Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MD&A OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 SHOULD BE READ IN CONJUNCTION WITH THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS AT AND FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND NOTES THERETO AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO AS AT AND FOR YEAR ENDED 31 DECEMBER 2012. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON 27 NOVEMBER 2013.

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

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

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

NON-GAAP MEASURES

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

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

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

BACKGROUND

Tanzania

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

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

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

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

Italy

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

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

PRINCIPAL TERMS OF THE TANZANIAN PSA AND RELATED AGREEMENTS

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

Obligations and restrictions

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

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

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

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

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

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

Access and development of infrastructure

(f) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas. Ndovu Resources Limited, 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 Kiliwani 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.

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

Revenue sharing terms and taxation

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

The Company pays and recovers costs of exploring, developing and operating the Additional Gas with two exceptions: (i) TPDC may recover reasonable market and market research costs as defined under the PSA (US$1.1 million as at 30 September 2013 and 31 December 2012 for marketing costs that have been incurred by TPDC since start up); and (ii) TPDC has the right to elect to participate in the drilling of at least one well for Additional Gas in the Discovery Blocks for which there is a development program as detailed in an Additional Gas plan ("Additional Gas Plan") as submitted to the Ministry of Energy and Minerals ("MEM") subject to TPDC being able to elect to participate in a development program only once and TPDC having to pay a proportion of the costs of such development program by committing to pay between 5% and 20% of the total costs ("Specified Proportion"). If TPDC does not notify the Company within 90 days of notice from the Company that the MEM has approved the Additional Gas Plan, then TPDC is deemed not to have elected. If TPDC elects to participate, then it will be entitled to a rateable proportion of the Cost Gas and their profit share percentage increases by the Specified Proportion for that development program.

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

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

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

The Re-rating Agreement expired 31 December 2012, but has been extended by Songas until 31 December 2013, whilst discussions take place on a new agreement.

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

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

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

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

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

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

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

(k) Additional Profits Tax ("APT") is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenues plus an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum APT rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus PPI return. The PSA is, therefore, structured to encourage the Company to develop the market and the gas fields in the knowledge that the Profit Gas share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before APT becomes payable. APT can have a significant negative impact on the project economics if only limited capital expenditure is incurred.

Operatorship

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

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

Consolidation

The companies that are being consolidated are:

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

Results for the quarter ended 30th September 2013

OPERATING VOLUMES

The total production volume of Protected Gas and Additional Gas for the quarter was 8,841 MMcf or 97.1 MMcfd, net of approximately 0.4 MMcfd consumed locally for fuel gas. The Additional Gas sales volumes for the quarter were 6,045 MMcf or 65.7 MMcfd. This represents an increase of 14% over Q3 2012 and of 12% over Q2 2013. The total sales volumes for the nine months ended 30 September 2013 were 16,901 MMCF or 61.9 MMcfd an increase of 12% over 2012.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30 Sept 2013	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Gross sales volume *(MMcf)*				
Industrial sector	**1,092**	1,022	**3,335**	2,686
Power sector	**4,953**	4,270	**13,566**	12,415
Total volumes	**6,045**	5,292	**16,901**	15,101
Gross average daily sales volume *(MMcfd)*				
Industrial sector	**11.9**	11.1	**12.2**	9.8
Power sector	**53.8**	46.4	**49.7**	45.3
Total average daily sales volume	**65.7**	57.5	**61.9**	55.1

Industrial sector

Current quarter Industrial sales volume increased by 7% to 1,092 MMcf (11.9 MMcfd) from 1,022 MMcf (11.1 MMcfd) in Q3 2012. The increase is primarily due to (i) increased sales to a major cement producer in Dar es Salaam area which account for about 44% of Industrial volumes and (ii) the decrease in Protected Gas consumption as a result of maintenance work on Songas downstream power generating turbines, which decrease resulted in increased Additional Gas volumes available for sale. Industrial sales increased by 2% comparing to Q2 2013 (1,067 MMcf or 11.7 MMcfd) as a consequence of increase in gas supply to the cement company that was partially offset by a decrease in the supply to a local glass company, another significant Industrial customer.

