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

US$'000s except per share amounts	*NOTE*	THREE MONTHS ENDED **30 Sept 2013**	 30 Sept 2012	NINE MONTHS ENDED **30 Sept 2013**	 30 Sept 2012
Revenue	*4*	**14,659**	22,425	**39,853**	56,545
Cost of sales					
Production and distribution expenses		**(1,150)**	(1,497)	**(2,564)**	(4,624)
Depletion expense	*9*	**(2,971)**	(2,324)	**(8,306)**	(6,279)
		10,538	18,604	**28,983**	45,642
General and administrative expenses		**(3,327)**	(4,391)	**(10,287)**	(12,322)
Exploration asset impairment		**–**	(7,496)	**–**	(7,496)
Net finance costs	*5*	**(3,335)**	(407)	**(18,669)**	(689)
Profit before taxation		**3,876**	6,310	**27**	25,135
Taxation	*6*	**(1,976)**	(5,044)	**(1,919)**	(12,310)
Profit (loss) after taxation		**1,900**	1,266	**(1,892)**	12,825
Foreign currency translation gain from foreign operations		**28**	–	**(47)**	–
Total comprehensive income (loss) for the period		**1,928**	1,266	**(1,939)**	12,825
Earnings (loss) per share					
Basic *(US$)*	*12*	**0.05**	0.04	**(0.05)**	0.37
Diluted *(US$)*	*12*	**0.05**	0.04	**(0.05)**	0.36

See accompanying notes to the condensed consolidated interim financial statements.

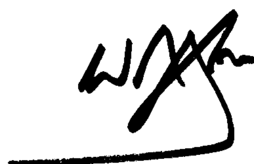
Condensed Consolidated Interim Statement of Financial Position (UNAUDITED)

US$'000s	NOTE	AS AT **30 Sept 2013**	31 Dec 2012
ASSETS			
Current Assets			
Cash and cash equivalents		**30,290**	16,047
Trade and other receivables	*7*	**39,618**	73,495
Taxation receivable	*6*	**15,736**	14,692
Prepayments		**636**	246
		86,280	**104,480**
Non-Current Assets			
Long-term trade receivable	*7*	**25,529**	–
Exploration and evaluation assets	*8*	**5,722**	5,720
Property, plant and equipment	*9*	**94,621**	102,044
		125,872	107,764
Total Assets		**212,152**	**212,244**
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	*10*	**46,353**	45,496
Bank loan	*11*	**4,138**	5,842
Taxation payable		**4,204**	6,322
		54,695	**57,660**
Non-Current Liabilities			
Deferred income taxes	*6*	**14,632**	20,399
Deferred additional profits tax	*6*	**18,655**	8,250
		33,287	28,649
Total Liabilities		**87,982**	**86,309**
Equity			
Capital stock		**85,428**	84,983
Contributed surplus		**6,482**	6,753
Accumulated other comprehensive income		**42**	89
Accumulated income		**32,218**	34,110
		124,170	125,935
Total Equity and Liabilities		**212,152**	**212,244**

See accompanying notes to the condensed consolidated interim financial statements.

Future operations (Note 1)
Contractual obligations and committed capital investments (Note 14)
Contingencies (Note 15)

The consolidated condensed interim financial statements were approved by the Board of Directors on 27 November 2013.



Director

Director

Condensed Consolidated Interim Statement of Cash Flows (UNAUDITED)

		THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000s	*NOTE*	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit after taxation		**1,900**	1,266	**(1,892)**	12,825
Adjustment for:					
Depletion and depreciation	*9*	**3,071**	2,393	**8,573**	6,549
Exploration asset impairment	*9*	**–**	7,496	**–**	7,496
Provision for doubtful debt	*7*	**1,200**	–	**8,300**	–
Discount on long-term receivable	*5, 7*	**2,900**	–	**10,800**	–
Stock-based compensation	*12*	**24**	80	**(289)**	701
Deferred income taxes	*6*	**(800)**	2,019	**(5,767)**	4,091
Deferred additional profits tax	*6*	**3,979**	900	**10,405**	2,289
Interest received		**–**	(2)	**–**	(4)
Unrealised (gain) loss on foreign exchange		**(423)**	227	**889**	303
Funds flow from operating activities		**11,851**	**14,379**	**31,019**	**34,250**
Decrease (increase) in trade and other receivables		**5,120**	(11,086)	**13,789**	(22,577)
Increase in taxation receivable		**(1,451)**	(2,293)	**(1,044)**	(9,198)
(Increase) decrease in prepayments		**(207)**	342	**(390)**	(197)
(Decrease) increase in trade and other payables		**(3,056)**	7,653	**1,198**	14,688
Increase (decrease) in taxation payable		**774**	93	**(2,118)**	4,464
Decrease (increase) in long-term receivable		**1,450**	–	**(25,529)**	–
Net cash flows from operating activities		**14,481**	**9,088**	**16,925**	**21,430**
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**–**	(5,469)	**(2)**	(10,026)
Property, plant and equipment expenditures		**(744)**	(9,564)	**(1,150)**	(42,219)
Interest received		**–**	2	**–**	4
Increase in trade and other payables		**–**	3,413	**–**	13,817
Net cash used in investing activities		**(744)**	**(11,618)**	**(1,152)**	**(38,424)**
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES					
Bank loan proceeds	*11*	**–**	5,800	**4,000**	5,800
Bank loan repayments	*11*	**(2,465)**	–	**(5,704)**	–
Proceeds from exercise of options	*12*	**174**	–	**174**	–
Net cash flow from (used in) financing activities		**(2,291)**	5,800	**(1,530)**	5,800
Increase (decrease) in cash and cash equivalents		**11,446**	**3,270**	**14,243**	**(11,194)**
Cash and cash equivalents at the beginning of the period		**18,766**	20,194	**16,136**	34,680
Effect of change in foreign exchange on cash in hand		**78**	(175)	**(89)**	(197)
Cash and cash equivalents at the end of the period		**30,290**	**23,289**	**30,290**	**23,289**

See accompanying notes to the condensed consolidated interim financial statements.

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

US$'000	Capital stock	Contributed surplus	Cumulative Translation adjustment	Accumulated Income	Total
Note	*12*				
Balance as at 1 January 2013	84,983	6,753	89	34,110	125,935
Options exercised	445	(271)		–	174
Foreign currency translation adjustment on foreign operations	–	–	(47)	–	(47)
Loss after tax for the period	–	–	–	(1,892)	(1,892)
Balance as at 30 Sept 2013	**85,428**	**6,482**	**42**	**32,218**	**124,170**

US$'000	Capital stock	Contributed surplus	Cumulative Translation adjustment	Accumulated Income	Total
Balance as at 1 January 2012	84,610	6,268	–	15,781	106,659
Foreign currency translation adjustment on foreign opertions	–	–	–	–	–
Stock based compensation	–	720	–	–	720
Profit after tax for the period	–	–	–	12,825	12,825
Balance as at 30 Sept 2012	**84,610**	**6,988**	**–**	**28,606**	**120,204**

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements
(UNAUDITED)

General Information

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

The condensed consolidated interim financial statements of the Company as at and for the nine months ended 30 September 2013 comprise accounts of the Company and all its wholly owned subsidiaries (collectively, the "Company") and were authorised for issue in accordance with a resolution of the directors on 25 November 2013.

1 FUTURE OPERATIONS

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

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

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

The Company generates in excess of 62% of its operating revenue from sales to the Power sector companies, Songas Limited ("Songas") and TANESCO. The financial security of Songas is heavily reliant on the payment of capacity and energy charges by TANESCO, which is dependent on the Government of Tanzania to subsidise a significant portion of TANESCO's operating budget. Prior to 2012, despite having a history of delayed payments, TANESCO had settled in full the outstanding balance subsequent to each quarter end.

At 30 September 2013, TANESCO owed the Company US$53.0 million (including arrears of US$44.5 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012. During the quarter the Company received a total of US$16.4 million from TANESCO and, subsequent to the end of the quarter, the Government of Tanzania directed funds to TANESCO which in turn paid the Company a further US$7.2 million. As of the date of this report, the outstanding balance is US$52.8 million of which US$45.7 million is in arrears. During the previous quarter the Government received proceeds of US$100 million from the first of three expected tranches of World Bank budget support funding. The Government has continued to reassure the Company that it intends to clear all TANESCO arrears and utilise funds from the Government Treasury, two additional tranches of World Bank energy support funding, the second tranche expected by Q2 2014, as well as additional external financing from commercial banks and other multi-lateral lending agencies.

