income of US$0.7 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 30 September 2014 resulted in no significant impact on revenue, general and administrative expenses, finance costs or income tax expense. There was a decrease in net income from US$8.5 million to US$7.3 million, a decrease in tax recoverable from TPDC from US$16.0 million to US$11.6 million, an increase in trade and other payables from US$74.2 million to US$75.3 million, an increase in tax payable from US$ nil to US$7.6 million (including interest and penalties), a decrease in deferred income taxes from US$12.3 million to US$5.9 million, and a decrease in accumulated income from US$37.1 million to US$30.5 million.

OPERATING VOLUMES

The total production volume of Protected Gas and Additional Gas for the quarter ended 30 September 2015 was 7,769 MMcf (Q3 2014: 8,545 MMcf) or 84.4 MMcfd (Q3 2014: 92.9 MMcfd), net of approximately 0.1 MMcfd consumed locally for fuel gas. The Additional Gas sales volumes for the quarter were 4,264 MMcf (Q3 2014: 5,239 MMcf) or average daily volumes of 46.4 MMcfd (Q3 2014: 57.0 MMcfd). This represents a decrease in average daily volumes of 19% over the prior year.

The reduction in Additional Gas volumes for Q3 2015 over the prior year period is partly a consequence of declining well production capability and partly due to reduced nominations by TANESCO.

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

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
	2015	2014	**2015**	2014
Gross sales volume *(MMcf)*				
Industrial sector	**1,091**	1,304	**3,031**	3,514
Power sector	**3,173**	3,935	**9,708**	11,446
Total volumes	**4,264**	5,239	**12,739**	14,960
Gross average daily sales volume *(MMcfd)*				
Industrial sector	**11.9**	14.2	**11.1**	12.9
Power sector	**34.5**	42.8	**35.6**	41.9
Total daily sales volume	**46.4**	57.0	**46.7**	54.8

Industrial sector

Current quarter Industrial sales volume decreased by 16% to 1,091 MMcf (11.9 MMcfd) from 1,304 MMcf (14.2 MMcfd) in Q3 2014. The decrease is primarily due to a reduction in natural gas consumption by a cement company in Dar es Salaam resulting from unscheduled maintenance and the cessation of gas consumption by a textile company at the end of its contract period. These reductions were partly offset by an increase in gas consumption by edible oil companies.

In the first nine months of 2015 Industrial sales decreased by 14% to 3,031 MMcf (11.1 MMcfd) from 3,514 MMcf (12.9 MMcfd) for the same period in 2014. The decrease is primarily due to unscheduled maintenance work by some major Industrial customers in the first nine months of 2015 and the expiry of a gas sales agreement with a textile company in Q3 2015.

Power sector

Current quarter Power sector sales volumes decreased by 19% to 3,173 MMcf (34.5 MMcfd), compared to 3,935 MMcf (42.8 MMcfd) in Q3 2014 as a result of a decrease in production from the Songo Songo field due to infrastructure constraints and TANESCO's decision not to renew a power generation contract with an emergency power plant. Maximum gas production has decreased from 95 MMcfd in Q3 2014 to 86 MMcfd in Q3 2015. In accordance with the PGSA with TANESCO, a decrease in field gas production impacts on the volumes available to the state utility.

Sales volumes to the Power sector in the first nine months of 2015 decreased by 15% to 9,708 MMcf (35.6 MMcfd) from 11,446 MMcf (41.9 MMcfd) for the same period in 2014 due to a fall in production from the field and TANESCO's decision not to renew a power generation contract with an emergency power plant that was consuming Additional Gas. 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 are conducting themselves as though the ARGA is in full force and effect.

SONGO SONGO DELIVERABILITY

As at 30 September 2015, the Company had a field productive capacity of approximately 80 MMcfd, with the expansion of production volumes limited to 102 MMcfd by the available Songas infrastructure. Production wells SS-3 and SS-5 remained suspended during the quarter pending workovers. Well SS-4 continues to be monitored and may have to be suspended in the future. A workover on well SS-9 was successfully completed towards the end of the quarter and the well commenced production subsequent to quarter end at the rate of 34 MMcfd. The full production capacity of the well will be known after production tests of the well. In October 2015, the Company completed the workover on SS-5 well and preliminary tests indicate the well will flow in excess of 30 MMcfd. Based on the workover results to date, the deliverability of the field is now in excess of the existing Songas infrastructure. 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:

US$/mcf	THREE MONTHS ENDED 30 SEPTEMBER 2015	2014	NINE MONTHS ENDED 30 SEPTEMBER 2015	2014
Average sales price				
Industrial sector (1)	**7.67**	8.85	**7.56**	8.73
Power sector	**3.62**	3.60	**3.53**	3.58
Weighted average price	**4.66**	4.91	**4.48**	4.79

(1) In Q3 2015 the Company recognized income of US$1.4 million (Q3 2014: US$1.2 million), and for the nine months to 30 September 2015 US$1.4 million (2014: US$3.3 million), deferred under a take-or-pay provision in an Industrial contract. Under the terms of the contract the customer has three years in which to utilise the deferred income, after which it is released to revenue. These amounts have been deducted from revenue in calculating the average sales prices achieved in the quarter and the nine months ended 30 September 2015.

Industrial sector

The average Industrial gas price for the quarter was US$7.67/mcf down 13% from Q3 2014 (US$8.85/mcf). Whilst the majority of Industrial contract prices are tied to Heavy Fuel Oil ("HFO") prices, the contracts incorporate price floors and ceilings, both of which are increased 2% in January each year. Accordingly, the 40% decline in average HFO prices from Q3 2014 to Q3 2015 was largely mitigated by price floors. The decrease over the same period for the prior year is primarily due to change in sales mix that offset the impact of annual indexation and an increase in the proportion of lower priced sales volumes in the total Industrial sales mix as a consequence of plant maintenance work. The average price in the first nine months of 2015 was US$7.56/mcf down 13% from US$8.73/mcf for the same period in 2014.

Power sector

The average sales price to the Power sector was US$3.62/mcf for the quarter, up 1% compared with US$3.60/mcf in the prior year period. The increases are the result of annual price indexation which is applied in July each year, and reduced sales to the Power sector which in turn reduced the amount of sales subject to an escalated well head price in accordance with the terms of the PGSA. Higher volumes in Q3 2014 resulted in a large proportion of gas being sold at these premium prices. The average price to the Power sector for the first nine months of 2015 was US$3.53/mcf is down by 1% compared with US$3.58/mcf for the same period in 2014. A reduction in the sales volume subject to the escalated well head price effectively offset an increase associated with the annual price indexation.

OPERATING REVENUE

The Additional Gas sales volumes for the Q3 2015 were 46.4 MMcfd (Q3 2014: 57.0 MMcfd), less than the 50 MMcfd threshold entitling the Company to a 55% share of Profit Gas revenue (net of Cost Gas recoveries from revenue). The Company's share of Profit Gas has now been at 40% for the last four quarters.

Overall the Company's share of net revenue in Q3 2015 was 75.1% (Q3 2014: 60.3%) as a result of increased Cost Gas due to the level of capital expenditure, leading to a reduced level of Profit Gas to be shared with TPDC. The allocation of revenue to the Company may be analysed as follows:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014	**2015**	2014
Gross sales revenue	**21,315**	26,898	**58,597**	74,965
Gross tariff for processing plant and pipeline infrastructure	**(2,930)**	(3,680)	**(9,053)**	(10,521)
Gross revenue after tariff ("net revenues")	**18,385**	23,218	**49,544**	64,444
Analysed as to:				
Company Cost Gas	**10,748**	2,751	**25,145**	8,994
Company Profit Gas	**3,055**	11,256	**9,760**	30,498
Cost pool adjustment	**–**	–	**–**	2,994
Company operating revenue	**13,803**	14,007	**34,905**	42,486
TPDC share of revenue	**4,582**	9,211	**14,639**	21,958
	18,385	23,218	**49,544**	64,444

The Company's total revenues for the quarter, and the nine months ended 30 September 2015, amounted to US$15.9 million and US$38.2 million respectively, after adjusting the Company's operating revenues of US$13.8 million and US$34.9 million by:

i) adding US$2.7 million for income tax for the current period and US$5.3 million for the nine months. 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$0.6 million and US$2.0 million for deferred Additional Profits Tax charged in the quarter and for the nine months – this tax is considered a royalty and is presented as a reduction in revenue.

