CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		Three months ended	
US$'000 except per share amounts	**Note**	**31 Mar 2014**	**31 Mar 2013**
Revenue	*3, 4*	**13,698**	13,197
Cost of sales			
Production and distribution expenses		**(1,260)**	(794)
Depletion expense		**(3,563)**	(2,722)
		8,875	9,681
General and administrative expenses		**(3,794)**	(3,530)
Finance income	*5*	**760**	–
Finance costs	*5*	**(2,595)**	(1,491)
Profit before tax		**3,246**	4,660
Income taxes	*6*	**(1,660)**	(1,886)
Profit after tax		**1,586**	2,774
Foreign currency translation (loss)/gain from foreign operations		**(13)**	176
Total comprehensive income for the period		**1,573**	2,950
Earnings per share			
Basic *(US$)*	*13*	**0.05**	0.09
Diluted *(US$)*	*13*	**0.04**	0.08

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		As at	
US$'000	**Note**	**31-Mar 2014**	**31-Dec 2013**
Assets			
Current Assets			
Cash		**31,058**	32,588
Trade and other receivables	*8*	**35,346**	37,215
Tax receivable	*6*	**14,364**	14,585
Prepayments		**712**	281
		81,480	84,669
Non-Current Assets			
Long-term trade receivable	*8*	**42,192**	29,911
Exploration and evaluation assets		**5,564**	5,564
Property, plant and equipment	*9*	**87,600**	90,832
		135,356	126,307
Total Assets		**216,836**	**210,976**
Equity and Liabilities			
Current Liabilities			
Trade and other payables	*10*	**61,681**	53,296
Bank loan	*11*	**–**	1,659
Tax payable		**739**	1,958
		62,420	56,913
Non-Current Liabilities			
Deferred income taxes	*6*	**11,165**	12,132
Deferred additional profits tax	*7*	**21,400**	21,679
		32,565	33,811
Total Liabilities		**94,985**	**90,724**
Equity			
Capital stock	*12*	**85,428**	85,428
Contributed surplus		**6,482**	6,482
Accumulated other comprehensive loss		**(290)**	(303)
Accumulated income		**30,231**	28,645
		121,851	120,252
Total Equity and Liabilities		**216,836**	**210,976**

See accompanying notes to the consolidated consolidated interim financial statements.

Going concern (Note 1)
Contractual obligations and committed capital investment (Note 15)
Contingencies (Note 16)

The consolidated condensed interim financial statements were approved by the Board of Directors on 29 May 2014.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

		Three months ended	
US$'000	Note	31 Mar 2014	31 Mar 2013
Cash flows (used in)/from operating activities			
Profit after tax		**1,586**	2,774
Adjustment for:			
Depletion and depreciation	*9*	**3,715**	2,809
Provision for doubtful debt	*5*	**2,571**	–
Stock-based compensation		**277**	(271)
Deferred income taxes	*6*	**(967)**	(582)
Deferred additional profits tax	*4,7*	**(279)**	3,035
Interest expense	*5*	**24**	205
Unrealised loss on foreign exchange		**177**	934
Funds flow from operating activities		**7,104**	8,904
Increase in trade and other receivables		**(624)**	(20,928)
Decrease in tax receivable		**221**	320
(Increase)/decrease in prepayments		**(431)**	38
Increase in trade and other payables		**7,890**	7,392
Increase in tax payable		**(1,219)**	(1,269)
Increase in long-term receivable		**(12,281)**	–
Net cash flows from / (used in) operating activities		**660**	(5,543)
Cash flows used in investing activities			
Exploration and evaluation expenditures		**–**	(2)
Property, plant and equipment expenditures	*9*	**(483)**	(268)
Net cash used in investing activities		**(483)**	(270)
Cash flows (used in)/from financing activities			
Bank loan proceeds	*10*	**–**	4,000
Bank loan repayments	*10*	**(1,659)**	(785)
Interest paid	*5*	**(24)**	(205)
Net cash flow from/ (used in) financing activities		**(1,683)**	3,010
Decrease in cash		**(1,506)**	(2,803)
Cash at the beginning of the period		**32,588**	16,047
Effect of change in foreign exchange on cash in hand		**(24)**	177
Cash at the end of the period		**31,058**	13,421