Working closely with the Government, management remains confident that the Government will ensure that TANESCO will ultimately settle its debts. As at the date of this report, however, there is no set schedule or repayment plan for TANESCO arrears and payments have been irregular and unpredictable. Based on the actual repayment history, US$16.6 million of the TANESCO receivable was classified as current and US$36.3 million was classified as long-term; a discount US$10.8 million has been taken against the long-term receivable to reflect the estimated cost of delay in collections. The long-term portion of the trade receivable was discounted using a risk adjusted discount rate of 15%

to reflect the delayed timing of collections from TANESCO. The discount rate and the expected timing of the collections are reviewed at each period end with any adjustments recorded in the period that the estimates are changed. In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 30th September 2013 and TANESCO continues to be unable to pay the Company for subsequent 2013 gas deliveries, the Company will need additional funding for its ongoing operations within three to four months of the date of this report. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms.

As at 30 September 2013, Songas owed the Company US$18.1 million, whilst the Company owed Songas US$12.0 million; there is no legal right to offset these amounts, although in practice the companies have set off receivables and payables. As at the quarter end Songas and the Company formally offset payable and receivable balances of US$18.2 million. Subsequent to the end of the quarter, the Company has neither received nor paid any amounts in settlement of these balances. Amounts due to Songas primarily relate to pipeline tariff charges of US$11.0 million (December 31, 2012: US$17.5 million), whereas the amounts due to the Company are mainly for sales of gas of US$9.4 million (December 31, 2012: US$14.3 million) and for the operation of the gas plant for US$7.7 million (December 31, 2012: US$ 9.1 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis without profit margin. Following recent discussions with Songas management expects that these balances will be substantially cleared by the end of the year.

During 2012, to help alleviate the funding gap caused by the delays in TANESCO payments the Company entered into a US$10 million debt facility with a bank in Tanzania. As at 31 December 2012, the Company had drawn down US$6.0 million of this facility and in February 2013 the Company drew the remaining US$4.0 million under the facility. Repayments commenced in March 2013. The loan balance as at 30 September 2013 was US$4.1 million.

2 BASIS OF PREPARATION

A) Statement of Compliance

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

B) Judgements and estimates

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

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

C) Significant accounting policies

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

New accounting policies

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

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

D) Financial Instruments and Fair Value measurement

Credit risk

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

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

Financial instrument classification and measurement

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

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

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

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

Valuation of the Company's long-term receivable is considered a Level 3 measurement. Fair value is estimated by management as the expected value of a probablistic analysis of present value of future cash flows under a number of scenarios reflecting the uncertainty over the timing and quantum of future payments, discounted at the risk-adjusted rate at the reporting date.

3 SEGMENT INFORMATION

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

THREE MONTHS ENDED OR AS AT

	30 Sept 2013			30 Sept 2012		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External Revenue	**–**	**14,659**	**14,659**	–	22,425	22,425
Profit (loss) after tax	**–**	**1,900**	**1,900**	(7,496)	8,762	1,266
Non-cash charges[1]	**–**	**(4,100)**	**(4,100)**	–	–	–
Total Assets	**699**	**211,453**	**212,152**	–	209,985	209,985
Total Liabilities	**454**	**87,528**	**87,982**	–	89,781	89,781
Capital Additions	**–**	**744**	**744**	4,987	10,046	15,033
Depletion & Depreciation	**–**	**2,971**	**2,971**	–	2,393	2,393
Exploration assets impairment	**–**	**–**	**–**	(7,496)	–	(7,496)