2014 Cost pool adjustment

The following table shows the impact on the Company's 2014 operating revenue of adjusting the cost pool during that period. The net amount was recovered from TPDC's share of revenue for the quarter as follows:

US$'000	Q3 2014
Non-recoverable costs	(1,024)
Recoverable costs 2011-2013	7,360
Cost Gas recorded in the period	6,336
Reduction in Profit Gas in the period	(3,342)
Net impact on Company share of operating revenue	2,994

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

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014 – *Restated*	**2015**	2014 – *Restated*
Industrial sector	**9,845**	12,737	**24,370**	33,938
Power sector	**11,470**	14,161	**34,227**	41,027
Gross sales revenue	**21,315**	26,898	**58,597**	74,965
Processing and transportation tariff	**(2,930)**	(3,680)	**(9,053)**	(10,521)
TPDC share of revenue	**(4,582)**	(9,211)	**(14,639)**	(21,958)
Company operating revenue	**13,803**	14,007	**34,905**	42,486
Additional Profits Tax charge	**(593)**	(2,510)	**(2,020)**	(5,851)
Current income tax adjustment	**2,733**	3,135	**5,331**	10,327
Revenue	**15,943**	14,632	**38,216**	46,962

The 1% decrease in the Company's operating revenue in Q3 2015 compared to Q3 2014 is the result of several factors. A 19% decrease in sales volumes and a 5% decrease in weighted average gas prices have contributed to an overall 21% decrease in gross sales revenue. At the same time TPDC's share of revenue decreased 50% to US$4.6 million (Q3 2014: US$9.2 million) as a result of increased Cost Gas recoveries during Q3 2015; the result of capital expenditure associated with the workover and drilling programme.

The Company's operating revenue for the nine months ended 30 September 2015 is down 18%, primarily as a result of 15% decrease in total volumes sold in Q3 2015 compared with the same period last year and a 6% decrease in weighted average gas prices. The impact of the decline in volumes and prices on operating revenue was to an extent mitigated by a 33% decrease in TPDC share of revenue to US$14.6 million from US$22.0 million during the same period in previous year as a result of increased Cost Gas recoveries in 2015.

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 65% reduction in APT for the nine months ended 30 September 2015, compared with the same period in 2014, 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 Q3 2015 charge relating to the additional tariff was US$0.4million (Q3 2014: US$0.6 million), the charge for the nine months was US$1.3 million (2014: US$2.3 million). The additional tariff decreased by 33% in Q3 2015 compared with the same quarter last year as a result of decreased sales volumes in excess of 90 MMcfd.

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$61 thousand (Q3 2014: US$125 thousand). The amount allocated for Additional Gas was US$43 thousand (Q3 2014: US$79 thousand).

The other field and operating costs of US$440 thousand (Q3 2014: US$485 thousand) 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. The relative decline in share of well maintenance and other field operating costs for the nine months ending 30 September 2015 compared to the prior period in 2014 is the consequence of the cost associated with engineering and preparation of work-over plans for the SS-5 and SS-9 wells being expensed in the first half of 2014.

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$459 thousand (Q3 2014: US$615 thousand) for the quarter. These production and distribution costs are summarized in the table below:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014	**2015**	2014
Share of well maintenance	**43**	79	**186**	519
Other field and operating costs	**440**	485	**1,343**	1,586
	483	564	**1,529**	2,105
Ringmain distribution costs	**459**	615	**1,412**	1,720
Production and distribution expenses	**942**	1,179	**2,941**	3,825

OPERATING NETBACKS

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

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$/mcf	**2015**	2014	**2015**	2014
Gas price – Industrial	**7.70**	8.85	**7.57**	8.73
Gas price – Power	**3.62**	3.60	**3.53**	3.58
Weighted average price for gas	**4.66**	4.91	**4.49**	4.79
Tariff	**(0.69)**	(0.70)	**(0.71)**	(0.70)
TPDC share of revenue	**(1.08)**	(1.76)	**(1.15)**	(1.47)
Net selling price	**2.89**	2.45	**2.63**	2.62
Well maintenance and other operating costs	**(0.11)**	(0.11)	**(0.12)**	(0.14)
Distribution costs	**(0.11)**	(0.12)	**(0.11)**	(0.12)
Operating netback	**2.67**	2.22	**2.40**	2.36

The operating netback increased by 19% from US$2.22/mcf in Q3 2014 to US$2.67/mcf in Q3 2015. This was the result of a 5% decrease in the weighted average gas price offset by a small decrease in well maintenance and other operating costs and a 38% decrease in the TPDC share of revenue per mcf.

The 5% decrease in the weighted average selling price to US$4.66/mcf (Q3 2014: US$4.91/mcf) results primarily from a 40% decrease in average HFO prices in Q3 2015 compared with the prior year quarter which was largely mitigated by price floors (included in the contracts of most Industrial customers). This resulted in lower average Industrial prices and a 19% drop in the sales volumes to the Power sector which led to a reduction in the average Power sales price.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses may be analysed as follows:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014 – *Restated*	**2015**	2014 – *Restated*
Employee and related costs	**1,450**	1,343	**4,205**	4,497
Stock based compensation	**(1,118)**	4,221	**(157)**	4,583
Office costs	**776**	1,004	**2,450**	2,600
Marketing and business development costs	**67**	48	**208**	66
Reporting, regulatory and corporate	**530**	859	**2,204**	2,880
Tax penalties	**–**	25	**–**	75
General and administrative expenses	**1,705**	7,500	**8,910**	14,701

General and administrative expenses 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 general and administrative expenses averaged US$0.9 million (Q3 2014: US$1.09 million) per month during the third 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 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014	**2015**	2014
Stock appreciation rights	**(1,407)**	1,544	**(729)**	1,906
Restricted stock units	**289**	2,677	**572**	2,677
Stock-based compensation	**(1,118)**	4,221	**(157)**	4,583

No stock options were outstanding as at 30 September 2015 compared to 400,000 as at 31 December 2014. No options were granted during the quarter (Q3 2014: nil).

As at 30 September 2015 and 31 December 2014 2,610,000 stock appreciation rights ("SARs") were outstanding. As at 30 September 2015 488,844 Restricted Stock Units ("RSUs") with an award price of CDN$0.001 were outstanding, compared with 645,199 at 31 December 2014; 156,355 were exercised during the period. 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 1.5%; stock volatility of 36% to 53%; 0% dividend yield; 0% forfeiture; and a closing price of CDN$3.04 per Class B share.

As at 30 September 2015, a total accrued liability of US$2.8 million (Q3 2014: US$5.0 million) has been recorded in relation to SARs and RSUs which is included in other payables, the reduction over the prior year, prior quarter, is the result of a fall in the share price combined with the exercising of 303,547 RSUs. The Company recognised in general and administrative expenses a reduction in the quarter relating to stock based compensation of US$1.1 million (Q3 2014: expense US$4.2 million).

NET FINANCE COSTS

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

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014 – *Restated*	**2015**	2014 – *Restated*
Finance income	**16**	6	**23**	86
Interest expense	**–**	–	**–**	(24)
Net foreign exchange (loss)/gain	**(658)**	104	**(2,307)**	(631)
Provision for doubtful debts	**(447)**	–	**(447)**	(2,004)
Financing expense	**(266)**	–	**(266)**	–
Finance (costs)/income	**(1,371)**	104	**(3,020)**	(2,659)
Net finance (costs)/income	**(1,355)**	104	**(2,997)**	(2,659)

The decrease in interest expense for the nine months ended 30 September 2015 as compared to the prior year period is the result of repaying the bank loan in full by the end of February 2014.

The foreign exchange (loss)/gain reflects the impact of depreciation 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 30 September 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$7.4 million (31 December 2014: US$7.6 million). During the quarter there was a deferred tax credit of US$ nil compared with US$0.9 million for Q3 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

Under the terms of the PSA the Company is required to pay an additional, non-statutory, tax on profits once it achieves a defined rate of return on its operations. 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% (Q3 2014: 22.3%) has been applied to Profit Gas of US$3.1 million for the quarter (Q3 2014: US$11.3 million) and US$9.8 million for the nine months ended 30 September 2015 (2014: US$30.5 million). Accordingly, US$0.6 million and US$2.0 million has been netted off revenue for the quarter (Q3 2014: US$2.5 million) and for the nine months ended 30 September 2015 (2014: US$5.9 million).

The 2014 year-to-date APT charges include a reduction of US$0.9 million, reflecting the impact of recovering downstream costs on cumulative Profit Gas to 30 September 2014; this is the APT relating to the US$3.3 million Profit Gas adjustment identified in the 2014 Cost Pool adjustment.

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, as evaluated by the independent reservoir engineers McDaniel & Associates Consultants Ltd., were 450 Bcf (31 December 2013: 476 Bcf). A depletion expense of US$3.1 million (Q3 2014: US$3.7 million) for the quarter has been recorded in the accounts; the reduction compared to Q3 2014 is the result of a 19% decrease in sales volumes offset by a 4% increase in the average depletion rate to US$0.73/mcf (Q3 2014: US$0.70/mcf).

FUNDS FLOW FROM OPERATING ACTIVITIES

Funds flow from operating activities before working capital changes was US$9.5 million, an increase of 42% over Q3 2014, and US$18.1 million for the nine months, down 24% over the prior year nine month period reflecting both the reduction in revenue and share of Profit Gas.