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	*11*				
Balance as at 1 January 2014	85,428	6,482	(303)	28,645	**120,252**
Foreign currency translation adjustment on foreign operations	–	–	13	–	**13**
Profit after tax for the period	–	–	–	1,586	**1,586**
Balance as at 31 March 2014	85,428	6,482	(290)	30,231	**121,851**

US$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated income	Total
Balance as at 1 January 2013	84,983	6,753	89	34,110	**125,935**
Foreign currency translation adjustment on foreign operations	–	–	176	–	**176**
Profit after tax for the period	–	–	–	2,774	**2,774**
Balance as at 31 March 2013	84,983	6,753	265	36,884	**128,885**

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three months ended March 31, 2014

General information

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

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

1 GOING CONCERN

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 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 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.

In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 31 March 2014 and TANESCO continues to be unable to pay the Company for subsequent 2014 gas deliveries, the Company will need additional funding for its ongoing operations before the end of the current fiscal year. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms. Pursuant to its rights under the PGSA, the Company has served a Notice of Dispute to TANESCO demanding payment in full to collect the arrears, as well examining the Company's legal and contractual options mitigate a further increase in arrears, including but not limited to suspending gas deliveries to TANESCO.

The material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern are set forth below. The Company generates on average in excess of 65% 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.

At 31 March 2014, TANESCO owed the Company US$68.6 million gross prior to discount (including arrears of US$63.9 million) compared to US$56.6 million (including arrears of US$51.5 million) as at 31 December 2013. During the quarter the Company received a total of US$2.8 million (Q1 2013: US$ nil) from TANESCO and, subsequent to the quarter end, TANESCO paid the Company a further US$10.9 million. As of the date of this report, the outstanding balance is US$60.9 million of which US$57.6 million is in arrears.

At the end of Q1 2013, the World Bank approved a Tanzania First Power and Gas Development Policy Operation ("DPO") of US$100 million, the first in a programme of three contemplated operations. The objective of the program is to: (i) strengthen the Tanzania's ability to bridge the financial gap in its power sector; (ii) reduce the cost of power supply and promote private sector participation in the power sector; and (iii) strengthen the policy and institutional framework for the management of the country's natural gas resources. TANESCO made tangible progress in late 2013 towards sustainability in securing a 39% power tariff increase from the energy regulator, the Energy Water Utilities Regulatory Authority ("EWURA"). This was an important outcome of the World Bank condition to limit Government subsidies of TANESCO and resulted in the advancement of the Second US$100 million Power and Gas DPO, approved by the World Bank on 26 March 2014 and expected to be disbursed in Q2 2014. The Company received significant payments of approximately US$18.7 million in 2013 from TANESCO around the time of the disbursement of the First DPO and as at the date of this report has yet to be advised formally as to the quantum of payments if any which may be made as a result of the Second DPO. The DPO programme contemplates a third tranche which the Company understands is conditional, among other things, upon the Tanzania Gas Act being enacted by Parliament.

Management continues to believe that TANESCO will ultimately settle its debts with the Company and is currently in discussions with TANESCO senior management to agree a payment schedule. Whilst there have been recently a number of payments from TANESCO received approximately weekly, as at the date of this report, however, there is no set schedule or repayment plan for TANESCO arrears agreed with the Company and payments since mid-2011 have been irregular and unpredictable. Based on the actual repayment history as at 31 March 2014, US$9.3 million (Q4 2013: US$9.6 million) of the TANESCO receivable was classified as current and US$59.3 million (Q4 2013: 47.0 million) was classified as long-term. A discount of US$17.1 million (Q4 2013: US$17.1 million) has been taken against the TANESCO receivable to reflect the estimated finance cost of delay in collections. The trade receivable was discounted using a risk adjusted discount rate of 15% to reflect the cost of 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.