Industrial sales volumes for the nine months ended 30 September 2013 increased by 24% to 3,335 MMcf from 2,686 MMcf in 2012. The increase is primarily due to increased sales to the cement company.

Power sector

Power sector sales volumes increased by 16% to 4,953 MMcf or 53.8 MMcfd, compared to 4,270 MMcf or 46.4 MMcfd in Q2 2012 as a result of continued reliance on gas to generate power and the increase in Additional Gas volumes available for supply following maintenance work on Songas' power generating turbines that reduced the consumption of Protected Gas during the quarter. Additional Gas sales volumes to Power customers increased by 17% over Q2 2013 (4,250 MMcf or 46.7 MMcfd).

Power sector volumes for the nine months ended 30 September 2013 increased by 9% to 13,566 MMcf from 12,415 MMcf in 2012. The increase is primarily due to overall increased reliance on gas to generate power and Additional Gas volumes that displaced Songas Protected Gas due to maintenance work.

Capacity constraints

As a result of the plant re-rating which occurred in June 2011 the capacity of the Songas gas processing plant was increased to 110 MMcfd, limited by pipeline capacity of 102 MMcfd. The Re-rating Agreement which was signed between the Company, Songas and TPDC, expired on 31 December 2012, but was extended in September 2013 to 31 December 2013, whilst a new agreement is negotiated. Without a Re-rating Agreement in place, Songas may de-rate plant capacity to the original 70 MMcfd, which would result in a material reduction in the Company's sales volumes of Additional Gas. Large dams feeding TANESCO hydro generation plants are still lacking enough water. As a consequence, the utility is still heavily reliant on natural gas and expensive liquid fuels for generation of electricity. In the event of de-rating of the gas processing plant, the country would likely face severe power rationing whilst it establishes additional liquid fuel generation capability, and incur an even greater cost for power from thermo generation plants, a situation which in the opinion of management is neither in the country's interest nor economically sustainable. Now rated at 110 MMcfd, management believes that there is no reason to de-rate the Songas Plant.

SONGO SONGO DELIVERABILITY

As at 30 September 2013, the Company had a production capacity of approximately 99 MMcfd, with expansion currently restricted to 102 MMcfd by the available infrastructure.

The high productivity wells drilling by the Company, SS-10 and SS-11, are currently producing approximately 40 MMcfd and 37 MMcfd respectively. With SS-9, SS-5 and SS-3 having been suspended due to production tubing integrity issues and rising casing annulus pressures, SS-4 continues to be monitored and it may have to be suspended in the future.

There will, however, be no redundant capacity in the facility or pipeline until additional wells can be drilled in the field or existing wells worked over and facilities expanded. A loss or material reduction in the production of any given well will have a material adverse effect on the total production and funds flow from operations of the Company.

Production equipment originally installed in the SS-9, SS-5, SS-4 and SS-3 wells drilled by TPDC between 1976 and 1983 has reached the end of its useful life. The SS-10 well was drilled by the Company in 2007 and SS-11 was drilled in 2012. Expanding the field productive capacity requires the reworking and recompletion of SS-9, SS-5, SS-4 and SS-3, as well as the drilling of an additional development well, SS-12. Whilst the Company continues to refine a full field development plan based on expanded infrastructure submitted to the Ministry of Energy and Minerals during the quarter, it is not possible to proceed with the plan until certain key issues are resolved, namely the significant outstanding TANESCO receivable addressed and the assurance of future payments established by way of guarantee, in addition to substantive progress on the Tanzania NNGIP. Remaining issues can be resolved whilst project financing is being arranged.

COMMODITY PRICES

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$/mcf	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Average sales price				
Industrial sector	**8.43**	9.21	**8.24**	9.62
Power sector	**4.10**	3.55	**3.78**	3.03
Weighted average price	**4.88**	4.64	**4.66**	4.20

Industrial sector

The average gas price achieved for the quarter was US$8.43/mcf down 9% from Q3 2012: (US$9.21/mcf) and down 2% from Q2 2013 (US$8.60/mcf). This is the result of applying 2013 contract terms agreed with the largest industrial off-taker of natural gas which took effect in January 2013, together with the sales mix which resulted in an industrial customer with comparatively lower gas prices accounting for 44% of the Industrial sales volume for the quarter.

