Q2

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

- 60% increase in Orca's Q2 revenues to US$4.8 million (Q2 2007: US$3.0 million).
- Increased Q2 2008 sales of Additional Gas to the power sector by 28% to 956 Mmscf (Q2 2007: 745 Mmscf). This equated to an average of 10.5 Mmscf/d (Q2 2007: 8.2 Mmscf/d). Gas demand increases for the power sector is now underpinned by the TANESCO Wärtsilä 100 MW plant, which is now commissioned and fully operational for the long term. The average price for the gas to the power sector was US$2.93/Mcf (Q2 2007: US$2.17/Mcf).
- Q2 2008 sales of Additional Gas to Dar es Salaam industrial customers decreased by 15% to 336 Mmscf (Q2 2007: 397 Mmscf). This equated to an average of 3.7 Mmscf/d (Q2 2007: 4.4 Mmscf/d). Average prices were 51 % higher at US$12.97/Mcf leading to a 27% increase in industrial sales revenue when compared to Q2 2007.
- 63% increase in funds flow from operations to US$1.6 million (Q2 2007: US$1.0 million). A 427% increase in net cash flows to US$4.6 million from US$0.8 million. Loss before tax of US$9.7 million (Q2 2007 loss: US$0.5 million) included a one-time impairment charge of US$9.5 million with respect to the write down of the Company's activities in Uganda.
- Orca is continuing its exploration focus in Sub-Saharan Africa, and is evaluating a lower risk, potentially early commercialisation opportunity offshore West Africa.
- Extended the gas purchase contracts of five of the larger industrial customers by a further five years from the end of their existing contracts in return for capping the gas price at approximately US$11.49/mcf with a floor of US$7.38/mcf.
- Contracted McDaniel and Associates Consultants Ltd to conduct a resource evaluation report of the Songo Songo West prospect within the Company's licence acreage. The report is expected to be published at the end of Q3 2008.
- Undertook extensive work to secure a jack up rig to drill the Songo Songo West prospect in 2009. An invitation to tender was issued during Q3 2008 and three offers were received. Evaluation is currently underway. Materials for the first Songo Songo West well are already stockpiled on Songo Songo Island and funds that were allocated for Uganda can now be assigned for this drilling campaign.
- Ordered CNG facilities, consisting of one CNG compressor, 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. The facilities are expected to be operational during Q1 2009.
- Finalised in all material respects, the negotiations for the supply of approximately 2.0 Mmscf/d to the Wazo Hill cement plant from Q2 2009. This is expected to rise to 4.0 Mmscf/d by 2010.
- Initialled the long term contracts for the supply of a forecast 200 Bcf - 250 Bcf of Additional Gas to the power sector signalling the end of negotiations subject to the resolution of infrastructure capacity issues with respect to the installation of two new gas processing trains.
- Constructed pipework and mobilised the equipment to install two new higher capacity Joule-Thompson valves at the existing gas processing plant with the objective of re-rating the two existing trains to a forecast 90 Mmscf/d. Songas authorisation to commence the work is pending the finalisation of some engineering work at the Ubungo power plant.
- Finalised the review of 300 kilometres of 2-D seismic and geochemical data in exploration area 5 in Uganda and determined that it was not in the interests of the Company to proceed.

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL *(US$'000 except where otherwise stated)*	THREE MONTHS ENDED			SIX MONTHS ENDED		
	30 JUNE 2008	30 JUNE 2007	CHANGE	30 JUNE 2008	30 JUNE 2007	CHANGE
Revenue	**4,826**	3,021	60 %	**10,110**	6,852	(48 %)
Loss before taxation	**(9,710)**	(524)	(1,753 %)	**(9,440)**	(94)	(9,942 %)
Operating netback *(US$/mcf)*	**3.44**	2.79	23 %	**2.65**	2.35	13 %
Cash and cash equivalents	**11,924**	7,601	57 %	**11,924**	7,601	57 %
Working capital	**6,094**	(3,050)	n/m	**6,094**	(3,050)	n/m
Shareholders' equity	**62,824**	38,292	64 %	**62,824**	38,292	64 %
Loss per share – basic *(US$)*	**(0.34)**	(0.02)	(1,600 %)	**(0.35)**	(0.02)	(1,650 %)
Loss per share – diluted *(US$)*	**(0.33)**	(0.02)	(1,550 %)	**(0.33)**	(0.02)	(1,550 %)
Funds from operations before working capital changes	**1,619**	995	63 %	**4,010**	2,168	85 %
Net cash flows from operating activities	**4,566**	867	427 %	**5,402**	1,672	223 %
Funds per share from operations before working capital changes – basic *(US$)*	**0.05**	0.04	25 %	**0.14**	0.08	(75 %)
Funds per share from operations before working capital changes – diluted *(US$)*	**0.05**	0.03	67 %	**0.13**	0.08	(63 %)
Net cash flows per share from operating activities – diluted *(US$)*	**0.15**	0.03	400 %	**0.17**	0.06	183 %
Outstanding Shares *('000)*						
Class A shares	**1,751**	1,751	–	**1,751**	1,751	–
Class B shares	**27,863**	25,383	10 %	**27,863**	25,383	10 %
Options	**2,847**	2,622	9 %	**2,847**	2,622	9 %
Operating						
Additional Gas sold *(Mmscf)* - industrial	**336**	397	(15 %)	**658**	698	(6 %)
Additional Gas sold *(Mmscf)* - power	**956**	745	28 %	**2,939**	2,101	40 %
Average price per mcf *(US$)* - industrial	**12.97**	8.61	51 %	**12.27**	8.22	49 %
Average price per mcf *(US$)* - power	**2.93**	2.17	35 %	**2.33**	2.18	7 %

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*

GIIP .... *Gas initially in place*

KWH .... *Kilowatt hour*

MW .... *Megawatt*

US$ .... *US dollars*

CDN$ .... *Canadian dollars*

DURING THE SECOND QUARTER, the Company continued to expand operations in Tanzania, and decisively addressed exploration and infrastructure challenges while continuing to lay a strong foundation for long term success in Tanzania. Funds flow from operations increased to US$1.6 million compared with US$1.0 million in Q2 2007. Progress was made to increase future gas sales from the Songo Songo field and the Company enjoys solid, stable, and rising cash flow from its Tanzanian business. An invitation to tender was prepared in Q2 2008 for the services of a jackup rig to drill Songo Songo West in 2009.

At the end of Q2, Orca made the decision not to proceed further with its oil exploration activities in Uganda. This was primarily because the level of technical risk was determined to be higher than expected. The seismic programme was successfully concluded and interpreted, allowing a more detailed assessment of the Block. The costs of drilling were considered not justifiable given the size and risk of the opportunity. As a result the Company has taken a one-time write-off of US$9.5 million associated with the costs of acquiring and interpreting 300 kilometers of 2-D seismic in Uganda's Exploration Area 5. Funds previously allocated for additional Uganda exploration and drilling have now been allocated to Songo Songo exploration and development, including drilling Songo Songo West.