As at 31 March 2014, Songas owed the Company US$30.4 million (Q4 2013: US$24.8 million), whilst the Company owed Songas US$20.6 million (Q4 2013: US$16.9 million). There is no contractual right to offset these amounts, although in practice the companies have set off receivables and payables. During 2013 the Company and Songas formally offset payable and receivable balances of US$17.5 million. During and 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$19 million (Q4 2013: US$15.4 million), whereas the amounts due to the Company are mainly for sales of gas of US$14.7 million (Q4 2013: US$11.6 million) and for the operation of the gas plant for US$15.8 million (Q4 2013: US$13.3 million).

The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis without profit margin. Due to the time for which the set off has been outstanding and the lack of evidence of cash payments from Songas, the Company was unable to recognize the net Songas receivable and accordingly a further provision of US$1.9 million (Q4 2013: US$1.8 million) has been provided against same (see Note 5). Management continues to negotiate with Songas to reach an offsetting agreement and if, and when, such agreement is reached, the related provision for bad debts will be reversed. Any amounts which are not agreed will be pursued by the Company through the dispute mechanisms provided in its agreements with Songas.

2 BASIS OF PREPARATION

A) Statement of compliance

These consolidated interim financial statements have prepared on a historical cost basis using the accrual basis of accounting, and are presented in US dollars. They have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for the full annual financial statements prepared in accordance with International Financial Reporting Standards as issued by the IASB. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2013 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 2013.

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 2013, except as highlighted below.

On January 1, 2014 the Company adopted new standards with respect to Employee Contributions (Amendments to IAS 19), Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Liability for Levies (IFRIC 21). The adoption of these amendments and standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2014 or on the comparative periods.

D) Financial instrument classification and measurement

The Company classifies the fair value of 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.

The Company's long-term trade receivable is considered Level 3 measurements.

3 SEGMENT INFORMATION

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

	Three months ended					
			31 March 2014			*31 March 2013*
US$'000	**Italy**	**Tanzania**	**Total**	**Italy**	**Tanzania**	**Total**
External Revenue	**–**	**13,698**	**13,698**	–	13,197	13,197
Segment Income	**–**	**1,586**	**1,586**	–	2,774	2,774
Non-cash charge[(1)]	**–**	**(2,571)**	**(2,571)**	–	–	–
Total Assets	**226**	**216,610**	**216,836**	834	225,659	226,493
Total Liabilities	**216**	**94,769**	**94,985**	714	96,894	97,608
Capital Additions	**–**	**483**	**483**	–	270	270
Depletion & Depreciation	**–**	**3,715**	**3,715**	–	2,809	2,809

(1) The non-cash charge represents an increase in the doubtful debt provision of US$2.6 million, resulting in a total provision for doubtful debts of US$13.1 million.

4 REVENUE

	Three months ended	
US$'000	**31 March 2014**	**31 March 2013**
Operating revenue	**12,128**	12,706
Current income tax adjustment	**3,755**	3,526
Additional profits tax	**(2,185)**	(3,035)
Revenue	**13,698**	13,197

The Company's total revenues for the quarter amounted to US$13,698 after adjusting the Company's operating revenue of US$12,128 by:

i) adding US$3,755 for income tax for the current period. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable. To account for this, revenue is adjusted to reflect the current income tax charge, which represents a 30% gross up of the current tax for the period (Note 6); and,

ii) subtracting US$2,185 for the deferred effect of Additional Profits Tax – this tax is considered a royalty and is presented as a reduction in revenue.

5 FINANCE INCOME AND FINANCE COSTS

	Three months ended	
US$'000	**31 March 2014**	**31 March 2013**
Interest charged on overdue trade receivables	**647**	–
Foreign exchange gain	**113**	–
Finance income	**760**	–
Interest expense	**(24)**	(205)
Net foreign exchange loss	**–**	(1,286)
Provision for doubtful accounts	**(2,571)**	–
Finance costs	**(2,595)**	(1,491)
Net finance costs	**(1,835)**	(1,491)

Interest income of US$0.6 million is due from TANESCO, under the terms of the PGSA, for late payment of gas supplied. This forms part of the TANESCO account receivable balance and has been fully provided against to reflect the uncertainty over the timing of collection.