	THREE MONTHS ENDED 30 SEPTEMBER		**NINE MONTHS ENDED 30 SEPTEMBER**	
US$'000	**2015**	2014 – *Restated*	**2015**	2014 – *Restated*
Funds flow from operating activities	**9,462**	6,641	**18,063**	23,704
Working capital adjustments [(1)]	**(12,425)**	17,436	**(16,495)**	8,289
Cash flows from operating activities	**(2,963)**	24,077	**1,568**	31,993
Cash flows from investing activities	**(7,801)**	(324)	**(10,411)**	(594)
Cash flows (used in)/from financing activities	**(101)**	92	**(158)**	(1,591)
(Decrease)/increase in cash	**(10,865)**	23,845	**(9,001)**	29,808
Effect of change in foreign exchange on cash	**(123)**	577	**882**	720
Net (decrease)/increase in cash	**(10,988)**	24,422	**(8,119)**	30,528

(1) See Condensed Consolidated Interim Statement of Cash Flows

The increase in funds flow from operating activities to US$9.5 million in the quarter (Q3 2014 US$6.6 million) is mainly a consequence of an increase in revenue. The increased revenue is the result of investment in the current workover programme which has increased Cost Gas resulting in a smaller Profit Gas allocation to TPDC.

During the first half of 2015, against the background of an ever devaluing Tanzanian Shilling, the Company crystallized losses by converting the majority of its cash to US Dollars.

CAPITAL EXPENDITURE

During the quarter and the nine months ended 30 September 2015 the Company incurred capital expenditures of US$8.3 million (Q3 2014: US$0.3 million), and US$13.9 million (2014: US$0.6 million) respectively, net of a US$5.9 million recharge to Songas, relating to the workover of SS-9 and engineering, planning, and procurement for a further two well workovers and subsequent drilling activities, US$0.5 million (Q3 2014: US$ nil) in relation to Songo Songo infrastructure, plus a further US$0.2 million on other equipment.

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	2014	**2015**	2014
Geological and geophysical and well drilling	**7,578**	292	**12,697**	292
Pipelines and infrastructure	**547**	–	**977**	83
Other equipment	**150**	32	**197**	219
	8,275	324	**13,871**	594

WORKING CAPITAL

Working capital as at 30 September 2015 was US$39.7 million (31 December 2014: US$34.1 million) and may be analysed as follows:

US$'000		30 SEPTEMBER **2015** (AS AT)		31 DECEMBER 2014 (AS AT)
Cash		**49,540**		57,659
Trade and other receivables		**32,033**		49,324
TANESCO	10,064		7,671	
Songas	3,260		23,864	
Other trade debtors	7,537		7,532	
Songas gas plant operations	19,165		19,300	
Other receivables	2,270		773	
Provision for doubtful accounts	(10,263)		(9,816)	
Tax recoverable		**6,075**		11,815
Prepayments		**625**		642
		88,273		119,440
Trade and other payables		**44,824**		76,747
TPDC	27,545		33,409	
Songas	988		28,871	
Other trade payables	7,373		1,961	
Deferred income	1,349		2,780	
Accrued liabilities	7,569		9,726	
Tax payable		**3,789**		8,545
Working capital (1)		**39,660**		34,148

Notes:
Working capital as at 30 September 2015 includes a TANESCO receivable (excluding interest) of US$10.0 million (31 December 2014: US$7.7 million). Management placed a doubtful debt provision against the long-term receivables in excess of 60 days totaling US$52.2 million as at 30 September 2015 and 31 December 2014. The total of long and short-term TANESCO receivables, including interest, as at 30 September 2015 was US$69.0 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 30 September 2015 increased 16% over 31 December 2014, the Company having incurred US$13.9 million in capital expenditure in the nine month period. 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 80% of the Company's cash was held substantially in US Dollars outside of Tanzania.
- Of the US$7.5 million relating to other trade debtors, US$5.3 million had been received as at the date of this report.
- The balance of US$27.5 million payable to TPDC represents the balance of its accumulated share of revenue as at 30 September 2015, prior to recovery of the tax recoverable balance of US$6.1 million. Recoverable tax is deducted from the sum due to TPDC as the Company pays income tax.
- At 30 September 2015, TANESCO owed the Company US$62.2 million excluding interest (of which arrears were US$55.3 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 US$4.0 million (Q3 2014: US$24.0 million) from TANESCO against sales totaling US$10.4 million (Q3 2014: US$14.2 million). Current TANESCO receivables as at 30 September 2015 amounted to US$10.1 million (31 December 2014: US$7.7 million). Since the quarter end, TANESCO has paid the Company US$3.2 million, and as at the date of this report the total TANESCO receivable is US$62.9 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 34.9 million shares outstanding as at 30 September 2015 which may be analysed as follows:

	AS AT	
Number of shares ('000)	30 SEPTEMBER **2015**	31 DECEMBER 2014
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**33,106**	33,164
Class A and Class B shares outstanding	**34,857**	34,915
Convertible securities		
Options	**–**	400
Fully diluted Class A and Class B shares	**34,857**	35,315
Weighted average		
Class A and Class B shares	**34,889**	34,863
Convertible securities		
Options	**–**	–
Weighted average diluted Class A and Class B shares	**34,889**	34,863

As at 24 November 2015, there were a total of 1,750,517 Class A Common Voting Shares ("Class A shares") and 33,105,915 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 retained by the Company for legal services. During the quarter, the Company incurred US$0.2 million (Q3 2014: US$0.1 million) and for the nine months ended 30 September 2015 US$0.4 million (2014: US$0.2 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 (Q3 2014: US$0.1 million) and for the nine months ended 30 September 2015 US$0.3 million (2014: US$0.3 million) to this firm for services provided.

As at 30 September 2015 the Company has a total of US$0.2 million (30 September 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 (143.9 Bcf as at 30 September 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.

Re-Rating Agreement

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

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO's or Songas' insurance policies. The Re-Rating Agreement expired on 31 December 2012 and in September 2013 was extended by Songas to 31 December 2013. At this time, the Company knows of no reason to de-rate the Songas plant. Since 31 December 2013 production has continued within the higher rated limit and, given the Government's interest in pursuing further development and increasing gas production, the Company expects this to continue. However there are no assurances that this will occur.

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.

Tanzania

There are no contractual work commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant non-discretionary capital expenditure at Songo Songo. To date, any significant additional capital expenditure in Tanzania is discretionary and has been 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 restore and maintain Protected Gas and Additional Gas production levels and fill the existing Songas infrastructure to 102 MMcfd capacity, as well as enable the Songo Songo field to increase production capacity up to 190 MMcfd in line with gas supply requirements requested by TPDC for the NNGIP anticipated to be commissioned later in 2015. In the absence of a commercial agreement with TPDC for volumes dedicated to the NNGIP, but with TANESCO maintaining its payments for current gas deliveries, the Company in June 2015 has proceeded with the first phase of a workover and drilling programme. First phase spending was originally estimated to be approximately US$150 million, of which the initial US$120 million is to be spent on the Offshore Programme over 2015 to 2017. The spending would restore field deliverability, ensure Protected Gas volumes 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. At the date of this report, the workovers on wells SS-5 and SS-9 have been successfully completed. This has provided sufficient production capabilities to fill the existing Songas infrastructure. The workover on well SS-7 is currently in progress. As a consequence of the success of the workover programme to date and the decision to complete SS-J as a vertical well as opposed to a horizontal completion the estimated cost for first phase has been reduced to US$83 million.

When commercial terms are agreed with TPDC for the supply of gas to the NNGIP and an Additional Gas Plan supporting the incremental sales is ratified, and in so doing justify bringing field production to approximately 190 MMcfd, the Company would contemplate undertaking the balance of the first phase at an additional cost estimated to be approximately US$30 million.

The Company has current outstanding contractual commitments of US$21.1 million to complete the first phase of the Development Programme. As at the date of this report, the contractual commitments include the cost of drilling one development well and demobilization of the rig.

CONTINGENCIES

With the exception of those related to taxation, contingencies as at 30 September 2015 are unchanged from those reported in the 2014 annual accounts.

Taxation

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 has appealed to the Tax Revenue Appeals Tribunal ("TRAT"). Based on advice from counsel the Company believes it has a good case and has appealed to the TRAT.

On 24 July 2015, the Company was advised that TRAT has ruled in its favour on the matter of additional withholding taxes claimed by the Tanzania Revenue Authority ("TRA"). This decision followed an earlier judgement by the TRAB which ruled in favour of TRA. TRA has filed a Notice and Statement of Appeal at the Court of Appeal, the highest court in Tanzania. The ruling by the TRAT may also impact on a similar case currently before the Court of Appeal. Based on advice from counsel, the Company expects a favourable outcome at the Court of Appeal.

In July 2015, TRAB issued a ruling on the Company's 2009 Income Tax Appeal against an assessment for an additional US$2.0 million issued by TRA. The Company had appealed against TRA's refusal to allow a deduction in respect of certain capital expenditures and the resulting assessment for additional tax and penalties amounting to US$1.9 million, and against the disallowance of other expenses leading to an assessment for additional tax and penalties amounting to US$0.1 million. On the first matter TRAB ruled in favour of TRA with respect to 2009 income tax, but allowed that the Company could claim a deduction in subsequent years. On the second matter TRAB ruled in favour of the Company. Based on advice from counsel, the Company has filed a Notice of Appeal at against the first ruling with TRAT.

