growth

orca EXPLORATION

Q3

2007 Q3 INTERIM REPORT

Orca Exploration Group Inc. is a well-financed, international public company engaged in hydrocarbon exploration, development and marketing. The Company's operations are directed from offices in Dar es Salaam, Tanzania.

Orca's immediate focus is on the exploration, production, development and marketing of Tanzanian natural gas and the exploration for oil in Uganda.

Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A. At the Company's Annual General Meeting 17 November 2006, shareholders approved a name change from EastCoast Energy Corporation to Orca Exploration Group Inc.

Quarter Highlights

- Generated a profit before tax of US$3.0 million (Q3 2006: US$1.3 million) with funds from operations before working capital changes of US$3.7 million (Q3 2006: US$1.6 million). The increase in profitability is primarily the result of an increase in sales volumes to the power sector.
- Satisfied the conditions precedent for the option agreement with Tower Resources plc that gives Orca the opportunity to become a 50% interest holder in the 6,040 square kilometer Exploration Area 5 in Uganda.
- Shortly after the quarter end, successfully completed the SS-10 well, which was tested at rates up to 52 mmscf/d. It is forecast that the well will be able to flow at a rate in excess of 55 mmscf/d once on production. The well is expected to be one of the best producers in the field and takes the deliverability of the six wells in the field to greater than 200 mmscf/d.
- Increased Q3 2007 sales of Additional Gas to the power sector by 165% to 1,974 mmscf (an average of 21.5 mmscf/d) compared with 744 mmscf in Q3 2006, at an average price of US$2.19/mcf (Q3 2006: US$1.69/mcf).
- Sold 442 mmscf of Additional Gas to Dar es Salaam industrial customers or an average of 4.8 mmscf/d. This represented a 10% decrease on Q3 2006 when 491 mmscf was sold. However, average industrial prices increased by 11% to an average of US$9.58/mcf (Q3 2006: US$8.63/mcf).
- Advanced negotiations with the Tanzanian Ministry of Energy and Minerals and TANESCO for the supply of gas to 245 MWs of gas fired generation for a period of 16 years.
- Completed the installation of an additional 8 kilometers of low pressure distribution pipeline to improve security of supply. Four new industrial customers are in the process of being connected from this new line.
- Submitted a proposal to Songas that would enable the gas processing capacity to be increased by approximately 25 – 35 mmscf/d. It is estimated that the proposal would take less than six months to implement and could be introduced before the third and fourth gas processing trains are installed by Songas.
- Completed the private placement that raised gross proceeds of Cdn$34.5 million through the issuance of 2.5 million Class B shares at a price of Cdn$13.80 per share.

← Cover Photo:
Orca has drilled a new production well, SS-10, in the Songo Songo field. The well is expected to produce at rates in excess of 55 mmscf/d when on production.

This Interim Report contains certain forward-looking statements based on current expectations, but which involve risks and uncertainties. Actual results may differ materially. All financial information is reported in U.S. dollars (US$), unless otherwise noted.

Financial and Operating Highlights

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	30-Sep 2007	30-Sep 2006	Change	30-Sep 2007	30-Sep 2006	Change
Financial *(US$'000 except where otherwise stated)*						
Revenue	**6,363**	3,835	66%	**13,215**	9,106	45%
Profit before taxation	**3,012**	1,309	130%	**2,918**	2,655	10%
Operating netback (US$/mcf)	**2.30**	2.89	(20%)	**2.32**	2.58	(10%)
Cash and cash equivalents	**27,436**	4,580	499%	**27,436**	4,580	499%
Working capital	**20,938**	3,298	535%	**20,938**	3,298	535%
Shareholders' equity	**70,996**	18,676	280%	**70,996**	18,676	280%
Profit per share - basic *(US$)*	**0.07**	0.03	133%	**0.05**	0.06	(17%)
Profit per share - diluted *(US$)*	**0.06**	0.03	100%	**0.05**	0.06	(17%)
Funds from operations before working capital changes	**3,718**	1,572	137%	**5,998**	3,546	69%
Funds per share from operations before working capital changes - basic *(US$)*	**0.13**	0.07	86%	**0.22**	0.15	47%
Funds per share from operations before working capital changes - diluted *(US$)*	**0.12**	0.06	100%	**0.20**	0.14	43%
Outstanding shares *('000)*						
Class A shares	**1,751**	1,751	–	**1,751**	1,751	–
Class B shares	**27,881**	21,658	29%	**27,881**	21,658	29%
Options	**2,622**	2,042	28%	**2,622**	2,042	28%
Operating						
Additional Gas sold *(mmscf)* - industrial	**442**	491	(10%)	**1,140**	1,068	7%
Additional Gas sold *(mmscf)* - power	**1,974**	744	165%	**4,075**	2,165	88%
Average price per mcf *(US$)* - industrial	**9.58**	8.63	11%	**8.75**	8.27	6%
Average price per mcf *(US$)* - power	**2.19**	1.69	30%	**2.19**	1.87	17%

GLOSSARY

Mcf ⇢
Thousands of standard cubic feet

Mmscf ⇢
Millions of standard cubic feet

Bcf ⇢
Billions of standard cubic feet

Tcf ⇢
Trillions of standard cubic feet

Mmscf/d ⇢
Millions of standard cubic feet per day

Mmbtu ⇢
Millions of British thermal units

1P ⇢
Proven reserves

2P ⇢
Proven and probable reserves

GIIP ⇢
Gas initially in place

Kwh ⇢
Kilowatt hour

MW ⇢
Megawatt

US$ ⇢
US dollars

Cdn$ ⇢
Canadian dollars

President & CEO's Letter to Shareholders

Orca's increased power sector gas sales, combined with stronger industrial gas prices in Tanzania, generated a before tax profit of US$3.0 million, up 130% over Q3 2006 (US$1.3 million). This is primarily a result of the Tanzanian power sector being ahead of schedule in installing gas fired generation. There are now 310 MWs of commissioned plants that require Additional Gas supplied by Orca as feedstock – a testament to the speed with which TANESCO and the Government of Tanzania have acted to increase power generation capacity.

To address this increasing power demand, the Company has invested in the Songo Songo field development over the course of 2007. In Q1 2007, the Company conducted remedial work on the offshore well, SS-9 and shortly after the end of Q3, completed the SS-10 development well, which was tested at rates up to 52 mmscfd. As a result of this work, Songo Songo field deliverability has increased by approximately 80 mmscf/d to in excess of 200 mmscf/d.

In Uganda, the 300-kilometer seismic acquisition programme is due to commence in December 2007 on Orca option lands. The data will be processed and interpreted during Q1 2008. It is anticipated that the decision on whether or not to drill two wells in Uganda will be made by 30 April 2008 with drilling proceeding in the second half of the year. Work is already underway to contract a suitable drill rig in country.

Exploration in Uganda by other energy companies continues to show positive results. In the south, Tullow Resources plc has had significant success with the drill bit and its reserves are reported to be approaching the level at which it will be economically viable to install a 1,200 kilometer export pipeline to Mombasa. This would mark a significant milestone in the development of the Ugandan oil reserves and would help to monetise any oil discovered by Orca.

To meet Orca's vigorous exploration, development and acquisition objectives, the Company successfully raised Cdn$34.5 million during Q3 2007 through a fully subscribed private placement. These funds have enabled the Company to fund the successful completion of the SS-10 well and to have sufficient funds for the Ugandan exploration efforts in 2008. There is good reason to look forward to the next year with considerable confidence.

Tanzania Development

The rapid monetisation of the Songo Songo field remains a key focus for Orca. During Q3 2007, there were positive developments in increasing well deliverability, expanding the infrastructure and negotiating the power supply contract.

Increasing the Songo Songo field deliverability to meet the growing power sector demand for gas was the principal reason for the drilling of the SS-10 development well and the remedial work on the offshore well, SS-9. There is now sufficient back up deliverability to meet demand over the next few years in the event of any failure or reduced production from the current wells.

Above ↑
The SS-10 gas well on Songo Songo Island was successfully completed shortly after the end of Q3.

Opposite →
The completion of the SS-10 well brings the total production capacity of the six Songo Songo wells to in excess of 200 mmscf/d.

The SS-10 well was the first well to be drilled on the Songo Songo field in 25 years. In the course of drilling this well a modern suite of logs was acquired and will be interpreted during the course of Q4 2007. This information, combined with the retrieval of further downhole pressure readings in December 2007, will be the principal data used to update Orca's year end reserve report.

To further increase Songo Songo reserves, the Company is also planning to drill an appraisal well in the northern portion of the field ("Songo Songo North") and an exploration well approximately 2 kilometers west of the existing field ("Songo Songo West"). Planning for these wells is underway, but drilling is not expected to commence until 2009 if the Company proceeds with the drilling of two wells in Uganda in 2008.

Infrastructure

High-pressure distribution system

During Q3 2007, sales of Additional Gas were occasionally limited by the current infrastructure capacity. The current configuration of the gas processing plant on Songo Songo Island limits the supply of gas to Dar es Salaam to 70 mmscf/d. This constraint is expected to continue through Q4 2007 and Q1 2008.

In Q3 2007, Orca submitted proposals to Songas that would enable the gas processing capacity to be increased by approximately 25 – 35 mmscf/d within six months. This would involve upgrading the existing trains and utilising a bypass. The Company expects to get clearance on these initiatives from Songas during Q4 2007 and has commenced the purchase of some of the longer lead-time items. The total cost of this capacity increase, which would accelerate the sales volumes to the power sector, is estimated at approximately US$0.7 million.

Over the longer term, Songas has made an application to Tanzania's regulatory authority, EWURA, for the installation of two new gas processing trains to increase throughput capacity to more than 140 mmscf/d. During Q3 2007 the tender documents for the engineering, procurement and construction contract were received and all parties are working on the project agreements to enable Songas to award the contract. It is expected that construction will take 12 months from the time of awarding the tender to the new trains being operational.