6 INCOME TAXES

The tax charge is as follows:

	Three months ended	
US$'000	**31 March 2014**	**31 March 2013**
Current tax	**2,627**	2,468
Deferred tax	**(967)**	(582)
	1,660	1,886

No tax (Q1 2013: US$3.0 million) was paid during the period in relation to the settlement of the 2013 tax liability. In addition provisional tax payments of US$4.0 million (Q1 2013: US$0.8 million) relating to the current year were made. These are present as a reduction in Tax Payable on the balance sheet.

Tax Rate Reconciliation

	Three months ended	
US$'000	**31 March 2014**	**31 March 2013**
Profit before taxation	**3,246**	4,660
Provision for income tax calculated at the statutory rate of 30%	**973**	1,398
Add the tax effect of non-deductible income tax items:		
Administrative and operating expenses	**619**	556
Financing charge	**2**	(10)
Stock-based compensation	**83**	(90)
Permanent differences	**(17)**	32
	1,660	1,886

As at 31 March 2014, there were temporary differences between the carrying value 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 31 March 2014.

A deferred tax asset of US$2.2 million (Q1 2013: 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	**31 March 2014**	**31 December 2013**
Differences between tax base and carrying value of property, plant and equipment	**16,958**	17,081
Income tax recoverable	**10,835**	10,182
Discount on receivable and provision for doubtful debt	**(9,053)**	(8,281)
Deferred Additional Profits Tax	**(7,159)**	(6,509)
Unrealised exchange losses/other provisions	**(416)**	(341)
	11,165	12,132

Tax Receivable

The Company has a tax receivable balance of US$14.4 million (Q4 2013: US$14.6 million).

7 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 timing and the effective rate of APT depends on the realised value of Profit Gas which in turns depends of the level of expenditure. The Company provides forAPT by forecasting annually the total APT payable as apro-portion of the forecast Profit Gas over the term of the PSA. The forecast takes into account the timing of future development capital spending.

The effective APT rate of 22.2% (Q1 2013: 33.3%) has been applied to Profit Gas of US$4.3 million (Q1 2013: US$9.1 million), and accordingly, US$2.2 million (Q1 2013: US$3.0 million) has been netted off revenue for the quarter ended 31 March 2014.

	Three months ended	
US$'000	**31 March 2014**	**31 March 2013**
Current APT payable	**2,464**	–
Deferred APT	**(279)**	3,035
	2,185	3,035

The deferred APT credit represents the release of an accumulated provision bringing the APT rate down from 25% to currently projected rate for the life of the PSA.

8 TRADE AND OTHER RECEIVABLES

Current Receivables

	As at	
US$'000	**31 March 2014**	**31 December 2013**
TANESCO	**9,320**	9,624
Songas	**14,653**	11,560
Other debtors	**6,977**	10,874
Trade receivables	**30,950**	32,058
Songas gas plant operations	**15,763**	13,280
Other receivables	**1,735**	2,408
Less provision for doubtful accounts	**(13,102)**	(10,531)
	35,346	37,215

In addition to the trade receivable from Songas of US$14.7 million, an additional US$15.8 million (Q4 2013: US$13.3 million) is due from Songas with respect to Gas Plant operations. All receivable amounts from Songas have been included in the net Songas balance (see Note 10) of US$9.8 million (Q4 2013: US$7.9 million) and a provision for doubtful debts is recognised for the full net receivable amount of US$9.8 million (see Note 10).

Trade Receivables Age Analysis

As at 31 March, 2014 (US$'000)	**Current**	**>30 <60**	**>60 <90**	**>90**	**Total**
TANESCO	4,669	4,651	–	–	**9,320**
Songas	1,119	964	1,010	11,560	**14,653**
Other debtors	3,720	2,315	784	158	**6,977**
Trade receivables	9,508	7,930	1,794	11,718	**30,950**

As at 31 December, 2013 (US$'000)	**Current**	**>30 <60**	**>60 <90**	**>90**	**Total**
TANESCO	5,071	4,553	–	–	**9,624**
Songas	1,076	1,016	927	8,541	**11,560**
Other debtors	3,663	2,822	1,661	2,728	**10,874**
Trade receivables	9,810	8,391	2,588	11,269	**32,058**

Subsequent to 31 March 2014, US$10.9 million has been received from TANESCO, and US$4.5 million from other debtors. As a result of irregular and unpredictable payments by TANESCO, management has reclassified the TANESCO balance more than 60 days as a long-term receivable and has discounted the value of the TANESCO receivable (see Note 1). The Songas trade receivable is less than equivalent trade payable and no contractual right of set off exists.