An important gas sales milestone was achieved in June 2008 with the agreement of terms (subject to Board approvals) for long term contracts for the supply of gas to Tanzania's power sector. This signalled the finalisation of negotiations, subject to the receipt by Songas Limited (the owner of the infrastructure) of a satisfactory ruling from the EWURA, Tanzania's energy regulator, with respect to the Songas application to install two new gas processing trains on Songo Songo Island. The capacity expansion application received an initial review and in August the EWURA issued a notice requesting Songas to resubmit the application with additional firm costing information. The Ministry of Energy and Minerals ("MEM") is involved in discussions to address this issue in order to minimise delays.

Over the near term, Orca plans to implement a re-rating initiative on the two existing gas processing trains to ensure there is sufficient infrastructure capacity until the two new trains are installed. The re-rating equipment has been purchased and mobilised to Songo Songo Island and is ready for installation as soon as the notice to proceed is given by Songas. Songas is undertaking some engineering work at the Ubungo power plant before authorizing commencement of this work.

To date the current short term infrastructure limitations have not impacted Orca's gas sales since the seasonal rains in Tanzania decreased gas demand with run-of-river hydros operating at high utilisation rates. However, with the commencement of the dry season in Q3, the 70 Mmscf/d infrastructure is limiting the volumes of gas available to the power sector. We are confident that the Company, as operator of the gas processing facilities, will be able to implement the planned interim solutions efficiently as soon as Songas gives the notice to proceed.

The long term prospects for Orca's Tanzanian projects are excellent. We are confident in the reserves already established, the potential upside in Songo Songo West and the future demand for natural gas in the country. We continue to expand our markets for gas and have recently signed new contracts with our largest industrial customers to extend their term for an additional five years. We have also finalised negotiations with Twiga Cement, Tanzania's largest cement manufacturer, to provide gas to their new kiln at Wazo Hill. The new cement plant is expected to be operational in Q2 2009. Finally, Orca is excited by the opportunities to develop new compressed natural gas markets – especially in the industrial centres of Morogoro and Tanga.

We also remain committed to increase our assets and build additional shareholder value in sub-Saharan Africa. To this end, Orca is also evaluating a lower risk, potentially early commercialisation opportunity offshore West Africa.

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

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

TANZANIAN RESERVES AND EXPLORATION

Confidence in the Songo Songo field's potential is increasing as cumulative production rises and further subsurface data is analysed. During Q2, the Company undertook a detailed evaluation of the Songo Songo West prospect that lies some four kilometers west of the existing Songo Songo field within the Company's licence acreage. In early Q3 2008, McDaniel and Associates Consultants Ltd. was contracted to conduct a resource evaluation report on the potential of this prospect. The results of the report will be available at the end of Q3 2008.

Early in Q3 Company issued a tender for a jackup rig with the view to drilling Songo Songo West in the second half of 2009. Evaluation of the bids is currently in progress. A substantial portion of the drilling materials for this well are already stockpiled on Songo Songo Island and discussions are underway to secure gas markets for this potentially large resource.

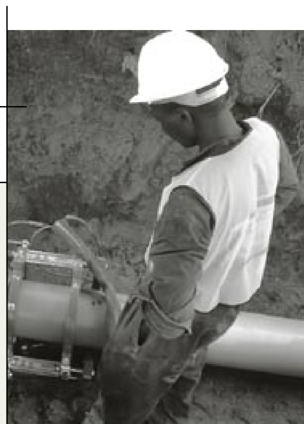
STATUS OF LONG TERM POWER CONTRACTS

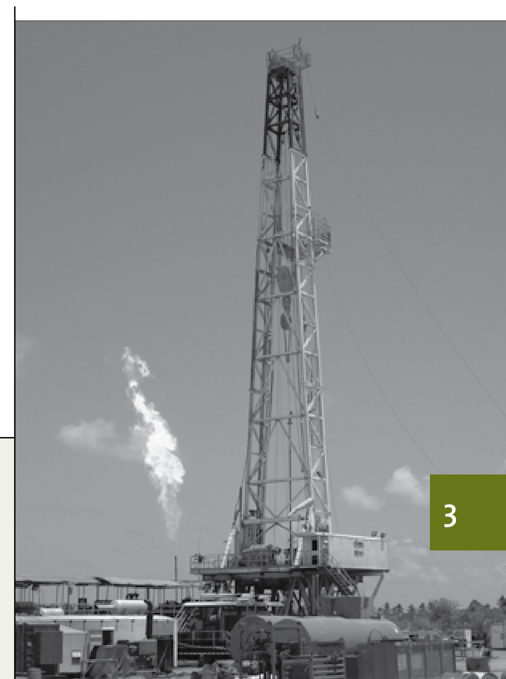
During Q2 2008, Orca was engaged in intensive negotiations with TANESCO, the owner of the Ubungo power plant, Songas Limited and the Ministry of Energy and Minerals to secure two long term contracts for the supply of approximately 30 - 45 Mmscf/d for power generation. To enable Orca to supply this quantity of gas, Songas is planning to install a third and fourth gas processing train on Songo Songo Island, conditional on a satisfactory economic return. Negotiations proceeded well and the contracts were initialled at the end of June, subject to adjustments that might be required following the EWURA review. In early August the EWURA requested Songas to resubmit its application, principally on the grounds that the costs of the engineering and procurement contract needed to be firm. All parties are now working to expedite the process. In the meantime, gas continues to be supplied to the power plants under short term agreements, with prices that equate to those set out in the initialled long term agreements.

The first of the initialled long term power contracts covers the supply of gas to the sixth turbine at the Ubungo power plant and provides for a maximum of approximately 9 Mmscf/d until July 2024. The second initialled contract covers the supply of Additional Gas sales to the remaining gas fired generation currently in Tanzania. The required short term volumes will depend on the availability of the 561 MWs of Tanzania's hydro generation, the timing of the increase in the Songo Songo infrastructure capacity and available generation requiring natural gas. Beginning in November 2010, the take or pay contract volume is set at 32 Mmscf/d through to July 2023, with a maximum daily quantity of 36 Mmscf/d.

The same contract price applies to both contracts. It is composed of a wellhead price, an amount that is paid to Songas for the use of the gas processing and pipeline infrastructure and an amount that is charged by Orca for marketing and distribution. The wellhead price is fixed at approximately US$1.95/mcf and will increase at an expected 2% per annum from July 2009. From July 2012, there will be a step change in the wellhead price to a forecast US$2.83/mcf which will then increase at a forecast 2% per annum.

The other contractual provisions (gas processing, pipeline, marketing and distribution costs) have to be approved by the regulatory authority, EWURA and are subject to annual amendments. The Company will continue to pass on any increase or decrease in the EWURA approved charges to TANESCO/Songas. This protocol insulates Orca from any increases in the gas processing and pipeline infrastructure tariffs.