NINE MONTHS ENDED OR AS AT

	30 September 2013			30 September 2012		
US$'000	Italy	Tanzania	Total	Italy	Tanzania	Total
External Revenue	**–**	**39,853**	**39,853**	–	56,545	56,545
Profit (loss) after tax	**–**	**(1,892)**	**(1,892)**	(7,496)	20,321	12,285
Non-cash charge[1]	**–**	**(19,100)**	**(19,100)**	–	–	–
Total Assets	**699**	**211,453**	**212,152**	–	209,985	209,985
Total Liabilities	**454**	**87,528**	**87,982**	–	89,781	89,781
Capital Additions	**–**	**1,150**	**1,150**	6,585	45,660	52,245
Depletion & Depreciation	**–**	**8,306**	**8,306**	–	6,549	6,549
Exploration assets impairment	**–**	**–**	**–**	(7,496)	–	(7,496)

1 Material non-cash charges include a risk adjusted discount on long-term receivable of US$10.8 million and a provision of US$8.3 million against doubtful receivable accounts.

4 REVENUE

	THREE MONTHS ENDED		THREE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Operating revenue	**14,797**	18,099	**39,282**	46,187
Deferred additional profits tax	**(3,979)**	(900)	**(10,404)**	(2,289)
Current income tax adjustment	**3,841**	5,226	**10,975**	12,647
Revenue	**14,659**	22,425	**39,853**	56,545

5 NET FINANCE INCOME AND FINANCE COSTS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Interest income	**289**	2	**2,155**	4
Finance income	**289**	2	**2,155**	4
Interest expense	**(157)**	(47)	**(586)**	(143)
Net foreign exchange gain/(loss)	**633**	(362)	**(1,138)**	(550)
Provision for doubtful accounts	**(1,200)**	–	**(8,300)**	–
Discount of long-term receivable *(see Note 7)*	**(2,900)**	–	**(10,800)**	–
Finance costs	**(2,424)**	(409)	**(12,524)**	(693)
Net finance costs	**(2,135)**	(407)	**(10,369)**	(689)

Of the interest income, US$2.1 million is due from TANESCO under the terms of the PGSA for late payment of gas supplied. In view of uncertainties surrounding the timing of receipt, the Company has recorded a provision against the interest, which reflects the delay in collection. The Company continues to pursue collection of all amounts owed and the provision will be reversed future periods once cash is collected.

6 TAXATION

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

The tax charge is as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Current tax	**2,778**	3,026	**7,685**	8,221
Deferred tax	**(802)**	2,018	**(5,766)**	4,089
	1,976	5,044	**1,919**	12,310

Provisional tax payments of US$4.0 million (Q3 2012: US$ nil) relating to the current year profits were made. These payments are presented as a reduction in Tax Payable on the balance sheet.

Tax Rate Reconciliation	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Profit before taxation	**3,876**	6,310	**27**	25,136
Provision for income tax calculated at the statutory rate of 30%	**1,163**	1,893	**8**	7,541
Add the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**724**	610	**1,820**	1,892
Financing charge	**5**	–	**8**	29
Stock- based compensation	**7**	24	**(87)**	209
Exploration asset impairment	**–**	2,248	**–**	2,248
Permanent differences	**77**	269	**170**	391
	1,976	5,044	**1,919**	12,310

As at 30 September 2013, there were temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 30 September 2013.

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

The deferred income tax liability includes the following temporary differences:

	AS AT	
US$'000	**30 Sept 2013**	31 Dec 2012
Differences between tax base and carrying value of property, plant and equipment	**17,141**	16,341
Income tax recoverable	**9,187**	6,744
Discount on receivable & provision for doubtful accounts	**(5,730)**	–
Other liabilities		
Employee bonuses, rent and insurance	**(267)**	(109)
TPDC additional Profit Gas	**(102)**	(102)
Additional Profits Tax	**(5,597)**	(2,475)
	14,632	20,399

Deferred Additional Profits Tax

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

The Company provides for Deferred APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The effective APT rate of 33.3% is then applied to Profit Gas of US$12.0 million in Q3 2013 (Q3 2012: US$2.7 million), accordingly, US$4.0 million (Q3 2012: US$0.9 million) has been netted off revenue for the quarter ended 30 September 2013. APT for the nine months ended 30 September 2013 amounted to US$10.4 million (2012: US$2.3 million).

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

Tax Receivable

As at 30 September 2013, the Company has a Tax Receivable balance of US$15.7 million (Q4 2012: US$14.7 million). This arises from the revenue sharing mechanism within the PSA, which entitles the Company to a share of revenue equivalent to its tax charge, grossed up at the prevailing rate. This amount is collected by way of an offset against TPDC's share of revenue, as and when the Company pays its tax.

