Q2

ORCA EXPLORATION GROUP INC.

2012 Q2 Interim Report

ORCA EXPLORATION GROUP INC.

is an international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania and oil appraisal and gas exploration in Italy. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

GLOSSARY

mcf	Thousands of standard cubic feet	*1P*	Proven reserves
MMcf	Millions of standard cubic feet	*2P*	Proven and probable reserves
Bcf	Billions of standard cubic feet	*3P*	Proven, probable and possible reserves
Tcf	Trillions of standard cubic feet	*Kwh*	Kilowatt hour
MMcfd	Millions of standard cubic feet per day	*MW*	Megawatt
MMbtu	Millions of British thermal units	*US$*	US dollars
HHV	High heat value	*CDN$*	Canadian dollars
LHV	Low heat value	*bar*	Fifteen pounds pressure per square inch

3P Possible reserves are those additional reserves that are less certain to be recovered than probable resources. There is a 10 percent probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

FINANCIAL AND OPERATING HIGHLIGHTS

	THREE MONTHS ENDED OR AS AT			SIX MONTHS ENDED OR AS AT		
	30 June 2012	30 June 2011	Change	**30 June 2012**	30 June 2011	Change
Financial *(US$'000 except where otherwise stated)*						
Revenue	**16,915**	8,296	104%	**34,121**	17,936	90%
Profit before taxation	**8,672**	1,341	547%	**18,825**	5,371	250%
Operating netback *(US$/mcf)*	**2.56**	1.80	42%	**2.54**	1.98	(28%)
Cash and cash equivalents	**20,194**	48,993	(59%)	**20,194**	48,993	(59%)
Working capital	**38,689**	57,070	(32%)	**38,689**	57,070	(32%)
Shareholders' equity	**118,938**	100,956	18%	**118,938**	100,956	18%
Earnings per share – basic *(US$)*	**0.15**	0.01	100%	**0.34**	0.08	379%
Earnings per share – diluted *(US$)*	**0.15**	0.01	1272%	**0.33**	0.08	366%
Funds flow from operating activities	**9,982**	3,292	201%	**19,871**	8,239	141%
Funds per share from operating activities – basic *(US$)*	**0.29**	0.09	203%	**0.57**	0.24	142%
Funds per share from operating activities – diluted *(US$)*	**0.28**	0.09	206%	**0.56**	0.23	143%
Net cash flows from operating activities	**5,689**	2,142	166%	**12,342**	5,638	119%
Net cash flows per share from operating activities – basic *(US$)*	**0.16**	0.06	166%	**0.36**	0.16	120%
Net cash flows per share from operating activities – diluted *(US$)*	**0.16**	0.06	169%	**0.35**	0.16	121%
Outstanding Shares *('000)*						
Class A shares	**1,751**	1,751	0%	**1,751**	1,751	0%
Class B shares	**32,743**	32,939	0%	**32,743**	32,939	(1%)
Options	**2,172**	2,557	(15%)	**2,172**	2,557	(15%)
Operating						
Additional Gas sold *(MMcf)* – industrial	**829**	688	21%	**1,664**	1,237	35%
Additional Gas sold *(MMcf)* – power	**4,172**	2,965	41%	**8,145**	5,759	41%
Additional Gas sold *(MMcfd)* – industrial	**9.1**	7.6	20%	**9.1**	6.8	35%
Additional Gas sold *(MMcfd)* – power	**45.8**	32.6	40%	**44.8**	31.8	41%
Additional Gas sold *(MMcfd)* – total	**54.9**	40.2	37%	**53.9**	38.6	40%
Average price per mcf *(US$)* – industrial	**10.14**	10.28	(1%)	**9.88**	9.90	0%
Average price per mcf *(US$)* – power	**2.80**	2.64	5%	**2.76**	2.63	5%

HIGHLIGHTS

- Additional Gas sales continued at system capacity up 4% over Q1 to 54.9 MMcfd being an increase of 37% over the prior year (Q2 2011: 40.2 MMcfd). This resulted in operating revenue of US$16.9 million (Q2 2011: US$8.3 million).
- Funds from operations before working capital changes unchanged over Q1 at US$9.9 million (US$0.28 per share diluted), being triple the prior year (Q2 2011: US$3.3 million or US$0.09 per share diluted).
- Working capital decreased by 16% in Q2 from Q1 to US$38.7 million (US$56.0 million as at 31 December 2011) as a consequence of significant capital expenditure on drilling operations.
- Accounts Receivable continue to increase due to delayed payments for gas deliveries to the state utility, TANESCO however constructive discussions are ongoing with recently appointed senior management and proposals for scheduled payments are being actively discussed.
- Completed drilling the SS-11 development well on Songo Songo Island and flowline connected – expected to be commissioned by September.
- Deferred the drilling of the exploration well SSW pending normalisation of the utility's payment arrears and resolution of Songo Songo Production Sharing Agreement (PSA) issues raised by the government of Tanzania.
- In May, a new Minister was appointed to the Tanzania Ministry of Energy and Mines ("MEM") who has since taken a leadership role in resolving TANESCO payments and issues raised by the GNT. In July, government dissolved the Parliamentary Committee for Energy and Minerals and the TANESCO senior management were dismissed. Constructive discussions are ongoing with government officials.
- Reached an agreement in principle on a number of major points with the Government Negotiation Team (GNT) to resolve the issues raised in 2011 by the Parliamentary Committee for Energy and Minerals in respect of the Company's PSA. The GNT having completed its mandate has been dissolved and the responsibility for finalisation, documentation and implementation has moved back to MEM.
- With a rapidly deteriorating hydro power supply in country, following a communication from TPDC on 25 August 2012, on 27 August 2012, the Ministry of Energy and Minerals issued an order to the Company to redirect all gas volumes (including from Industrial Gas buyers) to TANESCO until 31 December 2012 to aid in emergency power generation. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order.
- Drilling of the La Tosca well (Orca 70% to 75% earned interest) in the Longastrino exploration block in the Po Valley, northern Italy (operated by Northern Petroleum Plc) commenced 7th August; operations are expected to be complete by the beginning of September.

CHAIRMAN & CEO'S LETTER TO THE SHAREHOLDERS

2012 has become a pivotal year for both Orca Exploration Group and the power sector in Tanzania. For Orca there have been solid accomplishments but also very serious challenges. For Tanzania energy self-sufficiency and power security are in sight but getting there as quickly as the economy demands will still take a concerted effort by all stakeholders.

Orca's financial and operations performance continued strong over the quarter. During Q2 2012 Orca continued to produce natural gas at maximum capacity, delivering Additional Gas sales volumes of 54.9 MMcfd (52.9 MMcfd Q1 2012). Funds from operations before working capital changes were unchanged over Q1 at $9.9 million ($0.28 per share), triple Q2 2011 ($3.3 million or $0.09 per share). The Company's Accounts Receivable has increased due to continued delayed payments for gas deliveries to our major customer, the state utility. We are, however, in constructive discussions with the relevant authorities and proposals are being received and actively discussed.

For its part, Tanzania is vigorously addressing its power generation issues. To eliminate persistent power interruptions and shortfalls in capacity Tanzania is accelerating the pace of developing its natural gas infrastructure. At the end of the second quarter of 2012, the Government of Tanzania announced a lending agreement with the Export-Import Bank of China to fund approximately US$1.2 billion in energy infrastructure expansion. The government announced its intention to utilize the majority of the funds to construct a new 24 inch to 36-inch pipeline to be laid between Mnazi Bay and Somanga Funga, and to twin the existing 16-inch pipeline between Somanga Funga (the onshore tie-in to Songo Songo) and Dar es Salaam with a new 36-inch pipeline. This infrastructure expansion will provide Orca with much needed process and pipeline capacity expansion at Songo Songo.

In the near term, power supply has become an acute issue for Tanzania. Very recently, the government was apprised of rapidly falling hydro power generation resulting from critically low levels of water in the country's reservoirs. Seeking to avert a serious power shortage, on 27 August 2012, the Ministry of Energy and Minerals issued an order to the Company to redirect all gas volumes (including from Industrial Gas buyers) to TANESCO until 31 December 2012 to aid in emergency power generation. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order. As the situation unfolds the Company will issue further details.