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

Based on the applications that Songas and Orca submitted to EWURA during Q2 2008, and the EWURA Orders issued during August, the initial all-in contract price is expected to be in the range of US$2.36/mcf – US$2.46/mcf. The final price will be determined once final charges are known. These charges are expected to vary annually dependent on infrastructure operating costs and volumes transported.

CONTRACTS WITH INDUSTRIAL CUSTOMERS

Orca has finalised negotiations with Twiga Cement for the supply of approximately 2.0 Mmscf/d of gas to its Wazo Hill plant from Q2 2009, increasing to an expected 4.0 Mmscf/d in 2010. The contract is expected to be signed during Q3 2008.

The Company has extended the term of five of its larger contracts with industrial customers for an additional five years from the date that existing contracts were due to expire. In return the Company has agreed to cap the price of gas to these customers with immediate effect whilst also incorporating a floor price. This is expected to keep the price of gas in the range of US$7.38/mcf to US$11.49/mcf (increasing with US CPI).

The Company continues to sign and connect other smaller industrial customers to the Company's existing 35 kilometers of low pressure pipeline. Two industrial contracts were signed in Q2 2008 and gas is currently being supplied to 18 premises. It is expected that an additional 10 industrial customers will be connected over the next 12 months with the addition of 8 kilometers of pipeline adding an average demand of 1.2 Mmscf/d.

DEVELOPING MARKETS

Power

TANESCO terminated its power purchase agreement with Dowans Tanzania Limited for 120 MWs of emergency generation effective 31 July 2009. This temporary plant has been replaced with the permanent TANESCO Wärtsilä 100 MW plant, which is now fully operational. There is currently approximately 190 MWs of gas fired generation in country operating on Additional Gas (maximum demand of 40 Mmscf/d) and a further 45 MWs is due to be commissioned at Tegeta during the first half of 2009. The increase in 2009 is expected to bring gas fired generation to a level in line with the capacity of the expanded gas infrastructure, once the interim solutions are implemented or the third and fourth processing trains are installed on Songo Songo island.

TANESCO's current planning calls for an additional 150 MWs of generation by 2011. With the increase in Songo Songo 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 once development of infrastructure capacity issues are resolved.

Compressed Natural Gas

During Q2, the Company ordered CNG facilities, including one CNG compressor, a vehicle dispenser and two trailer filling facilities to make 0.7 Mmscf/d of compressed natural gas available at a cost of US$2.5 million. The CNG facilities are expected to be operational in Q1 2009. It is anticipated that this market will expand rapidly to supply gas to consumers that cannot be cost-effectively connected to Orca's existing low pressure gas distribution system. Internal assessments are that this market could grow to 15 Mmscf/d, with the majority of the load growth being achieved in the industrial centres of Morogoro and Tanga both of which are approximately 200 kilometers from Dar es Salaam.

Initially, the intention is to sell CNG to a group of hotels and institutions in Dar es Salaam and to industries not connected to the Company's low pressure distribution systems. CNG used in these applications will displace heavy fuel oil ("HFO") and liquid petroleum gas ("LPG"). Pricing of gas is relative to displaced fuels, which is higher in the case of LPG than HFO. Once the initial market is established, there can be incremental additions to the CNG compressors, trailers and distribution vehicles to meet increases in demand. With increased sales volumes Orca anticipates that the capital cost to provide CNG service will reduce to US$1 million for every 0.5 Mmscf/d of sales.

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

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

UGANDA

Orca has determined not to exercise its option in Uganda to drill two wells in Exploration Area 5 ("EA5") to secure a 50 % interest in the licence. The 300 kilometers of 2-D seismic revealed a number of structures, but the technical data analysis indicated a level of risk too high to warrant the costs of an exploration drilling program. Funds released from the Uganda programme will now be more effectively used to progress the planned drilling of Songo Songo West in 2009.

FINANCIAL RESULTS

Total sales of Additional Gas to the power sector were up 28 % to 956 Mmscf (10.5 Mmscf/d) in Q2 2008 from 745 Mmscf (8.2 Mmscf/d) in Q2 2007. The power sales will increase significantly in Q3 2008 as the utilisation of the 561 MWs of installed hydro generation deteriorates as Tanzania enters its dry season.

Sales of Additional Gas to Orca's industrial customers fell 15 % to 336 Mmscf (3.7 Mmscf/d) in Q2 2008 compared with 397 Mmscf (4.4 Mmscf/d) in Q2 2007, but the average achieved price was up 51 % at US$12.97/mcf. As anticipated, Q2 sales to the industrial sector followed historical trends with relatively low production by the textile manufacturers due to the lack of indigenous cotton supplies. Industrial demand is now 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.

Orca's Q2 revenues increased 60 % to US$4.8 million compared to Q2 2007. Loss before taxation was US$9.7 million as a consequence of the write down of US$9.5 million following the decision not to proceed with the drilling of two wells in Uganda. Profitability is expected to increase in the second half of the year with the increase in sales revenue and the decrease in costs as the long term power contracts are finalised.

Orca's operations generated cash flows before working capital changes of US$1.6 million, an increase of 63 % on Q2 2007. This is forecast to grow in the second half of 2008 as gas sales increase and marketing costs decrease.

The Company had cash of approximately US$11.9 million at the end of Q2 and now has a US$5.0 million short term overdraft facility in place. 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

The implementation of the infrastructure expansion in a timely manner in Tanzania remains a key focus for Orca during the second half of 2008. Once long term infrastructure expansion is committed Orca anticipates the signing of the initialled long term power contracts within a relatively short period. In the event of unacceptable delays in the long term additions of trains three and four, Orca has developed plans for upgrading the capacity of the existing trains in two trenches.

Orca acknowledges the commitment and support of the Tanzanian Government to expand the gas developments at Songo Songo in a transparent process, with the right blend of free market pricing, and regulatory protection typical of other countries' gas sectors.

The results of the jack up rig tender will be available in Q3 providing the Company with a clearer picture of the timing and costs of our 2009 drilling program. During Q3 Orca also anticipates the completion of a resource report by McDaniel and Associates Consultants Ltd. on the potential of the Songo Songo West prospect that lies within the Company's licence acreage.

As always, management is aware that Orca Exploration's growth and vitality are always dependent on our skilled and dedicated employees and our loyal shareholders. The demand for natural gas continues to grow in Tanzania and the Company remains committed to seek ways to increase reserves, expand markets and monetise its assets.

Peter R.Clutterbuck
President and CEO
28 August 2008

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR THE SIX MONTHS ENDED 30 JUNE 2008 AND THE AUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR YEAR ENDED 31 DECEMBER 2007. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 28 AUGUST 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 TAXES, DEFERRED ADDITIONAL PROFITS TAX, INTEREST INCOME AND IMPAIRMENTS. 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.

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 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.

An Insufficiency Agreement has been negotiated with Songas Limited and TANESCO that reduces these potential liabilities. The Insufficiency Agreement is expected to be signed at the same time as the long term power contracts.