7 TRADE AND OTHER RECEIVABLES

Current Receivables	**AS AT**	
US$'000	**30 Sept 2013**	31 Dec 2012
TANESCO	**16,637**	33,256
Songas	**9,394**	14,283
Other debtors	**9,647**	12,791
Total trade receivables	**35,678**	60,330
Other receivables	**12,240**	13,165
Less provision for doubtful accounts	**(8,300)**	–
	39,618	73,495

In addition to the trade receivable from Songas of US$9.4 million, an additional US$8.7 million (31 December 2012: US$9.1 million) is due from Songas principally with respect to Gas Plant operations, which is included in Other Receivables.

Trade Receivables Age Analysis

	Current	>30 <60 days	>60 <90	>90	**30 Sept 2013**	31 Dec 2012
TANESCO	8,446	8,191	–	–	**16,637**	33,256
Songas	715	750	736	7,193	**9,394**	14,283
Other debtors	4,631	1,374	(246)	3,888	**9,647**	12,791
Trade receivables	13,792	10,315	490	11,081	**35,678**	60,330

Subsequent to 30 September 2013, US$7.2 million has been received from TANESCO, as well as US$6.4 million from other debtors. Management considers the TANESCO balance more than 60 days old to be a long-term receivable and has discounted the value of the receivable - see Note 1.

Long-Term Receivables	**AS AT**	
US$'000	**30 Sept 2013**	31 Dec 2012
TANESCO receivable > 60 days	**36,329**	–
Discount on long-term receivable	**(10,800)**	–
Net long-term receivable	**25,529**	–

8 EXPLORATION AND EVALUATION ASSETS

US$'000	**Italy**	**Tanzania**	**Total**
Costs			
As at 1 January 2013	8,442	5,562	14,004
Additions	–	2	2
As at 30 September 2013	**8,442**	**5,564**	**14,006**
Impairment			
As at 1 January and 30 September 2013	**8,284**	**–**	**8,284**
As at 30 September 2013	**158**	**5,564**	**5,722**
As at 31 December 2012	158	5,562	5,720

TANZANIA

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

9 PROPERTY, PLANT AND EQUIPMENT

US$'000	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2013	138,958	256	747	202	950	141,113
Additions	762	327	61	–	–	1,150
As at 30 September 2013	**139,720**	**583**	**808**	**202**	**950**	**142,263**
Depletion and Depreciation						
As at 1 January 2013	37,801	219	649	194	206	39,069
Charge for period	8,306	21	54	8	184	8,573
As at 30 September 2013	**46,107**	**240**	**703**	**212**	**390**	**47,642**
Net Book Values						
As at 30 September 2013	**93,613**	**343**	**105**	**–**	**560**	**94,621**
As at 31 December 2012	101,157	37	98	8	744	102,044

In determining the depletion charge, it is estimated that future development costs of US$105.9 million (31 December 2012: US$107.1 million) will be required to bring the total proved reserves to production. During the quarter the Company recognized depreciation of US$0.1 million (Q3 2012: US$0.1 million) in General and Administrative expenses. The depreciation charge for the nine months ended 30 September 2013 was US$0.3 million (2012: US$0.3 million).

10 TRADE AND OTHER PAYABLES

	AS AT	
US$'000	**30 Sept 2013**	31 Dec 2012
Songas	**12,061**	17,459
Other trade payables	**3,774**	4,458
Trade payables	**15,835**	21,917
TPDC	**18,048**	4,378
Accrued liabilities	**12,470**	19,030
Related party *(Note 13)*	**–**	171
	46,353	45,496

The reduction in the balance with Songas is the result of netting off agreed payable and receivable balances.

11 BANK LOAN

In September 2012, the Company closed a US$10 million 18-month bridge loan facility with a Tanzanian bank to finance the Company's working capital requirements in Tanzania. The facility is secured by an assignment of accounts receivable and a fixed and floating charge on the assets of the Company. The Company drew the final US$4.0 million in February 2013. The principal drawn under the facility is repayable in 12 equal monthly instalments which commenced in March 2013. Interest is payable monthly at three-month US LIBOR plus 8%. An additional interest rate of 2% will be applied for any period in which the TANESCO receivable is greater than 240-days. The loan balance as at 30 September 2013 was US$4.1 million.