Additional work is being undertaken to determine the best means of increasing the capacity of the pipeline infrastructure system from its current estimated capacity of 105 mmscf/d to the full capacity of the gas processing trains (once the third and fourth train are operational).

Low-pressure distribution system

Shortly after the end of Q3 2007, Orca completed a further 8 kilometer extension of its low-pressure distribution system that now consists of 35 kilometers. In addition, a second pressure reduction station was also installed. This provides the Company greater security of deliverability to its existing customers and allows for growth. Four customers adjacent to the expanded pipeline are expected to be connected during Q1 2008.

The second pressure reduction station will also meet the needs of the 8 kilometer extension to the Mwenge area that will be constructed in 2008 once contracts averaging 1 mmscf/d are signed with the local industries.

Market Development

The rapid expansion of gas fired power generation in Tanzania continues to exceed Orca's expectations. During Q3, Dowans commissioned 40 MWs of emergency generation and shortly after the quarter end, TANESCO commissioned the TANESCO Wärtsilä 100 MW power plant. This increased the total installed generation using Additional Gas to 310 MWs. Combined with the 150 MWs of generation that is operating on Protected Gas from the Songo Songo field, there is now more electricity being generated from gas fired generation than hydro.

Top ↑ Orca is expanding its low pressure gas distribution system to serve additional industrial customers in the Dar es Salaam area.

Bottom ↑ Long-term Additional Gas contracts are being negotiated to supply 245 MWs of power generation in the Dar es Salaam area.

Opposite → Additional Gas supplied by Orca Exploration feeds emergency power units.

During Q3 2007, TANESCO reached agreement for the purchase of an additional 45 MWs of generation at Tegeta. It is forecast that the plant will be operational in Q3 2008. It is understood that discussions to convert IPTL to gas operation are continuing.

There have been detailed discussions with TANESCO/MEM to secure long-term contracts for this expanded generation capacity. It is expected that the principal terms will be agreed by the end of Q1 2008 covering the supply of gas to 245 MWs of permanent generation (TANESCO Wärtsilä 100 MWs, IPTL 100 MWs (or alternate) and Tegeta 45 MWs) for a 16-year period. The 245 MWs of permanent generation are forecast to have a maximum demand of 45 mmscf/d.

A separate long-term contract for the 42 MW sixth turbine at Ubungo ("UGT 6") is expected to be concluded within a similar timeframe. UGT 6 has a demand of approximately 7 mmscf/d at an 80% utilisation rate.

Current Gas Sales

There was a significant improvement in gas sales volumes during Q3 2007 since utilisation of the gas fired generation increased as the hydro capacity fell during the dry season. The industrial sales also picked up as they entered their most active period of the year. Whilst the general trend is for an increase in gas sales, quarterly swings caused by the use of the hydro generation are anticipated. This seasonal volatility may be eliminated if demand increases to the point where more gas fired generation can be base-loaded.

Total sales of Additional Gas to the power sector increased 165% to 1,974 mmscf or an average of 21.5 mmscf/d (Q3 2006: 8.1 mmscf/d). With the commissioning of an additional 268 MWs of gas fired generation in the past year, TANESCO can now utilise gas and preserve the water in the Mtera dam for 284 MWs of peak requirements.

In Q3 2007, sales of Additional Gas to Orca's industrial customers decreased 10% to 442 mmscf (Q3 2006: 491 mmscf) due to a temporary shortage of demand. However, in value terms, Q3 sales to the industrial sector increased due to an 11% improvement in the industrial sales price to US$9.58/mcf (Q3 2006: US$8.63/mcf). Sales volumes are expected to increase in 2008 as more customers are connected to the expanded ringmain system and the extension to Mwenge area is constructed.

It is forecast that there will be a slight decrease in the gas fired generation volumes in Q4 2007 as the rains in November and December improve the performance of the 277 MWs of run-of-river hydros. There will also be a small seasonal decrease in the demand by the textile industry.

CNG

To further expand gas sales, Orca is planning to commence the sale of Compressed Natural Gas ("CNG") to industrial customers and to markets that are not located near the existing distribution pipeline. These new CNG markets include all of the major hotels in Dar es Salaam and Zanzibar.

This initiative will play a major part of the Company's marketing activity in 2008 and capital will be made available to establish a small compression unit and distribution vehicles. The feasibility of transporting CNG to other markets outside of Dar es Salaam will also be investigated.

Orca has also commissioned a CNG pilot for vehicle fuels, which has been a successful operation. Plans are in progress to expand CNG supply for transportation use.

Outlook

In Tanzania the success of the SS-10 well and the progress that is being made on the gas contracts to the power sector encourages Orca to allocate more capital over the next 18 months to increase infrastructure capacity and further develop high value markets.

In Uganda, management will focus on finding oil reserves. A 300 kilometer 2-D seismic programme will be shot over the next three months by IMC Geophysics International Limited and will be processed and interpreted by the end of Q1 2008. Orca can then determine whether to proceed with the drilling of two wells during 2008. The Company continues to evaluate existing and new Ugandan data and is encouraged by the findings to date.

We thank our employees and shareholders for their continuing support.

Peter R. Clutterbuck
President & CEO

29 November 2007

Uganda

Above ↑ The Albertine Graben Basin is located along the western edge of Uganda. The presence of oil reservoir units within the basin was established by drilling in 2003/2004. Orca has an option to earn a 50% interest in EA 5 of the basin.

Orca has an option to participate in this exciting new petroleum province adjacent to the Uganda onshore Lake Albert Rift basin. The Company has joined forces with Tower Resources at 50% equity to jointly explore for oil in Uganda onshore Exploration Area 5 ("EA 5"). Recently both London-based Tullow plc ("Tullow") and Calgary-based Heritage Oil Corporation ("Heritage") have been successful in finding significant hydrocarbons within the basin. Orca has identified a number of significant leads similar to the prospects further to the south. These leads will be further evaluated with the acquisition of seismic data beginning in December 2007. Depending on the results of the seismic program, Orca has the option to participate in the drilling of 2 exploratory wells.

Exploration History

Uganda's Albertine Graben is a largely underexplored sedimentary basin. Its petroleum potential in terms of thickness of sediment, presence of source rocks, reservoirs and seals was established in 2006 and early 2007 through the exploration successes of Heritage and Tullow. The sediment thickness evidently exceeds 5,000 meters in the deepest parts of the basin. Oil seeps have been known within the Albertine Graben for some time and were identified over a large area indicating the existence of a working petroleum system in the region. The presence of reservoir units within the sedimentary cover of the Tertiary age was proven by three wells that Heritage drilled in 2003/2004.

There have been 11 exploratory and appraisal wells drilled in Uganda since 2003.

	Year	Operator	Status / Flow rates bbl/day	Exploration Area
Turaco 1	2003	Heritage	Non discovery	3 A
Turaco 2	2004	Heritage	Non discovery	3 A
Turaco 3	2004	Heritage	Non discovery	3 A
Mputa 1	2006	Tullow	Suspended oil, 1,120 b/d	2
Mputa 2	2006	Tullow	Suspended oil, logged not tested	2
Waranga 1	2006	Tullow	Suspended oil,12,000 b/d max aggregate	2
Nzizi 1	2006	Tullow	Logged not tested	2
Kingfisher 1 + 1A	2007	Heritage	Suspended oil,13,893 b/d max aggregate	3 A
Nzizi 2	2007	Tullow	P&A oil + 14 mmscf/d of gas	2
Mputa 3	2007	Tullow	Suspended oil, 1,968 bopd	2
Mputa 4	2007	Tullow	Suspended oil, logged not tested	2

Future Industry activity in Uganda

Significant seismic and drilling activity is planned in Uganda by all operators during the course of the next 18 months. It is estimated that at least 8 wells will be drilled. Two rigs are currently operating in country and a third rig is expected in the near future. Additionally, 1,100 kilometers of seismic will be acquired by year end.

EA 1

EA 1 is jointly held by Tullow and Heritage and is operated by Heritage.

2-D Seismic is currently being acquired. The original 500 kilometer programme has been extended due to the positive results from the initial 172 kilometer survey in the southern part of the block. There are currently plans to drill two to three exploration wells commencing in the first half of 2008.

EA 2

Tullow holds 100% of EA 2.

Tullow has drilled three exploration wells in 2007, namely the Nzizi 2 well with the Dafora-F200 rig and a further two appraisal wells Mputa 3 and Mputa 4. All three wells have encountered oil. The Mputa 4 was the third and final well to be drilled as part of the Kaiso-Tonya appraisal programme.

A rig (Nabors 221) has been contracted to drill the significant Ngassa prospect (same rig as will be used to drill the Kingfisher-2 well in EA 3 A). This well is scheduled to be completed by the end of 2007.

EA 3 A

EA 3 A is jointly held by Tullow and Heritage (50% each) and is operated by Heritage.

Heritage is currently conducting a 325 kilometer 3-D seismic programme over the Kingfisher and Pelican prospects. Initial interpretation has indicated that the prospects are structurally uncomplicated and approximately 70 and 40 square kilometers in size. Following the full interpretation of the survey, Heritage has contracted the Nabors 221 rig to drill the Kingfisher-2 well (scheduled to spud in Q1 2008). Heritage is targeting deeper objectives that require a larger capacity rig than was used on Kingfisher-1 (3,195 meters).