ADVANCING COOPERATION AND COLLABORATION

Orca still has much to accomplish in Tanzania – both for the people and businesses of Tanzania and for our own shareholders. But first we need to overcome the uncertainties which hang over our company.

Despite continued strong funds flow, Orca's net cash position has deteriorated with the continued delays in payments from its largest gas buyer, the state electric utility TANESCO. As at the date of this report Orca is owed US$28.2 million for the Additional Gas sold to the state utility. The Ministry of Mines and Energy ("MEM") has been taking steps to restore the viability of TANESCO and, in the wake of allegations over corruption and abuse of power within the utility, a new Managing Director has been appointed and an auditor appointed. Orca is actively working with MEM and the new TANESCO management to normalise payments. Based on some recent proposals advanced by TANESCO and being discussed, Orca management is cautiously optimistic that arrears can be brought current in a reasonable time frame, at which time Orca plans to resume its capital programme. To finance day-to-day activities while the payments are being brought current, the Company is closing a short-term US$10 million bank facility in Tanzania. Further external funding will be required if TANESCO continues to be significantly in arrears with its payments and management is actively pursuing additional sources of funding as a contingency.

Orca is continuing to work closely with our partners and the government to remove the financial risks that impair the Company's growth. At the same time we are very mindful of the fact that these challenges must not interfere with the production of natural gas from Songo Songo which fuels roughly 70% of the electricity in Dar es Salaam. This is a significant responsibility and we take it very seriously.

We are working hard every day to resolve uncertainties, to clear the way to growth and contribute to energy self-sufficiency in Tanzania. During the quarter, Orca continued good faith negotiations with the Government Negotiation Team ("GNT") on various issues in Orca's Production Sharing Agreement ("PSA") including, but not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream operations. To date, we have reached an agreement in principle on a number of major points with the GNT to resolve the issues. The GNT, having completed its mandate, has been dissolved and the responsibility for finalisation, documentation and implementation has moved back to MEM. Orca believes that the new leadership in MEM has the vision and the commitment for a successful completion of this process, with a common view of implementation by the end of 2012.

FINANCIAL RESULTS

The Company continued to produce at maximum capacity during Q2 2012, delivering Additional Gas sales volumes of 54.9 MMcfd (52.9 MMcfd Q1 2012). Funds from operations before working capital changes was unchanged over Q1 at $9.9 million ($0.28 per share), triple that of Q2 2011 ($3.3 million or $0.09 per share), largely as a result of a 37% increase in Additional Gas sales over Q1 2011 combined with the Company continuing in a cost recovery mode in turn a result of capital spending. Average Power Gas sales prices were up 3% over Q1 to $2.80/Mcf from $2.72/Mcf. Stronger liquids fuels prices contributed to a 5% increase in Industrial Gas sales prices of $10.14/Mcf over $9.63/Mcf in Q1. Working capital at the end of the quarter was $38.7 million, with cash of $20.2 million, down 18% and 33% respectively over Q1 primarily the result of drilling SS-11 and the continued delay in TANESCO payments.

TANZANIA OPERATIONS

Orca has been able to establish significant additional deliverability from Songo Songo with the completion of the SS-11 development well. The Company has recently tied in the well and estimates that the well will be available for production by September 2012. While the well is expected to be highly productive, it is expected to be initially infrastructure constrained to a maximum of approximately 40 MMcfd. The total cost of SS-11 is estimated at US$38 million, higher than originally estimated. The increased cost is primarily due to additional rig and associated services time incurred with cementing operations and the fact that the rig was mobilized from Syria specifically for this one well.

The Company intends to return to the SS-11 location at a future date to drill the SS-12 well when additional deliverability is required. By that time Orca expects that the payment issues with TANESCO and the finalisation of negotiations with the GNT on other issues will have been successfully concluded.

Corrosion testing completed on SS-9 during the quarter confirmed that the well continued to be able to be safely produced for another nine months, subject to successful integrity pressure tests. The test did not show any material increase in corrosion levels in the production tubing at critical locations. The plan is to shut in SS-9, currently producing 30 MMcfd, when SS-11 is brought onstream. With the new well onstream, SS-9 will remain available to provide spare capacity and redundancy allowing more thorough testing of all production wells during the remainder of the year.

The timing for the drilling of Songo Songo West has also been stretched out by the as yet unresolved issues. In Q1 2012 the Company reported that it was planning to drill the Songo Songo West ("SSW") exploration well in Q4 and was negotiating to secure a jack-up rig. However by the end of the second quarter the Company had taken the decision to defer the drilling of Songo Songo West until the TANESCO and GNT issues were resolved. The reserve-backed lending facility, required to fund the SSW drilling, is also expected to be completed when these issues are resolved.

ITALIAN OPERATIONS

In the Longastrino Block in the Po Valley region of northern Italy the La Tosca farm-in well was spud by Northern Petroleum, as operator, on 7th August 2012; operations are expected to be complete by the beginning of September.

Subsequent to the quarter, the Elsa offshore Italy opportunity cleared an important regulatory hurdle. Legislative Decree 83/2012 (the “Decree”), published on 26 June 2012 was approved by both houses of the Italian Parliament with no substantial modifications. On 12th August, the Decree became law following publication in the Italian Official Journal. The new law modifies restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. Petroceltic plc, the operator of the permit has stated that the new legislation removes the existing uncertainty concerning exploration, development and production activities in Italian waters.

TOWARDS A BRIGHTER FUTURE

The past 12 months have been trying ones for Orca’s management and our shareholders. However the positive developments of the past few months give us reason to believe that a mutually satisfactory resolution of all outstanding financial and contractual issues can now be achieved, allowing Orca to move forward with confidence. Both Orca and the Government of Tanzania have re-committed to a closely cooperative relationship in moving towards our common interests.

Tanzania is in sight of energy self sufficiency and prosperity over the next decade and Orca is proud to play a role in contributing to the country’s drive to achieve energy self-reliance. Orca was the first company to develop natural gas production in East Africa and remains the only significant producer of natural gas in the region. We committed capital and took risks at a time when there was no assurance of gas production from Songo Songo. Together, with our partners, we are delivering on our promises.

W. David Lyons
Chairman & CEO

August 28, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

FORWARD LOOKING STATEMENTS

THIS MD&A OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2012 SHOULD BE READ IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON 28 AUGUST 2012.

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 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 AND THE WEIGHTED AVERAGE NUMBER OF SHARES.
- **NET CASH FLOWS PER SHARE FROM OPERATING ACTIVITIES** IS CALCULATED AS CASH FLOW FROM OPERATIONS OVER THE WEIGHTED AVERAGE NUMBER OF SHARES.

ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION GROUP INC. 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") in 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, namely a gas processing plant on Songo Songo Island, 232 kilometers of pipeline to Dar es Salaam and a 16 kilometer 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 north eastern Italy. In early August 2012, the operator of the La Tosca well in the Po Valley commenced drilling operations.

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 sales 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 electricity utility, 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 which has a small gas field on Songo Songo Island has indicated that it wishes to tie its production into the gas processing plant. It is considered unlikely that this will occur during 2012.

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$1.0 million as at 30 June 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 the Additional Gas plans as submitted to the Ministry of Energy and Minerals (MEM) ("Additional Gas Plan") 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' are currently being 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 2011, 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 initialled ARGA and the Portfolio Gas Sales Agreement 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.

(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, the higher the cumulative production or the average daily sales, whichever is higher. 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, their 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. Where income tax is payable, there is a corresponding deduction in the amount of the Profit Gas payable to TPDC.

(k) Additional Profits Tax 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 Additional Profits Tax 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 Additional Profits Tax 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 share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before Additional Profits Tax becomes payable. Additional Profits Tax 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 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 ("GoT") 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 JUNE 2012

Operating Volumes

The sales volumes for the quarter were 5,001 MMcf or 55.0 MMcfd. This represents an increase of 37% over Q2 2011. The total sales volumes for the six months ended 30 June 2012 were 9,809 MMcf or 53.9 MMcfd an increase of 40% over 2011.