During the quarter, the Company received a final assessment for additional income tax of US$ 0.5 million relating to the 2011 tax year. The Company believes the additional tax to be incorrectly imposed and has filed an objection to the assessment with TRA. The Company is also waiting further responses on objections to assessments filed with TRA for additional income taxes and penalties relating to the 2008 and 2010 tax years of US$ 4.0 million. If TRA demands are not withdrawn the Company intends to appeal at TRAB.

During the quarter, the Company also received a letter from TRA upholding its earlier decision to demand an additional US$5.8 million in VAT on the Company's transactions. The Company has rejected this claim and is awaiting a further response from TRA. If this demand is not withdrawn the Company intends to appeal at TRAB.

SUMMARY QUARTERLY RESULTS

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

	2015			2014				2013
(US$'000 except where otherwise stated)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3** *restated*	**Q2** *restated*	**Q1** *restated*	**Q4** *restated*
Financials								
Revenue	**15,943**	12,553	9,720	9,645	14,631	18,853	13,477	14,829
Net income/(loss)	**6,112**	3,566	(1,677)	(45,616)	4	6,137	1,174	(3,867)
Earnings/(loss) per share - diluted *(US$)*	**0.18**	0.10	(0.05)	(1.30)	–	0.18	0.03	(0.11)
Funds flow from operating activities	**9,462**	4,889	3,712	8,733	6,641	11,651	5,411	7,412
Funds flow per share - diluted *(US$)*	**0.27**	0.14	0.11	0.25	0.19	0.33	0.15	0.22
Operating netback *(US$/mcf)*	**2.67**	2.68	1.86	1.69	2.12	3.03	2.03	2.29
Working capital	**39,660**	38,067	34,870	34,148	42,001	29,306	11,690	20,857
Shareholders' equity	**84,464**	78,480	74,944	76,635	122,239	122,254	115,967	114,780
Capital expenditures								
Geological and geophysical and well drilling	**7,578**	4,135	984	522	292	9	109	(1,370)
Pipeline and infrastructure	**547**	275	155	193	–	(270)	198	397
Other equipment	**150**	47	–	3	32	48	176	1,111
Operating								
Additional Gas sold – industrial *(MMcf)*	**1,091**	1,015	925	1,084	1,304	1,046	1,164	1,143
Additional Gas sold – power *(MMcf)*	**3,173**	3,041	3,494	3,377	3,935	3,503	4,008	4,385
Average price per mcf – industrial *(US$)*	**7.70**	7.45	7.54	8.24	8.85	9.27	8.11	8.38
Average price per mcf – power *(US$)*	**3.62**	3.47	3.49	3.49	3.60	3.65	3.52	3.68

PRIOR EIGHT QUARTERS

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 well production capacity at Songo Songo.

Maintenance at TANESCO facilities and reduced demand due to greater access to hydro power (mainly in Q1 and Q2 of 2015) has resulted in reduced Power sector volumes since Q3 2014. Reduced sales volumes to TANESCO results in a reduction in the amount of gas which is sold at premium pricing under the PGSA. Overall, the result is lower quarterly sales volumes for 2015 compared with 2014.

Revenue in Q4 2014 and Q1 2015 saw a sharp reduction as sales volumes dropped below 50 MMcfd for the first time since Q2 2011, when the additional volumes sold to TANESCO under the PGSA were brought on-stream. The Company has now completed a full year in which sales revenue fell below 50 MMcfd, entitling the Company to just 40% share of Profit Gas revenue, rather than the 55% it had been receiving. In addition, a precipitous drop in crude-oil linked HFO prices, mitigated by contractual price floors, and together with changes in the sales mix resulted in a decline in average Industrial gas prices during 2015 compared to 2014. The increasing revenue during Q2 and Q3 2015 is a direct consequence of increased investment leading to higher Cost Gas, reduced Profit Gas and consequently lower APT. The increase in revenue from Q2 to Q3 2015 is a result of increased sales volumes and average prices combined with a deferred income adjustment of US$1.4 million relating to take or pay sales to a major industrial customer.

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 was 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. Net income for Q2/Q3 2015 has improved, though underlying sales volumes have not, this is due to the cost recovery mechanism in the PSA which allocates up to 75% of revenue to the Company as Cost Gas.

Working Capital has increased during 2015 reflecting that the cash flow from operations has compensated for the increase in capital expenditures for the first nine months of the year. This also reflects the fact that although payments from TANESCO have been erratic, they have generally kept pace with gas deliveries during the year.

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 payable being recorded as a current liability. 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 impairing income.

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 and nine months ended 30 September 2015.

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	Note	THREE MONTHS ENDED 30 SEPTEMBER **2015**	THREE MONTHS ENDED 30 SEPTEMBER *(Restated - Note 2)* 2014	NINE MONTHS ENDED 30 SEPTEMBER **2015**	NINE MONTHS ENDED 30 SEPTEMBER *(Restated - Note 2)* 2014
Revenue	*7, 8*	**15,943**	14,632	**38,216**	46,962
Expenses					
Production and distribution		**(942)**	(1,179)	**(2,941)**	(3,825)
Depletion	*13*	**(3,081)**	(3,653)	**(9,270)**	(10,430)
		11,920	9,800	**26,005**	32,707
General and administrative		**(1,705)**	(7,500)	**(8,910)**	(14,701)
Net finance (expense)/income	*9*	**(1,355)**	110	**(2,997)**	(2,573)
Income before tax		**8,860**	2,410	**14,098**	15,433
Income tax - current	*10*	**(2,748)**	(3,274)	**(6,351)**	(10,247)
Income tax - deferred	*10*	**–**	868	**254**	2,129
Net income		**6,112**	4	**8,001**	7,315
Foreign currency translation (loss)/ gain from foreign operations		**(27)**	(111)	**(14)**	52
Total comprehensive income for the period		**6,085**	(107)	**7,987**	7,367
Earnings per share *(US$)*	*16*				
Basic and diluted		**0.18**	–	**0.23**	0.21
Weighted average shares outstanding *(millions)*	*16*				
Basic and diluted		**34.9**	34.9	**34.9**	34.8

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 30 SEPTEMBER **2015**	31 DECEMBER 2014
Assets			
Current assets			
Cash and cash equivalents		**49,540**	57,659
Trade and other receivables	*12*	**32,033**	49,324
Tax recoverable	*10*	**6,075**	11,815
Prepayments		**625**	642
		88,273	119,440
Non-current assets			
Long-term trade receivable	*12*	**628**	634
Property, plant and equipment	*13*	**82,507**	78,418
		83,135	79,052
Total assets		**171,408**	198,492
Equity and liabilities			
Current liabilities			
Trade and other payables	*14*	**44,824**	76,747
Tax payable		**3,789**	8,545
		48,613	85,292
Non-current liabilities			
Deferred income taxes	*10*	**7,352**	7,606
Deferred Additional Profits Tax	*11*	**30,979**	28,959
		38,331	36,565
Total liabilities		**86,944**	121,857
Equity			
Capital stock	*15*	**85,488**	85,637
Contributed surplus		**6,347**	6,356
Accumulated other comprehensive loss		**(244)**	(230)
Accumulated loss		**(7,127)**	(15,128)
		84,464	76,635
Total equity and liabilities		**171,408**	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 18); Contingencies (Note 19).

W H Smith

Director

Director

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	Note	THREE MONTHS ENDED 30 SEPTEMBER 2015	(Restated - Note 2) 2014	NINE MONTHS ENDED 30 SEPTEMBER 2015	(Restated - Note 2) 2014
Cash flows from operating activities					
Net income		**6,112**	4	**8,001**	7,315
Adjustment for:					
Depletion and depreciation	13	**3,282**	3,811	**9,782**	10,907
Provision for doubtful debts	9	**447**	–	**447**	2,004
Stock-based compensation	15	**(1,118)**	4,221	**(157)**	4,583
Deferred income taxes	10	**–**	(868)	**(254)**	(2,129)
Deferred Additional Profits Tax	4,11	**593**	(120)	**2,020**	757
Interest expense	9	**–**	–	**–**	24
Unrealised foreign exchange loss/(gain)		**146**	(407)	**(1,776)**	243
Funds flow from operating activities		**9,462**	6,641	**18,063**	23,704
(Increase)/decrease in trade and other receivables		**(9,908)**	(3,172)	**18,143**	(10,032)
(Increase)/decrease in tax recoverable		**(1,158)**	(800)	**5,740**	(729)
Decrease/(increase) in prepayments		**144**	64	**17**	(231)
(Decrease)/increase in trade and other payables		**(2,873)**	11,442	**(35,645)**	14,955
Increase/(decrease) in tax payable		**1,361**	783	**(4,756)**	674
Decrease in long-term trade receivable		**9**	9,119	**6**	3,652
Net cash flows from operating activities		**(2,963)**	24,077	**1,568**	31,993
Cash flows used in investing activities					
Property, plant and equipment expenditures	13	**(8,275)**	(324)	**(13,871)**	(594)
Increase in trade and other payables		**474**	–	**3,460**	–
Net cash used in investing activities		**(7,801)**	(324)	**(10,411)**	(594)
Cash flows (used in)/from financing activities					
Bank loan		**–**	–	**–**	(1,659)
Normal course issuer bid	15	**(101)**	–	**(158)**	–
Proceeds from exercise of options		**–**	92	**–**	92
Interest paid	9	**–**	–	**–**	(24)
Net cash flow from/(used in) financing activities		**(101)**	92	**(158)**	(1,591)
(Decrease)/increase in cash		**(10,865)**	23,845	**(9,001)**	29,808
Cash and cash equivalents at the beginning of the period		**60,528**	38,694	**57,659**	32,588
Effect of change in foreign exchange on cash		**(123)**	577	**882**	720
Cash and cash equivalents at the end of the period		**49,540**	63,116	**49,540**	63,116

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

Condensed Consolidated Interim Statement of Shareholders Equity (unaudited)

ORCA EXPLORATION GROUP INC.