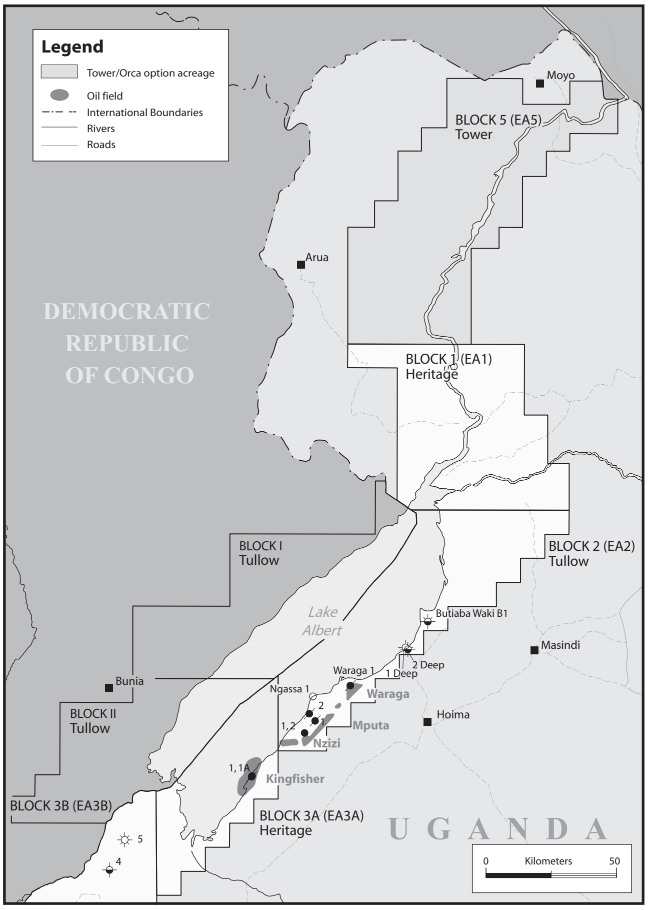
EA 5

Tower Resources plc ("Tower") holds 100% of EA 5 subject to Orca Exploration's 50% option rights.

EA 5 is at the northern end of the Albertine Graben. It lies approximately 200 kilometers north of the 12,000 bbl/d Tullow discovery at Waranga and south of the Unity and Heglig oil fields in the Muglad rift basin in Sudan.

To date here has been no seismic acquired and no wells drilled on EA 5. A regional gravity survey and subsequent analysis has identified that EA 5 contains a sedimentary sequence within the Albertine Graben system, within which prospective structures have been indicated. This part of the Albertine Graben is called the Rhino Camp Basin. The Semliki Basin further to the south where the discoveries have been found was prognosed from a similar type of gravity survey and was later confirmed to exist following the seismic conducted by Heritage in the late 1990s.

In the next 18 months, Tower will acquire 300 kilometers of 2-D seismic and drill 2 exploration wells to a depth of 2,500 meters and 1,500 meters. There will be at least two rigs in country in this period that could potentially be utilised.



Above ↑ A number of oil fields were proven by drilling in 2006/2007. Orca will conduct a seismic program, beginning in December 2007, in EA 5 200 kilometers northeast of the 12,000 b/d Waranga discovery.

Export routes

Current provisional estimates are that a 500,000 bbl/day pipeline could be required to export the crude to international markets. It is estimated that this would cost approximately US$1.5 billion and is considered commercially viable. It is forecast that this could be completed between 2010 and 2013 based on the current drilling activities in Uganda and the drilling successes over the last 2 years. If exportable accumulations are discovered, it is anticipated that a 1,200 kilometer pipeline will be constructed from the oil fields to the Kenyan coast at Mombasa, via Kampala and Nairobi. There is an existing pipeline that runs along this route taking oil products to Uganda.

EA 5 PSA terms

The principal terms of the PSA, as amended are as follows:

- The First Exploration Period ends on 27 March 2008. By this time, 200 kilometers of seismic must be acquired processed and interpreted. This will be satisfied by the acquisition of 300 kilometers of 2-D seismic in the last quarter of 2007.
- Under the terms of the Second Exploration Period, minimum exploration of two wells and one contingent well is required to be drilled by 27 March 2010.
- The Third Exploration Period ends on 27 March 2012. By this time an additional exploration well and one contingent well has to be drilled.
- Cost recovery is permitted for up to 50% of the oil production after deduction of the Royalty. Carry forward provisions apply.
- The Royalty ranges from 5% on volumes up to 2,500 bbls/day to 12.5% above 7,500 bbls/day.
- The profit sharing percentage of the licensee decreases as production increases. The range is 53% for 0 – 5,000 bbls/day and 25% for production in excess of 40,000 bbls/day.
- The Government of Uganda has a 20% back in right.

Terms of Orca's agreement with Tower Resources

The principal terms of the agreement are as follows:

- The agreement is structured as an option with Tower to earn a 50% interest in EA 5.
- In consideration for granting the option, Orca will fund 83.33% of certain back costs and a 2-D seismic programme of 300 kilometers, beginning in December 2007, subject to a maximum cost to the Company of US$5-6 million.
- On completion of the interpretation of the seismic data expected during Q1 2008, Orca will have the exclusive right to acquire a 50% working licence interest in return for funding 83.33% of two exploration wells forecast to commence mid 2008. The carry is capped at a maximum cost to the Company of between US$10 million and US$15 million depending on whether the wells are tested.
- In the event that Orca exercises its option to become a 50% partner, Tower will continue to remain operator under the licence for a period of three years. However, Orca will assume management responsibility for all drilling activities.
- Orca has put a guarantee in place at the outset to cover US$15 million of expenditure.

Uganda statistics

Size of country	
Size of country	236,000 square kilometers
Population	30 million
Population growth rate (1990 – 2005)	3.2%
Inflation rate (1990 – 2005)	8%
GDP growth rate	3.2%
Oil imports 2006	US$300 – US$400 million
Gross National income per capita	US$280

Country Information and Governance

Uganda is a landlocked country in central East Africa with a population of approximately 30 million. It borders Tanzania, Kenya, Sudan, Democratic Republic of the Congo and Rwanda. Agriculture is the most important economic sector with coffee accounting for the bulk of Uganda's export revenues. The country has substantial mineral resources including large deposits of copper and cobalt. Uganda's official language is English.

Uganda is a presidential republic. General elections are held every five years. The elected President is both head of state and head of government. Executive power is exercised by the government. Legislative power is vested in both the government and a 303-member National Assembly that includes 217 elected and 86 appointed representatives (who represent the interests of specific populations e.g. women, persons with disabilities and others). The system is parliamentary with voting for all citizens over 18.

Presidential elections were held in February 2006 and President Yoweri Museveni (of the National Resistance Movement Party) was elected for a third term. The current Prime Minister is Apolo Nsibambi. The Cabinet is appointed by the President from among elected legislators.

Uganda is a member of the East Africa Community with Tanzania and Kenya that aims to support closer cooperation between the countries including free trade.

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE QUARTER ENDED 30 SEPTEMBER 2007 SHOULD BE READ IN CONJUCTION WITH THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007 AND THE AUDITED FINANCIAL STATEMENTS AND THE RELATED NOTES FOR THE YEAR ENDED 31 DECEMBER 2006. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 29 NOVEMBER 2007. IT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, CERTAIN OF WHICH ARE BEYOND ORCA EXPLORATION GROUP INC'S ("ORCA EXPLORATION" OR "THE COMPANY" – FORMERLY EASTCOAST ENERGY CORPORATION) CONTROL, INCLUDING THE IMPACT OF GENERAL ECONOMIC CONDITIONS IN THE AREAS IN WHICH THE COMPANY OPERATES, CIVIL UNREST, INDUSTRY CONDITIONS, CHANGES IN LAWS AND REGULATIONS INCLUDING THE ADOPTION OF NEW ENVIRONMENTAL LAWS AND REGULATIONS AND CHANGES IN HOW THEY ARE INTERPRETED AND ENFORCED, INCREASED COMPETITION, THE LACK OF AVAILABILITY OF QUALIFIED PERSONNEL OR MANAGEMENT, FLUCTUATIONS IN COMMODITY PRICES, FOREIGN EXCHANGE OR INTEREST RATES, STOCK MARKET VOLATILITY AND OBTAINING REQUIRED APPROVALS OF REGULATORY AUTHORITIES. IN ADDITION THERE ARE RISKS AND UNCERTAINTIES ASSOCIATED WITH GAS OPERATIONS. THEREFORE, ORCA EXPLORATION'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENT COULD DIFFER MATERIALLY FROM THOSE EXPRESSED, OR IMPLIED BY, THESE FORWARD-LOOKING ESTIMATES AND, ACCORDINGLY, NO ASSURANCES CAN BE GIVEN THAT ANY OF THE EVENTS ANTICIPATED BY THE FORWARD LOOKING ESTIMATES WILL TRANSPIRE OR OCCUR, OR IF ANY OF THEM DO SO, WHAT BENEFITS, INCLUDING THE AMOUNTS OF PROCEEDS, THAT ORCA EXPLORATION WILL DERIVE THEREFROM.

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE BASED ON EARNINGS AND FUNDS FLOW. FUNDS FLOW FROM OPERATING ACTIVITIES IS A NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) TERM THAT REPRESENTS EARNINGS BEFORE DEPLETION, DEPRECIATION, STOCK-BASED COMPENSATION, DEFERRED TAXATION AND ADDITIONAL PROFITS TAX. THE INCLUSION OF CHANGES IN NON-CASH WORKING CAPITAL RESULTS IN CASH PROVIDED FROM OPERATING ACTIVITIES ON THE STATEMENT OF CASH FLOWS. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS. ORCA EXPLORATION ALSO ASSESSES ITS PERFORMANCE UTILIZING OPERATING NETBACKS. OPERATING NETBACKS REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS RINGMAIN TARIFF, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THESE NON-GAAP MEASURES ARE NOT STANDARDISED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES. ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION GROUP INC IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT www.sedar.com.

BACKGROUND

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 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 utilises the Protected Gas (maximum 45.1 mmscf/d) 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").

Principal terms of the 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 licences 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 prior to 31 July 2009 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 (e) below).