The Company sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
OPERATING VOLUMES	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Gross sales volume *(MMcf):*				
Industrial sector	**829**	688	**1,664**	1,237
Power sector	**4,172**	2,965	**8,145**	5,759
Total volumes	**5,001**	3,653	**9,809**	6,996
Gross daily sales volume *(MMcfd):*				
Industrial sector	**9.1**	7.6	**9.1**	6.8
Power sector	**45.8**	32.6	**44.8**	31.8
Total daily sales volume	**54.9**	40.2	**53.9**	38.6

Industrial sector

Industrial sales volumes of 829 MMcf (9.1 MMcfd) were recorded in Q2 2012. This represents an increase of 20% over the 688 MMcf (7.6 MMcfd) recorded in Q2 2011. The increase is primarily due to increased sales to a major manuafacturer as a result of supplying Additional Gas for its power generation, as well as to a significant producer of cement in the Dar es Salaam area.

Industrial sales volumes for the six months ended 30 June 2012 have increased by 35% to 1,664 MMcf from 1,237 MMcfd in 2011, with the sales to the glass manufacturer and the cement plant accounting for 56% and 46% of the total industrial sales recorded in the first half of 2012 and 2011 respectively.

Power sector

Power sector sales volumes of 4,172 MMcf (45.8 MMcfd) were recorded in Q2 2012. This represents an increase of 41% over the 2,965 MMcf (32.6 MMcfd) recorded in Q2 2011. The increase is due to rerating of the Songas gas processing plant allowing the Company to meet increased demand, including that of the Symbion power plant re-commissioned in July 2011.

Power sector sales volumes for the six months ended 30 June 2012 have increased by 41% to 8,145 MMcf (44.8 MMcfd) from 5,759 MMcf (31.8 MMcfd) in 2011.

Commodity Prices

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$/mcf	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Average sales price				
Industrial sector	**10.14**	10.28	**9.88**	9.90
Power sector	**2.80**	2.64	**2.76**	2.63
Weighted average price	**4.02**	4.08	**3.97**	3.92

Industrial sector

The average sales price achieved for Q2 2012 was US$ 10.14/mcf compared to US$10.28/mcf in Q2 2011. The decrease in sales price is a consequence of the reduction in world energy prices. The price of gas for the industrial sector (with the exception of the gas supplied to the cement plant) continued to be set at a discount to the price of Heavy Fuel Oil ("HFO") landed in Dar es Salaam. The supply of gas to the cement plant has a fixed pricing structure that was set by reference to its alternative fuel supply which is imported coal.

Power sector

The average sales price to the power sector was US$2.80/mcf for the quarter compared to US$2.64/mcf in Q2 2011. The increase in the sales price over Q2 2011 is a result of higher prices being earned under the terms of the Portfolio Gas Sales Agreement as the volume of gas consumed is above the daily quantities specified in the contract.

Operating Revenue

Under the terms of the PSA with TPDC, Orca Exploration 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 TPDC will again be able to recover its past marketing costs, an estimated US$1.0 million has been 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 were in excess of 50 MMcfd for Q2 2012 and 40 MMcfd for Q2 2011. Consequently, the revenue less cost recovery share of revenue ("Profit Gas") was 55% for Q2 2012 and 40% for Q2 2011 in accordance with the terms of the PSA.

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 implications and workings of the 'back in' have been discussed with the Government Negotiation Team, but further discussion is required to finalise the arrangement.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 88.59% (Q2 2011: 60.75%) of the Net Revenues as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Gross sales revenue	**20,088**	14,888	**38,925**	27,400
Gross tariff for processing plant and pipeline infrastructure	**(3,660)**	(2,155)	**(7,145)**	(4,128)
Gross revenue after tariff	**16,428**	12,733	**31,780**	23,272
Analysed as to:				
Company Cost Gas	**12,231**	4,948	**23,835**	12,306
Company Profit Gas	**2,233**	2,787	**4,254**	3,688
Company operating revenue	**14,554**	7,735	**28,089**	15,994
TPDC share of revenue	**1,874**	4,998	**3,691**	7,278
	16,428	12,733	**31,780**	23,272

The Company reported revenue for the quarter of US$16,915 (Q2 2011 US$ 8,296) after adjusting the Company's operating revenue of US$14,554 (Q2 2011 US$7,735) by:

- US$3,078 (Q2 2011 US$1,155) for current income tax. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's share of Profit Gas when the tax is payable. To account for this, revenue is adjusted to reflect the current income tax charge.
- US$717 (Q2 2011 US$594) for the deferred effect of Additional Profits Tax. This tax is considered a royalty and is netted against revenue.

The substantial increase in revenue compared to Q2 2011 is the result of re-rating the Songas gas plant to enable increased throughput. Revenue reported on the income statement may be reconciled to the operating revenue as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Industrial sector	**8,412**	7,066	**16,449**	12,246
Power sector	**11,676**	7,822	**22,476**	15,154
Gross sales revenue	**20,088**	14,888	**38,925**	27,400
Processing and transportation tariff	**(3,660)**	(2,155)	**(7,145)**	(4,128)
TPDC share of revenue	**(1,874)**	(4,998)	**(3,691)**	(7,278)
Company operating revenue	**14,554**	7,735	**28,089**	15,994
Additional Profits Tax	**(717)**	(594)	**(1,389)**	(787)
Current income tax adjustment	**3,078**	1,155	**7,421**	2,729
Revenue	**16,915**	8,296	**34,121**	17,936

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 will pass on any increase or decrease in the EWURA approved charges. 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 charge for the additional tariff was US$0.8 million for the second quarter of 2012.

Production and distribution expenses

The well maintenance costs are allocated between Protected and Additional Gas based on the proportion of their respective sales during the quarter. The total costs for the maintenance for the quarter was US$310 (Q2 2011: US$240) and US$234 (Q2 2011: US$112) was allocated for the Additional Gas. The total cost for well maintenance for the six months ended 30 June 2012 was US$341 compared to US$211 for the six months ended 30 June 2011.

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. The increase in Q2 2012 relates to a one off correction to the EWURA levy.

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

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is currently being discussed with the government and may lead to future modifications to the accounts.

These costs are summarized in the table below:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Share of well maintenance	**234**	112	**341**	211
Other field and operating costs	**785**	380	**1,154**	708
	1,019	492	**1,495**	919
Ringmain distribution pipeline	**794**	691	**1,632**	1,290
Production and distribution expenses	**1,813**	1,183	**3,127**	2,209

Operating netbacks

The netback per mcf before general and administrative costs, overheads, tax and Additional Profits Tax may be analysed as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Amounts in US$/mcf	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Gas price – industrial	**10.14**	10.28	**9.88**	9.90
Gas price – power	**2.80**	2.64	**2.76**	2.63
Weighted average price for gas	**4.02**	4.08	**3.97**	3.92
Processing and transportation tariff	**(0.73)**	(0.59)	**(0.73)**	(0.59)
TPDC share of revenue	**(0.37)**	(1.37)	**(0.38)**	(1.04)
Net selling price	**2.92**	2.12	**2.86**	2.29
Well maintenance and other operating costs	**(0.20)**	(0.13)	**(0.15)**	(0.13)
Ringmain distribution pipeline	**(0.16)**	(0.19)	**(0.17)**	(0.18)
Operating netback	**2.56**	1.80	**2.54**	1.98

The operating netback for the quarter was US$2.56/mcf (Q2 2011: US$1.80/mcf) and for the first half of 2012 was US$2.54/mcf (Q2 2011: US$1.98/mcf).

The decrease in the net average selling price from US$4.08/mcf to US$4.02/mcf in Q2 2012 is a consequence of a change in the mix of sales. Power sales, at a lower price, increased more than industrial sales. The drop was also affected by an increase in other field operating costs.

TPDC's share of revenue in Q2 2012 decreased as a result of capital investment which entitled the Company to claim 75% of Net Revenues as Cost Gas, before allocating Profit Gas. This was not the case in Q2 2011 when the cost pool had been fully recovered, which also allowed TPDC to recover past marketing costs.

