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Orca Exploration Group Inc.

INTERIM REPORT 2008

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.

Orca is also committed to growth in assets and value through the acquisition of oil interests with significant exploration potential.

Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

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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.

HIGHLIGHTS

- 38 % increase in revenue to US$5.3 million (Q1 2007: US$3.8 million), profit before taxation of US$0.3 million (Q1 2007: US$0.4 million) and a 100 % increase in the net cash flow from operations before working capital changes to US$2.4 million (Q1 2007: US$1.2 million).
- Increased Q1 2008 sales of Additional Gas to Dar es Salaam industrial customers by 7 % to 322 Mmscf (Q1 2007: 301 Mmscf). This equated to an average of 3.5 Mmscf/d (Q1 2007: 3.3 Mmscf/d). Average prices remained strong at US$11.55/mcf.
- Increased Q1 2008 sales of Additional Gas to the power sector by 46 % to 1,983 Mmscf (Q1 2007: 1,356 Mmscf). This equated to an average of 21.8 Mmscf/d (Q1 2007: 15.1 Mmscf/d). The average price for the gas to the power sector was US$2.05/mcf (Q1 2007: US$2.19/mcf).
- Tendered for the installation of two compressors, a vehicle dispenser and two trailer filling facilities to deliver 0.7 Mmscf/d of compressed natural gas at a cost of US$2.5 million. This market is expected to expand to approximately 4 Mmscf/d within 18 months.
- Advanced negotiations for the supply of approximately 2.0 Mmscf/d to the Wazo Hill cement plant from Q2 2009. In addition, signed contracts with two new industrial contracts for 0.2 Mmscf/d and commenced negotiations on five further industrial contracts for 0.3 Mmscf/d.
- Made significant progress in the negotiation of the long term contracts for the supply of approximately 250 Bcf of Additional Gas to the power sector. These contracts are expected to be signed at the beginning of Q3 2008.
- Made significant progress in the negotiation of the contracts that will enable the third and fourth gas processing trains to be constructed.
- Commenced work on the installation of two new Joule-Thompson valves at the existing gas processing plant that will facilitate the re-rating of the two existing trains to a forecast 90 Mmscf/d at the end of Q2 2008.
- Completed the acquisition of three hundred kilometers of 2-D seismic in the Albertine Graben sedimentary basin in Uganda and commenced processing of the data.

FINANCIAL AND OPERATING HIGHLIGHTS

	THREE MONTHS ENDED		
Financial *(US$'000 except where otherwise stated)*	**31 MAR 2008**	**31 MAR 2007**	**CHANGE**
Revenue	**5,284**	3,831	38 %
Profit before taxation	**270**	430	(37 %)
Operating netback *(US$/mcf)*	**2.21**	2.03	9 %
Cash and cash equivalents	**12,521**	14,736	(15 %)
Working capital	**8,297**	10,570	(22 %)
Shareholders' equity	**72,053**	37,983	90 %
(Loss)/profit per share - basic and diluted *(US$)*	**–**	–	0 %
Funds from operations before working capital changes	**2,391**	1,173	100 %
Funds per share from operations before working capital changes - basic and diluted *(US$)*	**0.08**	0.04	100 %
Outstanding Shares *('000)*			
Class A shares	**1,751**	1,751	0 %
Class B shares	**27,863**	25,053	11 %
Options	**2,847**	2,092	36 %
Operating			
Additional Gas sold - industrial *(Mmscf)*	**322**	301	7 %
Additional Gas sold - power *(Mmscf)*	**1,983**	1,356	46 %
Average price per mcf - industrial *(US$)*	**11.55**	7.70	50 %
Average price per mcf - power *(US$)*	**2.05**	2.19	(6 %)

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*
HHV .... *High heat value*
1P .... *Proven reserves*
2P .... *Proven and probable reserves*
3P .... *Proven, probable and possible reserves*
GIIP .... *Gas initially in place*
KWH .... *Kilowatt hour*
MW .... *Megawatt*
US$ .... *US dollars*
CDN$ .... *Canadian dollars*
TVDSS .... *Total vertical depth sub sea*
TVD .... *Total vertical depth*
MD .... *Measured depth*

During Q1 2008 Orca Exploration increased gas sales to both the power sector and to industrial customers compared with Q1 2007. Sales of Additional Gas to the power sector were up 46 % and industrial gas sales were up 7 % over the same period in 2007. Funds from operations before working capital changes also grew 100 % to US$2.4 million due to the increased sales volumes and rising commodity prices.

To expand the market for the sale of Orca's increased Songo Songo Additional Gas reserves (2P reserves increased by 14 % to 474 Bcf as at January 1, 2008), the Company is focussing on efforts to identify new high value markets in Tanzania. This will be achieved in part by the connection of the remaining large gas customers in Dar es Salaam and the production and sale of Compressed Natural Gas ("CNG") to consumers that cannot be cost-effectively connected to the existing low pressure gas distribution system.

The Company also remains committed to exploration for new gas reserves in Tanzania to meet the growing demand for gas by the power sector. Orca is excited by its Songo Songo West exploration prospect and the drilling of an appraisal well at Songo Songo North. In Q1 2008, work commenced to identify a suitable jack up rig to be brought into the country to drill these two prospects as part of a larger drilling programme in Tanzania.

The Company is also evaluating a number of high potential oil exploration and development opportunities in West Africa. The intention is to transact before the end of 2008 on a prospect.

NEW GAS SALE CONTRACTS

During Q1 2008, Orca was engaged in intensive negotiations with TANESCO (the Tanzanian electric power utility), Songas Limited (the owner of the Ubungo power plant) and the Ministry of Energy and Minerals ("MEM") to secure two long term contracts for the supply of approximately 38 - 45 Mmscf/d for power generation. Negotiations have proceeded well and contracts are expected to be signed at the beginning of Q3 2008. The first contract will cover the supply of gas to the sixth turbine at the Ubungo power plant and is expected to generate Additional Gas sales of approximately 8 Mmscf/d until July 2024. A second contract will cover Additional Gas sales to the remaining gas fired generation currently in Tanzania supplying a maximum of approximately 36 Mmscf/d. The contract will also include a take or pay provision for 32 Mmscf/d until July 2023. Actual utilisation will depend on the availability of the 561 MWs of Tanzania's hydro generation and the timing of the increase in the Songo Songo infrastructure capacity.

The contract price is expected to be the same for both contracts at an estimated US$2.32/mcf, based on the existing tariff rates. These prices are forecast to increase 2 % per annum until July 2012 at which point there will be a step change to US$3.43/mcf based on existing tariff rates. The 2012 prices will then increase at 2 % per annum.

Orca is also in the process of negotiating a contract for the supply of gas to the Wazo Hill cement plant. This plant is installing a new kiln that initially requires approximately 2.0 Mmscf/d of Additional Gas beginning in Q2 2009. There is significant growth in the demand for cement in Tanzania and it is expected that the two existing kilns will be overhauled during 2009 leading to a further increase in the gas required from 2010.