Songas has written to Orca Exploration confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo Power Plant, for the supply of up to 15 mmscf/d for a period of five years for additional power generation and up to 10 mmscf/d for the industrial sector. As the current emergency power generation operating in the country could take demand above 15 mmscf/d for power generation, Songas has confirmed that the Company may sell 17 mmscf/d for power generation over the next two years without the need for security.

The Company is looking to agree a security mechanism with Songas that provides clear guidance as to how Songas will operate their rights to security. It is anticipated that, under certain circumstances, the Company and TPDC may have to allocate a proportion of the Additional Gas revenues to an escrow account, in the event of a forecast Protected Gas insufficiency.

(d) By 31 July 2009, the Government of Tanzania ("GoT") can request Orca Exploration to sell 100 bcf of Additional Gas for the generation of electricity over a period of 20 years from the start of its commercial use, subject to a maximum of 6 bcf per annum or 20 mmscf/d ("Reserved Gas"). In the event that the GoT does not nominate by 31 July 2009, or consumption of the Reserved Gas has not commenced within three years of the nomination date, then the reservation shall terminate. Where Reserved Gas is utilised, TPDC and the Company will receive a price that is no greater than 75% of the market price of the lowest cost alternative fuel delivered at the facility to receive Reserved Gas or the price of the lowest cost alternative fuel at Ubungo.

(e) "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 (f) 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.

(f) 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 (where the fifth turbine has been installed, but has not been operational for three years an imputed amount of annual gas consumption for the fifth turbine is incorporated) 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

(g) 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.

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

(h) 75% of the gross revenues less 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 all 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; 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 ("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 Ministry of Energy and Minerals ("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 by contributing 20% of the costs of the future wells including SS-10 in return for a 20% increase in the profit share percentage for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements have not taken account of any re-imbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

(i) The price payable to Songas for the general processing and transportation of the gas is 17.5% of the price of gas delivered to a third party less any direct taxes payable by the customer that are included in the gas price less any tariffs paid for non-Songas owned distribution facilities ("Songas Outlet Price").

In September 2001, the GoT made a formal request to the World Bank for funds to increase the diameter of the onshore pipeline from 12 inches to 16 inches at a projected incremental cost of US$3.5 million. The World Bank agreed to finance this increase and accordingly the pipeline capacity was increased from circa 65 mmscf/d to 105 mmscf/d. The tariff that is payable to GoT for this incremental capacity has yet to be formally agreed, but the Company expects it to be 17.5% of the Songas Outlet Price.

17.5% of the Songas Outlet Price is also the rate that is expected to apply to cover the financing and operating costs of the third and fourth train which is forecast to increase the gas processing capacity to 140 mmscf/d.

(j) 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.

(k) 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 share is a minimum of 25% and a maximum of 55%.

Average daily sales of Additional Gas mmscf/d	Cumulative sales of Additional Gas bcf	TPDC's share of Profit Gas %	Company's share of Profit Gas %
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 share increases to 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.

(l) 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 all 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 share 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

(m) 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 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.

(n) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, Orca Exploration, CDC or insurance coverage, then Orca Exploration is liable to a performance and operation guarantee of US$2,500,000 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.

Results for the quarter ended 30th September 2007

Operating Volumes

The sales volumes for the quarter were 2,416 mmscf or 26.3 mmscf/d. This represents an overall increase of 112% over the previous quarter and an increase of 96% over the same quarter last year. The Company's sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Gross sales volume ***(mmscf):***					
Industrial sector	**442**	397	491	**1,140**	1,068
Power sector	**1,974**	745	744	**4,075**	2,165
Total volumes	**2,416**	1,142	1,235	**5,215**	3,233
Gross daily sales volume ***(mmscf/d)***:					
Industrial sector	**4.8**	4.4	5.3	**4.2**	3.9
Power sector	**21.5**	8.2	8.1	**14.9**	7.9
Total daily sales volume	**26.3**	12.6	13.4	**19.1**	11.8

Industrial sector

Industrial sales volumes increased by 11% during Q3 2007 to 442 mmscf (Q2 2007: 397 mmscf) as textile customers demand peaked to take advantage of low cotton prices during the harvest season. The delay in the start of the harvest season prevented the sales volumes from attaining the levels achieved in 2006. Industrial sales averaged 4.8 mmscf/d (Q2 2007: 4.4 mmscf/d) compared with 5.3 mmscf/d for the same quarter in 2006.

Power sector

Power sector sales volumes increased by 165% during the quarter to 1,974 mmscf. The rains in April and May enabled TANESCO to generate more electricity during Q2 2007 from its 561 MWs of hydro generation resulting in a fall in gas sales volumes to the power sector. TANESCO increased the purchase of electricity from gas fired power plants in Q3 after the end of rainy season.

In October 2007, TANESCO purchased limited volumes of gas to commission 40 MWs of emergency generation brought in by Dowans.

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-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Average sales price					
Industrial sector	**9.58**	8.61	8.63	**8.75**	8.27
Power sector	**2.19**	2.17	1.69	**2.19**	1.87
Weighted average price	**3.54**	4.41	4.45	**3.62**	4.04

Industrial sector

The price of gas for the industrial sector is at a discount to the price of Heavy Fuel Oil ("HFO") in Dar es Salaam. This resulted in average gas prices of US$9.58/mcf (Q2 2007: US$8.61/mcf) during the third quarter of 2007. The gas price achieved for the industrial sector will fluctuate with world oil prices and the discount agreed with the customers. During the quarter, the average monthly Additional Gas prices for the industrial customers in Dar es Salaam ranged between US$9.02/mcf and US$10.01/mcf.

Power sector

The Interim Agreement for the sale of Additional Gas to the Ubungo Power Plant provides for different gas prices, depending on the average availability of the six turbines, from a minimum of US$0.67/mmbtu (US$0.62/mcf) to the maximum of US$2.32/mmbtu (US$2.14/mcf). All the turbines were available during the quarter and the Company achieved a maximum price of US$2.32/mmbtu (US$2.14/mcf). Additional Gas supply to the Aggreko and Dowans emergency power units were at the fixed price of US$2.41/mmbtu (US$2.22/mcf). The increase in average sales price to the power sector from US$2.17/mcf in Q2 to US$2.19/mcf in Q3 was due to a decrease in the proportion of the power sales volumes being sold to the Ubungo Power Plant.

Consumers currently pay approximately 7.5 cents/kwh for their electricity. This tariff is the lowest in East Africa and, significantly lower than the current prices in western economies. This will limit the price that gas can be sold to the power sector.

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 to be recovered out of future revenues. For the first time, sales volumes in Q3 were in excess of 20 mmscf/d for the entire quarter. Consequently, the revenue less cost recovery share of revenue ("Profit Gas") increased from 25% to 30%. TPDC was allocated 70%.

Orca Exploration had recoverable costs throughout 2006 and 2007 to date and accordingly was allocated 82.5% (Q2 2007 and other previous quarters: 81.25%) of the Net Revenues as follows:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Gross sales revenue	**8,561**	5,035	5,490	**18,885**	13,056
Gross tariff for processing plant and pipeline infrastructure	**(1,447)**	(793)	(857)	**(3,057)**	(2,055)
Gross revenue after tariff	**7,114**	4,242	4,633	**15,828**	11,001
Analysed as to:					
Company Cost Gas	**5,338**	3,184	3,474	**11,875**	8,250
Company Profit Gas	**539**	263	289	**1,081**	687
Company operating revenue	**5,877**	3,447	3,763	**12,956**	8,937
TPDC Profit Gas	**1,237**	795	870	**2,872**	2,064
	7,114	4,242	4,633	**15,828**	11,001

The Company's total revenues reported for the quarter amounted to US$6,363,000 after adjusting the Company's operating revenue of US$5,877,000 by:

i) US$598,000 for income tax. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable. To account for this, revenue is adjusted to reflect the current income tax charge or loss;

ii) US$112,000 for the deferred effect of Additional Profits Tax. This charge is deducted from revenue as a royalty.

Transportation Tariff

Under the terms of the project agreements, the tariff paid for transporting the gas is calculated as 17.5% of the price of gas at the Songas main pipeline in Dar es Salaam ("Songas Outlet Price") for the first 65 mmscf/d of pipeline capacity.

In calculating the Songas Outlet Price for the industrial customers, an amount of US$1.36/mcf (Q2 2007: US$1.12/mcf) ("Ringmain Tariff") has been deducted from the achieved industrial sales price of US$9.58/mcf (Q2 2007: US$8.61/mcf) to reflect the gas price that would be achievable at the Songas main pipeline. The Ringmain tariff represents the amount that would be required to compensate a third party distributor of the gas for constructing and operating the connections from the Songas main pipeline to the industrial customers. No deduction has been made for sales to the power sector since the gas is not transported through the Company's own infrastructure.

It is envisaged that Songas will finance the construction of a third and a fourth gas processing train to ensure there will be sufficient infrastructure capacity to meet the peak gas demand for the 310 MWs of gas fired generation plants that TANESCO has installed in Dar es Salaam. The new trains are not expected to be operational until 2009, but Orca has proposed a temporary solution to increase the capacity of the gas processing plants through a re-rating of the existing facilities and the introduction of a bypass. If Songas approve the proposal the gas processing capacity could be increased by 25 – 35 mmscf/d within six months.

The tariff associated with the expansion of the pipeline and the gas processing plant is yet to be agreed and will be subject to approval by EWURA. However, the Company has assumed it will be no more than 17.5% of the Songas Outlet Price. In the event that it is higher than 17.5% the increase will be passed on to the gas consumers.

Production and Distribution Expenses

The cost of maintaining the ringmain distribution pipeline and pressure reduction station (security, insurance and personnel) is forecast to be approximately US$0.4 million per annum in its current form.