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 30th June 2008

OPERATING VOLUMES

The sales volumes for the quarter were 1,292 Mmscf or 14.2 Mmscf/d. This represents an overall increase of 15 % over Q2 2007 and a 44 % decline over Q1 2008. The Company sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED			SIX MONTHS ENDED	
	30-JUN 2008	31-MAR 2008	30-JUN 2007	30-JUN 2008	30-JUN 2007
Gross sales volume *(Mmscf)*:					
Industrial sector	**336**	322	397	**658**	698
Power sector	**956**	1,983	745	**2,939**	2,101
Total volumes	**1,292**	2,305	1,142	**3,597**	2,799
Gross daily sales volume *(Mmscf/d)*:					
Industrial sector	**3.7**	3.5	4.4	**3.6**	3.9
Power sector	**10.5**	21.8	8.2	**16.2**	11.6
Total daily sales volume *(Mmscf/d)*	**14.2**	25.3	12.6	**19.8**	15.5

Industrial sector

Industrial sales volumes of 336 Mmscf (3.7 Mmscf/d) were recorded in Q2 2008. This represents an increase of 4 % over the 322 Mmscf (3.5 Mmscf/d) recorded in Q1 2008, as a result of increased consumption from the textile industries. The 15 % fall in the sales volume from Q2 2007 is primarily the result of sales to the textile customers being lower due to increased competition in the world textile markets. One new industrial customer was connected to the local Dar es Salaam gas distribution network in June 2008 bringing the total number of industrial customers to 18 (Q2 2007: 13).

Power sector

Power sector sales volumes increased by 28 % from 745 Mmscf (8.2 Mmscf/d) in Q2 2007 to 956 Mmscf (10.5 Mmscf/d) in Q2 2008. The increase in sales volumes over Q2 2007 is largely the result of the Additional Gas consumed by the Aggreko emergency power generator, which was under utilized in Q2 2007 and the consumption of Additional Gas by the new emergency power generator ("Dowans A") operated by Dowans Tanzania Limited, which was installed in October 2007.

The level of gas consumed by the power sector in Q2 2008 fell by 52 % to 956 Mmscf from 1,983 Mmscf in Q1 2008. The decline is a direct consequence of the above average heavy rains experienced throughout the whole quarter, resulting in a greater hydro generation utilization rates. The sales of gas to the Ubungo power plant fell by 50 % compared to Q1 2008. There were also no sales during the quarter to the Ubungo 100 MW generator operated by Wartsila due to a maintenance programme being undertaken. A total of 96 Mmscf had been consumed in Q1 2008 by this power plant.

COMMODITY PRICES

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

	THREE MONTHS ENDED			SIX MONTHS ENDED	
US$/mcf	**30-JUN 2008**	**31-MAR 2008**	**30-JUN 2007**	**30-JUN 2008**	**30-JUN 2007**
Average sales price					
Industrial sector	**12.97**	11.55	8.61	**12.27**	8.22
Power sector	**2.93**	2.05	2.17	**2.33**	2.18
Weighted average price	**5.54**	3.37	4.41	**4.15**	3.69

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 in Q2 2008 of US$12.97/mcf (Q2 2007: US$8.61/mcf), compared to US$11.55/mcf in Q1 2008. The gas price achieved for the industrial sector fluctuates 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 Q2 2008 was US$12.42/mcf to US$13.81/mcf.

Power sector

The previous 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. During the quarter, the gas price for sales to the Ubungo power plant was renegotiated and the price adjustment was implemented retroactively to cover the sales from the start of March 2008. The increase in the revenue related to March 2008 has been included in the results for Q2 2008 increasing the average sales price achieved to US$2.67/mcf. The average sales price achieved for Q2 2008 sales volumes in isolation was US$2.17/mcf (Q2 2007: US$2.14/mcf) compared to US$1.57/mcf in Q1 2008.

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 mix of sales between the Ubungo power plant and emergency units resulted in an average sales price of US$2.32/mcf for the gas volumes sold in the quarter, with an average of US$2.93/mcf after taking into account the March 2008 price adjustment. During Q2 2008, the Company initialled the long term contracts for the supply of a forecast 200 Bcf to 250 Bcf of Additional Gas to the power sector. The wellhead price is fixed at approximately US$1.95/mcf and will increased at an expected 2% per annum until July 2012 at which point there will be a step change to US$2.83/mcf. These prices will then increase at 2% per annum. These prices are net of the gas processing, transportation, marketing and distribution costs that are subject to annual approval by the energy regulator, EWURA. Based on existing tariff rates, the initial all-in Additional Gas price to the power sector is expected to be in the range of US$2.36/mcf to US$2.46/mcf. The final price will be determined once final charges are known.

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.

Q2 2008 was the first quarter since Q2 2007 that Additional Gas sales volumes have not been in excess of 20 Mmscf/d, resulting in a decrease in the Company's share of revenue after cost recovery ("Profit Gas") from 30% to 25%.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 81.25% (Q1 2008 82.5%) of the Net Revenues (Q2 2007: 81.25%) as follows:

	THREE MONTHS ENDED			SIX MONTHS ENDED	
Figures in US$'000	**30-JUN 2008**	31-MAR 2008	30-JUN 2007	**30-JUN 2008**	30-JUN 2007
Gross sales revenue	**7,159**	7,769	5,035	**14,928**	10,324
Gross tariff for processing plant and pipeline infrastructure	**(1,140)**	(1,270)	(793)	**(2,410)**	(1,610)
Gross revenue after tariff	**6,019**	6,499	4,242	**12,518**	8,714
Analysed as to:					
Company Cost Gas	**4,512**	4,892	3,184	**9,404**	6,537
Company Profit Gas	**379**	482	263	**861**	542
Company operating revenue	**4,891**	5,374	3,447	**10,265**	7,079
TPDC Profit Gas	**1,128**	1,125	795	**2,253**	1,635
	6,019	6,499	4,242	**12,518**	8,714

The Company's total revenue reported for the quarter amounted to US$4,826,000 after adjusting the Company's operating revenue of US$4,891,000 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$ 65,000 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			SIX MONTHS ENDED	
Figures in US$'000	**30-JUN 2008**	31-MAR 2008	30-JUN 2007	**30-JUN 2008**	30-JUN 2007
Industrial sector	**4,359**	3,713	3,420	**8,072**	5,735
Power sector	**2,800**	4,056	1,615	**6,856**	4,589
Gross sales revenue	**7,159**	7,769	5,035	**14,928**	10,324
Processing and transportation tariff	**(1,140)**	(1,270)	(793)	**(2,410)**	(1,610)
TPDC share of revenue	**(1,128)**	(1,125)	(795)	**(2,253)**	(1,635)
Company operating revenue	**4,891**	5,374	3,447	**10,265**	7,079
Additional Profits Tax	**(65)**	(90)	(56)	**(155)**	(114)
Current income tax adjustment	**–**	–	(370)	**–**	(113)
Revenue	**4,826**	5,284	3,021	**10,110**	6,852

TRANSPORTATION TARIFF

Under the terms of the project agreements, the current 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 70 Mmscf/d of pipeline capacity.