The Company commenced the supply to one new industrial customer in Q1 2008 that was located in close proximity to the low pressure distribution system and an additional five contracts are currently under negotiation. Supply to these customers is expected to commence in the second half of 2008.

RIGHT AND OPPOSITE PAGE *The new SS-10 well was drilled adjacent to the Songo Songo gas processing plant.*

LEFT *Orca continues to add to its low pressure gas distribution network at Dar es Salaam.*

DEVELOPING MARKETS

Power

TANESCO recently held an open forum for interested parties to discuss TANESCO's forecast generation needs in the light of significant growth in demand. TANESCO's current forecast calls for an additional 150 MWs of generation by 2011, which could potentially be dual fuel. With the increase in reserves during 2007, the Company is in a position to commence discussions with TANESCO for the supply of gas to this new level of generation. Orca will start to negotiate a contract for the supply of gas in the second half of 2008 once the two contracts for the supply of approximately 250 Bcf are finalised.

Compressed Natural Gas

During Q1 2008, the Company jointly analysed the potential domestic market for CNG in conjunction with Tanzanian Petroleum Development Corporation ("TPDC"). Four principal markets for CNG have been identified – industrials not connected to the existing distribution system, hotels, vehicles and institutions. The study concluded that this was a high value market with a potential volume of approximately 15 Mmscf/d that could be developed using existing technology.

During the quarter, a tender was conducted for the purchase and installation of two compressors, a vehicle dispenser and two CNG trailer filling facilities to be located adjacent to Orca's pressure reduction station at Ubungo in Dar es Salaam. This will enable the production of approximately 0.7 Mmscf/d of CNG at a forecast cost of US$2.5 million.

Initially, the intention is to sell CNG to a group of hotels in Dar es Salaam and to industries not connected to the Company's low pressure distribution system by the end of Q4 2008. CNG used in these applications will displace heavy fuel oil, middle distillates and liquid petroleum gas ("LPG"). Once the initial market is established, there can be incremental additions to the CNG compressors, trailers and distribution vehicles to meet the increase in demand. Ultimately it is expected that the capital cost to provide CNG will reduce to US$1 million for every 0.5 Mmscf/d of sales. With incremental equipment additions, Orca could serve a 4 Mmscf/d CNG market by the end of 2009. Around the clock transportation would be able to move CNG to markets up to 200 kilometers from Dar es Salaam, including Morogoro and Tanga.

Industries

Orca intends to construct an 8 kilometer extension to connect the Mikocheni area of Dar es Salaam later in 2008. This expansion would provide the opportunity to connect 3-4 new industries with a demand of approximately 1 Mmscf/d.

INFRASTRUCTURE

To expand infrastructure to address long-term market growth requirements, Songas Limited submitted a second application to the Tanzanian regulatory authority, EWURA, for the installation of two new gas processing trains to increase throughput capacity from 70 Mmscf/d to 140 Mmscf/d. The tenders for the engineering, procurement and construction contract were received in Q3 2007 and all parties are working on the project agreements to enable Songas to give the 'notice to proceed'. It is expected that construction will take 15 months from the time of awarding the tender until the new trains are operational. This is expected to be completed in early Q3 2008 at the same time as the new power contracts are signed.

To increase the throughput capacity in the interim, the two existing trains on Songo Songo Island are being upgraded with the installation of two new Joule-Thomson valves. The insurers are working alongside the operations team to assess the allowable throughput volume for these units. This interim capacity solution is forecast to add 20 Mmscf/d to capacity, raising it to 90 Mmscf/d from the end of Q2 2008.

LEFT *The new SS-10 well completed in 2007 is expected to produce up to 55 Mmscf/d when on production.*

RIGHT *Orca assists the Songo Songo Island school with funds for educational supplies and equipment.*

LEFT *Over 2007 Orca increased the capacity of its low-pressure gas distribution system by adding a second pressure reduction station.*

Orca has submitted a proposal to Songas to enable the gas processing capacity to be further increased by 15 Mmscf/d utilising a bypass system. This work is planned for completion in the second half of 2008 so that infrastructure does not continue to be a limiting factor.

UGANDA

The Company is continuing to evaluate the 300 kilometers of seismic that was acquired in the Uganda Rhino Camp basin area of Exploration Area 5 ("EA 5") during Q4 2007 and Q1 2008. The initial evaluation of the data has indicated that a number of potential structures exist. The final technical analysis is expected to be completed at the end of Q2 2008 once all the processed data has been received. The Company will then determine whether to commit to drill two exploration wells to secure a 50 % interest in EA 5. Initial analysis indicates that whilst there are structures, the block is more risky than initially thought due to concerns over whether hydrocarbon maturation has occurred within the basin.

FINANCIAL RESULTS

Sales of Additional Gas to Orca's industrial customers were up 7 % to 322 Mmscf (3.5 mmscf/d) in Q1 2008 compared with 301 Mmscf (3.3 Mmscf/d) in Q1 2007. As anticipated, Q1 sales to the industrial sector followed historical trends as customers undertook maintenance and textile manufacturers cut back production due to the lack of indigenous cotton supplies. Industrial demand is forecast to increase over 2008 as new customers are connected, Orca constructs additional new low pressure distribution lines in the Dar es Salaam area and textile manufacturers increase their production.

Total sales of Additional Gas to the power sector were up 46 % to 1,983 Mmscf (21.8 Mmscf/d) in Q1 2008 from 1,356 Mmscf (15.1 Mmscf/d) in Q1 2007. The power sales will decrease significantly in Q2 2008 as a result of some above average rainfalls that enabled the 561 MWs of installed hydro generation and in particular the 277 MWs of 'run of river' to operate at high utilisation rates during April and May. However, sales to the power sector will increase from the end of May until the end of the year as the country enters its dry season.

Orca's revenues increased 38 % to US$5.3 million compared to Q1 2007. A profit before taxation of US$0.3 million was recorded. The 37 % decrease in profit before taxation compared to Q1 2007 is primarily as a result of the additional costs of negotiating the long term power contracts that were intensive during Q1 2008.

Orca's operations generated funds from operations before working capital changes of US$2.4 million, an increase of 100 % on Q1 2007. This is forecast to grow in the second half of 2008 as gas sales increase and marketing costs decrease.

The Company currently has cash of approximately US$13 million on hand and is in the process of arranging a US$5 million short term overdraft facility. Once long-term contracts are signed for the supply of gas to the power sector, the Company plans to seek a term loan facility to continue to grow its Tanzanian asset base and to pursue additional opportunities in Africa.

OUTLOOK

Over the course of 2008, Orca's management will focus on monetising the Company's Additional Gas reserves through the expansion of sales within a growing Tanzanian natural gas market whilst planning to add reserves in 2009 through the drill bit.