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$435,000 (Q2 2007: US$222,000) and US$137,000 (Q2 2007: US$77,000) was allocated to the Additional Gas.

Other operating costs include an apportionment of the annual PSA licence costs and some costs associated with the evaluation of the reserves.

These costs are summarised in the table below:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Ringmain distribution pipeline	**101**	94	95	**311**	256
Share of well maintenance	**137**	77	59	**279**	154
Other field and operating costs	**73**	90	57	**246**	163
Production and distribution expenses	**311**	261	211	**836**	573
Depletion	**1,334**	630	435	**2,879**	1,141

Operating Netback

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

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Amounts in US$/mcf)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Gas price – industrial	**9.58**	8.61	8.63	**8.75**	8.27
Gas price – power	**2.19**	2.17	1.69	**2.19**	1.87
Weighted average price for gas	**3.54**	4.41	4.45	**3.62**	4.04
Tariff (after allowance for the Ringmain Tariff)	**(0.60)**	(0.70)	(0.69)	**(0.59)**	(0.64)
TPDC Profit Gas	**(0.51)**	(0.69)	(0.70)	**(0.55)**	(0.64)
Net selling price	**2.43**	3.02	3.06	**2.48**	2.76
Well maintenance and other operating costs	**(0.09)**	(0.15)	(0.09)	**(0.10)**	(0.10)
Ringmain distribution pipeline	**(0.04)**	(0.08)	(0.08)	**(0.06)**	(0.08)
Operating netback	**2.30**	2.79	2.89	**2.32**	2.58

Operating netback decreased by 18% to US$2.30/mcf in Q3 2007 against US$2.79/mcf in Q2 2007. The 165% increase in the sales volume to the power sector during the quarter at significantly lower prices than the industrial sector has lead to a lower average weighted gas price compared to Q2 2007. However, the higher sales volume have reduced the well maintenance and other operating costs on a US$/mcf basis.

The operating netbacks are currently benefiting from the recovery of 75% of the Net Revenues as Cost Gas.

Administrative Expenses

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

(Figures in US$'000)	THREE MONTHS ENDED 30-Sep 2007	30-Jun 2007	30-Sep 2006	NINE MONTHS ENDED 30-Sep 2007	30-Sep 2006
Employee costs	**451**	435	498	**1,317**	1,214
Stock based compensation	**550**	816	292	**1,581**	634
Consultants	**604**	585	260	**1,824**	741
Travel & accommodation	**183**	181	135	**471**	285
Communications	**20**	21	11	**68**	57
Office	**172**	124	119	**427**	327
Insurance	**43**	50	36	**129**	107
Auditing & taxation	**26**	23	43	**73**	112
Depreciation	**41**	31	27	**98**	81
Marketing costs including legal fees	**414**	375	289	**1,308**	705
Reporting, regulatory and corporate finance	**41**	26	124	**153**	383
Directors' fees	**23**	37	12	**71**	55
Net general and administrative expenses	**2,568**	2,704	1,846	**7,520**	4,701

During the quarter US$228,000 of general administrative expenses (Q2 2007: US$723,000) were capitalised. These costs include consultancy fees and the proportionate share of options, treasury stock and stock appreciation rights for the personnel who were directly responsible for the execution of the option agreement to acquire a 50% working interest in Exploration Area 5 in Uganda ("EA 5") and the continuing development of the project.

Included in the above are costs associated with business development outside of Tanzania. These are summarised below:

(Figures in US$'000)	THREE MONTHS ENDED 30-Sep 2007	30-Jun 2007	30-Sep 2006	NINE MONTHS ENDED 30-Sep 2007	30-Sep 2006
Business development	**272**	710	–	**1,404**	–

During the quarter, net G&A averaged approximately US$0.86 million per month (Q2 2007: US$0.90 million per month). G&A per mcf decreased to US$1.06/mcf (Q2 2007: US$2.37/mcf). A large proportion of G&A is relatively fixed in nature and therefore decreases on an US$/mcf basis as volumes increase.

Net general and administrative expenses have decreased 5% compared to the previous quarter. The main variances are summarised below:

Stock based compensation

The Company did not award any options or stock appreciation rights during the quarter.

On 7 April 2007, 200,000 Class B shares were awarded to a newly appointed officer. These shares are currently held in escrow. They vest to the officer in three equal annual instalments starting 7 April 2007. At the time the shares were awarded they had a market value of Cdn$1.7 million. A charge of US$135,000 was made in Q3 2007 (Q2 2007: US$660,000) in respect of these shares. The charge in Q2 was higher as a consequence of one third or the shares vesting immediately.

On 26 April 2007, the Company issued 150,000 stock options to directors of the Company at an exercise price of Cdn$10.00 per option. The options vest in three equal instalments starting 26 April 2008.

On 1 June 2007, the Company issued 510,000 stock options and 90,000 stock appreciation rights to officers of the Company at an exercise price of Cdn$13.55 per option. The options and the stock appreciation rights vest in three equal annual instalments starting on 1 June 2008.

As at 30 September, there were 2,622,400 options outstanding with a weighted average exercise price per option of Cdn$4.85. Of these options, 1,662,400 may be exercised at any time. A charge of US$289,000 was made in respect of these options in Q3 2007 (Q2 2007: US$138,000).

As at 30 September 2007, there were 1,090,000 stock appreciation rights that were outstanding. 400,000 of these stock appreciation rights have a cap of Cdn$3 per share or Cdn$1.2 million in total and will be paid out in February 2008. A charge of US$270,000 was made in respect of stock appreciation rights in Q3 2007 (Q2 2007: US$590,000).

The fair value of both the stock appreciation rights and stock options, have been calculated using the Black-Scholes option pricing model. In accordance with IFRS2 as the stock appreciation rights are a cash-settled share based payment, until the liability is settled the fair value of the liability has to be recalculated at each reporting date and any changes recognised. The fair value being effected by the share price at the date of valuation, the volatility in the share price and the risk free rate of interest.

Charges for treasury shares, options and stock appreciation rights in Q3 may be summarised as follows:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Stock options	**289**	138	142	**368**	334
Stock appreciation rights	**270**	590	150	**1,134**	300
Treasury stock	**135**	660	–	**795**	–
	694	1,388	292	**2,297**	634
Capitalised	**(144)**	(572)	–	**(716)**	–
	550	**816**	**292**	**1,581**	**634**

Marketing costs including legal fees

These costs include marketing costs, legal and corporate promotion costs. During Q3 2007, higher costs were experienced in negotiating power contracts with Songas, TANESCO and MEM. These costs will continue to remain high until the longer term contracts for the power sector are signed.

In addition, the Company continued to increase its focus on non power sales in Q3 2007 including the compressed natural gas market.

Net Financing Income/(Charges)

Interest income increased to US$0.3 million from the prior quarter, due primarily to the receipt of funds from the successful private placement of 2.5 million Class B shares at Cdn$13.80/share in July 2007. The US$0.6 million gain on foreign exchange was primarily due to the recognition of a US$0.4 million gain from the conversion of the funds received from the private placement.

The table below sets out these items:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Finance Income					
Interest income	**273**	64	17	**434**	47
Foreign exchange gain	**589**	–	–	**589**	9
	862	64	17	**1,023**	56
Finance Charges					
Foreign exchange loss	**–**	(14)	(51)	**(85)**	(92)
	–	(14)	(51)	**(85)**	(92)
Net finance income/(charges)	**862**	50	(34)	**938**	(36)

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 September 2007, 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$2,346,000 which represents an additional charge of US$652,000 in the quarter. 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.

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 PSA licence. The effective APT rate has been calculated to be 20%. Accordingly, US$112,000 (Q2 2007: US$56,000) has been netted off revenue for the quarter ended 30 September 2007.

As at 30 September 2007, the Company had US$44.1 million (Q2 2007: US$31.1 million) of costs that are recoverable out of 75% of the future Net Revenues.

Management does not anticipate that any APT will be payable in 2007, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the percentage change in the United States Industrial Goods Producer Price Index and the forecast remaining expenditures for 2007. 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 programme.

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 2006, the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd. ("McDaniel") were 265.8 bcf before TPDC 'back in' (2005: 240.6 bcf) on a life of licence basis. This leads to a depletion charge of US$0.55/mcf for all quarters to date in 2007.

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 Value 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. There was no write down required at 30 September 2007.

Funds Generated by Operations

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Profit/(loss) after taxation	**1,942**	(608)	809	**1,462**	1,552
Adjustments	**1,776**	1,795	763	**4,536**	1,994
Funds from operations before working capital changes	**3,718**	1,187	1,572	**5,998**	3,546
Working capital adjustments	**(1,426)**	(126)	924	**(1,922)**	640
Net cash flows from operating activities	**2,292**	1,061	2,496	**4,076**	4,186
Net cash flows used in investing activities	**(13,210)**	(8,314)	(755)	**(28,214)**	(2,932)
Net cash flows from financing activities	**30,753**	118	10	**30,896**	128
Net increase/(decrease) in cash and cash equivalents	**19,835**	(7,135)	1,751	**6,758**	1,382

The US$19.8 million increase in cash and cash equivalents during the quarter is mainly due to net proceeds of US$30.4 million from the private placement of 2.5 million Class B shares at Cdn$13.80/share received in July 2007. The 116% increase in cash flow from operating activities to US$2.3 million was partially offset by a 59% increase in cash used in investing activities to US$13.2 million.