US$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated loss	Total
Note	*15*				
Balance as at 1 January 2015	85,637	6,356	(230)	(15,128)	76,635
Normal course issuer bid	(149)	(9)	–	–	(158)
Foreign currency translation adjustment on foreign operations	–	–	(14)	–	(14)
Net income	–	–	–	8,001	8,001
Balance as at 30 September 2015	**85,488**	**6,347**	**(244)**	**(7,127)**	**84,464**

US$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated income	Total
Restated balance as at 1 January 2014	85,428	6,482	(303)	23,173	114,780
Options exercised	235	(143)	–	–	92
Foreign currency translation adjustment on foreign operations	–	–	52	–	52
Net income	–	–	–	7,315	7,315
Restated balance as at 30 September 2014	85,663	6,339	(251)	30,488	122,239

See accompanying notes to the unaudited condensed consolidated interim 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 and nine months ended 30 September 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 24 November 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 exploration, development, production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The PSA defines gas from the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement (until July 2024) 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 for onward sale to customers. 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 45% of the electrical power generated in Tanzania (see Note 12).

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 38 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 and nine months ended 30 September 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 expenses 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 and nine months ended 30 September 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 30 SEPTEMBER 2014			NINE MONTHS ENDED 30 SEPTEMBER 2014		
US$'000	As reported	Adjustment	Restated	As reported	Adjustment	Restated
Revenue	14,852	(220)	14,632	47,624	(662)	46,962
Expenses						
Production and distribution	(1,179)	–	(1,179)	(3,825)	–	(3,825)
Depletion	(3,653)	–	(3,653)	(10,430)	–	(10,430)
	10,020	(220)	9,800	33,369	(662)	32,707
General and administrative	(7,475)	(25)	(7,500)	(14,626)	(75)	(14,701)
Net finance income/(expense)	170	(60)	110	(2,395)	(178)	(2,573)
Income before tax	2,715	(305)	2,410	16,348	(915)	15,433
Income tax	(2,352)	(54)	(2,406)	(7,872)	(246)	(8,118)
Net income	363	(359)	4	8,476	(1,161)	7,315
Foreign currency translation (loss)/gain from foreign operations	(111)	–	(111)	52	–	52
Total comprehensive income/ (loss) for the period	252	(359)	(107)	8,528	(1,161)	7,367
Earnings per share *(US$)*						
Basic and diluted	0.01	(0.01)	0.00	0.24	(0.03)	0.21
Weighted average shares outstanding *(millions)*						
Basic and diluted	34.9	–	34.9	34.8	–	34.8

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

	AS AT 30 SEPTEMBER 2014		
US$'000	As reported	Adjustment	Restated
Assets			
Current assets			
Cash and cash equivalents	63,116	–	63,116
Trade and other receivables	44,232	4,297	48,529
Tax recoverable	15,975	(4,381)	11,594
Prepayments	512	–	512
	123,835	(84)	123,751
Non-current assets			
Long-term trade receivable	27,920	(4,297)	23,623
Exploration and evaluation assets	5,564	–	5,564
Property, plant and equipment	80,519	–	80,519
	114,003	(4,297)	109,706
Total assets	237,838	(4,381)	233,457
Equity and liabilities			
Current liabilities			
Trade and other payables	74,217	1,035	75,252
Tax payable	–	7,591	7,591
	74,217	8,626	82,843
Non-current liabilities			
Deferred income taxes	12,313	(6,374)	5,939
Deferred Additional Profits Tax	22,436	–	22,436
	34,749	(6,374)	28,375
Total liabilities	108,966	2,252	111,218
Equity			
Capital stock	85,663	–	85,663
Contributed surplus	6,339	–	6,339
Accumulated other comprehensive loss	(251)	–	(251)
Accumulated income	37,121	(6,633)	30,488
	128,872	(6,633)	122,239
Total equity and liabilities	237,838	(4,381)	233,457

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

	THREE MONTHS ENDED 30 SEPTEMBER 2014			NINE MONTHS ENDED 30 SEPTEMBER 2014		
US$'000	As reported	Adjustment	Restated	As reported	Adjustment	Restated
Cash flows from operating activities						
Net income/(loss)	363	(359)	4	8,476	(1,161)	7,315
Adjustment for:						
Depletion and depreciation	3,811	–	3,811	10,900	–	10,900
Provision for doubtful debts	459	(459)	–	3,665	(1,661)	2,004
Loss on disposal of fixture fittings	–	–	–	7	–	7
Stock-based compensation	4,221	–	4,221	4,583	–	4,583
Deferred income taxes	21	(889)	(868)	182	(2,311)	(2,129)
Deferred Additional Profits Tax	(120)	–	(120)	757	–	757
Interest expense	–	–	–	24	–	24
Unrealised foreign exchange loss/(gain)	(467)	60	(407)	65	178	243
Funds flow from operating activities	8,288	(1,647)	6,641	28,658	(4,955)	23,704
Increase in trade and other receivables	(3,172)	–	(3,172)	(10,032)	–	(10,032)
Increase in tax recoverable	(1,020)	220	(800)	(1,391)	662	(729)
Decrease/(increase) in prepayments	64	–	64	(231)	–	(231)
Increase in trade and other payables	11,442	–	11,442	14,955	–	14,955
(Decrease)/increase in tax payable	(185)	968	783	(1,958)	2,632	674
Decrease in long-term trade receivable	8,660	459	9,119	1,991	1,661	3,652
Net cash flows from operating activities	24,077	–	24,077	31,993	–	31,993
Cash flows used in investing activities						
Property, plant and equipment expenditures	(324)	–	(324)	(594)	–	(594)
Net cash used in investing activities	(324)	–	(324)	(594)	–	(594)
Cash flows from/(used in) financing activities						
Bank loan	–	–	–	(1,659)	–	(1,659)
Interest paid	–	–	–	(24)	–	(24)
Proceeds from exercise of options	92	–	92	92	–	92
Net cash flow from/(used in) financing activities	92	–	92	(1,591)	–	(1,591)
Increase in cash	23,845	–	23,845	29,808	–	29,808
Cash and cash equivalents at the beginning of the period	38,694	–	38,694	32,588	–	32,588
Effect of change in foreign exchange on cash	577	–	577	720	–	720
Cash and cash equivalents at the end of the period	63,116	–	63,116	63,116	–	63,116

Effect on Accumulated Income (unaudited)

	AS AT 30 SEPTEMBER 2014		
US$'000	As reported	Adjustment	Restated
Accumulated income			
Balance, beginning of period	28,645	(5,472)	23,173
Net income	8,476	(1,161)	7,315
Balance, end of period	37,121	(6,633)	30,488

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, 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 30 September 2014 of US$6.0 million, which the Company has reported and paid. The Tanzania Revenue Authority has raised an assessment for associated penalties and interest on overdue taxes. The calculation of these penalties is currently under discussion with TRA, but is not expected to exceed the initial estimate of US$1.6 million; these will not be recoverable under the PSA. The estimated penalties and interest have been included in the restatement reflected in the periods to which they relate.

The cumulative impact of the income tax errors, including applicable penalties and interest, as at 30 September 2014 results in a decrease in accumulated income of US$5.9 million, a decrease in tax recoverable from TPDC of US$4.4 million, an increase in tax payable of US$7.6 million, a decrease in deferred income taxes payable of US$6.0 million.

Elimination of finance income and finance expense relating to TANESCO receivables

The Company is correcting reported finance income and finance expense previously recognized on overdue trade receivables. Finance income and finance expense in the amount of US$0.5 million were eliminated in for the three months ended 30 September 2014 and US$1.7 million for the nine months ending 30 September 2014.