Your Company is a leader in developing Tanzania's natural gas reserves and in ventures that increase domestic energy self-reliance. This is absolutely the right time to be developing and marketing hydrocarbon resources in Tanzania and in sub-Saharan Africa.

As always, management is aware that Orca Exploration's vitality is always dependent on our skilled and dedicated employees and our loyal shareholders. The future continues to glow brightly.

Peter R.Clutterbuck
President and CEO
29 May 2008

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND THE AUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR YEAR ENDED 31 DECEMBER 2007. THIS MDA IS BASED ON THE INFORMATION AVAILABLE On 29 MAY 2008. 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") 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 PROFIT AND FUNDS FLOW. FUNDS FLOW FROM OPERATING ACTIVITIES IS A NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) TERM THAT REPRESENTS PROFIT BEFORE DEPLETION, DEPRECIATION, STOCK-BASED COMPENSATION, DEFERRED INCOME TAX, DEFERRED ADDITIONAL PROFITS TAX, INTEREST INCOME AND FOREIGN EXCHANGE GAINS IN RELATION TO FINANCING. THE INCLUSION OF CHANGES IN NON-CASH WORKING CAPITAL RESULTS IN NET CASH FLOWS 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. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY. 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.

Disclosure controls and procedures

Based on the requirements of Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings, the Chief Executive Officer and Chief Financial Officer of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109) as of 31 March 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as at 31 March 2008 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

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

The Company pays and recovers 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 reimbursement 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.

Songas has submitted a tariff application to the regulator, EWURA, 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. The Songas application assumes that the industrial customers continue to pay 17.5% of the Songas Outlet Price, but that sales to the power sector will initially attract a higher percentage tariff. The Company is negotiating the long term gas price to the power sector based on the price of gas at the Wellhead. As a consequence, the Company is not impacted by the changes to the tariff paid to Songas in respect of sales to the power sector.

(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	CUMULATIVE SALES OF ADDITIONAL GAS	TPDC'S SHARE OF PROFIT GAS	COMPANY'S SHARE OF PROFIT GAS
Mmscf/d	*Bcf*	*%*	*%*
0 - 20	0 – 125	75	25
> 20 < = 30	> 125 < = 250	70	30
> 30 < = 40	> 250 < = 375	65	35
> 40 < = 50	> 375 < = 500	60	40
> 50	> 500	45	55

For Additional Gas produced outside of the Proven Section, the Company's profit 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$2.5 million when (i) the loss is caused by the gross negligence or wilful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Results for the quarter ended 31st March 2008

OPERATING VOLUMES

The sales volumes for the quarter were 2,305 Mmscf or 25.3 Mmscf/d. This represents an overall increase of 39 % over Q1 2007 and an 8 % decline over Q4 2007. The Company sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED		
	31-MAR 2008	31-DEC 2007	31-MAR 2007
Gross sales volume *(Mmscf)*:			
Industrial sector	**322**	365	301
Power sector	**1,983**	2,151	1,356
Total volumes	**2,305**	2,516	1,657
Gross daily sales volume *(Mmscf/d)*:			
Industrial sector	**3.5**	4.0	3.3
Power sector	**21.8**	23.4	15.1
Total daily sales volume (Mmscf/d)	**25.3**	27.4	18.4

Industrial sector

Industrial sales volumes increased 7 % from 301 Mmscf (3.3 Mmscf/d) in Q1 2007 to 322 Mmscf (3.5 Mmscf/d) in Q1 2008. The increase over Q1 2007 is the result of sales to new industrial customers and three months of sales to Kioo Glass compared to one months sales in Q1 2007 following a breakdown in one of their furnaces. The volume of sales to textile customers was lower in Q1 2008 compared to Q1 2007 as a consequence of local industrial strikes and greater competition in the world export markets. The fall in industrial sales by 12 % compared to Q4 2007 is a consequence of the seasonal low sales to the textile customers being offset to some extent by sales to new industrial customers.

Power sector

Power sector sales volumes increased by 46 % from 1,356 Mmscf (15.1 Mmscf/d) in Q1 2007 to 1,983 Mmscf (21.8 Mmscf/d) in Q1 2008. The increase in sales volumes over Q1 2007 is largely the result of the Additional Gas consumed by the new emergency power plant ("Dowans A") operated by Dowans Tanzania Limited, which was installed in October 2007. The first quarter of 2008 also saw the first supply of Additional Gas to the newly installed Ubungo 100 MW generator operated by Wartsila. The lower rain falls experienced in Q1 2008 compared to Q1 2007 reduced the utilisation rates for hydro generation, resulting in an increase in the volume of sales to the Ubungo power plant. The level of sales to the power sector declined by 8 % in Q1 2008 from 2,151 Mmscf in Q4 2007 largely as a consequence of the fall in sales to the Ubungo power plant in February and March, following the start of the rainy season.

COMMODITY PRICES

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

	THREE MONTHS ENDED		
US$/mcf	31-MAR 2008	31-DEC 2007	31-MAR 2007
Average sales price			
Industrial sector	**11.55**	11.08	7.70
Power sector	**2.05**	2.20	2.19
Weighted average price	**3.37**	3.49	3.19

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 industrial gas price of US$11.55/mcf (Q1 2007: US$7.70/mcf) during Q1 2008, compared to US$11.08/mcf in Q4 2007. The gas price achieved for the industrial sector will fluctuate with world oil prices and the discount agreed with the customers. The monthly range of Additional Gas price sold to industrial customers in Dar es Salaam Q1 2008 was US$10.86/mcf to US$12.46/mcf.

Power sector

The Interim Agreement for the sale of Additional Gas to the Ubungo power plant provided for different gas prices, depending on the average availability of the six turbines, from a minimum of US$0.62/mcf to the maximum of US$2.14/mcf. Due to the maintenance of two turbines, the average price achieved by the Company during Q1 2008 was US$1.57/mcf compared to US$2.14/mcf in Q1 2007 and Q4 2007.

The price of Additional Gas to the Aggreko emergency power plant increased in January 2008 by the consumer price index to US$2.29/mcf from US$2.22/mcf in accordance with the contract. The supply of Additional Gas for the emergency power units operated by Dowans and Wartsilla was at the fixed price of US$2.09/mcf for the quarter and all of 2007.

The mix of sales between the Ubungo power plant and emergency units resulted in an average sales price of US$2.05/mcf for the quarter. The Company is currently in negotiations with TANESCO, the Ministry of Energy ("MEM") and EWURA, the energy utility regulator, over the long term price to be applied to gas sold to power sector. The contract price is expected to be US$2.32/mcf based on the existing tariff rates. These prices are forecast to increase 2% per annum until July 2012 at which point there will be a step change to US$3.43/mcf based on existing tariff rates. These prices will then increase at 2% per annum.

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.