Long-Term Receivables

	As at	
US$'000	**31 March 2014**	**31 Dec 2013**
TANESCO receivable > 60 days	59,265	46,984
Discount on long-term receivable	(17,073)	(17,073)
Net long-term receivable	42,192	29,911

9 PROPERTY, PLANT AND EQUIPMENT

US$'000	Oil & natural gas interests	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2014	139,072	885	1,072	137	1,168	**142,334**
Additions	305	70	63	–	45	**483**
Disposals	–	(258)	–	–	–	**(258)**
As at 31 March 2014	**139,377**	**697**	**1,135**	**137**	**1,213**	**142,559**
Depletion and depreciation						
As at 1 January 2014	49,967	245	761	137	392	**51,502**
Charge for period	3,563	36	49	–	67	**3,715**
Depreciation on disposals	–	(258)	–	–	–	**(258)**
As at 31 March 2014	**53,530**	**23**	**810**	**137**	**459**	**54,959**
Net Book Values						
As at 31 March 2014	**85,847**	**674**	**325**	**–**	**754**	**87,600**
As at 31 December 2013	89,105	640	311	–	776	**90,832**

In determining the depletion charge, it is estimated that future development costs of US$238 million (31 December 2013: US$239 million) will be required to bring the total proved reserves to production. During the quarter the Company recognized depreciation of US$0.2 million (Q1 2013: US$0.1 million) in General and Administrative expenses.

10 TRADE AND OTHER PAYABLES

US$'000	**31 March 2014** (As at)	**31 Dec 2013**
Songas	**19,025**	15,355
Other trade payables	**2,363**	3,857
Trade payables	**21,388**	19,212
TPDC	**27,300**	20,644
Deferred income	**5,880**	6,271
Accrued liabilities	**7,069**	7,169
Related party *(Note 14)*	**44**	–
	61,681	53,296

The balances payable to Songas are net of amounts receivable from Songas that have been agreed as fully settled. The following table shows the amounts considered to have been settled by offsetting during the period.

US$'000	**1 January 2014**	**Transactions during the quarter**	**Gross balance**	**Set off**	**31 March 2014**
Pipeline tariff - payable	(15,354)	(3,671)	(19,025)	–	**(19,025)**
Gas sales - receivable	11,561	3,092	14,653	–	**14,653**
Gas plant operation - receivable	13,280	2,483	15,763	–	**15,763**
Miscellaneous payable	(1,546)	(29)	(1,575)	–	**(1,575)**
Net balances	7,941	1,875	9,816	–	**9,816**

11 BANK LOAN

The loan was fully paid by February 2014. Total payments during the quarter were US$1.7 million.

12 CAPITAL STOCK

Authorised and Issued Share Capital

Number of shares (000s)	Authorised	Issued	Amount (US$'000)
Class A			
As at 1 January 2014 and 31 March 2014	50,000	1,751	983
Class B			
As at 1 January 2014 and 31 March 2014	100,000	33,072	84,445
First preference			
As at 1 January 2014 and 31 March 2014	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 2014 and 31 March 2014	1,742	1.00 to 3.60

The weighted average remaining life and weighted average exercise prices of options at 31 March 2014 were as follows:

Exercise Price (CDN$)	Number Outstanding as at 31 March 2014	Weighted Average Remaining Contractual Life (years)	Number Exercisable as at 31 March 2014	Weighted Average Exercise Price (CDN$)
1.00	**1,092**	0.42	1,092	1.00
3.18	**400**	3.75	400	3.18
3.60	**250**	2.5	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 2014	1,030	2.12 to 4.20
Granted	1,780	2.30
Outstanding as at 31 March 2014	**2,810**	**2.12 to 4.20**

The Company records a charge to the income statement using the Black-Scholes fair value option pricing model every reporting period with a resulting liability being recognised in trade and other payables. In the valuation of stock options and stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.75% stock volatility of 43% to 53%; 0% dividend yield; 0% forfeiture; a closing stock price of CDN$2.35 per share.