Capital Expenditure

Gross capital expenditures amounted to US$10.9 million during the quarter (Q2 2007: US$15.0 million). The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Geological and geophysical and well drilling	**10,426**	13,723	473	**34,806**	1,712
Pipelines and infrastructure	**314**	1,205	234	**1,799**	845
Power development	**7**	26	42	**141**	42
Other equipment	**108**	35	–	**175**	35
	10,855	14,989	749	**36,921**	2,634

A total of US$9.2 million was incurred in the quarter on the development well, SS-10, bringing the total costs incurred in 2007 to US$31.3 million. The well was spudded on 28 April 2007 and was initially expected to be completed by the end of June 2007. However, the drilling work was suspended from June to September to allow remedial work to be undertaken to the Caroil rig as a result of mechanical failure. The drilling work was successfully completed in early November. During the test, the well was flowed at a peak rate of 52 mmscf/d though it is estimated that the well will be able to flow at an initial rate in excess of 55 mmscf/d when on production.

During the quarter, the Company completed the construction of an 8 kilometer pipeline extension to the distribution system and an additional pressure reduction system at a total cost of US$1.9 million. This will improve the security of supply, enable the Company to connect four new customers and increase deliverability to its existing customer base.

During the quarter, the Company incurred US$0.8 million of costs related to the identification and negotiation of the option agreement with Tower Resources Plc ("Tower"), bringing the total costs to 30 September 2007 to US$1.6 million. This agreement gives the Company the right to acquire a 50% working interest in Exploration Area 5 in Uganda ("EA 5"). The costs include the Company's share of historical costs incurred by Tower of US$0.6 million and capitalised general administrative expenses of US$0.2 million.

Working Capital

Working capital as at 30 September 2007 was US$20.9 million (30 June 2007: deficit US$3.0 million) and may be analysed as follows:

(Figures in US$'000)	As at 30-Sep 2007	As at 30-Jun 2007	As at 31-Dec 2006
Cash and cash equivalents	**27,436**	7,601	20,678
Trade and other receivables	**8,040**	4,931	4,275
Assets held for sale	**2,847**	2,847	–
	38,323	15,379	24,953
Trade and other payables	**17,385**	18,429	4,523
Working capital	**20,938**	(3,050)	20,430

The increase in working capital to US$20.9 million in the quarter is mainly due to the receipt of US$30.4 million (net proceeds) following the private placement of 2.5 million Class B shares in July 2007. The negative working capital of US$3.0 million in Q2 was primarily due to the high level of capital expenditure during the quarter.

During the quarter, the Company opened a bank guarantee of US$15.0 million in favour of Tower as part of its obligations to acquire a 50% working interest in EA 5. The guarantee is reduced by any actual payments made to Tower. The bank guarantee is supported by the Company's existing cash balances deposited at the bank.

The majority of the cash is held in US dollars in Mauritius. There are no restrictions in Tanzania for converting Tanzania Shillings into US dollars. Any surplus cash is held in a fixed rate interest earning deposit account.

Of the total trade and other receivables at 30 September 2007, US$5.9 million was represented by trade receivables (Q2 2007: US$3.2 million), US$1.0 million prepayments (Q2 2007: US$0.4 million), other receivables US$0.9 million (Q2: 2007: US$0.2 million) and taxes US$0.2 million (Q2 2007: US$0.6 million).

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 30 September 2007, US$3.3 million (Q2 2007: US$2.5 million) was due from the industrial customers of which 63% is due from 4 customers. A significant part of this amount has been subsequently received. The balance of US$2.6 million (Q2 2007: US$0.7 million) is made up of an amount due from two power customers, TANESCO and Songas.

In Q3 2007, the contracts with Songas and TANESCO accounted for 50% (Q2 2007: 32%) of the Company's operating revenue. Songas' financial security is, in turn, heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is still experiencing financial difficulties. As a result, TANESCO is dependent on the Government of Tanzania for some of its funding. Whilst some payments have been delayed, the Company has subsequently received 37% of the amount due from Songas. A total of US$1.4 million was due to Songas as at 30 September 2007 for the processing and transportation tariff.

The assets held for sale of US$2.8 million represents additional drilling materials and casing which is not required for current drilling activity in Tanzania and is being held for resale. The materials are likely to be sold to other operators in Tanzania.

Current liabilities have remained high in Q3 2007 as a result of the costs incurred on SS10. As at 30 September 2007, US$9.0 million of trade and other payables of US$17.4 million related to capital expenditures, compared to US$11.6 million of the trade and other payable balance of US$18.4 million at 30 June 2007.

Contractual Obligations and Committed Capital Investment

Capital Investment

Under the terms of the option agreement signed with Tower, the Company is committed to paying for 83.33% of the costs of a 300 kilometer seismic programme up to a gross cap of approximately US$6.4 million. In the event that the Company exercises its option after reviewing the seismic data, it will earn a 50% working interest in EA 5 in return for funding 83.33% of the cost of two wells. This is capped at between US$10 million and US$15 million depending on whether testing of the wells is required. The Company provided a bank guarantee of US$15 million to cover its obligations under the option agreement which is reduced by any actual payments made to Tower.

Management forecasts that the Company will be able to meet its 2007 capital expenditure programme through the use of the Cdn$34.5 million gross proceeds from the private placement that was concluded in July 2007 and self-generated cash flows. In addition, the Company has no bank borrowings and there is scope for utilising debt funding once the longer term contracts for the supply of gas to the power sector are in place.

Shortfall Gas

Under the terms of the contracts with Kioo Ltd., Tanzania Breweries Ltd. and Karibu Textile Mills Ltd., the Company is liable to pay penalties in the event that there is a shortfall in the Additional Gas supply in excess of 5% of the contracted quantity. The penalties equate to the difference between the price of gas and an alternative feedstock multiplied by the notional daily quantities. The maximum penalty for shortfall gas is a total of US$1.1 million for these three contracts and the remedy is payable as a credit against future monthly invoices.

Protected Gas

Under the terms of the PSA, in the event that there is a shortfall 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 (10.1 bcf as at 30 September 2007). The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect. However, Songas has the right to request reasonable security on all Additional Gas sales.

Songas has written to Orca Exploration confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo Power Plant, for the supply of up to 15 mmscf/d for additional power generation and up to 10 mmscf/d for the industrial sector, for a period of five years. As the current emergency power generation operating in the country could take demand above 15 mmscf/d for power generation, Songas has confirmed that the Company may sell 17 mmscf/d for power generation over the next two years without the need for security.

The Company is looking to agree a security mechanism with Songas that provides clear guidance as to how Songas will operate their rights to security. It is anticipated that, under certain circumstances, the Company and TPDC may have to allocate a proportion of the Additional Gas revenues to an escrow account, in the event of a forecast Protected Gas insufficiency.

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future wells including SS-10 in return for a 20% increase in the profit share percentage for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements do not take account of any re-imbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Office

The Company had a five year rental agreement that expired on 30 November 2007 for the use of the offices in Dar es Salaam. The agreement has been renewed for another five years ending 30 November 2012 at a cost of approximately US$102,000 per annum.

Bank Guarantee

During the quarter, the Company opened a bank guarantee of US$15.0 million in favour of Tower as part of its obligations to acquire a 50% working interest in EA 5. The guarantee is reduced by any actual payments made to Tower. The bank guarantee is supported by the Company's existing cash balances deposited at the bank.

Off Balance Sheet Arrangements

As at 30 September, the Company had no off-balance sheet arrangements.

Transactions with Related Parties

One of the non-executive Directors is a partner at a law firm. The Company has accrued US$25,000 for services provided on legal services during the quarter. The transactions with this related party were made at the exchange amount.

Shareholders' Equity and Outstanding Share Data

Number of shares ('000)	As at 30-Sep 2007	As at 30-Jun 2007	As at 31-Dec 2006
Shares outstanding			
Class A shares	1,751	1,751	1,751
Class B shares	27,881	25,383	25,023
	29,632	**27,134**	**26,774**
Convertible securities:			
Options	2,622	2,622	2,022
Fully diluted Class A and Class B shares	**32,254**	**29,756**	**28,796**
Weighted average			
Class A and Class B shares	27,803	26,937	23,395
Convertible securities:			
Options	1,539	1,499	1,514
Weighted average diluted Class A and Class B shares	**29,342**	**28,436**	**24,909**

Shares outstanding

As at 29 November 2007 there were a total of 1,751,195 Class A shares and 27,872,828 Class B shares outstanding.

Disclosure Controls and Procedures

Disclosure controls and procedures are defined Under Multilateral Instrument 52-109 – Certification of Disclosure Controls in Issuers' Annual and Interim Filings ("MI 52-109") as "...controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure." The Company has conducted a review and evaluation of its disclosure controls and procedures, with the conclusion that as at 30 September 2007 the Company has an effective system of disclosure controls and procedures as defined under MI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be and are present:

(a) the Company is dependant upon its advisors and consultants (principally its legal counsels) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and

(b) an active Board of Directors and management with open lines of communication.

The Company has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. In many circumstances, the various regulatory requirements are relatively new, subject to interpretation, and complex. The Company is not of a sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore the Company must rely upon its advisors/consultants to assist it and as such they form part of the disclosure controls and procedures.

Proper disclosure necessitates that one not only be aware of the pertinent disclosure requirements, but one is also sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While the Company believes it has adequate disclosure controls and procedures in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company intends to take whatever steps necessary to minimize the consequences thereof.

Internal Controls Over Financial Reporting

Internal controls over financial reporting are defined in the Multilateral Instrument 52-109 as "… a process designed by, or under the supervision of, the issuer's chief executive officers and chief financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements."