In the three quarters after Q2 2007, Additional Gas sales volumes have been in excess of 20 Mmscf/d, resulting in an increase in the Company's share of revenue after cost recovery ("Profit Gas") from 25% to 30%.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 82.5% of the Net Revenues (Q1 2007: 81.25%) as follows:

	THREE MONTHS ENDED		
Figures in US$'000	**31-MAR 2008**	31-DEC 2007	31-MAR 2007
Gross sales revenue	**7,769**	8,789	5,289
Gross tariff for processing plant and pipeline infrastructure	**(1,270)**	(1,436)	(840)
Gross revenue after tariff	**6,499**	7,353	4,449
Analysed as to:			
Company Cost Gas	**4,892**	5,518	3,353
Company Profit Gas	**482**	549	279
Company operating revenue	**5,374**	6,067	3,632
TPDC Profit Gas	**1,125**	1,286	817
	6,499	7,353	4,449

The Company's total revenue reported for the quarter amounted to US$5,284,000 after adjusting the Company's operating revenue of US$5,374,000 by:

i) US$ nil for current 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 for the current income tax.

ii) US$ 90,000 for the deferred effect of Additional Profits Tax. This charge is deducted from revenue as a royalty.

Revenue per the income statement may be reconciled to the operating revenue as follows:

	THREE MONTHS ENDED		
Figures in US$'000	31-MAR 2008	31-DEC 2007	31-MAR 2007
Industrial sector	**3,713**	4,039	2,315
Power sector	**4,056**	4,750	2,974
Gross sales revenue	**7,769**	8,789	5,289
Processing and transportation tariff	**(1,270)**	(1,436)	(840)
TPDC share of revenue	**(1,125)**	(1,286)	(817)
Company operating revenue	**5,374**	6,067	3,632
Additional Profits Tax	**(90)**	(98)	(58)
Current income tax adjustment	–	(407)	257
Revenue	**5,284**	5,562	3,831

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 ("Ringmain tariff") of US$1.52/mcf (Q1 2007: US$1.11/mcf) and US$1.66/mcf in Q4 2007 has been deducted from the achieved industrial sales price of US$11.55/mcf (Q1 2007: US$7.70/mcf) and US$11.08/mcf in Q4 2007 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 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 20 – 35 Mmscf/d during 2008.

PRODUCTION AND DISTRIBUTION EXPENSES

The direct costs of maintaining the Ringmain distribution pipeline and pressure reduction station (security, insurance and personnel) is forecast to be approximately US$0.6 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$100,000 (Q1 2007: US$176,000) and US$42,000 (Q1 2007: US$65,000) was allocated for the Additional Gas.

Other field and 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		
Figures in US$'000	31-MAR 2008	31-DEC 2007	31-MAR 2007
Ringmain distribution pipeline	**155**	174	116
Share of well maintenance	**42**	124	65
Other field and operating costs	**79**	59	83
Production and distribution expenses	**276**	357	264
Depletion	**1,406**	1,597	915

OPERATING NETBACKS

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

	THREE MONTHS ENDED		
(Amounts in US$/mcf)	31-MAR 2008	31-DEC 2007	31-MAR 2007
Gas price – industrial	**11.55**	11.08	7.70
Gas price – power	**2.05**	2.20	2.19
Weighted average price for gas	**3.37**	3.49	3.19
Tariff (after allowance for the Ring-main Tariff)	**(0.55)**	(0.57)	(0.49)
TPDC Profit Gas	**(0.49)**	(0.51)	(0.51)
Net selling price	**2.33**	2.41	2.19
Well maintenance and other operating costs	**(0.05)**	(0.07)	(0.09)
Ring-main distribution pipeline	**(0.07)**	(0.07)	(0.07)
Operating netback	**2.21**	2.27	2.03

Operating netback for the quarter was US$2.21/mcf (Q1 2007: US$2.03/mcf), an increase of 9 % over Q1 2007 and a decrease of 3 % over Q4 2007. The increase over Q1 2007 is primarily the consequence of the higher price achieved for industrial sales. The decline in the netback compared to Q4 2007 is a direct consequence of the availability of turbines at the Ubungo power plant, resulting in a lower sales price of US$2.05/mcf for the power sector, which given a similar sales mix between sectors had the effect of cancelling out the benefit of the higher sales price achieved by the industrial sector.

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:

	THREE MONTHS ENDED		
(Figures in US$'000)	31-MAR 2008	31-DEC 2007	31-MAR 2007
Employee costs	**494**	443	430
Stock based compensation	**640**	676	215
Consultants	**565**	512	630
Travel & accommodation	**174**	185	107
Communications	**11**	17	27
Office	**188**	171	131
Insurance	**70**	47	36
Auditing & taxation	**51**	79	24
Depreciation	**16**	56	26
Marketing costs including legal fees	**831**	916	519
Reporting, regulatory and corporate finance	**45**	75	86
Directors' fees	**10**	10	17
Administrative expenses	**3,095**	3,187	2,248

G&A averaged approximately US$1.0 million per month for both Q1 2008 and Q4 2007 (Q1 2007: US$0.75 million). G&A per mcf increased to US$1.34/mcf (Q1 2007: US$1.26/mcf). Whilst a large proportion of G&A is relatively fixed in nature and therefore declines on a mcf basis as volumes produced increase, significant costs have been incurred during the last two quarters in the negotiation of the power contracts. This has led to the G&A costs being relatively high per mcf. It is expected that these will fall as volumes increase and long term power contracts are signed.

The total general and administrative expenses have decreased by 3% compared to the previous quarter and have increased by 38% over Q1 2007. The main variances compared to Q1 2007 are summarised below:

Stock based compensation

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

	THREE MONTHS ENDED		
(Figures in US$'000)	31-MAR 2008	31-DEC 2007	31-MAR 2007
Stock options	**503**	323	(59)
Stock appreciation rights	**241**	341	274
Treasury stock	**151**	135	–
	895	799	215
Capitalized	**(255)**	(123)	–
	640	676	215

A total of 1,185,000 new stock options were issued to certain directors, officers and employees of the Company during 2007 with exercise prices of between Cdn$8.70 to Cdn$13.55. As at 31 March 2007 only 300,000 of these stock options had been issued. The total compensation recorded of US$0.5 million in Q1 2008 includes US$0.3 million in relation to the stock options issued after Q1 2007. The negative charge recorded in Q1 2007 resulted from the cancellation of 200,000 stock options issued in 2006. The increase in the charge over Q4 2007 is a result of the change in the assumption with regards to level of forfeiture as options issued in 2007 have started to vest. All of the stock options currently issued have been valued using the Black-Scholes option pricing model and all have a five year term and vest over three years from the date of grant. A total of US$82,000 has been capitalized in Q1 2008 in relation to these options.