Power sector

The average sales price to the Power sector was US$4.10/mcf for the quarter (Q3 2012: US$3.55/mcf). The 15% increase is due to the increase in gas volumes sold at higher marginal prices under the ARGA and PGSA, as well as the contractual price indexation at the lower of US CPI and 2% with effect from each 1st July.

The Power sector price for the quarter was up 13% over Q2 2013 price of US$3.63/mcf as higher volumes to the Power sector achieved higher marginal prices under the terms of the PGSA.

OPERATING REVENUE

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

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

The Additional Gas sales volumes for both Q3 2013 and Q3 2012 were in excess of 50 MMcfd entitling the Company to a 55% share of Profit Gas (Revenue less cost recovery share of revenue).

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

Orca Exploration was allocated a total of 58.8% in Q3 2013 (Q3 2012: 88.0%) of the Net Revenues as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Gross sales revenue	**29,524**	24,544	**78,720**	63,468
Gross tariff for processing plant and pipeline infrastructure	**(4,377)**	(3,975)	**(12,284)**	(11,120)
Gross revenue after tariff ("Net Revenues")	**25,147**	20,569	**66,436**	52,348
Analysed as to:				
Company Cost Gas	**2,847**	15,426	**8,041**	39,261
Company Profit Gas	**11,950**	2,673	**31,241**	6,926
Company operating revenue	**14,797**	18,099	**39,282**	46,187
TPDC share of revenue	**10,350**	2,470	**27,154**	6,161
	25,147	20,569	**66,436**	52,438

The Company's total revenues for Q3 2013 amounted to US$14,659 after adjusting the Company's operating revenue of US$14,797 by:

i) adding US$3,841 for income tax in the quarter – the Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable and to account for this, revenue is adjusted to reflect the current year income tax charge or loss; and

ii) subtracting US$3,979 for the deferred effect of Additional Profits Tax – this tax is considered a royalty and is netted against revenue.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Industrial sector	**9,182**	9,392	**27,462**	25,841
Power sector	**20,342**	15,152	**51,258**	37,627
Gross sales revenue	**29,524**	24,544	**78,720**	63,468
Processing and transportation tariff	**(4,377)**	(3,975)	**(12,284)**	(11,120)
TPDC share of revenue	**(10,350)**	(2,470)	**(27,154)**	(6,161)
Company operating revenue	**14,797**	18,099	**39,282**	46,187
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**	22,426	**39,853**	56,545

The 35% decrease in revenue compared to Q3 2012 is the result of several factors. A 14% increase in sales volumes and a 5.2% increase in weighted average gas prices have contributed to an overall increase in Gross Sales Revenue. At the same time TPDC's share of revenue increased to US$10.4 million (Q3 2012: US$2.5 million) as a consequence of the Company having fully recovered its cost pool in 2012 resulting in a greater proportion of Profit Gas which in turn is shared with TPDC. With the cost pool recovered, there was a significant increase in Additional Profits Tax as compared with the prior period. Q3 2013 revenue of US$14.8 million reflected the recovery of $2.8 million in Cost Gas and Profit Gas of US$12.0 million resulting in Additional Profits Tax of US$4.0 million.

PROCESSING AND TRANSPORTATION TARIFF

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

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of this agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the regulated tariff of US$0.59/mcf payable to Songas. The Q3 2013 charge for the additional tariff was US$0.8 million (Q3 2012: US$0.9 million).

PRODUCTION AND DISTRIBUTION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas based on the proportion of their respective sales during the period. The total costs of maintenance for the period was US$172 (Q3 2012: US$692) of which US$116 (Q3 2012: US$457) was allocated for the Additional Gas. The reduction in costs in both the quarter and in the nine-month period ended 30 September 2013 compared with the respective periods is primarily due to the absence of major maintenance activities.