Administrative Expenses

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Employee costs	**1,261**	1,001	**2,708**	1,705
Consultants	**636**	765	**1,168**	1,322
Travel & accommodation	**227**	274	**323**	442
Communications	**38**	33	**63**	53
Office	**755**	489	**1,430**	832
Insurance	**123**	136	**234**	272
Auditing & taxation	**75**	155	**139**	216
Depreciation	**125**	49	**206**	92
Reporting, regulatory and corporate	**200**	202	**586**	420
	3,440	3,104	**6,857**	5,354
Marketing costs including legal fees	**276**	453	**517**	815
New ventures	**31**	93	**31**	258
Stock based compensation	**615**	(163)	**621**	(90)
General and administrative expenses	**4,362**	3,487	**8,026**	6,337

The G&A includes the costs of running the gas distribution business in Tanzania which is recoverable as Cost Gas and is relatively fixed in nature.

G&A averaged approximately US$1.45 million per month for Q2 2012 compared to US$1.16 million in Q2 2011. G&A per mcf decreased to US$0.88/mcf (Q2 2011: US$0.95/mcf).

The main variances for both the quarter and the six months ended 30 June 2012 compared to the same periods in 2011 are summarized below:

Employee costs

The increase in employment costs is a consequence of hiring additional staff, the establishment of an Orca UK Services and the strengthening of management in anticipation of the extensive development programme in Tanzania.

Consultancy costs

These have decreased as a consequence of management changes and the transition of some consultancy contracts to staffing contracts.

Office costs

The increase results primarily from the establishment of an Orca UK Services office.

Marketing costs and legal fees

The decrease in marketing and legal fees compared to 2011 is a consequence of finalizing the Portfolio Gas Agreement which was signed at the end of Q2 2011.

Stock based compensation

A total of 2,172,400 stock options were outstanding at the end of Q2 2012 compared to 2,557,400 at the end of Q2 2011. Of these options 1,422,400 were issued in 2004 and were fully expensed by the end of 2007. A total of 1,135,000 were issued during 2007 and were fully expensed by the end of 2010. A total of 500,000 stock options were issued during 2011 and were valued using the Black-Scholes option pricing model, these options fully vested on the date of grant and were fully expensed during 2011. 585,000 expired and 750,000 were forfeited during the six months ended 30 June 2012. 400,000 options were granted during Q2 2012 and were fully expensed during the period resulting in a charge of US$0.7 million.

A total of 315,000 stock appreciation rights were outstanding at the end of Q2 2012, compared to 930,000 at the end of Q2 2011. Of remaining 215,000 stock appreciation rights outstanding 300,000 were issued in June 2010 to the new non-executive directors with an exercise price of Cdn$4.20 per share. These rights have a five year term and vest in five equal instalments, the first fifth vesting on the anniversary of the grant date. As stock appreciation rights are settled in cash they are re-valued at each reporting date using the Black-Scholes option pricing model. As at 30 June 2012 the following assumptions were used:- stock volatility 51% to 69%, a risk free interest rate of 1.50% and a closing stock price of Cdn$2.11. A credit of US$0.1 million was recorded in Q2 2012 compared to a credit of US$0.1 million in Q2 2011 in respect of these stock appreciation rights.

The total stock based compensation charges may be summarized as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Stock options	**720**	–	**720**	–
Stock appreciation rights	**(105)**	(163)	**(99)**	(90)
	615	(163)	**621**	(90)

Net Finance Costs

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
FINANCE INCOME				
Interest income	**1**	1	**2**	4
FINANCE CHARGES				
Net foreign exchange (loss)	**(52)**	(558)	**(190)**	(713)
NET FINANCE COSTS	**(51)**	(557)	**(188)**	(709)

Taxation

Income Tax

Under the terms of the PSA with TPDC, 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 adjusting the Company's revenue by the appropriate amount.

As at 30 June 2012, 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$17.3 million which includes an additional deferred future income tax charge of US$1.3 million for the quarter (Q2 2011: US$0.2 million), resulting in a total charge for the six months to 30 June of US$2.0 million and US$0.7 million for 2012 and 2011 respectively. 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.

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, 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 license. The effective APT rate of 31.73% (Q2 2011 20%) is then applied to Profit Gas of US$2.3 million in Q2 2012 (Q2 2011: US$2.8 million). Accordingly, US$0.7 million (Q2 2011: US$0.6 million) has been netted off revenue for the quarter ended 30 June 2012. The total adjustment for the six months to 30 June was US$1.4 million and US$0.8 million for 2012 and 2011 respectively.

Management does not anticipate that any APT will be payable in 2012, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the PPI percentage change and the forecast expenditures for 2012. 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 2011 the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd., were 469.1 Bcf, after TPDC 'back-in', on a life of licence basis. This leads to an average depletion charge of US$0.40/mcf for the year (2011: US$0.47/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 written off and charged to earnings.

Funds Generated by Operations

Funds flow from operating activities were US$9.9 million for the quarter ended 30 June 2012 (Q2 2012: US$3.3 million) and US$19.7 million for the six months ended 30 June 2012 (2012: US$8.2 million).

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Profit after taxation	**5,167**	383	**11,559**	2,773
Adjustments [(i)]	**4,815**	2,909	**8,312**	5,466
Funds from operations before working capital changes	**9,982**	3,292	**19,871**	8,239
Working capital adjustments [(i)]	**(4,293)**	(1,150)	**(7,529)**	(2,601)
Net cash flows from operating activities	**5,689**	2,142	**12,342**	5,638
Net cash flows used in investing activities	**(16,131)**	(838)	**(26,806)**	(2,080)
Effect of change in foreign exchange	**2**	(87)	**(22)**	(84)
Net (decrease)/increase in cash and cash equivalents	**(10,440)**	1,217	**(14,486)**	3,474

(i) Please refer to consolidated statement of cash flows for breakdown

The US$10.4 million decrease in cash and cash equivalents for the quarter is a result of the US$9.9 million of funds from operations before working capital changes during the quarter being offset by US$16.1 million of capital expenditure incurred together with an overall net cash reduction of US$4.2 million in working capital.

The US$14.5 million decrease in cash and cash equivalents for the six months ended 30 June 2012 is a result of the US$19.8 million of funds generated from operations before working capital changes during the period being offset by US$26.8 million of capital expenditure, together with an overall net decrease in working capital of US$7.5 million.

Capital Expenditure

Gross capital expenditures amounted to US$17.8 million during the quarter (Q2 2011: US$1.6 million) and US$35.3 million for the six months ended 30 June 2012 (2011: US$2.9 million).

The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Geological and geophysical and well drilling	**17,731**	1,124	**36,150**	2,023
Pipelines and infrastructure	**563**	364	**782**	726
Power development	**84**	11	**175**	15
Other equipment	**86**	94	**106**	185
	18,464	1,593	**37,213**	2,949

Geological and geophysical and well drilling

US$15.0 million related to the drilling of SS-11, US$2.7 million to a site survey for SSW.

Pipelines and infrastructure

A total of US$0.6 million of expenditure was incurred during the quarter on the development of the compressed natural gas ("CNG") distribution facilities, the long-term expansion project and connection of new customers to the low pressure distribution network in Dar es Salaam.

Working Capital

Working capital as at 30 June 2012 was US$38.7 million compared with US$56.0 million as at 31 December 2011 and may be analyzed as follows:

	30 June 2012	30 June 2011
Cash and cash equivalents	**20,194**	34,680
Trade and other receivables	**51,807**	40,348
Taxation receivable	**12,785**	5,880
Prepayments	**842**	302
	85,628	81,210
Trade and other payables	**40,165**	22,801
Taxation payable	**6,774**	2,403
Working capital	**38,689**	56,006

The level of working capital has decreased by 31% during the six months ended 30 June 2012.

The majority of the Company's cash is held in US dollars in Mauritius. There are no restrictions in Tanzania for converting Tanzania Shillings into US dollars.

Trade and other receivables at 30 June 2012 comprise trade receivables US$44.0 million (Q4 2011: US$35.7 million) and other receivables US$7.7 million (Q4 2011: US$4.7 million). Of the trade receivables US$29.5million (Q4 2011 US$24.9 million) relates to sales to TANESCO. The increase in other receivables relates to an increase in the amount due from Songas for the operatorship of the gas processing plant and associated projects. The increase in taxation is a consequence of the level of current taxation paid in the year, US$0.5 million to 30 June; any tax payable is recoverable from TPDC in accordance with the production sharing agreement.

