INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2014 and 2013

CARACAL
ENERGY INC.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Expressed in US$ thousands; unless otherwise stated)	NOTE		MARCH 31 2014		DECEMBER 31 2013
ASSETS					
Current:					
Cash and cash equivalents		$	66,135	$	179,651
Accounts receivable	*3*		182,768		145,395
Inventory	*4*		16,191		27,159
			265,094		352,205
Exploration and evaluation assets	*6*		98,598		74,047
Property, plant and equipment	*7*		242,589		190,286
Deferred tax asset			1,006		329
		$	607,287	$	616,867
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current:					
Accounts payable and accrued liabilities	*5*	$	54,441	$	82,870
Long term:					
Convertible bonds			140,017		137,883
Decommissioning obligations			3,949		2,463
Share–based compensation liability			3,226		2,936
			201,633		226,152
Shareholders' Equity:					
Share capital			552,127		550,091
Warrants and agent options			7,970		8,405
Equity component of convertible bonds			29,395		29,395
Other equity items	*8*		13,477		9,474
Deficit			(197,315)		(206,650)
			405,654		390,715
Subsequent Events	*11*				
		$	607,287	$	616,867

The notes are an integral part of these interim consolidated financial statements .

INTERIM CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

(Expressed in US$ thousands; unless otherwise stated)	NOTE	MARCH 31 2014	MARCH 31 2013
Oil revenue	*3*	$ 55,894	$ –
Change in oil inventory	*4*	(10,828)	–
		45,066	–
Expenses:			
Operating expenses		4,906	–
Transportation expenses		4,024	–
Depreciation and depletion		8,344	394
Share–based compensation		2,723	2,121
General and administrative		9,084	12,733
Finance expense	*9*	6,595	7,765
Foreign exchange loss		733	354
		36,409	23,367
Net income (loss) before tax		8,657	(23,367)
Deferred tax reduction		678	–
Net and comprehensive income (loss)		$ 9,335	$ (23,367)
Earnings (loss) per share:			
Basic	*10*	$ 0.06	$ (0.21)
Diluted	*10*	$ 0.06	$ (0.21)

The notes are an integral part of these consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Expressed in US$ thousands; unless otherwise stated)	NOTE	MARCH 31 2014	MARCH 31 2013
Share Capital			
Balance, beginning of the period		$ 550,091	$ 328,230
Exercise of stock options – cash		1,288	–
Exercise of stock options – contributed surplus		670	–
Conversion of liquidity warrants into shares		–	1,255
Interest on share purchase loans		19	23
Agency options converted to shares		–	5,183
Exercise of performance warrants		59	–
Balance, end of the period		552,127	334,661
Warrants and Agent Options			
Balance, beginning of the period		8,405	12,683
Conversion of liquidity warrants into shares		–	(1,255)
Agency options converted to shares		–	(1,282)
Agency options expired		–	(1,976)
Share-based compensation for performance warrants		–	139
Performance warrants cancelled		(376)	–
Performance warrants converted to shares		(59)	–
Balance, end of the period		7,970	8,309
Equity Component of Convertible Bonds			
Balance, beginning of the period		29,395	29,395
Balance, end of the year		29,395	29,395
Other Equity Items	8		
Balance, beginning of the period		9,474	3,305
Share–based compensation		2,432	1,689
Share–based compensation capitalized		1,086	729
Exercise of stock options		(670)	–
Agency options expired		–	1,976
Treasury stock		(464)	–
Interest on loans		(19)	(23)
Interest received on loans		26	28
Repayment of share purchase loans		940	–
Performance warrants cancelled		376	–
Foreign exchange		296	280
Balance, end of the period		13,477	7,984
Deficit			
Balance, beginning of the period		(206,650)	(122,440)
Net earnings (loss) for the period		9,335	(23,367)
Balance, end of the period		(197,315)	(145,807)
Total Shareholders' Equity		$ 405,654	$ 234,542