In calculating the Songas Outlet Price for the industrial customers, an amount ("Ringmain tariff") of US$1.84/mcf (Q2 2007: US$1.12/mcf) and US$1.52/mcf in Q1 2008 has been deducted from the achieved industrial sales price of US$12.97/mcf (Q2 2007: US$8.61/mcf) and US$11.55/mcf in Q1 2008 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.

To enable the Company to supply 30-45 Mmscf/d of Additional Gas to the power sector under the initialed long term power contracts, Songas is planning to install a third and fourth gas processing train on Songo Songo Island conditional on a satisfactory economic return as approved by the energy regulator, the EWURA. As a consequence of the EWURA requesting in early August that Songas resubmit their application principally on the grounds that the costs of the engineering and procurement contract needed to be firm, these trains are not expected to be operational until mid 2010. 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.

The regulatory process is likely to lead to a new tariff regime being introduced that will be subject to annual amendments. The Company will pass on any increase or decrease in the EWURA approved charges to TANESCO/ Songas in respect of sales to the power sector. This protocol insulates Orca from any increases in the gas processing and pipeline infrastructure costs.

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$342,000 (Q2 2007: US$222,000) and US$87,000 (Q2 2007: US$77,000) 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			SIX MONTHS ENDED	
Figures in US$'000	**30-JUN 2008**	31-MAR 2008	30-JUN 2007	**30-JUN 2008**	30-JUN 2007
Ring-main distribution pipeline	**167**	155	94	**322**	210
Share of well maintenance	**87**	42	77	**129**	142
Other field and operating costs	**203**	79	90	**282**	173
Production and distribution expenses	**457**	276	261	**733**	525
Depletion	**776**	1,406	630	**2,182**	1,545

OPERATING NETBACKS

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

	THREE MONTHS ENDED			SIX MONTHS ENDED	
(Amounts in US$/mcf)	30-JUN 2008	31-MAR 2008	30-JUN 2007	30-JUN 2008	30-JUN 2007
Gas price - industrial	**12.97**	11.55	8.61	**12.27**	8.22
Gas price - power	**2.93**	2.05	2.17	**2.33**	2.18
Weighted average price for gas	**5.54**	3.37	4.41	**4.15**	3.69
Tariff (after allowance for the Ring-main tariff)	**(0.88)**	(0.55)	(0.69)	**(0.67)**	(0.58)
TPDC Profit Gas	**(0.87)**	(0.49)	(0.70)	**(0.63)**	(0.58)
Net selling price	**3.79**	2.33	3.02	**2.85**	2.53
Well maintenance and other operating costs	**(0.22)**	(0.05)	(0.15)	**(0.11)**	(0.11)
Ring-main distribution pipeline	**(0.13)**	(0.07)	(0.08)	**(0.09)**	(0.07)
Operating netback	**3.44**	2.21	2.79	**2.65**	2.35

Operating netback for the quarter was US$3.44/mcf (Q2 2007: US$2.79/mcf), an increase of 23 % over Q2 2007 and an increase of 56 % over Q1 2008. The increase over Q2 2007 is primarily the consequence of the higher price achieved for industrial sales as a result of strengthening prices in the global energy markets, together with an increase in the price of the gas sold to the Ubungo power plant for the quarter, which was implemented retroactively to March 2008.

The lower net back achieved in Q1 2008 is a result of lower sales prices being achieved in both the industrial and power sectors. The lower price achieved in the power sector during Q1 2008 is the result of only two turbines being available at the Ubungo power plant during the quarter, the sales price achieved being dependent on the average availability of the six turbines, all six turbines being in service for Q2 2008.

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			SIX MONTHS ENDED	
Figures in US$'000	30-JUN 2008	31-MAR 2008	30-JUN 2007	30-JUN 2008	30-JUN 2007
Employee costs	**609**	494	435	**1,103**	865
Stock based compensation	**709**	640	816	**1,349**	1,031
Consultants	**653**	565	585	**1,218**	1,221
Travel and accommodation	**325**	174	181	**499**	288
Communications	**19**	11	21	**30**	48
Office	**268**	188	124	**456**	255
Insurance	**64**	70	50	**134**	86
Auditing and taxation	**48**	51	23	**99**	47
Depreciation	**20**	16	31	**36**	57
Marketing costs including legal fees	**1,134**	831	375	**1,965**	894
Reporting, regulatory and corporate finance	**45**	45	26	**90**	112
Directors' fees	**24**	10	37	**34**	48
Net general and administrative expenses	**3,918**	3,095	2,704	**7,013**	4,952

G&A averaged approximately US$1.3 million per month for Q2 2008, up from US$1.0 million in Q1 2008 (Q2 2007: US$0.9 million). G&A per mcf increased to US$3.03/mcf (Q2 2007: US$2.37/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, renewing sales contracts with industrial customers and the preparation of applications to the energy regulator, the EWURA. 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 increased by 27 % compared to the previous quarter and have increased by 45 % over Q2 2007. The main variances compared to Q2 2007 are summarised below:

Stock based compensation

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

	THREE MONTHS ENDED			SIX MONTHS ENDED	
Figures in US$'000	**30-JUN 2008**	31-MAR 2008	30-JUN 2007	**30-JUN 2008**	30-JUN 2007
Stock options	**827**	503	139	**1,330**	80
Stock appreciation rights	**(155)**	241	589	**86**	863
Treasury stock	**151**	151	660	**302**	660
	823	895	1,388	**1,718**	1,603
Capitalized	**(114)**	(255)	(572)	**(369)**	(572)
	709	640	816	**1,349**	1,031

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 Cdn$8.70 to Cdn$13.55. As at 30 June 2007, 960,000 of these stock options had been issued of which 510,000 were issued in June 2007. The total compensation recorded of US$0.8 million in Q2 2008 includes US$0.1 million in relation to the stock options issued after Q2 2007 and US$0.25 million in relation to the additional two months charge for the stock option issued in June 2007. The increase of US$0.3 million over Q1 2008 is a result of the change in the assumption with regards to the level of forfeiture as options issued in Q2 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$38,000 has been capitalized in Q2 2008 (Q2 2007 : US$32,000) in relation to these options.

As at 30 June 2008, a total of 690,000 uncapped stock appreciation rights were in issue, of which 600,000 were issued in January 2007 and 90,000 were issued in June 2007. A charge of US$0.44 million was recorded in Q2 2007 compared to a credit of US$0.15 million in Q2 2008 in respect of these stock appreciation rights. The decrease in the charge is the result of the fall in the stock market price of the Company's shares. A total of US$0.21 million was capitalized in Q2 2007 in relation to these stock appreciation rights As these stock appreciation rights are settled in cash they are re-valued at each reporting date using the Black-Scholes option pricing model. As at 30 June 2008 the following assumptions were used; stock volatility 55 %, a risk free interest rate of 3.5 % and a closing stock price of Cdn$8.40. 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 instalments from the date of grant.