As at 31 March 2008, a total of 690,000 uncapped stock appreciation rights were issued of which 600,000 were issued in Q1 2007. A total charge of US$0.2 million has been recorded in the quarter compared to US$0.1 million in Q1 2007. The increase in charge is due to a change in the assumptions with regards to the level of forfeiture in relation to the rights issued in Q1 2007 from 33% to 0%. The stock appreciation rights in issue have an exercise price ranging from Cdn$8.00 to Cdn$13.55. All the uncapped stock appreciation rights have a 5 year term and vest in three equal annual installments from the date of grant. These stock appreciation rights have been valued using the Black-Scholes option pricing model and are revalued at each reporting date. A total of US$97,000 has been capitalized in Q1 2008 in relation to these stock appreciation rights.

As at 31 December 2007, there were a total of 400,000 stock appreciation rights that were capped at Cdn$3.00. These were fully expensed by the end of 2007. In respect of these rights a total charge of U$0.15 million was recorded in Q1 2007. In February 2008 the Company issued 105,000 stock appreciation rights with an exercise price of Cdn$11.00 with a cap of Cdn$3.00, resulting in a maximum liability to the Company of Cdn$0.3 million. These have been valued using the Black-Scholes option pricing model resulting in charge of US$40,000 being recorded in Q1 2008.

In April 2007, 200,000 Class B treasury stock were awarded to a newly appointed officer. These shares are held in escrow and vest to the officer in three equal installments starting 7 April 2007. A total of US$76,000 has been capitalized in the quarter in respect of these shares.

Travel and accommodation

The increase in travel and accommodation over Q1 2007 is primarily due to the increase in the number of business trips to Tanzania by Company officials and other marketing and legal professionals for the negotiation of the power and related contracts.

Marketing costs including legal fees

These costs include marketing costs, legal, corporate promotion and cost of training Government officials in accordance with the terms of the PSA. Higher costs were incurred during Q1 2008 as the level of negotiations with Songas and TANESCO intensified with the view to signing long-term power contracts. Costs were also incurred on the preparation of pricing applications for the regulatory authority EWURA.

NET FINANCING INCOME/(CHARGES)

The level of interest income has fallen as a result of the decrease in the interest rate received together with falling cash balances. As at 30 September 2007 the Company had cash balances of US$27.4 million compared to US$12.5 million by the end of Q1 2008. The large loss on exchange incurred in the quarter is the result of the strengthening of the USD against the Tanzanian shilling and British pounds sterling.

The movement in net financing income /(charges) is summarized in the table below:

	THREE MONTHS ENDED		
Figures in US$'000	**31-MAR 2008**	**31-DEC 2007**	**31-MAR 2007**
Finance Income			
Interest income	**45**	194	97
Foreign exchange gain	**–**	243	–
	45	437	97
Finance Charges			
Foreign exchange loss	**(282)**	–	(71)
Net Finance income / (charges)	**(237)**	437	26

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 in the following quarter.

As at 31 March 2008, 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$3.6 million which represents an additional charge of US$0.4 million for 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's share of Profit Gas in the following quarter.

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$90,000 (Q1 2007: US$58,000) has been netted off revenue for the quarter ended 31 March 2008.

Management does not anticipate that any APT will be payable in 2008, 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 expenditures for 2008. 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 2007 the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd were 308.6 Bcf after TPDC "back-in" on a life of licence basis. This leads to a depletion charge of US$0.61/mcf in Q1 2008.

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.

A total of US$7.3 million has been capitalized as at 31st March 2008 for the securing of an option agreement with Tower Resources plc and the initial evaluation of Exploration Area 5 ("EA 5") in Uganda. 300 kilometers of 2-D seismic was shot during Q4 2007 and Q1 2008. Processing of this seismic data has now commenced and is due to be completed in the coming weeks. The initial evaluation of the data has indicated that a number of potential structures exist. The final technical analysis is expected to be completed at the end of Q2 once all the processed data has been received. The Company will then determine whether to commit to drill two exploration wells to secure a 50 % interest in EA 5. Initial analysis indicates that whilst there are structures, the block is more risky than initially thought due to concerns over whether hydrocarbon maturation could have occurred within the basin.

FUNDS GENERATED BY OPERATIONS

	THREE MONTHS ENDED		
(Figures in US$'000)	**31-MAR 2008**	**31-DEC 2007**	**31-MAR 2007**
(Loss) / profit after taxation	**(143)**	284	128
Adjustments (i)	**2,534**	2,775	1,045
Funds from operations before working capital changes	**2,391**	3,059	1,173
Working capital adjustments	**(1,555)**	3,992	(370)
Net cash flows from operating activities	**836**	7,051	803
Net cash flows used in investing activities	**(4,828)**	(17,781)	(6,770)
Net cash flows from financing activities	**(2)**	(193)	25
Net (decrease) in cash and cash equivalents	**(3,994)**	(10,923)	(5,942)

(i) Please refer to consolidated statement of cashflows for breakdown

The US$4.0 million decrease in cash and cash equivalents since 31 December 2007 is primarily the result of the US$3.9 million reduction in the level of creditors in relation to capital expenditure and the crystallization of the payments for the capped stock appreciation rights, being offset by the US$1.0 million reduction in trade receivables. The net result has been an improvement of working capital.

CAPITAL EXPENDITURE

Gross capital expenditures amounted to US$1.4 million during the quarter (Q1 2007: US$11.1 million). The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		
(Figures in US$'000)	**31-MAR 2008**	**31-DEC 2007**	**31-MAR 2007**
Geological and geophysical and well drilling	**1,190**	16,323	10,657
Pipelines and infrastructure	**246**	468	279
Power development	**–**	5	109
Other equipment	**–**	–	32
	1,436	16,796	11,077

GEOLOGICAL AND GEOPHYSICAL

A total of US$0.6 million of expenditure was incurred on the export of drilling equipment and associated costs that had been used in the drilling of the SS-10 well. A total of US$0.2 million was incurred on geological and geophysical studies and reservoir studies.

A total of US$0.4 million was incurred on continuing analysis of the Ugandan seismic results.

PIPELINES AND INFRASTRUCTURE

During the quarter the Company spent US$0.1 million on an extension of the Ringmain and a further US$0.1 million on planning and mobilization for compressed natural gas ("CNG") project in Dar es Salaam. The initial CNG project is due to be completed in Q4 2008.

WORKING CAPITAL

Working capital as at 31 March 2008 was US$8.3 million (Q1 2007: US$10.6 million) and US$7.3 million as at 31 December 2007 and may be analysed as follows:

	AS AT		
(Figures in US$'000)	**31-MAR 2008**	**31-DEC 2007**	**31-MAR 2007**
Cash and cash equivalents	**12,521**	16,515	14,736
Trade and other receivables	**7,297**	8,236	5,713
	19,818	24,751	20,449
Trade and other payables	**11,521**	17,452	9,879
Working capital	**8,297**	7,299	10,570

The overall working capital has decreased by 22 % since Q1 2007. The decrease has mainly been the result of the heavy capital expenditure programme undertaken in the second quarter of 2007, with the completion of the SS-10 development well and the funding of the seismic programme in Uganda. The majority of this was funded from the US$30.4 million raised in July 2007 from the private placement of 2.5 million Class B shares. The working capital level has improved by 14 % over Q4 2007 due to completion of the major capital operations.