The Company has conducted a review and evaluation of its internal controls over financial reporting, with the conclusion that as at 30 September 2007 the Company's system of internal controls over financial reporting, as defined under MI 52-109, is sufficiently designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. During the review of the design of the Company's control system over financial reporting it was noted that, due to the limited number of staff at Orca Exploration, it is not feasible to achieve complete segregation of incompatible duties. The limited number of staff may also result in weaknesses in accounting for complex and or/non routine transactions due to a lack of technical resources within the Company. While management of Orca Exploration has put in place certain procedures to mitigate the risk of material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

Summary Quarterly Results

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

	2007			2006				2005
(Figures in US$'000 except where otherwise stated)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Revenue	**6,363**	3,021	3,831	4,722	3,835	3,198	2,073	2,741
Profit/(loss) after taxation	**1,942**	(608)	128	1,025	809	660	83	396
Operating netback *(US$/mcf)*	**2.30**	2.79	2.03	2.17	2.88	2.71	2.05	2.51
Working capital	**20,938**	(3,050)	10,570	20,430	3,298	2,448	2,118	2,211
Shareholders' equity	**70,996**	38,292	37,983	37,889	18,676	17,715	16,928	16,662
Profit/(loss) per share – basic *(US$)*	**0.07**	(0.02)	–	0.04	0.03	0.03	–	0.02
Profit/(loss) per share – diluted *(US$)*	**0.06**	(0.02)	–	0.04	0.03	0.03	–	0.02
CAPITAL EXPENDITURES								
Geological and geophysical and well drilling	**10,426**	13,723	10,657	2,747	473	726	514	2,000
Pipeline and infrastructure	**314**	1,205	279	131	234	305	305	868
Power development	**7**	26	109	531	42	–	–	34
Other equipment	**108**	35	32	–	–	3	32	(1)
OPERATING								
Additional Gas sold – industrial *(mmscf)*	**442**	397	301	398	491	347	230	299
Additional Gas sold – power *(mmscf)*	**1,974**	745	1,356	1,206	744	739	682	766
Average price per mcf – industrial *(US$)*	**9.58**	8.61	7.70	7.64	8.63	8.69	7.63	7.86
Average price per mcf – power *(US$)*	**2.19**	2.17	2.19	1.95	1.69	2.13	1.79	2.15

Controlling Shareholder

W. David Lyons, the Company's non executive Chairman, is the sole controlling shareholder of Orca Exploration and holds approximately 99.5% of the outstanding Class A shares and approximately 15.7% of the Class B shares. Consequently, Mr Lyons holds approximately 20.6% of the undiluted equity (22.1% diluted) and controls 62.3% of the total votes of Orca Exploration.

Consolidated Income Statements (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

		THREE MONTHS ENDED			NINE MONTHS ENDED	
(thousands of US dollars except per share amounts)	Note	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Revenue		**6,363**	3,021	3,835	**13,215**	9,106
Cost of sales						
Production and distribution expenses		**(311)**	(261)	(211)	**(836)**	(573)
Depletion expense		**(1,334)**	(630)	(435)	**(2,879)**	(1,141)
Gross profit		**4,718**	2,130	3,189	**9,500**	7,392
Administrative expenses		**(2,568)**	(2,704)	(1,846)	**(7,520)**	(4,701)
Net financing income/(charges)		**862**	50	(34)	**938**	(36)
Profit/(loss) before taxation		**3,012**	(524)	1,309	**2,918**	2,655
Taxation	*1*	**(1,070)**	(84)	(500)	**(1,456)**	(1,103)
Profit/(loss) after taxation		**1,942**	(608)	809	**1,462**	1,552
Profit/(loss) per share						
Basic *(US$)*		**0.07**	(0.02)	0.03	**0.05**	0.06
Diluted *(US$)*		**0.06**	(0.02)	0.03	**0.05**	0.06

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheets (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

(thousands of US dollars)	Note	As at 30-Sep 2007	As at 30-Jun 2007	As at 31-Dec 2006
ASSETS				
Current assets				
Cash and cash equivalents		**27,436**	7,601	20,678
Trade and other receivables		**8,040**	4,931	4,275
Assets held for sale		**2,847**	2,847	–
		38,323	15,379	24,953
Natural gas properties and other equipment	*2*	**52,893**	43,413	18,951
		91,216	58,792	43,904
LIABILITIES				
Current liabilities				
Trade and other payables		**17,385**	18,429	4,523
Non current liabilities				
Deferred income taxes	*1*	**2,346**	1,694	1,229
Deferred additional profits tax		**489**	377	263
SHAREHOLDERS' EQUITY				
Capital stock	*3*	**66,556**	36,217	34,469
Capital reserve		**740**	317	1,182
Accumulated income		**3,700**	1,758	2,238
		70,996	38,292	37,889
		91,216	58,792	43,904

Contractual obligations and committed capital investment ***(Note 6)***

Post balance sheet event ***(Note 7)***

See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(thousands of US dollars)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) after taxation	**1,942**	(608)	809	**1,462**	1,552
Adjustments for:					
Depletion and depreciation	**1,375**	661	462	**2,977**	1,224
Stock-based compensation	**324**	799	142	**1,064**	334
Deferred taxation	**652**	343	124	**1,117**	360
Deferred additional profits tax	**112**	56	52	**226**	123
Interest income	**(273)**	(64)	(17)	**(434)**	(47)
Foreign exchange gain	**(414)**	–	–	**(414)**	–
	3,718	1,187	1,572	**5,998**	3,546
(Increase)/decrease in trade and other receivables	**(3,109)**	782	423	**(3,765)**	(791)
(Increase) in assets held for sale	**–**	(2,847)	–	**(2,847)**	–
Increase in trade and other payables	**1,683**	1,939	501	**4,690**	1,431
Net cash flows from operating activities	**2,292**	1,061	2,496	**4,076**	4,186
CASH FLOWS USED IN INVESTING ACTIVITIES					
Petroleum and natural gas properties expenditures	**(10,756)**	(14,989)	(749)	**(36,822)**	(2,634)
Interest income	**273**	64	17	**434**	47
Proceeds from sale of vehicle	**–**	–	–	**2**	–
Increase/(decrease) in trade and other payables	**(2,727)**	6,611	(23)	**8,172**	(345)
Net cash used in investing activities	**(13,210)**	(8,314)	(755)	**(28,214)**	(2,932)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repurchase of shares	**(27)**	–	–	**(27)**	–
Shares issued, net of share issue costs	**30,366**	–	–	**30,366**	–
Foreign exchange gain	**414**	–	–	**414**	–
Options exercised	**–**	118	10	**143**	128
Net cash flow from financing activities	**30,753**	118	10	**30,896**	128
Increase/(decrease) in cash and cash equivalents	**19,835**	(7,135)	1,751	**6,758**	1,382
Cash and cash equivalents at the beginning of the period	**7,601**	14,736	2,829	**20,678**	3,198
Cash and cash equivalents at the end of the period	**27,436**	7,601	4,580	**27,436**	4,580

Statements of Changes in Shareholders' Equity (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

(thousands of US dollars)	Capital stock	Capital reserve	Accumulated (loss)/income	Total
Balance as at 1 January 2006	16,237	764	(339)	**16,662**
Options exercised	128	–	–	**128**
Profit for the period	–	–	1,552	**1,552**
Stock-based compensation	–	334	–	**334**
Balance as at 30 September 2006	**16,365**	**1,098**	**1,213**	**18,676**

(thousands of US dollars)	Capital stock	Capital reserve	Accumulated income	Total
Note	*3*			
Balance as at 1 January 2007	34,469	1,182	2,238	**37,889**
Options exercised	143	–	–	**143**
Shares issued, net of share issue costs	31,971	(810)	–	**31,161**
Stock-based compensation	–	368	–	**368**
Normal course issuer bids	(27)	–	–	**(27)**
Profit for the period	–	–	1,462	**1,462**
Balance as at 30 September 2007	**66,556**	**740**	**3,700**	**70,996**

See accompanying notes to the interim consolidated financial statements.

Notes to the Consolidated Financial Statements

Basis of preparation

The interim consolidated financial statements are measured and presented in US dollars as the main operating cash flows are linked to this currency through the commodity price.

The same accounting policies and methods of computation have been followed as the consolidated financial statements at 31 December 2006. The interim consolidated financial statements for the three and nine months ended 30 September 2007 should be read in conjunction with the audited financial statements and related notes for the year ended 31 December 2006.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Statement of Compliance

These interim consolidated financial statements of Orca Exploration Group Inc ("Orca Exploration" or the "Company" (formerly EastCoast Energy Corporation)) including comparatives, have been prepared in accordance with IAS 34 of the International Financial Reporting Standards ("IFRS") and interpretations issued by the Standing Interpretations Committee of the IASB.

These principles may differ in certain respects from those in Canada. These differences are summarised in note 4.

1 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. The amount paid is then recovered in full from TPDC by adjusting their share of profit gas. The table below shows the tax reconciliation for the tax charged in the accounts for the quarter and year to date.

	THREE MONTHS ENDED			NINE MONTHS ENDED	
(Figures in US$'000)	30-Sep 2007	30-Jun 2007	30-Sep 2006	30-Sep 2007	30-Sep 2006
Profit/(loss) before taxation	**3,012**	(524)	1,309	**2,918**	2,655
Provision for income tax calculated at the statutory rate of 30%	**904**	(157)	393	**876**	796
Add/(deduct) the tax effect of non-deductible					
income tax items:					
Administrative and operating expenses	**175**	123	31	**441**	120
Stock-based compensation	**120**	200	43	**339**	101
Other income	**(229)**	(19)	(3)	**(277)**	(12)
Other	**100**	(63)	36	**77**	98
	1,070	84	500	**1,456**	1,103
The tax charge may be analysed as follows:					
Current tax	**418**	(259)	375	**339**	743
Deferred tax	**652**	343	125	**1,117**	360
	1,070	84	500	**1,456**	1,103

As at 30 September 2007, 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 recognised for the quarter ended 30 September 2007.