As at 30 June 2007 a total of 400,000, stock appreciation rights were in issue with a cap of Cdn$3.00 per right. 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 Q2 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 to the income statement of US$20,000 being recorded in Q2 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 annual instalments, the first third vesting in full on 7 April 2007. A total of US$76,000 has been capitalized in the quarter in respect of these shares (Q2 2007 : US$330,000).

Travel and accommodation

The increase in travel and accommodation over Q2 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 Q2 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. The gain 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			SIX MONTHS ENDED	
Figures in US$'000	30-JUN 2008	31-MAR 2008	30-JUN 2007	30-JUN 2008	30-JUN 2007
Finance income					
Interest income	**28**	45	64	**73**	161
Foreign exchange gain	**107**	–	–	**107**	–
	135	45	64	**180**	161
Finance Charges					
Foreign exchange loss	–	(282)	(14)	**(282)**	(85)
Net Finance income/(charges)	**135**	(237)	50	**(102)**	76

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 30 June 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$4.1 million which represents an additional charge of US$0.5 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$65,000 has been netted off revenue for the quarter ended 30 June 2008 (Q2 2007: US$56,000).

Management does not anticipate that any APT will be payable in 2008, as the forecast revenues will not be sufficient to recover the 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 both Q2 and 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$9.5 million had been incurred as at 30th June 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 the seismic data has now been completed. Although a number of structures were imaged, other aspects indicated that the level of risk was higher than expected and did not warrant the costs of drilling. Accordingly the Company has decided not to exercise its option to secure a 50 % interest in EA5 and US$9.5 million has been written off to the income statement recognising the impairment of our assets in Uganda.

FUNDS GENERATED BY OPERATIONS

Figures in US$'000	THREE MONTHS ENDED 30-JUN 2008	31-MAR 2008	30-JUN 2007	SIX MONTHS ENDED 30-JUN 2008	30-JUN 2007
Loss after taxation	**(10,208)**	(143)	(608)	**(10,351)**	(480)
Adjustments (i)	**11,827**	2,534	1,603	**13,361**	2,648
Funds from operations before working capital changes	**1,619**	2,391	995	**4,010**	2,168
Working capital adjustments	**2,947**	(1,555)	(128)	**1,392**	(496)
Net cash flows from operating activities	**4,566**	836	867	**5,402**	1,672
Net cash flows used in investing activities	**(5,163)**	(4,828)	(8,120)	**(9,991)**	(14,892)
Net cash flows (used in)/from financing activities	**–**	(2)	118	**(2)**	143
Decrease in cash and cash equivalents	**(597)**	(3,994)	(7,135)	**(4,591)**	(13,077)

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

The 63 % increase in funds from operations to US1.6 million from US1.0 million in Q2 2007 is primarily the result of the increase in the sales price of natural gas during the period.

The US$0.6 million decline in cash and cash equivalents from Q1 2008 is a consequence of the US$3.9 million of capital expenditure during the quarter being offset by the $1.5 million increase in trade and other payables and the US$1.6 million funds from operations before working capital changes. The level of trade and other receivables remaining unchanged during the quarter at US$7.3 million.

CAPITAL EXPENDITURE

Gross capital expenditures amounted to US$3.9 million during the quarter (Q2 2007: US$14.9 million). The capital expenditure may be analysed as follows:

Figures in US$'000	THREE MONTHS ENDED 30-JUN 2008	31-MAR 2008	30-JUN 2007	SIX MONTHS ENDED 30-JUN 2008	30-JUN 2007
Geological and geophysical and well drilling	**2,851**	1,190	13,723	**4,041**	24,380
Pipelines and infrastructure	**979**	246	1,205	**1,225**	1,484
Power development	**21**	–	26	**21**	135
Other equipment	**–**	–	35	**–**	67
	3,851	1,436	14,989	**5,287**	26,066

GEOLOGICAL AND GEOPHYSICAL AND WELL DRILLING

A total of US$0.6 million of expenditure was incurred on studies for the future drilling of exploration wells adjacent to Songo Songo Island and on updating the Company's geological interpretation of the Songo Songo reservoir. A further US$2.2 million was incurred on technical analysis of the Ugandan seismic results during the quarter. Subsequent to the quarter end, the Company decided not to pursue the Ugandan opportunity and a total of US$9.5 million of expenditure incurred on the asset to 30 June 2008 has been written off.

PIPELINES AND INFRASTRUCTURE

During the quarter three additional industrial customers were connected to the Additional Gas Ring-main at a total cost of US$0.2 million. One of the customers commenced gas consumption towards the end of the quarter and the other two are expected to commence consumption in Q3 2008.

The upgrade of the two processing trains at Songo Songo Island continued during the quarter with the purchases of two new Joule-Thomson valves. The upgrade of the processing facility is expected to add 20 Mmscf/d to capacity.

A total of US$0.8 million was incurred on the planning and mobilization of compressed natural gas ("CNG") equipment during Q2. The initial CNG project which is targeting local hotels in Dar es Salaam and the conversion of motor vehicles to CNG is expected to be completed in Q1 2009.

WORKING CAPITAL

Working capital as at 30 June 2008 was US$6.1 million (Q1 2008: US$8.3 million) and US$7.3 million as at 31 December 2007 and may be analysed as follows:

	AS AT		
(Figures in US$'000)	**30-JUN 2008**	**31-MAR 2008**	**31-DEC 2007**
Cash and cash equivalents	**11,924**	12,521	16,515
Trade and other receivables	**7,227**	7,297	8,236
	19,151	19,818	24,751
Trade and other payables	**13,057**	11,521	17,452
Working capital	**6,094**	8,297	7,299

The working capital level has declined by 27% over Q1 2008 primarily due to the increase in the level of capital expenditure and the reduced funds flow from operations before working capital changes, with the level of trade debtors remaining unchanged.

The majority of the Company's 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 30 June 2008, US$6.2 million was represented by trade receivables (Q1 2008: US$6.1 million), US$0.4 million (Q1 2008: US$0.6 million) prepayments and other receivables and taxes US$0.6 million (Q1 2008: US$0.6 million).

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 30 June 2008, US$3.9 million (Q1 2008: US$3.2 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$2.3 million includes an amount of US$1.4 million (Q1 2008: US$0.6 million) due from Songas for the supply of Additional Gas to the Ubungo power plant and US$0.9 million (Q1 2008: US$2.3 million) from TANESCO for the supply of Additional Gas to the emergency power units.

The contracts with Songas and TANESCO accounted for 35% (Q1 2008: 52%) 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 having a history of delayed payments, TANESCO has settled in full the outstanding balance subsequent to each quarter end.