The majority of the cash is held in US and Cdn 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 31 March 2008, US$6.1 million was represented by trade receivables (Q1 2007: US$3.8 million), US$0.6 million (Q1 2007: US$1.6 million) prepayments and other receivables and taxes US$0.6 million (Q1 2007: US$0.3 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 31 March 2008, US$3.2 million (Q1 2007: US$2.0 million) was due from the industrial customers of which 66 % is due from 4 customers. A significant part of this amount has been subsequently received. The balance of US$2.9 million includes an amount of US$0.6 million (Q1 2007: US$1.1 million) due from Songas for the supply of Additional Gas to the Ubungo power plant and US$2.3 million (Q1 2007: US$0.7 million) from TANESCO for the supply of Additional Gas to the emergency power units.

The contracts with Songas and TANESCO accounted for 52 % (Q1 2007: 57 %) of the Company's operating revenue during the quarter. Songas' financial security is, in turn, heavily reliant on the payment of capacity and energy charges by the electricity utility, TANESCO. Despite the improvement in hydrology, 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 97 % of all amounts due.

The decrease in current liabilities is a result of the completion of major capital expenditure in Q4 2007. As at 31 March 2008, US$4.5 million of the total trade creditors of US$7.8 million related to capital expenditure, compared to US$7.7 million of the total trade creditors of US$12.3 million as at 31 December 2007.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Capital Investment

In 2007 the Company signed an option agreement with Tower Resources Plc ("Tower"). Under the terms of the agreement, the Company committed to pay for 83.33% of the costs of a 300 kilometer 2-D seismic programme up to a gross cap of approximately US$6.4 million, together with certain historical costs. The Company has 40 days from the receipt of the final interpreted seismic information to exercise its option to earn a 50% working interest in Exploration Area 5 ("EA 5") in return for funding 83.33% of the cost of two exploration wells. The cost of the wells is capped at between US$10 million and US$15 million depending on whether testing of the wells is required. In the event that the costs are higher than the caps for the seismic or the cost of the two wells, the Company will contribute 50% towards the excess.

The Company provided a bank guarantee of US$15.0 million to cover its obligations under the option agreement which is reduced by any actual payments made to Tower. At the end Q1 2008, the bank guarantee was US$9.4 million of which a further US$1.5 million is anticipated to be required in 2008 to complete the seismic programme. 300 kilometers of 2-D seismic was shot during Q4 2007 and Q1 2008. Processing of this seismic data has now commenced. The initial evaluation of the data has indicated that a number of potential structures exist. The final technical analysis is expected to be completed at the end of Q2 once all the processed data has been received. The Company will then determine whether to commit to drill two exploration wells to secure a 50% interest in EA 5. Initial analysis indicates that whilst there are structures, the block is more risky than initially thought due to concerns over whether hydrocarbon maturation could have occurred within the basin.

Management forecasts that the Company will be able to meet its 2008 capital expenditure programme through the use of existing cash balances, self-generated cash flows and a US$5.0 million overdraft facility that is currently being put in place. The Company currently 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 (17.4 bcf as at 31 March 2008). 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 year 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 in the long term 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 reimbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Operating leases

The Company has entered into a five year rental agreement that expires on 30 November 2012 at a cost of approximately US$102,000 per annum for the use of offices in Dar es Salaam.

OFF BALANCE SHEET ARRANGEMENTS

As at 31 March 2008, the Company had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

One of the non executive Directors is a partner at a law firm. During the quarter, the Company incurred US$59,000 to this firm for services provided on fund raising and other legal services. The transactions with this related party was made at the exchange amount.

POST BALANCE SHEET EVENT

There were no significant post balance sheet events.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

	AS AT		
Number of shares ('000)	**31-MAR 2008**	31-DEC 2008	31-MAR 2008
Shares outstanding			
Class A shares	**1,751**	1,751	1,751
Class B shares	**27,863**	27,863	25,053
	29,614	29,614	26,804
Convertible securities			
Options	**2,847**	2,847	2,092
Fully diluted Class A and Class B shares	**32,461**	32,461	28,896
Weighted average			
Class A and Class B shares	**29,615**	28,259	26,799
Convertible securities			
Options	**1,486**	1,543	1,579
Weighted average diluted Class A and Class B shares	**31,101**	29,802	28,738

SHARES OUTSTANDING

In January 2007, the Company initiated a normal course issuer bid to purchase up to 1,085,379 Class B shares between 31 January 2007 and 31 January 2008, subject to a maximum usage of US$2.2 million of funds. A total of 20,000 Class B shares were repurchased during the bid period including 200 shares in January 2008.

No stock options were issued or exercised during the quarter.

As at 22 May 2008, there were a total of 1,751,195 Class A shares and 27,863,228 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 31 December 2008 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 31 March 2008 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 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 identifying 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:

(Figures in US$'000 except where otherwise stated)	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenue	**5,284**	5,562	6,363	3,021	3,831	4,722	3,835	3,198
(Loss)/profit after taxation	**(143)**	284	1,942	(609)	128	1,025	809	660
Operating netback *(US$/mcf)*	**2.21**	2.27	2.30	2.79	2.03	2.17	2.88	2.71
Working capital	**8,297**	7,299	20,938	(3,050)	10,570	20,430	3,298	2,448
Shareholders' equity	**72,053**	71,544	70,996	38,292	37,983	37,889	18,676	17,715
(Loss)/profit per share – basic and diluted *(US$)*	**–**	0.01	0.06	(0.02)	–	0.04	0.03	0.03
Capital expenditures								
Geological and geophysical and well drilling	**1,190**	16,323	10,426	13,723	10,657	2,748	473	726
Pipeline and infrastructure	**246**	468	314	1,205	279	130	234	305
Power development	**–**	5	7	26	109	531	42	–
Other equipment	**–**	–	108	35	30	–	–	3
Operating								
Additional Gas sold – industrial *(mmscf)*	**322**	364	442	397	301	398	491	347
Additional Gas sold – power *(mmscf)*	**1,983**	2,152	1,974	745	1,356	1,206	744	739
Average price per mcf – industrial *(US$)*	**11.55**	11.08	9.58	8.61	7.70	7.64	8.63	8.69
Average price per mcf – power *(US$)*	**2.05**	2.20	2.19	2.17	2.19	1.95	1.69	2.13

Consolidated Income Statements *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars except per share amounts)	NOTE	THREE MONTHS ENDED 31-MAR 2008	31-DEC 2007	31-MAR 2007
Revenue		**5,284**	5,562	3,831
COST OF SALES				
Production and distribution expenses		**(276)**	(357)	(264)
Depletion expense		**(1,406)**	(1,597)	(915)
		3,602	3,608	2,652
Administrative expenses		**(3,095)**	(3,187)	(2,248)
Net financing income / (charges)		**(237)**	437	26
Profit before taxation		**270**	858	430
Taxation	*1*	**(413)**	(574)	(302)
(Loss)/profit after taxation		**(143)**	284	128
(Loss)/profit per share				
Basic *(US$)*		–	0.01	–
Diliuted *(US$)*		–	0.01	–