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. Collection of the amount owed by TANESCO continues to present difficulties. Subsequent to the end of the quarter, the utility has made proposals to the Company concerning payments which the parties have been activity discussing. Of the amount due in December only US$14.8 million was received in the period ended 30 June 2012. The balance due from Songas has increased but is offset by a similar increase in amounts due to Songas.

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 (75.0 Bcf as at 30 June 2012). The Company did not have a shortfall during the reporting period does not anticipate a shortfall arising during the licence period.

Operating leases

The Company has two office rental agreements in Dar es Salaam, expiring on 30 November 2012 and 31 October 2013 at an annual rental of US$122,000 and US$110,000 per annum respectively.

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.

Petroceltic were due to spud the Elsa-2 well prior to 31 October 2010, but the Italian government passed a decree, following the blowout of the Macondo well in the U.S., that prevented the drilling in the Italian seas within five nautical miles of the coastline and within 12 nautical miles around the perimeter of protected Marine Parks. In view of this, Petroceltic suspended the permit until such time as the Ministry of Environment issued a decree of environmental compatibility for the drilling program. Subsequent to the end of the quarter, Legislative Decree 83/2012 (the "Decree"), published on 26 June 2012 was approved by both houses of the Italian Parliament with no substantial modifications. On 12th August, the Decree became law following publication in the Italian Official Journal. The new law modifies restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010.The well is expected to be drilled following finalisation of an environmental impact study currently expected in the second half of 2013. Orca will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million (US$5.4 million) and 70% of the costs thereafter. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million (US$1.6 million) and 75% thereafter. Drilling of the La Tosca exploration well commenced in August 2012 and is expected to be complete by the beginning of September 2012 at an estimated total cost to the Company of US$8 million.

There are no further capital commitments in Italy.

Songo Songo deliverability

In Q4 2010 the Company reduced the deliverability from its Songo Songo wells following receipt of results of a corrosion logging survey. Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie in of the new onshore well SS-10. As at 30 June, the Company can produce approximately 113 MMcfd though this is currently restricted by the infrastructure capacity to a maximum of 102 MMcfd.

The original corrosion model forecast that the offshore well, SS-9 (currently producing in the region of 30 MMcfd), would have to be taken out of production at the end of Q1 2012. In October 2011 a new corrosion logging programme was undertaken to confirm its condition and it was determined that the well could stay on production until 31 May 2012.

On 31 May 2012, as operator, the Company completed the logging of the SS-9 well to assess the condition of the production tubing. The Company has been independently advised that the useful life of the tubing could be extended for a further 36 weeks. However, the ultimate decision had to be taken by the owner of the well, Songas Limited, who raised no objection to the continued production in the short term.

Early in July 2012 the Company completed a new onshore deviated development well (SS-11) which is expected to be connected to the gas processing plant and commissioned by September 2012. The Company plans to take well SS-9 out of production at that time and reserve that well for spare capacity. The Company expects to be able to produce approximately 123 MMcfd, though this is still restricted by the infrastructure capacity to a maximum of 102MMcfd.

Songo Songo commitments

The total cost of the SS-11 well including its connection to the gas processing plant is estimated at US$45 million and US$38 million was incurred on this prior to 30 June 2012. Additional capital expenditure in Tanzania remains dependent on TANESCO payments being brought up to date, the satisfactory conclusion of the GNT issues, progress on infrastructure expansion and the subsequent raising of finance. The capital expenditure is required to enable the Songo Songo field to be able to produce 200 MMcfd in line with the anticipated infrastructure expansion.

Future operations

The Company generates in excess of 50% of its operating revenue from sales to the power sector companies, Songas and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is dependent on the Government of Tanzania for some of its funding. Despite having a history of delayed payments, TANESCO has previously settled in full the outstanding balance subsequent to each quarter end. As at 31 December 2011, TANESCO owed the Company US$24.2 million of which $21.0 million was collected subsequent to year end. As of the date of this report, the Company has not received payments from TANESCO with respect to any 2012 production and at the date of this report is owed US$28.2 million. As at 31 December 2011 Songas owed the company US$3.7 million of which US$0.8 million was collected subsequently. Songas have not made any payments in respect of 2012 and at the date of this report Songas owes the Company US$7.7 million.

Recently the Tanzanian government, through MEM, replaced the senior management of TANESCO and have been actively working to restore the state utility to viability. The Company has been cooperating with MEM and is currently in discussions with TANESCO's new management regarding their plans to pay for gas that has been and will continue to be supplied. The state utility has recently proposed a payment schedule, which is currently being discussed by the parties. However, concerns remain over TANESCO's financial position, particularly in the short-term, as they will have to fund emergency oil fired generation to compensate for the loss of hydroelectric capacity until the rains resume. To help alleviate the funding gap caused by the delays in TANESCO payments, the Company is closing a US$10 million bank facility in Tanzania. The Company has also deferred a substantial part of its 2012 work programme, including the drilling of a further production well (SS-12) and an exploration well (SSW).

In the event that TANESCO is unable to make sufficient regular payments, the Company will need additional funding for its ongoing operations. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms, however management is actively pursuing additional sources of capital as a contingency.

Following a communication from TPDC on 25 August 2012 and in response to a rapidly developing power shortage in the country, on 27 August 2012 the Ministry of Energy and Minerals issued an order to the Company to redirect all gas volumes (including from Industrial Gas buyers in Dar es Salaam) to TANESCO to aid in emergency power generation. The order states that the re-direction of gas is effective 25 August 2012 and shall extend to 31 December 2012. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order.

Contingencies

Re-rating Agreement

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas Limited 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 Limited 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. As at 30 June 2012 the Company is not aware of any damage to the facilities that would result in a charge and the indemnity will remain in force until such time as the plant is de-rated.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. It is considered unlikely that this will occur during 2012.

PSA Negotiations

In February 2012 on the recommendation of MEM, the Government announced that it was setting up a Government Negotiation Team ("GNT") to discuss a number of issues raised in parliament in relation to the Company's Songo Songo PSA with TPDC. In Tanzania, government negotiating teams are a common mechanism to negotiate with business. The scope of the GNT was to discuss a number of points that were raised by the Parliamentary Committee for Energy into the workings of the PSA. This included, but is not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream opera¬tions. After making submissions to the GNT, the Company commenced discussions in April 2012 and further in July 2012. In July 2012, the government dissolved the Parliamentary Committee for Energy on the grounds of alleged widespread corruption and abuse of power. To date, an agreement in principle has been reached with on a number of major points to resolve the issues. The GNT, having completed its mandate, has been dissolved and the responsibility for finalisation, documentation and implementation has moved back to the Ministry of Energy and Mines ("MEM"). The mutual goal of the parties is to complete this process by the end of 2012.

Back in

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 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 2011, it was assumed that they 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.

Unbundling

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with the GNT along with other issues. The Company anticipates further negotiations will be necessary before this matter is concluded.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q2 2011 resulting in a reduction in the percentage of net revenue attributable to the Company. During 2012 the level of cost gas has increased as a result of significant expenditure on drilling. 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. This matter was not resolved during discussions with the GNT to date. Whilst the Company remains confident that the final outcome will be satisfactory it is prepared to utilise the dispute resolution mechanisms outlined in the PSA if necessary. This matter has had no impact on the current quarter.

Taxation

The Company has received an assessment for additional withholding tax, which together with interest penalties totals approximately US$2.0 million. The Company, supported by its professional advisors, believes the assessment to be without merit and is in the process of submitting a formal appeal.

Related Party Transactions

One of the non executive Directors is a partner at a law firm. During the quarter, the Company incurred US$161 (Q2 2011: US$38) to this firm for legal services provided, resulting in a total expenditure of US$196 for the six months ended 30 June 2012 (2011 : US$75). The transactions with this related party were made at the exchange amount and as at 30 June 2012 US$ 196 is payable.