The increase in current liabilities compared to Q1 2008 is a result of expenditure incurred on the CNG project and on the acquisition and interpretation of 300 kilometers of 2-D seismic in Uganda. As at 30 June 2008, US$3.4 million of the total trade creditors of US$8.0 million related to capital expenditure, compared to US$4.5 million of the total trade creditors of US$7.8 million as at 31 March 2008.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

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 30 June 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 30 June 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$50,000 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.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

	AS AT		
Number of shares ('000)	**30-JUN 2008**	**31-MAR 2008**	**31-DEC 2007**
Shares outstanding			
Class A shares	**1,751**	1,751	1,751
Class B shares	**27,863**	27,863	27,863
	29,614	29,614	29,614
Convertible securities			
Options	**2,847**	2,847	2,847
Diluted Class A and Class B shares	**32,461**	32,461	32,461
Weighted average			
Class A and Class B shares	**29,614**	29,614	28,259
Convertible securities			
Options	**1,479**	1,486	1,543
Weighted average diluted Class A and Class B shares	**31,093**	31,100	29,802

SHARES OUTSTANDING

No stock options were issued or exercised during the quarter.

As at 28 August 2008, there were a total of 1,751,195 Class A shares and 27,863,228 Class B shares outstanding.

Summary Quarterly Results

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

	2008		2007				2006	
(Figures in US$'000 except where otherwise stated)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Revenue	**4,826**	5,284	5,562	6,363	3,021	3,831	4,722	3,835
Profit/(loss) after taxation	**(10,208)**	(143)	284	1,942	(608)	128	1,025	809
Operating netback *(US$/mcf)*	**3.44**	2.21	2.27	2.30	2.79	2.03	2.17	2.88
Working capital	**6,094**	8,297	7,299	20,938	(3,050)	10,570	20,430	3,298
Shareholders' equity	**62,824**	72,053	71,544	70,996	38,292	37,983	37,889	18,676
Profit/(loss) per share – basic *(US$)*	**(0.34)**	0.00	0.01	0.06	(0.02)	0.00	0.04	0.03
Capital expenditures								
Geological and geophysical and well drilling	**2,851**	1,190	16,323	10,426	13,723	10,657	2,748	473
Pipeline and infrastructure	**979**	246	468	314	1,205	279	130	234
Power development	**21**	–	5	7	26	109	531	42
Other equipment	**–**	–	–	108	35	30	–	–
Operating								
Additional Gas sold – industrial *(Mmscf)*	**336**	322	364	442	397	301	398	491
Additional Gas sold – power *(Mmscf)*	**956**	1,983	2,152	1,974	745	1,356	1,206	744
Average price per mcf – industrial *(US$)*	**12.97**	11.55	11.08	9.58	8.61	7.70	7.64	8.63
Average price per mcf – power *(US$)*	**2.93**	2.05	2.20	2.19	2.17	2.19	1.95	1.69

Consolidated Financial Statements

Consolidated Income Statements *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars except per share amounts)	NOTE	THREE MONTHS ENDED 30-JUN 2008	THREE MONTHS ENDED 31-MAR 2008	THREE MONTHS ENDED 30-JUN 2007	SIX MONTHS ENDED 30-JUN 2008	SIX MONTHS ENDED 30-JUN 2007
Revenue		**4,826**	5,284	3,021	**10,110**	6,852
Cost of sales						
Production and distribution expenses		**(457)**	(276)	(261)	**(733)**	(525)
Depletion expense		**(776)**	(1,406)	(630)	**(2,182)**	(1,545)
Impairment of exploration and evaluation assets	*2*	**(9,520)**	–	–	**(9,520)**	–
		(5,927)	3,602	2,130	**(2,325)**	4,782
Administrative expenses		**(3,918)**	(3,095)	(2,704)	**(7,013)**	(4,952)
Net financing income/(charges)		**135**	(237)	50	**(102)**	76
(Loss)/profit before taxation		**(9,710)**	270	(524)	**(9,440)**	(94)
Taxation	*1*	**(498)**	(413)	(84)	**(911)**	(386)
Loss after taxation		**(10,208)**	(143)	(608)	**(10,351)**	(480)
(Loss) per share						
Basic *(US$)*		**(0.34)**	–	(0.02)	**(0.35)**	(0.02)
Diliuted *(US$)*		**(0.33)**	–	(0.02)	**(0.33)**	(0.02)

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheets *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars)	NOTE	30-JUN 2008	31-MAR 2008	31-DEC 2007
ASSETS				
Current assets				
Cash and cash equivalents		**11,924**	12,521	16,515
Trade and other receivables		**7,227**	7,297	8,236
		19,151	19,818	24,751
Exploration and evaluation assets	*2*	–	7,300	6,881
Property, plant and equipment	*3*	**61,589**	60,752	61,157
		61,589	68,052	68,038
		80,740	87,870	92,789
LIABILITIES				
Current liabilities				
Trade and other payables		**13,057**	11,521	17,452
Non current liabilities				
Deferred income taxes	*1*	**4,116**	3,618	3,205
Deferred additional profits tax		**743**	678	588
SHAREHOLDERS' EQUITY				
Capital stock	*4*	**66,537**	66,537	66,538
Capital reserve		**2,655**	1,676	1,023
Accumulated (loss)/income		**(6,368)**	3,840	3,983
		62,824	72,053	71,544
		80,740	87,870	92,789

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

Consolidated Statements of Cash Flows *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars)	THREE MONTHS ENDED 30-JUN 2008	31-MAR 2008	30-JUN 2007	SIX MONTHS ENDED 30-JUN 2008	30-JUN 2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss after taxation	**(10,208)**	(143)	(608)	**(10,351)**	(480)
Adjustment for					
Depletion and depreciation	**794**	1,422	661	**2,216**	1,602
Impairment of exploration and evaluation assets	**9,520**	–	–	**9,520**	–
Stock-based compensation	**978**	654	799	**1,632**	740
Deferred income taxes	**498**	413	343	**911**	465
Deferred additional profits tax	**65**	90	56	**155**	114
Interest income	**(28)**	(45)	(256)	**(73)**	(273)
	1,619	2,391	995	**4,010**	2,168
Decrease/(increase) in trade and other receivables	**70**	939	782	**1,009**	(656)
(Increase) in inventory	–	–	(2,847)	–	(2,847)
Increase/(decrease) in trade and other payables	**2,877**	(2,494)	1,937	**383**	3,007
Net cash flows from operating activities	**4,566**	836	867	**5,402**	1,672
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures	**(2,220)**	(419)	(765)	**(2,639)**	(765)
Property, plant and equipment expenditures	**(1,631)**	(1,017)	(14,224)	**(2,648)**	(25,301)
Interest income	**28**	45	256	**73**	273
(Decrease)/increase in trade and other payables	**(1,340)**	(3,437)	6,613	**(4,777)**	10,901
Net cash used in investing activities	**(5,163)**	(4,828)	(8,120)	**(9,991)**	(14,892)
CASH FLOWS FROM FINANCING ACTIVITIES					
Normal course issuer bid	–	(2)	–	**(2)**	–
Proceeds from exercise of options	–	–	118	–	143
Net cash flow (used in)/from financing activities	–	(2)	118	**(2)**	143
Decrease in cash and cash equivalents	**(597)**	(3,994)	(7,135)	**(4,591)**	(13,077)
Cash and cash equivalents at the beginning of the period	**12,521**	16,515	14,736	**16,515**	20,678
Cash and cash equivalents at the end of the period	**11,924**	12,521	7,601	**11,924**	7,601