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheets *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars)	NOTE	31-MAR 2008	31-DEC 2007	31-MAR 2007
ASSETS				
Current assets				
Cash and cash equivalents		**12,521**	16,515	14,736
Trade and other receivables		**7,297**	8,236	5,713
		19,818	24,751	20,449
Exploration and evaluation assets	*2*	**7,300**	6,881	–
Plant, property and other equipment	*3*	**60,752**	61,157	29,085
		68,052	68,038	29,085
		87,870	92,789	49,534
LIABILITIES				
Current liabilities				
Trade and other payables		**11,521**	17,452	9,879
Non current liabilities				
Deferred income taxes	*1*	**3,618**	3,205	1,351
Deferred additional profits tax		**678**	588	321
SHAREHOLDERS' EQUITY				
Capital stock	*4*	**66,537**	66,538	34,494
Capital reserve		**1,676**	1,023	1,123
Accumulated income		**3,840**	3,983	2,366
		72,053	71,544	37,983
		87,870	92,789	49,534

Contractual obligations and committed capital investment (Note 7)
Post balance sheet events (Note 8)
See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Cash Flows *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars)	31-MAR 2008	31-DEC 2007	31-MAR 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit after taxation	**(143)**	284	128
Adjustments for:			
Depletion and depreciation	**1,422**	1,652	941
Stock-based compensation	**654**	359	(59)
Deferred income taxes	**413**	859	122
Deferred additional profits tax	**90**	99	58
Interest income	**(45)**	(194)	(17)
	2,391	3,059	1,173
Decrease/(increase) in trade and other receivables	**939**	(196)	(1,438)
Decrease in inventory	–	2,847	–
Decrease/(increase) in trade and other payables	**(2,494)**	1,341	1,068
Net cash flows from operating activities	**836**	7,051	803
CASH FLOWS USED IN INVESTING ACTIVITIES			
Exploration and evaluation expenditures	**(419)**	(5,225)	–
Property, plant and equipment expenditures	**(1,017)**	(11,473)	(11,075)
Interest income	**45**	194	17
(Decrease)/increase in trade and other payables	**(3,437)**	(1,277)	4,288
Net cash flows used in investing activities	**(4,828)**	(17,781)	(6,770)
CASH FLOWS FROM FINANCING ACTIVITIES			
Normal course issuer bid	**(2)**	(193)	–
Proceeds from exercise of options	–	–	25
Net cash flows from financing activities	**(2)**	(193)	25
(Decrease)/increase in cash and cash equivalents	**(3,994)**	(10,923)	(5,942)
Cash and cash equivalents at the beginning of the period	**16,515**	27,438	20,678
Cash and cash equivalents at the end of the period	**12,521**	16,515	14,736

See accompanying notes to the interim consolidated financial statements.

Statement of Changes in Shareholders' Equity *(unaudited)*

(thousands of US dollars)	CAPITAL STOCK	CAPITAL RESERVE	ACCUMULATED INCOME	TOTAL
Note				
Balance as at 1 January 2007	34,469	1,182	2,238	**37,889**
Options exercised	25	–	–	**25**
Stock-based compensation	–	(59)	–	**(59)**
Profit for the period	–	–	128	**128**
Balance as at 31 March 2007	34,494	1,123	2,366	**37,983**

(thousands of US dollars)	CAPITAL STOCK	CAPITAL RESERVE	ACCUMULATED INCOME	TOTAL
Note	*4*			
Balance as at 1 January 2008	66,538	1,023	3,983	**71,544**
Stock-based compensation	–	654	–	**654**
Normal course issuer bid	(1)	(1)	–	**(2)**
Loss for period	–	–	(143)	**(143)**
Balance as at 31 March 2008	**66,537**	**1,676**	**3,840**	**72,053**

See accompanying notes to the interim consolidated financial statements.

Notes to the Consolidated Financial Statements *(unaudited)*

ORCA EXPLORATION GROUP INC.

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 2007. The interim consolidated financial statements for the three months ended 31 March 2008 should be read in conjunction with the audited financial statements and related notes for the year ended 31 December 2007.

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” 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 5.

[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 tax charge is as follows:

	THREE MONTHS ENDED		
Figures in US$'000	31-MAR 2008	31-DEC 2007	31-MAR 2007
Current tax	–	(285)	180
Deferred tax	**413**	859	122
	413	574	302

TAX RATE RECONCILIATION	THREE MONTHS ENDED		
Figures in US$'000	31-MAR 2008	31-DEC 2007	31-MAR 2007
Profit before taxation	**270**	858	430
Provision for income tax calculated at the statutory rate of 30%	**81**	257	129
Add/(deduct) the tax effect of non-deductible income tax items			
Administrative and operating expenses	**160**	235	143
Stock based compensation	**145**	111	19
Other income	–	(54)	(29)
Permanent differences	**27**	25	40
	413	574	302

As at 31 March 2008 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 31 March 2008. The deferred income tax liability includes the following temporary differences:

	AS AT		
Figures in US$'000	31-MAR 2008	31-DEC 2007	31-MAR 2007
Differences between tax base and carrying value of property, plant and equipment	**4,116**	**3,542**	1,172
Provision for stock option bonuses	**(169)**	**(360)**	(180)
Income tax recoverable	**181**	**230**	455
Other liabilities	**(75)**	**(31)**	–
Additional profit tax	**(203)**	**(176)**	(96)
Tax losses	**(232)**	–	–
	3,618	**3,205**	1,351

[2] EXPLORATION AND EVALUATION ASSETS

(Figures in US'000)	UGANDA
Costs	
As at 1 January 2008	**6,881**
Additions	**419**
As at 31 March 2008	**7,300**
Depletion/Depreciation	
As at 1 January 2008	–
Charge for the period	–
As at 31 March 2008	–
Net Book Values	
As at 31 March 2008	**7,300**
As at 31 December 2007	**6,881**

General administrative expenses of US$0.4 million have been capitalized in the quarter (Q1 2007: US$ nil).

[3] PLANT, PROPERTY AND OTHER EQUIIPMENT

(Figures in US'000)	TANZANIA	LEASEHOLD IMPROVEMENTS	COMPUTER EQUIPMENT	VEHICLES	FIXTURES & FITTINGS	TOTAL
Costs						
As at 1 January 2008	68,362	156	164	139	41	68,862
Additions	1,017	–	–	–	–	1,017
Disposals	–	–	–	(21)	–	(21)
As at 31 March 2008	69,379	156	164	118	41	69,858
Depletion/Depreciation						
As at 1 January 2008	7,356	156	84	68	41	7,705
Charge for the period	1,406	–	7	9		1,422
Depreciation on disposals	–	–	–	(21)	–	(21)
As at 31 March 2008	8,762	156	91	56	41	9,106
Net Book Values						
As at 31 March 2008	**60,617**	**–**	**73**	**62**	**–**	**60,752**
As at 31 December 2007	61,006	–	80	71	–	61,157

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$123.8 million will be required to bring the total proved reserves to production.