The deferred income tax liability is based on the following temporary differences:

(Figures in US$'000)	As at 30-Sep 2007	As at 30-Jun 2007	As at 31-Dec 2006
Differences between tax base and carrying value of natural gas properties	**2,922**	2,112	1,443
Tax losses	**–**	(80)	–
Provision for stock option bonuses	**(270)**	(225)	(135)
Other liabilities	**(160)**	–	–
Additional profits tax	**(146)**	(113)	(79)
	2,346	1,694	1,229

2 NATURAL GAS PROPERTIES AND OTHER EQUIPMENT

(Figures in US$'000)	Natural Gas Properties	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
Costs						
As at 1 January 2007	21,701	156	63	65	41	22,026
Additions	36,743	–	102	76	–	36,921
Disposals	–	–	–	(22)	–	(22)
As at 30 September 2007	**58,444**	**156**	**165**	**119**	**41**	**58,925**
Depletion/Depreciation						
As at 1 January 2007	2,880	94	42	33	26	3,075
Charge for the period	2,879	41	26	22	9	2,977
Accumulated depreciation on disposal	–	–	–	(20)	–	(20)
As at 30 September 2007	**5,759**	**135**	**68**	**35**	**35**	**6,032**
Net Book Values						
As at 31 December 2006	18,821	62	21	32	15	18,951
As at 30 September 2007	**52,685**	**21**	**97**	**84**	**6**	**52,893**

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$90.5 million will be required to bring the total proved reserves to production.

General administrative expenses of US$228,000 have been capitalised in the quarter (Q2 2007: US$723,000).

3 CAPITAL STOCK

Number of shares (thousands)	Authorised	Issued	Valuation at par value
CLASS A			
As at 1 January 2007 and 30 September 2007	50,000	1,751	983
CLASS B			
As at 1 January 2007	50,000	25,023	33,486
Issue of new stock	–	2,700	31,971
Stock options exercised	–	160	143
Normal course issuer bid	–	(2)	(27)
As at 30 September 2007	**50,000**	**27,881**	**65,573**
Total Class A and Class B as at 30 September 2007	**100,000**	**29,632**	**66,556**

In April 2007, 200,000 Class B shares were awarded to a newly appointed officer. These shares are held in escrow and they vest to the officer in three equal instalments starting 7 April 2007. At the time the shares were awarded they had a market value of Cdn$1.7 million.

In July 2007, 2.5 million Class B shares were issued at a price of Cdn$13.80/share following the conclusion of the private placement, resulting in gross proceeds of Cdn$34.5 million. A total of US$30.4 million net proceeds have been recognized in capital stock.

Stock Options

The table below details the outstanding share options and the movements for the nine months ended 30 September 2007:

Thousands of options	Number of Options	Exercise Price (Cdn$)
Outstanding as at 1 January 2007	2,022	1.00 to 6.80
Granted	300	8.70
Granted	150	10.00
Granted	510	13.55
Forfeited	(200)	6.80
Exercised	(160)	1.00
Outstanding as at 30 September 2007	**2,622**	**1.00 to 13.55**

The weighted average remaining life and weighted average exercise prices of options at 30 September 2007 were as follows:

Exercise Price Per Option (Cdn$)	Number Outstanding as at 30 September 2007 ('000)	Weighted Average Remaining Contractual Life (Years)	Number Exercisable as at 30 September 2007 ('000)	Weighted Average Exercise Price Per Option (Cdn$)
1.00	1,792	7.15	1,792	1.00
8.00	300	4.25	–	8.70
10.00	150	4.50	–	10.00
13.55	510	4.67	–	13.55

The stock option plan provides for the granting of stock options to directors, officers, consultants and employees. The exercise price of each stock option is determined as the closing market price of the common shares on the day prior to the day of grant. Each stock option granted permits the holder to purchase one common share at the stated exercise price. In accordance with IFRS2, the Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture.

Stock Appreciation Rights

	Options ('000)	Price per stock appreciation right (Cdn$)
Outstanding as at 1 January 2007 (i)	400	4.00
Granted (ii)	300	8.00
Granted (ii)	300	8.70
Granted (ii)	90	13.55
Outstanding as at 30 September	**1,090**	**4.00 to 13.55**

(i) These stock appreciation rights have a maximum liability of Cdn$3 per right or Cdn$1.2 million in total. The value of the stock appreciation rights depends on the average price of the Class B shares between 1 October and 31 December 2007 and will be paid in February 2008.

(ii) These stock appreciation rights have a term of 5 years and vest in three equal annual installments starting a year after they are granted. There is no maximum liability associated with these rights.

In accordance with IFRS2, 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 the following assumptions have been made: the risk free rate of interest equal to 3.75%, stock volatility 42% and a 33% level of forfeiture.

As at 30 September 2007 a total liability of US$1.6 million has been recognised in relation to the stock appreciation rights.

4 RECONCILIATION TO CANADIAN GAAP

The consolidated financial statements have been prepared in accordance with IFRS, which differ in some respects from Canadian generally accepted accounting principles. Any difference in accounting principles as they pertain to the accompanying Consolidated Financial Statements were immaterial except as described below:

a) Taxation

On 31 August 2004, the Company was spun off from a predecessor company pursuant to a scheme of arrangement. Under Canadian GAAP, a deferred tax liability has to be recognised for the taxable temporary differences arising from the initial recognition of an asset or liability under any scenario. IFRS does not permit the setting up of a deferred tax liability for all taxable temporary differences arising from the initial recognition of an asset or liability except in a business combination.

b) Stock-based compensation

There were 1,090,000 stock appreciation rights outstanding as at 30 September 2007. Under IFRS as these rights are a cash-settled share-based transaction, the fair value of the rights is calculated using a Black-Scholes option pricing model every reporting period. Under Canadian GAAP, the fair value is calculated using the intrinsic value method whereby the rights are valued at the market price less the rights price at each reporting period. Under both IFRS and Canadian GAAP, the fair value is expensed over the service period of the rights.

The application of Canadian GAAP would have the following effect on the balance sheet:

	30-Sep-07		31-Dec-06	
(figures in US'000)	IFRS	CDN	IFRS	CDN
Current assets	38,323	38,323	24,953	24,953
Natural gas properties and other equipment	52,893	54,497	18,951	20,594
	91,216	**92,820**	**43,904**	**45,547**
Current liabilities	17,385	17,433	4,523	4,523
Non current liabilities	2,835	4,598	1,492	3,266
Capital stock	66,556	66,556	34,469	34,469
Reserves	4,440	4,233	3,420	3,289
	91,216	**92,820**	**43,904**	**45,547**
Profit before taxation	**2,918**	**2,842**	**4,261**	**4,114**

5 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. The Company has accrued US$25,000 for services provided on legal services during the quarter. The transactions with this related party were made at the exchange amount.

6 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Capital Investment

Under the terms of the option agreement signed with Tower Resources Plc ("Tower"), the Company is committed to paying for 83.33% of the costs of a 300 kilometer seismic programme during the second half of 2007 up to a gross cap of approximately US$6.4 million. In the event that the Company exercises its option after reviewing the seismic data, it will earn a 50% working interest in Exploration Area 5 in Uganda in return for funding 83.33% of the cost of two wells. This is capped at between US$10 million and US$15 million depending on whether testing of the wells is required. The Company has to provide a bank guarantee of US$15 million to cover its obligations under the option agreement which is reduced by any actual payments made to Tower.

Management forecasts that the Company will be able to meet its 2007 capital expenditure programme through the use of the Cdn$34.5 million gross proceeds from the private placement that was concluded in July 2007 and self-generated cash flows. In addition, the Company has no bank borrowings and there is scope for utilising debt funding once the longer term contracts for the supply of gas to the power sector are in place.

Shortfall Gas

Under the terms of the contracts with Kioo Ltd., Tanzania Breweries Ltd. and Karibu Textile Mills Ltd., the Company is liable to pay penalties in the event that there is a shortfall in the Additional Gas supply in excess of 5% of the contracted quantity. The penalties equate to the difference between the price of gas and an alternative feedstock multiplied by the notional daily quantities. The maximum penalty for shortfall gas is a total of US$1.1 million for these three contracts and the remedy is payable as a credit against future monthly invoices.

Protected Gas

Under the terms of the PSA, in the event that there is a shortfall 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 (10.1 bcf as at 30 September 2007). The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect. However, Songas has the right to request reasonable security on all Additional Gas sales.

Songas has written to the Company confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo Power Plant, for the supply of up to 15 mmscf/d for additional power generation and up to 10 mmscf/d for the industrial sector for a period of five years. As the current emergency power generation operating in the country could take demand above 15 mmscf/d for power generation, Songas has confirmed that the Company may sell 17 mmscf/d for power generation over the next two years without the need for security.

The Company is looking to agree a security mechanism with Songas that provides clear guidance as to how Songas will operate their rights to security. It is anticipated that, under certain circumstances, the Company and TPDC may have to allocate a proportion of the Additional Gas revenues to an escrow account, in the event of a forecast Protected Gas insufficiency.

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future wells including SS-10 in return for a 20% increase in the profit share for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements do not take account of any re-imbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Office

The Company had a five year rental agreement that expired on 30 November 2007 for the use of the offices in Dar es Salaam. The agreement has been renewed for another five years ending 30 November 2012 at a cost of approximately US$102,000 per annum.

Bank Guarantee

During the quarter, the Company opened a bank guarantee of US$15.0 million in favour of Tower as part of its obligations to acquire a 50% working interest in EA 5. The guarantee is reduced by any actual payments made to Tower. The bank guarantee is supported by the Company's existing cash balances deposited at the bank.

7 POST BALANCE SHEET EVENT

The Company successfully completed the SS-10 well in November 2007.

Corporate Information

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Non-Executive
Chairman
Winchester
United Kingdom

PETER R. CLUTTERBUCK
President & Chief
Executive Officer
Haslemere
United Kingdom

NIGEL A. FRIEND
Chief Financial Officer
London
United Kingdom

JOHN PATTERSON
Non-Executive Director
Nanoose Bay
Canada

DAVID W. ROSS
Non-Executive Director
Calgary
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JAMES SMITH
Vice President Exploration
Hurst
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DAVID W. ROSS
Company Secretary

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