As the finance income was fully provided for as finance expense, there is no impact on the net loss after tax, accounts receivable or cash flows from operating activities for either the three or nine months ended 30 September 2015. 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 30 September 2014 results in an increase in trade and other payables of US$1.0 million, a decrease in deferred income taxes of US$0.3 million and a decrease in accumulated income of US$0.7 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 30 September 2014 resulted in no significant impact on revenue, general and administrative expense, finance expense or income tax expense. There was a decrease in net income from US$8.5 million to US$7.4 million, a decrease in tax recoverable from TPDC from US$16.0 million to US$11.6 million, an increase in trade and other payables from US$74.2 million to US$75.3 million, an increase in tax payable from US$ nil to US$7.6 million (including interest and penalties), a decrease in deferred income taxes from US$12.3 million to US$5.9 million, and a decrease in accumulated income from US$37.1 million to US$30.5 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 and nine-month period as at and ended 30 September 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 and nine-month period as at and ended 30 September 2015 and these policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

REVENUE RECOGNITION, PRODUCTION SHARING AGREEMENTS AND ROYALTIES

As defined by 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) either independently or jointly with 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, for onward sale to a 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 quarter, 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.

Prior to 2011, TANESCO 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$1.4 million at current exchange rates) 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, weekly payments resumed in Q1 2015 and have continued, though erratically, on into Q3 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).

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 of the audited financial statements for the year ended 31 December 2014 for a full discussion.

A) 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 subsequent provision against same (see Note 12), 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.

B) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Future accounting policies

Below is a brief description of new IFRS standards and amendments that are not yet effective and have not been applied in the preparation of these financial statements.

- On 28 May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The new standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. On 28 April 2015, the IASB proposed to defer the effective date by one year to 1 January 2018, which was approved on 22 July 2015. The Company intends to adopt IFRS 15 on the finalized adoption date and is currently evaluating the impact of adopting the standard on its consolidated financial statements.
- On 24 July 2014, the IASB issued the complete IFRS 9, "Financial Instruments" to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 is effective for years beginning on or after 1 January 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.
- On 18 December 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements". These amendments will not require significant changes to the Corporation's current practices but are aimed to facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on 1 January 2016. The Company does not expect these amendments to have a material impact.

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.

A) CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from TANESCO and Songas. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As of 30 September 2015 the Company has provisions against the long-term TANESCO receivable and the gas plant operations charges receivable from Songas, it has not been 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 Q3 2015 to fire 147 MW of TANESCO power generation. The contracts with Songas and TANESCO accounted for 58% of the Company's operating revenue during Q3 2015 and US$82.9 million of the short- and long-term receivables prior to provision at 30 September 2015. Songas itself is heavily reliant on the payment of capacity and energy charges by TANESCO for its liquidity.

TANESCO continues to be in financial difficulty, which has resulted in irregular and inconsistent payments for gas deliveries, which in turn 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 30 September 2015 (see Note 12).

Sales to the Industrial sector, currently 38 customers, are subject to an internal credit review to minimize the risk of non-payment. As of the date of this report, US$5.3 million of the US$7.5 million due from Industrial customers at the quarter end has been collected. Management expects to collect the balance during Q4.

B) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. The Company has US$44.8 million of financial liabilities with regards to trade and other payables all of which are contractually due within one to three months (See Note 14). As at 30 September 2015 the Company had a current tax liability of US$3.8 million.

As at 30 September 2015 a significant proportion of the current liabilities relate to TPDC, the significant liability to Songas brought forward from 2014 having been settled. At 30 September 2015 Songas and the Company had 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).

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 exploration and producing assets in Tanzania and had exploration and appraisal interests in Italy.

	THREE MONTHS ENDED 30 SEPTEMBER					
	2015			(Restated - Note 2) 2014		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External revenue	–	15,943	**15,943**	–	14,632	14,632
Segment income	–	6,112	**6,112**	–	(4)	(4)
Non–cash charge [(1)]	–	447	**447**	–	–	–
Depletion and depreciation	–	3,282	**3,282**	–	3,811	3,811

	NINE MONTHS ENDED 30 SEPTEMBER					
	2015			(Restated - Note 2) 2014		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External revenue	–	38,216	**38,216**	–	46,962	46,962
Segment income	–	8,001	**8,001**	–	7,315	7,315
Non–cash charge [(1)]	–	447	**447**	–	2,004	2,004
Depletion and depreciation	–	9,782	**9,782**	–	10,900	10,900

	AS AT					
	30 SEPTEMBER **2015**			31 DECEMBER 2014		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
Total assets	1,931	169,477	**171,408**	1,931	196,561	198,492
Total liabilities	272	86,672	**86,944**	272	121,585	121,857
Capital additions	–	12,871	**12,871**	–	1,312	1,312

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

8 REVENUE

US$'000	THREE MONTHS ENDED 30 SEPTEMBER 2015	THREE MONTHS ENDED 30 SEPTEMBER (Restated - Note 2) 2014	NINE MONTHS ENDED 30 SEPTEMBER 2015	NINE MONTHS ENDED 30 SEPTEMBER (Restated - Note 2) 2014
Operating revenue	**13,803**	14,007	**34,905**	42,486
Current income tax adjustment	**2,733**	3,135	**5,331**	10,327
Additional Profits Tax (Note 11)	**(593)**	(2,510)	**(2,020)**	(5,851)
Revenue	**15,943**	14,632	**38,216**	46,962

The Company's total revenues for the quarter and the nine months ended 30 September 2015 amounted to US$15.9 million and US$38.2 million respectively after adjusting the Company's operating revenue of US$13.8 million and US$34.9 million by:

i) Adding US$2.7 million for income tax for the current quarter and US$5.3 million for the nine months. 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$0.6 million and US$2.0 million for deferred Additional Profits Tax charged in the quarter and for nine months – this tax is considered a royalty and is presented as a reduction in revenue (see Note 11).

9

NET FINANCE EXPENSE/INCOME

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	*(Restated - Note 2)* 2014	**2015**	*(Restated - Note 2)* 2014
Finance income	**16**	6	**23**	86
Interest expense	**–**	–	–	(24)
Net foreign exchange (loss)/gain	**(658)**	104	**(2,307)**	(631)
Provision for doubtful debts	**(447)**	–	**(447)**	(2,004)
Financing costs	**(266)**	–	**(266)**	–
Finance expense	**(1,371)**	104	**(3,020)**	(2,659)
Net finance (costs)/income	**(1,355)**	110	**(2,997)**	(2,573)

During the year, the Company has billed TANESCO interest for late payments amounting to US$0.6 million for three months ended 30 September 2015 (Q3 2014: US$0.6 million) and US$1.7 million for the nine months ended 30 September 2015 (2014: US$1.2 million). 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 TAX

The tax charge is as follows:

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	*(Restated - Note 2)* 2014	**2015**	*(Restated - Note 2)* 2014
Current tax	**2,748**	3,274	**6,351**	10,247
Deferred tax recovery	**–**	(868)	**(254)**	(2,129)
	2,748	2,406	**6,097**	8,118

The Company made provisional 2015 tax payments of US$1.5 million for the quarter (Q3 2014: US$0.8 million) and US$4.5 million for the nine months ended 30 September 2015 (2014: US$8.8 million). These are presented as a reduction in tax payable on the balance sheet.

During the nine months ended 30 September 2015 the Company paid tax of US$3.0 million in relation to settlement of the 2014 tax liability (2014: US$1.5 million), including additional tax for the first nine months of 2014 relating to the correction of an error. The Company also paid a further US$3.5 million in relation to the correction of taxes covering the period 2005 – 2013 (see Note 2).

Tax rate reconciliation

	THREE MONTHS ENDED 30 SEPTEMBER		NINE MONTHS ENDED 30 SEPTEMBER	
US$'000	**2015**	*(Restated - Note 2)* 2014	**2015**	*(Restated - Note 2)* 2014
Income before taxation	**8,860**	2,410	**14,098**	15,433
Provision for income tax calculated at the statutory rate of 30%	**2,658**	723	**4,229**	4,630
Add the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**321**	280	**1,307**	1,505
Foreign exchange loss	**(14)**	3	**95**	56
Tax penalties	**–**	8	**–**	23
Stock–based compensation	**(335)**	1,266	**(47)**	1,375
TANESCO interest not recognised as income	**181**	137	**511**	498
Other permanent differences	**(63)**	(11)	**2**	31
	2,748	2,406	**6,097**	8,118

The deferred income tax liability includes the following temporary differences:

	AS AT	
US$'000	30 SEPTEMBER **2015**	31 DECEMBER 2014
Differences between tax base and carrying value of property, plant and equipment	**(16,172)**	(15,498)
Tax recoverable from TPDC	**(4,063)**	(5,116)
Provision for doubtful debt	**3,079**	2,945
Deferred Additional Profits Tax	**9,294**	8,688
Unrealised exchange losses/other provisions	**510**	1,375
	(7,352)	(7,606)

Tax recoverable

The Company has a tax recoverable balance of US$6.1 million as at 30 September 2015 (31 December 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", an amount equal to the actual income taxes payable by the Company. The recovery is dependent upon payment of income taxes relating to prior period adjustment factors as they are assessed.