As at 31 March 2014, a total accrued liability of US$0.7 million (Q1 2013: US$0.3 million) has been recognised in relation to the stock appreciation rights. A charge of US$0.3 million was recognised during the period compared to a credit of US$0.3 million in Q1 2013. The increase in the cost of SARs year over year is due to the granting of an additional 1.8 million SARS in January 2014.

13 EARNINGS PER SHARE

Number of shares ('000s)	*As at* 31 Mar 2014	31 Mar 2013
Weighted average number of shares outstanding		
Class A and Class B shares	**34,823**	34,643
Convertible securities		
Stock options	**643**	767
Weighted average diluted Class A and Class B shares	**35,466**	35,410

The calculation of basic earnings per share is based on the comprehensive profit for the quarter of US$1.6 million (Q1 2013: profit US$2.9 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,823,210 (Q1 2013: 34,643,210).

In computing the diluted earnings per share, the effect of the stock options is added to the weighted average number of Class A and Class B shares outstanding during the quarter. For Q1 2014 the number was 642,853 (Q1 2013: 767,480) shares, resulting in a diluted weighted average number of Class A and Class B shares of 35,466,063 (Q1 2013: 35,410,690). No adjustments were required to the reported earnings from operations in computing diluted per share amounts.

14 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the quarter, the Company incurred US$0.04 million (Q1 2013: US$0.1 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. The Chief Financial Officer provided services to the Company through a consulting agreement with a personal services company, during the quarter the Company incurred US$0.1 million (Q1 2013 US$ nil) to this firm for services provided. As at 31 March 2014 the Company has a total of US$0.04 million (Q1 2013: US$0.2 million) recorded in trade and other payables in relation to the related parties.

15 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, then the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu escalated) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (113.5 Bcf as at 31 March 2014). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

The Gas Agreement may be superseded by an initialed Amended and Restated Gas Agreement ("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. Should the IA be 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 is required to fund an escrow account at a rate of US$2.00/MMbtu on all Industrial Additional Gas sales out of 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 2013. At this time, the Company knows of no reason to de-rate the Songas plant. Since 31 December 2013 production has continued at the higher rated limit and, given the Government's interest in pursuing further development and increasing gas production, the Company expects this to continue. However there are no assurances that this will occur.

Portfolio Gas Supply Agreement

On 17 June 2011, a long term (to June 2023) PGSA was signed between the Company, TPDC and TANESCO. Under the PGSA, the seller 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 is approximately US$2.88/mcf on 1 July 2014 this will increase to US$2.94/mcf. Any volumes of gas delivered under the PGSA in excess of 36 MMcfd are subject to a 150% increase in the basic wellhead gas price.

Operating leases

The Company has two office rental agreements, one in Dar es Salaam, Tanzania and one in Winchester, United Kingdom. The agreement in Dar es Salaam was entered into on 1 November 2013 and expires on 31 October 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) per annum thereafter. The costs of these leases are recognised in the General and Administrative expenses.

CAPITAL COMMITMENTS

There are no capital commitments at this time.

16 CONTINGENCIES

Downstream unbundling

The separation or unbundling of the downstream assets currently in the PSA has been an objective of TPDC and MEM for some time. Unbundling was an issue raised by TPDC in the 2012 GNT negotiations and in the recently issued National Natural Gas Policy which contemplates TPDC as a monopoly aggregator and distributor of gas. In the context of the gas policy, TPDC and MEM have indicated that they wish the Company to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with TPDC in the course of GNT negotiations. During 2013, the Company tabled a proposal with alternative mechanisms to unbundle the downstream from the PSA which were economically neutral to the parties. TPDC did not respond to the proposal and it was later withdrawn by the Company in connection with the termination of negotiations arising from the GNT and TPDC was advised that the downstream would remain in the PSA until mutually agreed otherwise. The disposition of the downstream business will be addressed at such a time as there is a conflict between new legislation and the Company's rights under the PSA.