The notes are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Expressed in US$ thousands; unless otherwise stated)	NOTE	MARCH 31 2014	MARCH 31 2013
OPERATING ACTIVITIES			
Net income (loss)		$ 9,335	$ (23,367)
Adjustments for:			
Change in oil inventory		10,968	–
Depreciation		8,344	394
Accretion of decommissioning liability obligations		28	24
Share-based compensation		2,723	2,121
Accretion on convertible bonds		2,134	7,779
Foreign exchange loss (gain)		733	(74)
Deferred tax recovery		(678)	–
Accretion of accounts receivable		(968)	–
Operating cash flow before working capital movements		32,619	(13,123)
Changes in non–cash working capital		(62,823)	36,235
		(30,204)	23,112
INVESTING ACTIVITIES			
Exploration and evaluation additions	*6*	(25,826)	(106,928)
Property, plant and equipment additions	*7*	(56,829)	(650)
Changes in non–cash working capital		(2,009)	(54,221)
Advance proceeds		–	100,000
		(84,664)	(61,799)
FINANCING ACTIVITIES			
Net proceeds from issuance of shares and warrants		–	3,871
Repayment of shareholder loan		940	–
Share repurchase		(464)	–
Interest received on share purchase loans		26	28
Options exercised		1,288	–
		1,790	3,899
Effect of exchange rate changes on cash and cash equivalents		(438)	353
Increase in cash and cash equivalents		(113,516)	(34,435)
Cash and cash equivalents, beginning of period		179,651	119,881
Cash and cash equivalents, end of period		$ 66,135	$ 85,446

The notes are an integral part of these interim consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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REPORTING ENTITY

Caracal Energy Inc. (the "Company" or "Caracal") was incorporated pursuant to the Canada Business Corporations Act. The Company is engaged in oil and gas exploration, development and production activities in the Republic of Chad, which is located in central Africa.

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BASIS OF PREPARATION

The interim consolidated financial statements of the Company have been prepared using accounting policies in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting.

These interim consolidated financial statements are approved by the Board of Directors on May 6, 2014.

The interim consolidated financial statements should be read in conjunction with the Company's annual audited financial statements for the years ended December 31, 2013 and 2012 which are prepared in accordance with the International Financial Reporting Standards and interpretations (collectively referred to as "IFRS") as issued by the International Accounting Standards Board ("IASB").

All amounts are express in US$ thousands unless otherwise stated.

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ACCOUNTS RECEIVABLE

		MARCH 31 2014		DECEMBER 31 2013
Revenue receivable	$	55,894	$	–
Prepaid expenses		1,544		3,118
Advances and deposits		1,978		2,224
Joint venture receivable		22,091		41,640
Farm–in Agreement receivable		98,023		97,049
Other		3,238		1,275
Balance, end of period	$	182,768	$	145,395

The Farm-in agreement receivable ("Receivable") is $100 million and is due from a Joint Venture Partner ("Partner"). The Receivable is expected to be received subsequent to June 30, 2014 and has been discounted at four percent. The Receivable is secured by a guarantee from the Partner's parent.

In addition, as at March 31, 2014 the Company had a receivable from its Partner of $22.1 million relating to the Partner's working interest share of expenditures incurred in March 2014.

On April 23, 2014, the Company received the revenue receivable in full.

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INVENTORY

		MARCH 31 2014		DECEMBER 31 2013
Balance, beginning of period	$	27,159	$	–
Oil inventory additions during the period		46,427		27,159
Oil lifting		(55,894)		–
Inventory revaluation		(1,501)		–
Balance, end of period	$	16,191	$	27,159

Oil inventory comprises production volumes accumulated in pipeline and storage facilities that have not yet been offloaded and transported to market. The first off load of oil production occurred in March 2014 which resulted in the sale of $55.9 million of oil.