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**30 June 2012**	31 Dec 2011
SHARES OUTSTANDING		
Class A shares	**1,751**	1,751
Class B shares	**32,743**	32,747
Weighted average class A and Class B shares	**34,494**	34,498
WEIGHTED AVERAGE		
Class A and Class B shares	**34,494**	34,656
Convertible securities		
Stock options	**948**	1,176
Weighted average diluted Class A and Class B shares	**35,442**	35,832

Shares outstanding

400,000 stock options were issued during the quarter.

No stock options were exercised during the quarter.

No Class B shares were purchased under the normal course issuer bid.

As at 28 August 2012, there were a total of 1,751,195 Class A shares and 32,742,515 Class B shares outstanding.

SUMMARY QUARTERLY RESULTS

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

(Figures in US$'000 except where otherwise stated)	**2012**		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
FINANCIAL								
Revenue	**16,915**	17,207	17,500	10,457	8,296	9,640	10,557	10,975
Profit/(loss) after taxation	**5,167**	6,392	5,267	(54)	383	2,390	1,885	3,579
Operating netback *(US$/mcf)*	**2.56**	2.55	2.41	1.78	1.80	2.16	2.28	2.32
Working capital	**38,689**	47,063	56,006	58,369	57,070	55,759	52,364	30,093
Shareholders' equity	**118,938**	113,051	106,659	101,563	100,956	100,573	98,183	77,827
Profit/(loss) per share – basic *(US$)*	**0.15**	0.19	0.15	0.00	0.01	0.07	0.05	0.12
Profit/(loss) per share – diluted *(US$)*	**0.15**	0.18	0.15	0.00	0.01	0.07	0.05	0.12
CAPITAL EXPENDITURES								
Geological and geophysical and well drilling	**17,732**	18,418	10,989	3,463	1,124	899	607	502
Pipeline and infrastructure	**563**	219	11	421	364	362	383	692
Power development	**84**	91	22	–	11	4	–	6
Other equipment	**86**	20	239	41	94	91	45	23
OPERATING								
Additional Gas sold – industrial *(MMcf)*	**829**	835	786	719	688	550	687	770
Additional Gas sold – power *(MMcf)*	**4,172**	3,973	4,521	4,442	2,965	2,794	2,926	2,918
Average price per mcf – industrial *(US$)*	**10.14**	9.63	9.94	10.47	10.28	9.42	8.67	8.01
Average price per mcf – power *(US$)*	**2.80**	2.72	2.97	2.76	2.64	2.62	2.63	2.63

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (unaudited)

		THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'000 except per share amounts)	NOTE	**30 June 2012**	30 June 2011	**30 June 2011**	30 June 2011
REVENUE		**16,915**	8,296	**34,121**	17,936
Cost of sales					
Production and distribution expenses		**(1,813)**	(1,183)	**(3,127)**	(2,209)
Depletion expense		**(2,017)**	(1,728)	**(3,955)**	(3,310)
		13,085	5,385	**27,039**	12,417
General and administrative expenses		**(4,362)**	(3,487)	**(8,026)**	(6,337)
Net finance costs		**(51)**	(557)	**(188)**	(709)
Profit before taxation		**8,672**	1,341	**18,825**	5,371
Taxation	*2*	**(3,505)**	(958)	**(7,266)**	(2,598)
Profit after taxation and comprehensive income		**5,167**	383	**11,559**	2,773
EARNINGS PER SHARE					
Basic *(US$)*		**0.15**	0.01	**0.34**	0.08
Diluted *(US$)*		**0.15**	0.01	**0.33**	0.08

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (unaudited)

(Figures in US$'000)	NOTE	AS AT **30 June 2012**	 31 Dec 2011
ASSETS			
Current assets			
Cash and cash equivalents		**20,194**	34,680
Trade and other receivables		**51,807**	40,348
Taxation receivable		**12,785**	5,880
Prepayments		**842**	302
		85,628	81,210
Non-current assets			
Exploration and evaluation assets	*3*	**7,478**	2,921
Property, plant and equipment	*4*	**96,213**	67,713
		103,691	70,634
Total assets		**189,319**	151,844
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**40,165**	22,801
Taxation payable		**6,774**	2,403
		46,939	25,204
Non-current liabilities			
Deferred income taxes	*2*	**17,266**	15,194
Deferred additional profits tax		**6,176**	4,787
		23,442	19,981
Total liabilities		**70,381**	45,185
EQUITY			
Capital stock	*6*	**84,610**	84,610
Contributed surplus		**6,988**	6,268
Accumulated income		**27,340**	15,781
		118,938	106,659
Total equity and liabilities		**189,319**	151,844

See accompanying notes to the condensed consolidated interim financial statements.

Future operations (Noted 1 (d))

Contractual obligations and committed capital investment and contingencies (Note 8)

Post Balance Sheet Event (see Note 9)

The condensed consolidated interim financial statements were approved by the Board of Directors on 28 August 2012.

Director

Director

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (unaudited)

		THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'000)	NOTE	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit after taxation		**5,167**	383	**11,559**	2,773
Adjustment for:					
Depletion and depreciation	*4*	**2,136**	1,776	**4,156**	3,406
Gain on disposal of vehicle		**–**	–	**–**	(5)
Stock-based compensation		**615**	(163)	**621**	(90)
Deferred income taxes		**1,350**	150	**2,072**	688
Deferred additional profits tax		**717**	595	**1,389**	788
Interest income		**(1)**	(1)	**(2)**	(4)
Unrealised foreign exchange loss		**(2)**	552	**76**	683
		9,982	3,292	**19,871**	8,239
(Increase) in trade and other receivables		**(9,373)**	(4,431)	**(11,491)**	(5,318)
(Increase)/decrease in taxation receivable		**(3,077)**	846	**(6,905)**	(616)
(Increase) in prepayments		**(500)**	(408)	**(540)**	(380)
Increase in trade and other payables		**6,503**	4,035	**7,036**	3,803
Increase/(decrease) in taxation payable		**2,154**	(1,192)	**4,371**	(90)
Net cash flows from operating activities		**5,689**	2,142	**12,342**	5,638
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**(2,978)**	(314)	**(4,557)**	(538)
Property, plant and equipment expenditures		**(15,486)**	(1,279)	**(32,656)**	(2,411)
Interest received		**1**	1	**2**	4
Proceeds from sale of vehicle		**–**	–	**–**	5
Increase in trade and other payables		**2,332**	754	**10,405**	860
Net cash used in investing activities		**(16,131)**	(838)	**(26,806)**	(2,080)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Net cash flow used in financing activities		**–**	–	**–**	–
Increase in cash and cash equivalents		**(10,442)**	1,304	**(14,464)**	3,558
Cash and cash equivalents at the beginning of the period		**30,634**	47,776	**34,680**	45,519
Effect of change in foreign exchange		**2**	(87)	**(22)**	(84)
Cash and cash equivalents at the end of the period		**20,194**	48,993	**20,194**	48,993

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	ACCUMULATED (LOSS)/INCOME	TOTAL
Balance as at 1 January 2011	85,100	5,288	7,795	98,183
Total comprehensive income for the period	–	–	2,773	2,773
Balance as at 30 June 2011	**85,100**	**5,288**	**10,568**	**100,956**

(US'000)	CAPITAL STOCK	CONTRIBUTED SURPLUS	ACCUMULATED INCOME	TOTAL
Note	*6*			
Balance as at 1 January 2012	84,610	6,268	15,781	106,659
Total comprehensive income for the period	–	720	11,559	12,279
Balance as at 30 June 2012	**84,610**	**6,988**	**27,340**	**118,938**

See accompanying notes to the condensed consolidated interim financial statements.

General Information

Orca Exploration Group Inc ("Orca Exploration" or the "Company") was incorporated on 28 April 2004 under the laws of the British Virgin Islands. The Company is a participant in a gas-to-electricity project in Tanzania and has gas and oil exploration interests in Italy. The condensed consolidated interim financial statements of the Company as at and for the three and six months ended 30 June 2012 comprise the Company and all its wholly owned subsidiaries (collectively, the "Company").

1 BASIS OF PREPARATION

(a) Statement of Compliance

These condensed consolidated interim financial statements of the Company, 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 2011 annual report. These condensed consolidated interim financial statements were approved by the Board of Directors on 27 August 2012.

(b) Judgements and estimates

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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 2011.

(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 2011.