12 CAPITAL STOCK

Authorized and Issued Share Capital

NUMBER OF SHARES *(000's)*	**Authorised**	**Issued**	**Amount** *(US$'000)*
Class A			
As at 1 January 2013 and 30 September 2013	50,000	1,751	983
Class B			
As at 1 January 2013	100,000	32,892	84,000
Stock options exercised	–	180	445
As at 30 September 2013	**100,000**	**33,072**	**84,445**
FIRST PREFERENCE			
As at 1 January 2013 and 30 September 2013	100,000	–	–
Total Class A, Class B and First Preference shares	**250,000**	**34,823**	**85,428**

All of the issued capital stock is fully paid.

Stock Options

Thousands of options or CDN$	**Options**	**Exercise Price**
Outstanding as at 1 January 2013	1,922	1.00 to 3.60
Outstanding as at 30 Sept 2013	**1,742**	**1.00 to 3.60**

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

Exercise Price *(CDN$)*	**Number outstanding as at 30 Sept 2013** *('000)*	Weighted Average Remaining Contractual Life *(years)*	**Number Exercisable as at 30 Sept 2013** *('000)*	Weighted Average Exercise Price *(CDN$)*
1.00	**1,092**	0.92	**1,092**	1.00
3.18	**400**	2.94	**400**	3.18
3.60	**250**	3.00	**250**	3.60
	1,742		**1,742**	

Stock Appreciation Rights

Thousands of stock appreciation rights or CDN$	**SAR**	**Exercise Price**
Outstanding as at 1 January 2013	**745**	**2.35 to 5.30**
Outstanding as at 30 September 2013	**1,045**	**2.12 to 5.30**

The Company records a charge to the income statement with respect to the stock appreciation rights using the Black-Scholes option pricing model every reporting period with a resulting liability being recognised in trade and other payables. In the valuation of stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.25% stock volatility of 52% to 56%; 0% dividend yield; 0% forfeiture; a closing stock price of CDN$2.13 per share.

As at 30 September 2013, a total accrued liability of US$0.3 million (Q3 2012: US$0.2 million) has been recognised in relation to the stock appreciation rights. A movement of US$nil was recognised during the period compared to a charge of US$0.1 million in Q3 2012.

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**30 Sept 2013**	31 Dec 2012
Shares outstanding		
Class A	**1,751**	1,751
Class B	**33,072**	32,892
Class A and B outstanding	**34,823**	34,643
Weighted average for the nine months ended 30 September 2013		
Class A and Class B shares	**34,683**	34,642
Convertible securities		
Stock options	**617**	811
Weighted average diluted Class A and Class B shares	**35,300**	35,453

Earnings per share

The calculation of basic earnings per share is based on the comprehensive profit for the quarter of US$1.9 million (Q3 2012: income US$1.3 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,762,558 (Q2 2012: 34,643,210). Earnings per share for the nine months ended 30 September 2013 is based on the comprehensive loss for the period of US$1.9 million (2012: income US$12.8 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,683,139 (2012: 34,641,050).

In computing the diluted earnings per share, the dilutive effect of the stock options was 579,536 (Q3 2012: 781,126) shares. These are added to the weighted average number of common shares outstanding during the quarter resulting in a diluted weighted average number of Class A and Class B shares of 35,342,094 for the quarter ended 30 September 2013 (Q3 2012: 35,424,336). For the nine months ended 30 September the dilutive effect of the stock options was 617,444 (2012: 829,055) shares. These are added to the weighted average number of common shares outstanding during the period resulting in a diluted weighted average number of Class A and Class B share of 35,300,583 (2012: 35,470,105). No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

13 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.1 million (Q3 2012: US$0.05 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. As at 30 September 2013 the Company has a total of US$0.1 million recorded in trade and other payables in relation to the related party. The Chief Financial Officer provided services to the Company through a consulting agreement with a personal services company, during the quarter the Company incurred US$0.1 million to this firm for services provided.