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

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

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

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

	THREE MONTHS ENDED		**NINE MONTHS ENDED**	
US$/mcf	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Share of well maintenance	**116**	457	**274**	797
Other field and operating costs	**429**	380	**1,199**	1,535
	545	837	**1,473**	2,332
Ringmain distribution costs	**605**	660	**1,091**	2,292
Production and distribution expenses	**1,150**	1,497	**2,564**	4,624

OPERATING NETBACKS

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

	THREE MONTHS ENDED		**NINE MONTHS ENDED**	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Gas price – Industrial	**8.43**	9.21	**8.24**	9.62
Gas price – Power	**4.10**	3.55	**3.78**	3.03
Weighted average price for gas	**4.88**	4.64	**4.66**	4.20
Tariff	**(0.72)**	(0.75)	**(0.73)**	(0.74)
TPDC share of revenue	**(1.71)**	(0.47)	**(1.61)**	(0.41)
Net selling price	**2.45**	3.42	**2.32**	3.05
Well maintenance and other operating costs	**(0.09)**	(0.16)	**(0.09)**	(0.15)
Distribution costs	**(0.10)**	(0.12)	**(0.06)**	(0.15)
Operating netback	**2.26**	3.14	**2.17**	2.75

The operating netback decreased by 28.1% from US$3.14/mcf in Q3 2012 to US$2.26/mcf in Q3 2013. A 5.2% increase in the weighted average gas price and savings in operating and distribution costs were more than offset by the cost pool recovery effect which resulted in a nearly four-fold increase in the TPDC share of revenue. Against a weighted average gas price of US$4.88/mcf in Q3 2013, cost recoveries limited TPDC share of revenue to US$1.71/mcf and resulted in an operating netback of US$2.26/mcf for Q3 2013.

The 5.2% increase in the weighted average selling price from US$4.64/mcf to US$4.88/mcf in Q3 2013 is partly a consequence of a change in the sales mix resulting in lower average Industrial prices, offset by a 7% increase in Industrial gas volumes, and partly the result of a 15% increase in the Power price as a consequence of contractual step change in wellhead price effective July 2012 and increased Power sales at higher marginal prices.

In Q4 2012, the Company recovered its cost pool in full. As a result, TPDC's share of revenue in Q3 2013 has increased significantly benefiting from the reduction in Cost Gas. The Company's Cost Gas recovery for the quarter was only 11.3% of Net Revenues comparing to 75% of Q3 2012.

The 75% reduction in the well maintenance and other operating costs on a per mcf basis is primarily the result of higher sales volumes and reduced activities during the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Employee & related costs	**1,635**	1,834	**5,118**	6,034
Stock based compensation	**24**	80	**(289)**	701
Office costs	**1,302**	944	**2,823**	2,782
Marketing & business development cost including legal fees	**146**	280	**735**	828
Reporting, regulatory & corporate	**220**	1,253	**1,900**	1,977
General and administrative expenses	**3,327**	4,391	**10,287**	12,322

G&A includes the costs of running the natural gas distribution business in Tanzania which is recoverable as Cost Gas and is relatively fixed in nature. G&A averaged approximately US$1.1 million per month during the third quarter of 2013 (Q3 2012: US$1.5 million). G&A per mcf decreased to US$0.55/mcf (Q3 2012: US$0.83/mcf). Employee costs are down as a result of reduced manpower levels. Office overall are in line with 2012; current period costs are up compared to 2012 as a result of preparations to take on a new office in Dar es Salaam.

NET FINANCE INCOME AND FINANCE COSTS

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

	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)
Discount of long-term receivable	**(2,900)**	–	**(10,800)**	–
Provision for doubtful accounts	**(1,200)**	–	**(8,300)**	–
Net Foreign exchange gain (loss)	**633**	(362)	**(1,138)**	(550)
Finance costs	**(3,624)**	(409)	**(20,824)**	(693)
Net finance costs	**(3,335)**	**(407)**	**(18,869)**	**(689)**

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

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.