(d) Future operations

The Company generates in excess of 50% of its operating revenue from sales to the power sector companies, Songas and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is dependent on the Government of Tanzania for some of its funding. Despite having a history of delayed payments, TANESCO has previously settled in full the outstanding balance subsequent to each quarter end. As at 31 December 2011, TANESCO owed the Company US$24.2 million of which $21.0 million was collected subsequent to year end. As of the date of this report, the Company has not received payments from TANESCO with respect to any 2012 production and at the date of this report is owed US$28.2 million. As at 31 December 2011 Songas owed the company US$3.7 million of which US$0.8 million was collected subsequently. Songas have not made any payments in respect of 2012 and at the date of this report Songas owes the Company US$7.7 million.

Recently the Tanzanian government, through the Ministry of Energy and Mines ("MEM"), replaced the senior management of TANESCO and have been actively working to restore the state utility to viability. The Company has been cooperating with MEM and is currently in discussions with TANESCO's new management regarding their plans to pay for gas that has been and will continue to be supplied. The state utility has recently proposed a payment schedule which is being actively discussed by the parties. However, concerns remain over TANESCO's financial position, particularly in the short-term, as they will have to fund emergency oil fired generation to compensate for the loss of hydroelectric capacity until the rains resume. To help alleviate the funding gap caused by the delays in TANESCO payments, the Company is in the process of closing a US$10 million bank facility in Tanzania. The Company has also deferred a substantial part of its 2012 work programme, including the drilling of a further production well (SS-12) and an exploration well (SSW).

In the event that TANESCO is unable to make sufficient regular payments, the Company will need additional funding for its ongoing operations. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms, however management is actively pursuing additional sources of capital as a contingency.

2 TAXATION

Under the terms of the Production Sharing Agreement with TPDC, the Company is liable to pay income tax at the corporate rate of 30% on profits generated in Tanzania. During the six months ended June 30 the company has paid US$0.5 million. The amount paid is recovered in full from TPDC by adjusting their share of profit gas.

The tax charge is as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Current tax	**2,155**	808	**5,194**	1,910
Deferred tax	**1,350**	150	**2,072**	688
	3,505	958	**7,266**	2,598

A provisional tax payment of US$516 has been made in relation to the 2012 liability, there was no corresponding payment in 2011.

TAX RATE RECONCILIATION

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Profit before taxation	**8,672**	1,341	**18,825**	5,371
Provision for income tax calculated at the statutory rate of 30%	**2,601**	402	**5,647**	1,611
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**701**	577	**1,306**	968
Stock- based compensation	**185**	(49)	**187**	(27)
Financing charge	**–**	(16)	**29**	(16)
Permanent differences	**18**	44	**97**	62
	3,505	1,640	**7,266**	2,598

As at 30 June 2012 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 30 June 2012. The deferred income tax liability includes the following temporary differences:

	AS AT	
Figures in US$'000	**30 June 2012**	31 Dec 2011
Differences between tax base and carrying value of property, plant and equipment	**15,209**	14,409
Income tax recoverable	**4,014**	2,416
Other liabilities		
Employee bonuses	**(40)**	(145)
TPDC Additional Profit Gas	**(64)**	(50)
Additional profits tax	**(1,853)**	(1,436)
	17,266	15,194

3 Exploration and evaluation assets

Figures in US'000	Italy	Tanzania	Total
COSTS			
As at 1 January 2012	911	2,010	2,921
Additions	1,598	2,959	4,557
As at 30 June 2012	**2,509**	**4,969**	**7,478**
NET BOOK VALUES			
As at 30 June 2012	2,509	4,969	7,478
As at 31 December 2011	911	2,010	2,921

TANZANIA

The exploration and evaluation expenditure in Q2, US$2.7 million, relates to an offshore site survey conducted in preparation for the drilling of the Songo Songo West prospect to evaluate the field, which is pending determination of proven and probable reserves.

ITALY

Capital costs incurred during the three and six month periods ended June 30, 2012, US$0.3 million and US$1.3 million respectively, relate to the purchase of long lead items for the drilling of the La Tosca well pursuant to the terms of the Company's Longastrino Block farm-in in the Po Valley Basin.

4 Property, plant and equipment

Figures in US$'000	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
COSTS						
As at 1 January 2012	96,014	320	701	249	334	97,618
Additions	32,549	–	36	–	71	32,656
As at 30 June 2012	**128,563**	**320**	**737**	**249**	**405**	**130,274**
DEPLETION/DEPRECIATION						
As at 1 January 2012	28,833	271	520	196	85	29,905
Charge for period	3,955	14	79	25	83	4,156
As at 30 June 2012	**32,788**	**285**	**599**	**221**	**168**	**34,061**
NET BOOK VALUES						
As at 30 June 2012	**95,775**	**35**	**138**	**28**	**237**	**96,213**
As at 31 December 2011	67,181	49	181	53	249	67,713

The increase in assets in Tanzania is primarily due to the drilling of a new production well SS-11, Q2 US$15.2 million, six months ended 30 June US$31.7 million. In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$95.2 million (Q2 2011: US$115.6 million) will be required to bring the total proved reserves to production.

5 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 OR AS AT			THREE MONTHS ENDED OR AS AT		
	30 June 2012			30 June 2011		
Figures in US$'000	Tanzania	Italy	Total	Tanzania	Italy	Total
External Revenue	16,915	–	16,915	8,296	–	8,296
Segment Income	5,167	–	5,167	383	–	383
Total Assets	182,460	6,859	189,319	133,161	–	133,161
Total Liabilities	63,682	6,699	70,381	32,205	–	32,205
Capital additions	18,169	296	18,465	1,593	–	1,593
Depletion & depreciation	2,136	–	2,136	1,776	–	1,776

	SIX MONTHS ENDED OR AS AT			SIX MONTHS ENDED OR AS AT		
	30 June 2012			30 June 2011		
Figures in US$'000	Tanzania	Italy	Total	Tanzania	Italy	Total
External Revenue	34,121	–	34,121	17,936	–	17,936
Segment Income	11,559	–	11,559	2,773	–	2,773
Total Assets	182,460	6,859	189,319	133,161	–	133,161
Total Liabilities	63,682	6,699	70,381	32,205	–	32,205
Capital additions	35,615	1,598	37,213	2,949	–	2,949
Depletion & depreciation	4,156	–	4,156	3,406	–	3,406

6 Capital stock

Authorized and Issued Share Capital

Thousands of shares (thousands)	Authorised	Issued	Amount *US$'000*
CLASS A			
As at 1 January 2012 and 30 June 2012	**50,000**	**1,751**	**$ 983**
CLASS B			
As at 1 January 2012 and 30 June 2012	**100,000**	**32,743**	**$ 83,627**
FIRST PREFERENCE			
As at 30 June 2012	**100,000**	**–**	**–**
Total Class A, Class B and First Preference shares 30 June 2012	**250,000**	**34,494**	**$ 84,610**

All of the issued capital stock is fully paid.

Stock options

The table below details the outstanding share options and the movements for the period ended 30 June 2012:

STOCK OPTIONS

Thousands of options or Cdn$	Options	Exercise Price *(Cdn$)*
Outstanding as at 1 January 2012	3,057	1.00 to 13.55
Issued	400	3.18
Expired	(585)	8.00 to 13.55
Forfeited	(750)	4.75 to 13.55
Outstanding as at 30 June 2012	2,172	1.00 to 12.00

The weighted average remaining life and weighted average exercise price of options at 30 June 2012 were as follows:

Exercise Price *(Cdn$)*	Number outstanding as at 30 June 2012 *('000)*	Weighted Average Remaining Contractual Life *(years)*	Number Exercisable as at 30 June 2012 *('000)*	Weighted Average Exercise Price *(Cdn$)*
1.00	1,422	2.17	1,422	1.00
3.18	400	4.79	–	3.18
3.60	250	4.26	250	3.60
12	100	0.35	100	11.36
	2,172		1,772	

STOCK APPRECIATION RIGHTS

Thousands of stock appreciation rights or Cdn$	Options	Exercise Price
Outstanding as at 1 January 2012 and 30 June 2012 (i)/(ii)	405	4.20 to 13.55
Expired	(90)	13.55
Outstanding as at 30 June 2012 (i)/(ii)	315	4.20 to 13.55

(i) *A total of 300,000 stock appreciation rights were issued in June 2010 with an exercise price of Cdn$4.20. These rights have a term of five years and vest in five equal instalments, the first fifth vesting on the anniversary of the grant date. There is no maximum liability associated with these rights.*

(ii) *A total of 15,000 stock appreciation rights have a term of five years. All of these options vested over a period of three years and are now fully vested. There is no maximum liability associated with these rights*

The Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in the balance sheet. In the valuation of these stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50%, stock volatility of 51% to 69%, 0% dividend yield 0% forfeiture and a closing stock price of Cdn$2.11 per share.