[4] CAPITAL STOCK

Number of shares (thousands)	AUTHORISED	ISSUED	VALUATION AT PAR VALUE
CLASS A			
As at 31 December 2007 and 31 March 2008	**50,000**	**1,751**	**983**
CLASS B			
As at 31 December 2007	50,000	27,863	65,555
Normal course issuer bid	–	–	(1)
As at 31 March 2008	**50,000**	**27,863**	**65,554**
Total Class A and Class B as at 31 March 2008	**100,000**	**29,614**	**66,537**

All of the issued capital stock is fully paid. In January 2007, the Company initiated a normal course issuer bid to purchase up to 1,085,379 Class B shares between 31 January 2007 and 31 January 2008, subject to a maximum usage of US$2.2 million of funds. A total of 20,000 shares were repurchased under the issuer bid of which 200 shares were purchased during the quarter ended 31 March 2008.

Stock-based compensation

The stock option plan provides for the granting of stock options to directors, officers 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. The level of stock volatility is calculated with reference to the historic traded daily closing share price.

The table below details the outstanding share options and the movements for the three months ended 31 March 2008:

Number of options (thousands)	NUMBER OF OPTIONS	EXERCISE PRICE (CDN$)
Outstanding as at 31 December 2007 and 31 March 2008	2,847	1.00 to 13.55

The weighted average remaining life and weighted average exercise prices of options at 31 March 2008 were as follows:

EXERCISE PRICE	NUMBER OUTSTANDING AS AT 31 MARCH 2008	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER EXERCISABLE AS AT 31 MARCH 2008	WEIGHTED AVERAGE EXERCISE PRICE
(Cdn$)				*(Cdn$)*
1.00	1,662	6.65	**1,662**	1.00
8.70 to 13.55	1,185	4.15	**100**	11.57

Stock Appreciation Rights

Number of stock appreciation rights (thousands)	RIGHTS	EXERCISE PRICE (CDN$)
Outstanding as at 1 January 2008	**1,090**	**4.00 to 13.55**
Exercised (i)	(227)	4.00
Granted (ii)	105	11.00
Outstanding as at 31 March 2008	**968**	**4.00 to 13.55**

(i) A total of 227,500 stock appreciation rights were exercised in the quarter. The appreciation on these rights were capped at Cdn$3.00 per right with an exercise price of Cdn$4.00. As at 31 March 2008, a total of 172,500 of the original issue of the capped appreciation rights, remain to be exercised.

(ii) A total of 105,000 stock appreciation rights were issued in February 2008 with an exercise price of Cdn$11.00. These stock appreciation rights have a maximum liability of Cdn$3.00 per right.

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 4.0 %, stock volatility 51 % with a level of forfeitures between 0 % and 33 %.

As at 31 March 2008 a total liability of US$1.5 million had been recognized in relation to the stock appreciation rights.

[5] 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 ("Canadian GAAP"). 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 968,000 stock appreciation rights outstanding as at 31 March 2008 (see note 4). 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 quoted 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:

	31-MAR 2008		31-DEC 2007	
Figures in US$'000	IFRS	CDN	IFRS	CDN
Current assets	**19,818**	**19,818**	24,751	24,751
Exploration and evaluation assets	**7,300**		6,881	
Plant property and other equipment	**60,752**	**69,273**	61,157	69,500
	87,870	**89,091**	92,789	94,251
Current liabilities	**11,521**	**10,670**	17,452	17,187
Non current liabilities	**4,296**	**6,043**	3,793	5,541
Capital stock	**66,537**	**66,537**	66,538	66,538
Reserves	**5,516**	**5,841**	5,006	4,985
	87,870	**89,091**	92,789	94,251
Profit before taxation	**270**	**556**	3,775	3,886

[6] RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. The Company has made a provision of US$59,000 for services provided on legal services during the quarter. The transactions with this related party were made at the exchange amount.

[7] CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Capital Investment

In 2007 the Company signed an option agreement with Tower Resources Plc ("Tower"). Under the terms of the agreement, the Company committed to pay for 83.33 % of the costs of a 300 kilometer 2-D seismic programme up to a gross cap of approximately US$6.4 million, together with certain historical costs. The Company has 40 days from the receipt of the interpreted seismic information to exercise its option to earn a 50 % working interest in Exploration Area 5 ("EA 5") in return for funding 83.33 % of the cost of two exploration wells. The cost of the wells is capped at between US$10 million and US$15 million depending on whether testing of the wells is required. In the event that the costs are higher than the caps for the seismic or the cost of the two wells, the Company will contribute 50 % towards the excess.

The Company provided a bank guarantee of US$15.0 million to cover its obligations under the option agreement which is reduced by any actual payments made to Tower. At the end of Q1 2008 the bank guarantee was US$9.4 million of which a further US$1.5 million is anticipated to be required in 2008 to complete the seismic programme. 300 kilometers of 2-D seismic was shot during Q4 2007 and Q1 2008. Processing of this seismic data has now commenced. The initial evaluation of the data has indicated that a number of potential structures exist. The final technical analysis is expected to be completed at the end of Q2 once all the processed data has been received. The Company will then determine whether to commit to drill two exploration wells to secure a 50 % interest in EA 5. Initial analysis indicates that whilst there are structures, the block is more risky than initially thought due to concerns over whether hydrocarbon maturation could have occurred within the basin.

Management forecasts that the Company will be able to meet its 2008 capital expenditure programme through the use of existing cash balances, self-generated cash flows and a US$5.0 million overdraft facility that is currently being put in place. The Company currently 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 (17.4 Bcf as at 31 March 2008). 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 year 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 in the long term 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 reimbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Operating leases

The Company has entered into a five year rental agreement that expires on 30 November 2012 at a cost of approximately US$102,000 per annum for the use of offices in Dar es Salaam.

[8] POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

Corporate Information

Board of Directors

W. DAVID LYONS
Non-Executive Chairman
St. Helier
Jersey

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 ROSS
Non-Executive Director
Calgary
Canada

JAMES SMITH
Vice President Exploration
Hurst
United Kingdom

Officers

PIERRE RAILLARD
Vice President Operations

DAVID W. ROSS
Company Secretary

Operating Office

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CONSULTANTS LTD.
Calgary
Canada

Auditors

KPMG LLP
Calgary
Canada

Lawyers

BURNET, DUCKWORTH
& PALMER LLP
Calgary
Canada

Transfer Agent

CIBC MELLON TRUST
TRUST COMPANY
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