Given the irregular and unpredictable history of TANESCO payments, during the quarter the Company reclassified US$36.3 million of TANESCO receivables (Q3 2012: nil) as a long-term receivable and applied a discount of US$10.8 million to the receivable to reflect the estimated value of the receivable in present dollar terms, given management's estimate of the time to collect and the risk adjusted discount rate of 15% applied to the estimated future payment stream.

The foreign exchange loss reflects the impact of a 3% fall in the value of the Tanzanian Shilling against the US Dollar on outstanding customer balances and bank accounts denominated in Tanzanian Shillings.

TAXATION

Income Tax

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

As at 30 September 2013, there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes under the Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognised a deferred tax liability of US$14.6 million (Q3 2012: US$19.3 million) which represents a decrease in deferred future income tax charge of US$0.8 million for the quarter (Q3 2012: increase of US$2.0 million). This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC's share of Profit Gas.

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 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% (Q3 2012: 31.7%) was 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 current quarter (see "OPERATING REVENUE").

Although all costs have now been recovered, management does not anticipate that any APT will be payable in 2013, as the forecast Profit Gas share is not anticipated to exceed an annual return of 25% plus the PPI percentage change and the forecast expenditures for 2013. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

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

DEPLETION AND DEPRECIATION

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2012 the proven reserves as evaluated by the independent petroleum engineers, McDaniel & Associates Consultants Ltd., were 429.1 Bcf, after TPDC 'back-in', on a life of licence basis. A depletion expense of US$3.0 million (Q3 2012: US$2.3 million) has been charged to the accounts, the increase is due to a combination 14% increase in sales volumes and 23% increase in the depletion rate to US$0.49/mcf (Q3 2012 US$0.40/mcf).

Non-Natural Gas Properties are depreciated as follows:

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

CARRYING AMOUNT OF ASSETS

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

FUNDS GENERATED BY OPERATING ACTIVITIES

Funds from operating activities were US$11.9 million for Q3 2013 (Q3 2012: US$14.4 million).

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Profit (loss) after taxation	**1,900**	1,266	**(1,892)**	12,825
Adjustments (1)	**9,951**	13,113	**32,911**	21,425
Funds flow from operating activities	**11,851**	14,379	**31,019**	34,250
Working capital adjustments (1)	**2,630**	(5,291)	**(14,094)**	(12,820)
Net cash flows from operating activities	**14,481**	9,088	**16,925**	21,430
Net cash used in investing activities	**(744)**	(11,618)	**(1,152)**	(38,424)
Cash flows from (used in) financing activities	**(2,291)**	5,800	**(1,530)**	5,800
Increase in cash and cash equivalents	**11,446**	3,270	**14,243**	(11,194)
Effect of change in foreign exchange on cash in hand	**78**	(175)	**(89)**	(197)
Net increase (decrease) in cash and cash equivalents	**11,524**	3,095	**14,154**	(11,391)

(i) *See condensed consolidated interim statement of cash flows*

The 18% decrease in funds from operations before working capital changes over 2012 is due primarily to depletion of the Cost Pool which resulted in a significant increase in TPDC's share of revenue, which rose to US$10.4 million (Q3 2012: US$2.5 million).

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

The US$14.2 million increase in cash and cash equivalents for the nine months ended 30 September 2013 is a result of the US$31.0 million of funds generated from operations before working capital changes during the period, offset by an overall net decrease in working capital of US$14.1 million.

CAPITAL EXPENDITURES

Capital expenditures amounted to US$0.7 million during the quarter (Q3 2012: US$15.0 million). The significant reduction in capital expenditures is due to the suspension of field development in Q3 2012 pending resolution of TANESCO payments and contractual issues. The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
US$'000	**30 Sept 2013**	30 Sept 2012	**30 Sept 2013**	30 Sept 2012
Geological and geophysical and well drilling	**391**	14,749	**762**	50,898
Pipelines and infrastructure	**296**	261	**327**	1,043
Power development	**–**	22	**–**	197
Other equipment	**57**	1	**61**	107
	744	15,033	**1,150**	52,245

WORKING CAPITAL

Working capital as at 30 September 2013 was US$31.6 million (31 December 2012: US$46.8 million) and may be analysed as follows:

	AS AT			
US$'000	**30 Sept 2013**		31 DEC 2012	
Cash and cash equivalents		**30,290**		16,047
Trade and other short-term receivables		**39,618**		73,495
TANESCO receivables	**16,637**		33,256	
Songas receivables	**9,394**		14,283	
Other trade receivables	**9,647**		12,791	
Other receivables	**12,240**		13,165	
Provision for doubtful accounts	**(8,300)**		–	
Taxation receivable		**15,736**		14,692
Prepayments		**636**		246
		86,280		104,480
Trade and other payables		**46,353**		45,496
TPDC payables	**18,048**		4,378	
Songas payables	**12,061**		17,459	
Other payables	**16,244**		23,659	
Loan		**4,138**		5,842
Taxation payable		**4,204**		6,322
Working capital (1)		**31,585**		46,820

Notes:

(1) Working capital as at 30 September 2013 includes a TANESCO receivable of US$16.6 million (31 December 2012: US$33.3 million) and a net Songas receivable of US$6.1 million (31 December 2012: US$5.9 million). Given the payment pattern, US$36.3 million of TANESCO receivables in excess of 60 days have been discounted by US$10.8 million and classified as long-term receivables. Total short- and long-term TANESCO receivables as at 30 September 2013 total US$53.0 million prior to discounting. Subsequent to the end of the quarter, TANESCO paid US$7.2 million, and the current TANESCO balance is US$52.8 million of which arrears total US$45.7 million.

Working capital as at 30 September 2013 increased by 40% during the quarter, primarily as a result of receiving US$16.4 million from TANESCO. Sales to TANESCO during the quarter totalled US$22.1 million and as a result of increased sales to TANESCO in August and September the current receivable increased by US$4.4 million. The Company did not incur any major capital expenditure during the quarter.

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

Trade and other receivables at 30 September 2013 comprise trade receivables of US$35.7 million (31 December 2012: US$60.3 million), a provision of US$8.3 million for doubtful debts (31 December 2012: US$ nil) and other receivables of US$12.2 million (31 December 2012: US$13.2 million). Of the trade receivables US$16.6 million (31 December 2012: US$33.3 million) relates to sales to TANESCO outstanding for less than 60 days. The tax related receivable represents an additional share of revenue based on the current tax charge. The tax charge for the quarter is US$2.8 million (Q3 2012: US$3.0 million). This sum is grossed up for income tax at a rate of 30% and is recovered from TPDC once the tax has been paid.

Under the contract terms with the industrial customers, payments for deliveries of Additional Gas must be received within 30 days of the month end. As at 30 September 2013, US$9.3 million (31 December 2012: US$12.8 million) was due from Industrial customers, the majority of which has subsequently been received. The balance of US$26.4 million (31 December 2012: US$47.5 million) is made up of amounts due from the two Power customers, TANESCO and Songas.

The Company obtained 62% of its operating revenue during the quarter from TANESCO. The financial security of Songas is heavily reliant on the payment of capacity and energy charges by TANESCO, which in turn is dependent on the Government of Tanzania to subsidise a significant portion of TANESCO's operating budget. Subsequent to quarter end, the Company received US$7.2 million from TANESCO. Whilst management remains confident the full TANESCO balance will be received, in light of the history of irregular and unpredictable payments and in the absence of a payment plan, a discount of US$10.8 million has been applied to reflect the estimated cost of delayed payment.

The balance due from Songas has reduced following agreement between the parties to offset balances agreed up to 31 December 2012. As at 30 September 2013, the net Songas receivable was US$6.1 million (Q4 2012: US$5.9 million). The Company does not have a legal right to offset these amounts, but anticipates substantially settling 2013 payables and receivables by the end of the year.

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 resulting from delayed TANESCO payments. 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.

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, 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 and TANESCO. The financial security of Songas is heavily reliant on the payment of capacity and energy charges by TANESCO, which in turn 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 of 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.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34.8 million shares outstanding as at 30 September 2013 which may be analysed as follows:

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

As at 27 November 2013, there were a total of 33,072,015 Class B shares and 1,751,195 Class A shares outstanding.