As at 30 June 2012, a total accrued liability of US$0.1 million (Q2 2011: US$0.4 million) has been recognised in relation to the stock appreciation rights. The liability having been reduced by US$0.1 million during the period as a result in an overall decline in the valuation of the stock appreciation rights, a reduction of US$0.2 million having been recorded in Q2 2011.

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**30 June 2012**	30 Dec 2011
SHARES OUTSTANDING		
Class A shares	**1,751**	1,751
Class B shares	**32,743**	32,743
Weighted average Class A and Class B shares	**34,494**	34,494
WEIGHTED AVERAGE		
Class A and Class B shares	**34,494**	36,751
CONVERTIBLE SECURITIES		
Stock options	**948**	972
Weighted average diluted Class A and Class B shares	**35,442**	35,466

7 Related party transactions

One of the non executive Directors is a partner at a law firm. During the quarter, the Company incurred US$161 (Q2 2011: US$38) to this firm for legal services provided, resulting in a total expenditure of US$196 for the six months ended 30 June 2012 (2011: US$75). The transactions with this related party were made at the exchange amount and as at 30 June 2012 US$196 is payable.

8 Contractual obligations, committed capital investments and contingencies

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 (75.0 Bcf as at 30 June 2012). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the licence period.

Operating leases

The Company has two office rental agreements in Dar es Salaam, expiring on 30 November 2012 and 31 October 2013 at an annual rental of US$122,000 and US$110,000 per annum respectively.

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.

Petroceltic were due to spud the Elsa-2 well prior to 31 October 2010, but the Italian government passed a decree, following the blowout of the Macondo well in the U.S., that prevented the drilling in the Italian seas within five nautical miles of the coastline and within 12 nautical miles around the perimeter of protected Marine Parks. In view of this, Petroceltic suspended the permit until such time as the Ministry of Environment issued a decree of environmental compatibility for the drilling program. Subsequent to the end of the quarter, Legislative Decree 83/2012 (the "Decree"), published on 26 June 2012 was approved by both houses of the Italian Parliament with no substantial modifications. On 12th August, the Decree became law following publication in the Italian Official Journal. The new law modifies restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. The well is expected to be drilled following finalisation of an environmental impact study currently expected in the second half of 2013. Orca will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million (US$5.4 million) and 70% of the costs thereafter. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million (US$1.6 million) and 75% thereafter. Drilling of the La Tosca exploration well commenced in August 2012 and is expected to be complete by the beginning of September 2012 at an estimated total cost to the Company of US$8 million.

Songo Songo deliverability

In Q4 2010 the Company reduced the deliverability from its Songo Songo wells following receipt of results of a corrosion logging survey. Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie in of the new onshore well SS10. As at 30 June, the Company can produce approximately 113 MMcfd though this is currently restricted by the infrastructure capacity to a maximum of 102 MMcfd.

The original corrosion model forecast that the offshore well, SS-9 (currently producing in the region of 30 MMcfd), would have to be taken out of production at the end of Q1 2012. In October 2011 a new corrosion logging programme was undertaken to confirm its condition and it was determined that the well could stay on production until 31 May 2012.

On 31 May 2012, as operator, the Company completed the logging of the SS-9 well to assess the condition of the production tubing. The Company has been independently advised that the useful life of the tubing could be extended for a further 36 weeks. However, the ultimate decision had to be taken by the owner of the well, Songas Limited, who raised no objection to the continued production in the short term.

In early July the Company completed a new onshore deviated development well (SS-11) which is expected to be connected to the gas processing plant and commissioned by September 2012. The Company plans to take well SS-9 out of production at that time and reserve that well for spare capacity. The Company expects to be able to produce approximately 123 MMcfd, though this is still restricted by the infrastructure capacity to a maximum of 102 MMcfd.

Songo Songo commitments

The total cost of the SS-11 well including its connection to the gas processing plant is estimated at US$45 million and US$38 million was incurred on this prior to 30 June 2012.

Additional capital expenditure in Tanzania remains dependent on TANESCO payments being brought up to date, the satisfactory conclusion of the GNT issues with the government, progress on infrastructure expansion and the subsequent raising of finance. The capital expenditure is required to enable the Songo Songo field to be able to produce 200 MMcfd in line with the anticipated infrastructure expansion.

CONTINGENCIES

Re-rating Agreement

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas Limited 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 Limited 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. As at 30 June 2012 the Company is not aware of any damage to the facilties that would result in a change, the indemnity will remain in force until such time as the plant is de-rated.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy and Mines, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. It is considered unlikely that this will occur during 2012.

Government Negotiation Team

In February 2012, the Government announced that it was setting up a Government Negotiation Team ('GNT') to discuss a number of issues in relation to the Company's Production Sharing Agreement ('PSA') with the Tanzania Petroleum Development Corporation that was signed in October 2001.

The scope of the GNT is to discuss a number of points that were raised by the Parliamentary Committee for Energy and Minerals into the workings of the PSA. This included, but is not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream opera¬tions. Orca has engaged in these discussions in good faith and considerable progress has been made.

PSA Negotiations

In February 2012 on the recommendation of MEM, the Government announced that it was setting up a Government Negotiation Team ("GNT") to discuss a number of issues raised in parliament in relation to the Company's Songo Songo PSA with TPDC. In Tanzania, government negotiating teams are a common mechanism to negotiate with business. The scope of the GNT was to discuss a number of points that were raised by the Parliamentary Committee for Energy into the workings of the PSA. This included, but is not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream opera¬tions. After making submissions to the GNT, the Company commenced discussions in April 2012 and further in July 2012. In July 2012, the government dissolved the Parliamentary Committee for Energy on the grounds of alleged widespread corruption and abuse of power. To date, an agreement in principle has been reached with on a number of major points to resolve the issues. The GNT, having completed its mandate, has been dissolved and the responsibility for finalisation, documentation and implementation has moved back to the Ministry of Energy and Mines ("MEM"). The mutual goal of the parties is to complete this process by the end of 2012.

Back in

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 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 2011, it was assumed that they 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.

Unbundling

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with the GNT along with other issues. The Company anticipates further negotiations will be necessary before this matter is concluded.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q2 2011 resulting in a reduction in the percentage of net revenue attributable to the Company. During 2012 the level of cost gas has increased as a result of significant expenditure on drilling. 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. This matter was not resolved during discussions with the GNT to date. Whilst the Company remains confident that the final outcome will be satisfactory it is prepared to utilise the extensive dispute resolution mechanisms outlined in the PSA if necessary. This matter has had no impact on the current quarter.

Taxation

The Company has received an assessment for additional withholding tax, which together with interest penalties totals approximately US$2.0 million. The Company, supported by its professional advisors, believes the assessment to be without merit and is in the process of submitting a formal appeal.

9 POST BALANCE SHEET EVENT

Following a communication from TPDC on 25 August 2012 and in response to a rapidly developing power shortage in the country, on 27 August 2012 the Ministry of Energy and Minerals issued an instruction and order to the Company to redirect all gas volumes (including from Industrial Gas buyers in Dar es Salaam) to TANESCO to aid in emergency power generation. The order states that the re-direction of gas is effective 25 August 2012 and shall extend to 31 December 2012. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order.

CORPORATE INFORMATION

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Calgary
Canada

William H. Smith
Non-Executive Director
Calgary, Alberta
Canada

Robert Wynne
Chief Financial Officer
Calgary, Alberta
Canada

Officers

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Chairman and
Chief Executive Officer
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