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ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		MARCH 31 2014		DECEMBER 31 2013
Trade payables	$	41,571	$	43,810
Other payables		658		104
Accrued liabilities		12,212		38,956
Balance, end of period	$	54,441	$	82,870

Trade and other payables are non–interest bearing and are normally settled on 30 to 60 day terms.

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EXPLORATION AND EVALUATION ASSETS

		MARCH 31 2014		DECEMBER 31 2013
Balance, beginning of period	$	74,047	$	295,747
Additions		26,912		266,117
Disposals		–		(450,965)
Transfers to property, plant & equipment		(2,065)		(36,790)
Changes in decommissioning obligations		(296)		(62)
Balance, end of period	$	98,598	$	74,047

Included in E&E assets additions is $1.1 million (2013 - $0.7 million) relating to capitalized share-based compensation.

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PROPERTY, PLANT AND EQUIPMENT

		OIL AND GAS		OTHER FIXED ASSETS		TOTAL
Cost:						
December 31, 2013	$	191,678	$	5,488	$	197,166
Additions		58,188		426		58,614
Transfers from E&E assets		2,065		–		2,065
March 31, 2014	$	251,931	$	5,914	$	257,845
Depreciation and depletion:						
December 31, 2013	$	4,089	$	2,791	$	6,880
Additions		7,945		431		8,376
March 31, 2014		12,034		3,222		15,256
Net book value, December 31, 2013	$	187,589	$	2,697	$	190,286
Net book value, March 31, 2014	$	239,897	$	2,692	$	242,589

Included in additions is $1.8 million (2013 - nil) relating to changes to the decommissioning provision.

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SHAREHOLDER'S EQUITY

a) Stock Options

The Company has an employee stock option plan under which it may grant options to purchase common shares to employees, directors and consultants of the Company. Options are granted at the market price of the shares on the date of grant, have a five-year term, and vest in one-third tranches starting on the first anniversary of the grant. During the first quarter of 2014, Caracal granted 2 million options to new and current employees.

b) Long Term Incentive Plan ("LTIP")

During the quarter, Caracal purchased 0.1 million shares for the Long Term Incentive Plan (the "Plan") for a total consideration of $0.5 million. The shares are held in trust by a third party trustee with the sole purpose of administering the Plan. The shares held in the trust have not been vested to participants.

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FINANCE EXPENSE (INCOME)

		MARCH 31, 2014		MARCH 31, 2013
Interest paid on convertible bond	$	5,425	$	5,676
Accretion of convertible bond		2,134		2,103
Accretion of decommissioning obligation		28		24
Accretion of accounts receivable		(968)		–
Other interest income		(24)		(39)
	$	6,595	$	7,765

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PER SHARE AMOUNTS

		MARCH 31 2014		MARCH 31 2013
Net and comprehensive income loss:	$	9,335	$	(23,367)
Weighted average number of shares - basic		146,630		113,438
Weighted average number of shares - diluted		146,984		113,438
Earnings/(loss) per share - basic		0.06		(0.21)
Earnings/(loss) per share – diluted		0.06		(0.21)

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SUBSEQUENT EVENTS

a) On April 7, 2014, Caracal announced it signed a $140 million Reserve Based Senior Secured Facility (the "Facility"). In addition, Caracal has an option to increase the Facility by up to an additional US$110 million subject to receipt of further lender commitments. The Facility has a final maturity date of March 31, 2017.

b) On April 14, 2014, GlencoreXstrata plc ("Glencore") and Caracal reached a definitive agreement for a wholly owned subsidiary of Glencore to acquire Caracal for cash consideration of £5.50 per common share by way of Plan of Arrangement (the "Arrangement"). The deal is subject to regulatory and shareholder approvals and is expected to close in June 2014.

As a result of the Arrangement, Caracal announced that it has terminated a prior agreement under which it proposed to merge with TransGlobe Energy Corporation ("Transglobe"). Caracal paid TransGlobe a termination fee of US$9.25 million as required under the terms of the prior agreement.

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