Earnings per share

The calculation of basic earnings per share is based on the comprehensive profit for the quarter of US$1.9 million (Q3 2012: 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.

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 personal services company, during the quarter the Company incurred fees of US$0.1 million.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

CONTRACTUAL OBLIGATIONS

Protected Gas

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

The Gas Agreement may be superseded by an initialed ARGA. The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep it whole in the event of a Protected Gas insufficiency. Once the new IA is signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company shall fund an escrow account at a rate of US$2.00/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 (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.

There are no further capital commitments in Italy.

Songo Songo

There are no contractual commitments for capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania remains dependent on TANESCO receivables being 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.

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

Access to infrastructure

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

Cost recovery

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

TPDC conducted an audit of the historic cost pool and in 2011 disputed approximately US$34 million of costs that had been allocated to the cost pool from 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. Undertakings to resolve this matter were an outcome of GNT negotiations and the matter 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 penalties totals approximately US$2.0 million. The Company considered the assessment to be without merit and appealed to the Tax Revenue Appeals Board. The Tax Revenue Appeals Board considered the appeal in March 2013 and upheld the assessment. The Company then appealed to Tax Revenue Appeals Tribunal and, whilst its decision is awaited, there has been a similar appeal that has been decided in favour of TRA. Despite two internal TRA rulings in favour of TRA, management believes this assessment to be flawed and will now pursue the case in the High Court.

During 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.

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.

Financial Instruments and Fair Value measurement

Credit risk

The Company's maximum credit risk is equal to the carrying value of its trade, other and long-term receivables. Trade receivables are comprised predominantly of amounts due in respect of gas sales to two power companies, the state owned utility 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 have remained outstanding for more than 60 days. Given the irregular and unpredictable pattern of payments this figure has been discounted using a risk adjusted discount rate of 15%.

Financial instrument classification and measurement

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

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

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

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

Valuation of the Company's long-term receivable is considered a Level 3 measurement. Fair value is estimated 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.

CRITICAL ACCOUNTING POLICES AND ESTIMATES

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

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

SUMMARY QUARTERLY RESULTS

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

	2013			**2012**				**2011**
(US$'000 except where otherwise stated)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenue	**14,659**	11,996	13,197	20,712	22,425	16,915	17,207	17,500
Comprehensive income (loss) after tax	**1,928**	(6,817)	2,950	5,504	1,266	5,167	6,392	5,267
Earnings per share - diluted *(US$)*	**0.05**	(0.19)	0.08	0.16	0.04	0.15	0.18	0.15
Funds flow from operating activities	**11,851**	10,546	8,699	11,699	14,379	9,982	9,888	9,096
Per share - diluted *(US$)*	**0.34**	0.30	0.25	0.33	0.41	0.28	0.28	0.25
Operating netback *(US$/mcf)*	**2.26**	2.10	2.15	3.01	3.14	2.56	2.55	2.41
Working capital	**31,585**	22,527	54,758	46,820	37,730	38,689	47,063	56,006
Shareholders' equity	**124,170**	122,068	128,885	125,935	120,204	118,938	113,051	106,659
Capital expenditures								
Geological and geophysical and well drilling	**391**	103	268	2,160	14,749	17,732	18,418	10,989
Pipeline and infrastructure	**296**	31	–	(258)	261	563	219	11
Power development	**–**	–	–	(15)	22	84	91	22
Other equipment	**57**	4	–	562	1	86	20	239
Operating								
Additional Gas sold – industrial *(MMcf)*	**1,092**	1,067	1,176	1,127	1,022	829	835	786
Additional Gas sold – power *(MMcf)*	**4,953**	4,250	4,363	4,417	4,270	4,172	3,973	4,521
Average price per mcf – industrial *(US$)*	**8.43**	8.60	7.78	8.56	9.21	10.14	9.63	9.94
Average price per mcf – power *(US$)*	**4.10**	3.63	3.55	3.61	3.55	2.80	2.72	2.97