	AS AT	
US$'000	30 SEPTEMBER **2015**	31 DECEMBER 2014
Tax recoverable from TPDC	**6,075**	11,815

The Company operates in a jurisdiction with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

11 ADDITIONAL PROFITS TAX

Under the terms of the PSA the Company is required to pay an additional, non-statutory, tax on profits once it achieves a defined rate of return on its operations. 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% (Q3 2014: 22.9%) has been applied to Profit Gas of US$3.1 million for the quarter (Q3 2014: US$11.3 million) and US$9.8 million for the nine months ended 30 September 2015 (2014: US$30.5 million). Accordingly, US$0.6 million and US$2.0 million has been netted off revenue for the quarter (Q3 2014: US$2.5 million) and for the nine months ended 30 September 2015 (2014: US$5.9 million).

The 2014 year-to-date APT charges include a reduction of US$0.9 million, reflecting the impact of recovering downstream costs on cumulative Profit Gas to 30 September 2014; this is the APT relating to the US$3.3 million Profit Gas adjustment identified in the 2014 Cost Pool adjustment.

12 TRADE AND OTHER RECEIVABLES

Current receivables

US$'000	AS AT 30 SEPTEMBER 2015	31 DECEMBER 2014
TANESCO	**10,064**	7,671
Songas	**3,260**	23,864
Other debtors	**7,537**	7,532
Trade receivables	**20,861**	39,067
Songas gas plant operations	**13,313**	19,300
Songas well workover programme	**5,852**	-
Other receivables	**2,270**	773
Less provision for doubtful accounts	**(10,263)**	(9,816)
	32,033	49,324

Trade receivables aged analysis

AS AT 30 SEPTEMBER 2015

US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	3,391	3,499	3,174	–	**10,064**
Songas	950	1,130	1,180	–	**3,260**
Other debtors	3,745	2,896	485	411	**7,537**
Trade receivables	8,086	7,525	4,839	411	**20,861**

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 30 September 2015, TANESCO owed the Company US$62.2 million excluding interest (of which arrears were US$55.3 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$4.0 million (Q3 2014: US$24.0 million) from TANESCO against sales totaling US$10.4 million (Q3 2014: US$14.0 million). Current TANESCO receivables as at 30 September 2015 amounted to US$10.0 million (31 December 2014: US$7.7 million) of which US$3.2 million was behind with payments for current gas deliveries in 2015. Since the quarter end, TANESCO has paid the Company US$3.2 million, and as at the date of this report the total TANESCO receivable is US$62.9 million (of which US$52.2 million has been provided for and US$3.5 million of 2015 sales was in excess of 60 days). The amount due in excess of 60 days remains classified in current receivables as the Company expects this amount will be received during the fourth quarter of 2015. The payments from TANESCO continue to be erratic and unpredictable and there is still no set schedule or repayment plan for TANESCO arrears agreed with the Company. However during the nine months ended 30 September 2015 the Company has received US$29.6 million from TANESCO against sales totaling US$32.0 million.

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 30 September 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 pays for current deliveries on a current basis with payments being applied firstly against 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 trade receivables	AS AT	
US$'000	30 SEPTEMBER **2015**	31 DECEMBER 2014
TANESCO receivable > 90 days	**52,154**	52,154
Provision for doubtful debts	**(52,154)**	(52,154)
Net TANESCO receivable	**–**	–
VAT bond	**369**	369
Lease deposit	**259**	265
Total long-term trade receivables	**628**	634

Songas

As at 30 September 2015, Songas owed the Company US$22.4 million (31 December 2014: US$43.2 million), whilst the Company owed Songas US$2.5 million (31 December 2014: US$30.4 million). There was no contractual right to offset these amounts at 30 September 2015. Amounts due to Songas primarily relate to pipeline tariff charges of US$1.0 million (31 December 2014: US$28.9 million), whereas the amounts due to the Company are mainly for sales of gas of US$3.3 million (31 December 2014: US$23.9 million) and for the operation of the gas plant of US$19.2 million (31 December 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.

The gas plant operations receivable includes US$5.9 million in relation to the ongoing workover programme and, although Songas has stated it does not believe this to be payable, it is management's view that this amount is chargeable in accordance with the gas agreement and as such will ultimately be collected. A provision for doubtful debts of US$9.8 million (31 December 2014: US$9.8 million) has been recognised against the gas plant operations receivable of US$19.2 million (31 December 2014: US$19.3 million).

Management has reviewed the current provision of US$9.8 million (31 December 2014: US$9.8 million) 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 significant amounts not agreed will likely be pursued by the Company through the mechanisms provided in its agreements with Songas.

As at 30 September 2015 the net amount owed by Songas to the Company was US$19.9 million (31 December 2014: US$12.7 million). All amounts due to and from Songas have been summarized in the net Songas balance (see Note 14).

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	13,674	–	49	148	–	13,871
As at 30 September 2015	**154,327**	**699**	**1,282**	**297**	**1,125**	**157,730**
Depletion and depreciation						
As at 1 January 2015	63,534	170	955	120	662	65,441
Depletion and depreciation	9,270	131	148	33	200	9,782
As at 30 September 2015	**72,804**	**301**	**1,103**	**153**	**862**	**75,223**
Net book values						
As at 30 September 2015	**81,523**	**398**	**179**	**144**	**263**	**82,507**

In determining the depletion charge, it is estimated that future development costs of US$238 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$0.3 million (Q3 2014: US$0.2 million), and for the nine months ended 30 September US$0.5 million (2014: US$0.5 million), in general and administrative expenses.

14 TRADE AND OTHER PAYABLES

US$'000	AS AT 30 SEPTEMBER 2015	AS AT 31 DECEMBER 2014
Songas (1)	**988**	28,871
Other trade payables	**7,373**	1,961
Trade payables	**8,361**	30,832
TPDC share of Profit Gas	**27,545**	33,409
Deferred income	**1,349**	2,780
Accrued liabilities	**7,569**	9,726
	44,824	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 quarter end settlements made in cash by the Company and by Songas (see Note 12).

US$'000	01–Jan–15	Transactions	Payments and receipts	Gross balance 30 September 2015	Post quarter end Payments and receipts	Outstanding as at the date of this report
Pipeline tariff - payable	(28,871)	(9,124)	37,007	**(988)**	–	(988)
Gas sales - receivable	23,864	8,762	(29,366)	**3,260**	(2,254)	1,006
Gas plant operation - receivable	19,300	2,979	(10,512)	**11,767**	(322)	11,445
Contribution to workovers	–	5,852	–	**5,852**	–	5,852
Other payable	(1,574)	1,574	–	**–**	–	–
Net balances	12,719	10,043	(2,871)	**19,891**	(2,576)	17,315

15 CAPITAL STOCK

Through a Normal Course Issuer Bid, the Company repurchased 58,500 of its Class B Shares during the nine months of 2015. 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		
Number of shares	**Authorised** *(000)*	**Issued** *(000)*	**Amount** *(US$'000)*
Class A			
As at 1 January 2015 and 30 September 2015	**50,000**	**1,751**	**983**
Class B			
As at 1 January 2015	100,000	33,164	84,654
Normal course issuer bid repurchases	–	(58)	149
As at 30 September 2015	**100,000**	**33,106**	**84,505**
First Preference			
As at 1 January 2015 and 30 September 2015	100,000	–	–
Total Class A, Class B and First Preference	**250,000**	**34,857**	**85,488**

All of the issued capital stock is fully paid.

Stock Options	**Options** *(000)*	**Exercise Price** *(CDN$)*
Outstanding as at 1 January 2015	400	3.60
Forfeited	(400)	3.60
Outstanding as at 30 September 2015	–	

Stock Appreciation Rights ("SARs")	**SARs** *(000)*	**Exercise Price** *(CDN$)*
Outstanding as at 1 January 2015	2,910	2.12 to 4.20
Expired	(300)	4.20
Outstanding as at 30 September 2015	2,610	2.12 to 2.70

The weighted average remaining life and weighted average exercise prices of SARs at 30 September 2015 were as follows:

Exercise Price *(CDN$)*	**Number outstanding as at 30 September 2015** *(000)*	**Weighted average remaining contractual life** *(years)*	**Number exercisable as at 30 September 2015** *(000)*	**Weighted average exercise price** *(CDN$)*
2.12 to 2.70	2,610	2.98	1,086	2.36

Restricted Stock Units ("RSUs")

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".

	RSUs *(000)*	**Exercise Price** *(CDN$)*
Outstanding as at 1 January 2015	645	0.001
Exercised	(156)	0.001
Outstanding as at 30 September 2015	**489**	**0.001**

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 1.5% stock volatility of 36% to 53%; 0% dividend yield; 0% forfeiture; a closing stock price of CDN$3.04 per share.

	AS AT	
US$'000	30 SEPTEMBER **2015**	31 DECEMBER 2014
SARs	**1,109**	1,369
RSUs	**1,681**	2,113
	2,790	3,482

As at 30 September 2015, a total accrued liability of US$2.8 million has been recognised in relation to SARs and RSUs and is included in other payables (31 December 2014: US$3.5 million). The Company recognised in general and administrative expenses a reduction in the quarter relating to stock based compensation of US$1.1 million (Q3 2014: expense US$4.2 million), and for the nine months to 30 September 2015 a reduction of US$0.2 million (2014: expense US$4.6 million).