TPDC Back-in

TPDC has previously indicated a wish to exercise its right under the PSA to 'back in' to the Songo Songo field development and a further wish to convert this into a carried interest in the PSA. The current terms of the PSA require TPDC to provide formal notice in a defined period and contribute a proportion of the costs of any development, sharing in the risks in return for an additional share of the gas. To date, TPDC has not contributed any costs. TPDC back-in rights and the potential conversion of these rights into a carried working interest were discussed with the GNT along with other issues, however there were no changes to the PSA agreed between the parties. As such the Company continues to stand behind the original terms of the PSA. Should an amendment to the PSA be agreed in future relating to back-in rights, the impact on reserves and accounting estimates will be assessed at that time and reflected prospectively.

For the purpose of the reserves certification as at 31 December 2013, it was assumed that, on the basis of economically rational behavior, TPDC will elect to 'back-in' for 20% for all future new drilling activities with-in the prescribed period as determined by the current development plan 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 recovered from the Cost Pool from 2002 through to 2009. The Company has contended 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 was referred to the Controller and Auditor General ("CAG"), head of the National Audit Office of Tanzania. With no progress on resolving the matter, the Company served a Notice of Dispute on TPDC to put the matter to a definitive timeline for resolution, following which the CAG appointed an international independent audit firm to review the disputed costs. The work of the CAG has recently been completed and once TPDC has completed its review of the findings, TPDC and Company senior management will hold discussions to determine whether a settlement is possible. If the matter is not resolved to the Company's satisfaction, it intends to proceed to ICSID arbitration pursuant to the terms of the PSA. This matter has had no impact on the results for the period.

TPDC marketing costs

Under the Songo Songo PSA, all reasonable marketing costs including those incurred by TPDC, with the prior approval by the Company are recoverable. TPDC has to date attempted to claim US$3.6 million in marketing costs from the Company. Management reviewed the claims and can demonstrate that there was no prior approval for such costs, no supporting documentation provided evidencing the expenditure, and further believes the nature of the costs to be unreasonable and not related to marketing the downstream business. Accordingly the Company has rejected the claim by TPDC.

Taxation

During 2013 the Company received a number of assessments for additional tax from the Tanzania Revenue Authority ("TRA"), which together with interest penalties total US$18.4 million at 31 December 2013. Management, together with tax advisors, have reviewed each of the assessments and believe them to be without merit. The Company has appealed against assessments for additional withholding tax and employment related taxes, and has filed formal objections against TRA's claims for additional corporation tax and VAT.

The Tax Revenue Appeals Board (TRAB) considered the Company's appeal against a withholding tax assessment of US$2.4 million in March 2013 and upheld the assessment. The Company then appealed to Tax Revenue Appeals Tribunal whose decision is awaited. Although a similar appeal to the Tribunal has been decided in favour of TRA, management continues to believe this assessment is flawed and, if necessary, will pursue the case in the Court of Appeal where a similar case is currently being heard.

The Company, based on legal counsel's advice, believes it has strong support, on the basis of tax legislation and the terms of the PSA, for its objection to the additional income tax assessment of US$7.8 million, including penalties. Subsequent to the quarter end TRA notified the Company that it would not accept the objection relating to 2009 and issued a notice confirming the assessment for US$2.5 million. The Company now intends to appeal to the TRAB in respect of 2009. In the event that the Company's 2008 and 2010 objections are rejected and subsequent appeals are overturned, any additional tax payable will be recoverable from TPDC under the terms the PSA.

The Company has filed an objection against a further assessment of VAT, which together with penalties totals US$7.5 million. Again, the Company, based on legal counsel's advice, believes that it has strong grounds for objecting to this assessment and accordingly has made no provision.

The Company has received an assessment of US$0.7 million in respect of employment related taxes which TRA believe to have been underpaid. The Company does not accept TRA's finding and has appealed.

Management continues to review the progress of the above appeals and objections and, as of the date of this report, does not believe any provision is required.

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Chief Executive Officer

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Non-Executive Director

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