14 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENTS

CONTRACTUAL OBLIGATIONS

Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (102.7 Bcf as at 30 September 2013). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the PSA.

The Gas Agreement may be superseded by an initialed ARGA. The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep it whole in the event of a Protected Gas insufficiency. Once the new IA is signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company shall fund an escrow account at a rate of US$2.00/MMbtu on all industrial Additional Gas sales out of both its and TPDC's share of revenue, and TANESCO shall contribute the same amount on Additional Gas sales to the Power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. The Company is actively monitoring the reservoir and, supported by the report of its independent engineers, does not anticipate that a liability will occur in this respect.

Re-rating Agreement

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

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The Re-rating Agreement expired on 31st December 2012 and in September was extended by Songas to 31 December. The Company anticipates that this agreement will be extended beyond 31 December 2013 given the Government's interest in pursuing further development and increasing gas production, however there are no assurances that this will occur. Now rated at 110 MMcfd, management believes that there is no reason to de-rate the Songas Plant.

Portfolio Gas Sales Agreement

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

Operating leases

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

CAPITAL COMMITMENTS

Italy

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

The well is now expected to be drilled in late 2014 or early 2015 following finalisation of an environmental impact study currently expected in 2014. Orca will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

Songo Songo commitments

There are no contractual commitments for capital expenditure at Songo Songo. Any significant additional capital expenditure remains dependent on TANESCO receivables being addressed, suitable guarantees of future payments established and commercial terms of future gas sales agreed, as well as material progress on infrastructure expansion, conclusion of contractual issues and the subsequent raising of finance. Significant additional capital expenditure will be required to enable the Songo Songo field to produce 190 MMcfd in line with the anticipated infrastructure expansion.

15 CONTINGENCIES

Downstream Unbundling

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

Access to infrastructure

The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas. Ndovu Resources Limited, a subsidiary of Aminex PLC, with support from TPDC and the Ministry of Energy and Mines, had previously indicated that it wished to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwa North field. Aminex announced on 31st October 2013 that it has engaged in negotiations with TPDC leading to a gas sales agreement which would provide for gas from Kilwa North to be tied in to the new National Natural Gas Infrastructure Project ("NNGIP") facilities on Songo Songo Island.

TPDC Back in

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

Cost recovery

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

TPDC conducted an audit of the historic cost pool and in 2011 disputed approximately US$34 million of costs that had been allocated to the cost pool from 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. Undertakings to resolve this matter were an outcome of GNT negotiations and the matter has for some time been with with Controller and Auditor General ("CAG"), head of the National Audit Office of Tanzania. Whilst the Company remains confident that the final outcome will be satisfactory, the Company has recently served notice to TPDC, pursuant to the mechanisms provided for in the PSA, that the Company has referred the matter to an independent expert for resolution. This matter has had no impact on the results for the period.

Taxation

During 2012 the Company received an assessment for additional withholding tax from the Tanzanian Revenue Authority (TRA), which together with interest and penalties totals approximately US$2.0 million. The Company considered the assessment to be without merit and appealed to the Tax Revenue Appeal Board. The Tax Revenue Appeals Board considered the appeal in March 2013 and upheld the assessment. The Company then appealed to Tax Revenue Appeals Tribunal and, whilst its decision is awaited, there has been a similar appeal that has been decided in favour of TRA. Despite two TRA internal rulings in favour of TRA, management believes this assessment to be flawed and will now pursue the case in the High Court.

During Q2 2013, the Tanzania Revenue Authority ("TRA") completed its audit of the 2008-2010 taxation years. The Company accepted certain findings in the draft report and paid additional taxes of US$2.2 million. An assessment for a further US$2.5 million was received in relation to income tax for 2009. The Company considered the additional assessment to be without merit and formally objected to the TRA.

Subsequent to the end of Q3, TRA issued its formal audit report for the 2008-2010 taxation years. The report contemplates additional taxes and penalties totaling US$19.7 million that may become the subject of a revised tax assessment in the future. As at the date of this report, the Company has not received an assessment. The Company is currently reviewing the report and, as of the date of this report, believes the findings to be substantially without merit and will take appropriate action through the appeal process if, and when, an assessment is received.