The decrease in stock based compensation liability over 31 December 2014 is the result of the share price falling to CDN$3.04 (Q4 2014: CDN$2.90), partially offset by the exercise of 156,355 RSUs in Q2/Q3 at a cost of US$0.4 million.

16

EARNINGS PER SHARE

Number of shares (000)	THREE MONTHS ENDED 30 SEPTEMBER 2015	2014	NINE MONTHS ENDED 30 SEPTEMBER 2015	2014
Weighted average number of shares outstanding				
Class A and Class B shares	**34,867**	34,887	**34,889**	34,845
Convertible securities				
Stock options	**–**	16	**–**	–
Weighted average diluted Class A and Class B shares	**34,867**	34,903	**34,889**	34,845

The calculation of basic earnings per share is based on net income for the quarter of US$6.1 million (Q3 2014: net income restated US$ nil) and a weighted average number of Class A and Class B shares outstanding during the period of 34,867,358 (Q3 2014: 34,887,036). For the nine months, earning per share is based on net income of US$8.0 million (2014: net income restated US$7.3 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,889,243 (Q3 2014: 34,844,719).

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 Q3 2015 the effective number was nil shares (Q3 2014: 15,710), resulting in a diluted weighted average number of Class A and Class B shares of 34,867,358 (Q3 2014: 34,902,746). For the nine months the dilution effect of stock options was nil (Q3 2014: nil) resulting in a diluted weighted average number of Class A and Class B shares of 34,889,243 (Q3 2014: 34,844,719).

No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

17

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm retained by the Company for legal services. During the quarter, the Company incurred to this firm for services rendered US$0.2 million (Q3 2014: US$0.1 million) and for the nine months ended 30 September US$0.4 million (2014: US$0.2 million)

The Chief Financial Officer provided services to the Company through a consulting agreement with a personal services company, during the quarter the Company incurred to this firm for services rendered US$0.1 million (Q3 2014: US$0.1 million) and for the nine months ended 30 September US$0.3 million (2014: US$0.3 million).

As at 30 September 2015 the Company has a total of US$0.2 million recorded in trade and other payables in relation to the related parties (31 December 2014: US$ nil).

18 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 (143.9 Bcf as at 30 September 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.

Re-Rating Agreement

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

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO's or Songas' insurance policies. The Re-Rating Agreement expired on 31st December 2012 and in September 2013 was extended by Songas to 31 December 2013. At this time, the Company knows of no reason to de-rate the Songas plant. Since 31 December 2013 production has continued within the higher rated limit and, given the Government's interest in pursuing further development and increasing gas production, the Company expects this to continue. However there are no assurances that this will occur.

Capital Commitments

Italy

No activity has occurred on the Adriatic Sea block offshore Italy during 2015. The Elsa-2 appraisal well is now forecast to be drilled in the fourth quarter of 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

There are no contractual work commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant non-discretionary capital expenditure at Songo Songo. To date, any significant additional capital expenditure in Tanzania is discretionary and has been 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 restore and maintain Protected Gas and Additional Gas 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 requested by TPDC for the NNGIP anticipated to be commissioned later in 2015. In the absence of a commercial agreement with TPDC for volumes dedicated to the NNGIP, but with TANESCO maintaining its payments for current gas deliveries, the Company in June 2015 has proceeded with the first phase of a workover and drilling programme. First phase spending was originally estimated to be approximately US$150 million, of which the initial US$120 million is to be spent on the Offshore Programme over 2015 to 2017, which spending would be intended to address the operational requirement to restore or abandon wells SS-5 and SS-9 and restore field deliverability, ensure Protected Gas volumes 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. At the date of this report, the workovers on wells SS-5 and SS-9 have been successfully completed. This has provided sufficient production capabilities to fill the existing Songas infrastructure. The workover on well SS-7 is currently in progress. As a consequence of the success of the workover programme to date and the decision to complete SS-J as a vertical well as opposed to a horizontal completion the estimated cost for first phase has been reduced to US$83 million.

When commercial terms are agreed with TPDC for the supply of gas to the NNGIP and an Additional Gas Plan supporting the incremental sales is ratified, and in so doing justify bringing field production to approximately 190 MMscfd, the Company would contemplate undertaking the balance of the first phase at an additional cost estimated to be approximately US$30 million.

The Company has current outstanding contractual commitments of US$21.1 million to complete the first phase of the Development Programme. The contractual commitments include the cost of one development well and demobilization of the rig.

19 CONTINGENCIES

With the exception of those related to taxation, contingencies as at 30 September 2015 are unchanged from those reported in the 2014 annual accounts.

Taxation

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 totalling US$0.5 million had been unsuccessful. This decision was not unexpected and the Company has appealed to the Tax Revenue Appeals Tribunal ("TRAT"). Based on advice from counsel the Company believes it has a good case and has appealed to the TRAT.

On 24 July 2015, the Company was advised that TRAT has ruled in its favour on the matter of additional withholding taxes claimed by the Tanzania Revenue Authority ("TRA"). This decision followed an earlier judgement by the TRAB which ruled in favour of TRA. TRA has filed a Notice and Statement of Appeal at the Court of Appeal, the highest court in Tanzania. The ruling by the TRAT may also impact on a similar case currently before the Court of Appeal. Based on advice from counsel, should TRA appeal against the latest TRAT ruling, the Company expects a favourable outcome at the Court of Appeal.

In July 2015, TRAB issued a ruling on the Company's 2009 Income Tax Appeal against an assessment for an additional US$2.0 million issued by TRA. The Company had appealed against TRA's refusal to allow a deduction in respect of certain capital expenditures and the resulting assessment for additional tax and penalties amounting to US$1.9 million, and against the disallowance of other expenses leading to an assessment for additional tax and penalties amounting to US$0.1 million. On the first matter TRAB ruled in favour of TRA with respect to 2009 income tax, but allowed that the Company could claim a deduction in subsequent years. On the second matter TRAB ruled in favour of the Company. Based on advice from counsel, the Company has filed a Notice of Appeal at against the first ruling with TRAT.

During the quarter, the Company received a final assessment for additional income tax of US$ 0.5 million relating to the 2011 tax year. The Company believes the additional tax to be incorrectly imposed and has filed an objection to the assessment with TRA. The Company is also waiting further responses on objections to assessments filed with TRA for additional income taxes and penalties relating to the 2008 and 2010 tax years of US$ 4.0 million. If TRA demands are not withdrawn the Company intends to appeal at TRAB.

During the quarter, the Company also received a letter from TRA upholding its earlier decision to demand an additional US$5.8 million in VAT on the Company's transactions. The Company has rejected this claim and is awaiting a further response from TRA. If this demand is not withdrawn the Company intends to appeal at TRAB.

20 SUBSEQUENT EVENTS

On 29 October 2015, the Company and IFC signed an agreement to provide financing of up to US$60 million for the Company's operating subsidiary, PanAfrican Energy Tanzania Limited. The investment is a subordinated, income participating loan with flexible repayment terms and a maximum tenor of approximately 10 years. Drawdowns of the facility are subject to a number of terms and conditions.

Corporate Information

Board of Directors

W. David Lyons
Chairman and
Chief Executive Officer

Queensway
Gibraltar

David W. Ross
Non-Executive Director

Calgary, Alberta
Canada

William H. Smith
Non-Executive Director

Calgary, Alberta
Canada

Glenn D. Gradeen
Non-Executive Director

Calgary, Alberta
Canada

Officers

W. David Lyons
Chairman and
Chief Executive Officer

Queensway
Gibraltar

Blaine Karst
Chief Financial Officer

Calgary, Alberta
Canada

Stephen Huckerby
Chief Accounting Officer

St. Peters, Jersey
Channel Islands

David K. Roberts
Vice President of
Operations

Kansas City, Missouri
United States of America

Operating Office

PanAfrican Energy
Tanzania Limited

Oyster Plaza Building, 5th Floor
Haile Selassie Road
P.O. Box 80139, Dar es Salaam
Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

Registered Office

Orca Exploration
Group Inc.

P.O. Box 3152
Road Town
Tortola
British Virgin Islands

Investor Relations

W. David Lyons
Chairman and
Chief Executive Officer

WDLyons@orcaexploration.com
www.orcaexploration.com

International Subsidiaries

**PanAfrican Energy
Tanzania Limited**

Oyster Plaza Building, 5th Floor
Haile Selassie Road
P.O. Box 80139, Dar es Salaam
Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

**PAE PanAfrican
Energy Corporation**

1st Floor
Cnr St George/Chazal Streets
Port Louis
Mauritius
Tel: + 230 207 8888
Fax: + 230 207 8833

Orca Exploration Italy Inc.

**Orca Exploration Italy
Onshore Inc.**

P.O. Box 3152,
Road Town
Tortola
British Virgin Islands

Engineering Consultants

McDaniel & Associates
Consultants Ltd.
Calgary, Canada

Auditors

KPMG LLP
Calgary, Canada

Website

orcaexploration.com

Lawyers

Burnet, Duckworth
& Palmer LLP
Calgary, Canada

Transfer Agent

CIBC Mellon
Trust Company
Toronto & Montreal, Canada

ORCA

ORCA

www.orcaexploration.com