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/(LOSS)	TOTAL
Note	*4*			
Balance as at 1 January 2007	34,469	1,182	2,238	**37,889**
Shares issued	1,605	(945)	–	**660**
Options exercised	143	–	–	**143**
Stock-based compensation	–	80	–	**80**
Loss for the period	–	–	(480)	**(480)**
Balance as at 30 June 2007	36,217	317	1,758	**38,292**

(thousands of US dollars)	CAPITAL STOCK	CAPITAL RESERVE	ACCUMULATED INCOME/(LOSS)	TOTAL
Note	*4*			
Balance as at 1 January 2008	66,538	1,023	3,983	**71,544**
Stock-based compensation	–	1,632	–	**1,632**
Normal course issuer bid	(1)	–	–	**(1)**
Loss for the period	–	–	(10,351)	**(10,351)**
Balance as at 30 June 2008	**66,537**	**2,655**	**(6,368)**	**62,824**

See accompanying notes to the interim consolidated financial statements.

Notes to the Consolidated Financial Statements *(unaudited)*

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 and six months ended 30 June 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			SIX MONTHS ENDED	
Figures in US$'000	30-JUN 2008	31-MAR 2008	30-JUNE 2007	30-JUN 2008	30-JUN 2007
Current tax	–	–	(259)	–	(79)
Deferred tax	**498**	413	343	**911**	465
	498	413	84	**911**	386

TAX RATE RECONCILIATION

	THREE MONTHS ENDED			SIX MONTHS ENDED	
Figures in US$'000	30-JUN 2008	31-MAR 2008	30-JUNE 2007	30-JUN 2008	30-JUN 2007
(Loss)/profit before taxation	**(9,710)**	270	(524)	**(9,440)**	(94)
Provision for income tax calculated at the statutory rate of 30%	**(2,913)**	81	(157)	**(2,832)**	(28)
Add/(deduct) the tax effect of non-deductable income tax items					
Administrative and operating expenses	**3,160**	160	123	**3,320**	266
Stock based compensation	**213**	145	200	**358**	219
Other income	**(13)**	–	(19)	**(13)**	(48)
Permanent differences	**51**	27	(63)	**78**	(23)
	498	413	84	**911**	386

As at 30 June 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 30 June 2008. The deferred income tax liability includes the following temporary differences:

	AS AT		
Figures in US$'000	30-JUN 2008	31-MAR 2008	31-DEC 2007
Differences between tax base and carrying value of property, plant and equipment	**4,913**	4,116	3,542
Provision for stock option bonuses	**(2)**	(169)	(360)
Income tax recoverable	**178**	181	230
Other liabilities	**(77)**	(75)	(31)
Additional profit tax	**(222)**	(203)	(176)
Tax losses	**(674)**	(232)	–
	4,116	3,618	3,205

[2] EXPLORATION AND EVALUATION ASSETS

Figures in US$'000	UGANDA
Costs	
As at 1 January 2008	**6,881**
Additions - Q1	**419**
Additions - Q2	**2,220**
As at 30 June 2008	**9,520**
Depletion/Depreciation	
As at 1 January 2008	–
Impairment	**(9,520)**
As at 30 June 2008	**(9,520)**
Net Book Values	
As at 30 June 2008	–
As at 31 December 2007	**(6,881)**

General administrative expenses of US$0.4 million have been capitalized in the quarter.

Subsequent to quarter end, the Company announced that it will not exercise its option to secure a 50 % working interest in Exploration Area 5 in Uganda. As at 30 June 2008, the Company had incurred a total of US$9.5 million in respect of the Ugandan programme. This amount has been written off in full in these Q2 2008 financial statements.

[3] PROPERTY, PLANT AND EQUIPMENT

(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 - Q1	1,017	–	–	–	–	1,017
Additions - Q2	1,631	–	–	–	–	1,631
Disposals	–	–	–	(21)	–	(21)
As at 30 June 2008	**71,010**	**156**	**164**	**118**	**41**	**71,489**
Depletion/Depreciation						
As at 1 January 2008	7,356	156	84	68	41	7,705
Charge for the period - Q1	1,406	–	7	9	–	1,422
Charge for the period - Q2	776	–	9	9	–	794
Depreciation on disposals	–	–	–	(21)	–	(21)
As at 30 June 2008	**9,538**	**156**	**100**	**65**	**41**	**9,900**
Net Book Values						
As at 30 June 2008	**61,472**	**–**	**64**	**53**	**–**	**61,589**
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 30 June 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 30 June 2008	**50,000**	**27,863**	**65,554**
Total Class A and Class B as at 30 June 2008	**100,000**	**29,614**	**66,537**

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

Stock options

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 six months ended 30 June 2008:

Number of options (thousands)	NUMBER OF OPTIONS	EXERCISE PRICE (CDN$)
Outstanding as at 31 December 2007 and 30 June 2008	**2,847**	**1.00 to 13.55**

The weighted average remaining life and weighted average exercise price of options at 30 June 2008 were as follows:

EXERCISE PRICE	NUMBER OUTSTANDING AS AT 30 JUNE 2008	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER EXERCISABLE AS AT 30 JUNE 2008	WEIGHTED AVERAGE EXERCISE PRICE
(Cdn$)				*(Cdn$)*
1.00	1,662	6.40	**1,662**	1.00
8.70 to 13.55	1,185	3.92	**320**	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 30 June 2008	**968**	**4.00 to 13.55**

(i) A total of 227,500 stock appreciation rights were exercised in Q1 2008. The appreciation on these rights were capped at Cdn$3.00 per right with an exercise price of Cdn$4.00.

(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 30 June 2008 a total liability of US$1.33 million had been recognized in relation to the stock appreciation rights and is recorded in trade and other payables.

[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 30 June 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:

	30-JUN 2008		31-DEC 2007	
Figures in US$'000	IFRS	CDN	IFRS	CDN
Current assets	**19,151**	**19,151**	24,751	24,751
Exploration and evaluation assets	–	–	6,881	
Property, plant and equipment	**61,589**	**63,100**	61,157	69,500
	80,740	**82,251**	92,789	94,251
Current liabilities	**13,057**	**12,106**	17,452	17,187
Non current liabilities	**4,859**	**6,594**	3,793	5,541
Capital stock	**66,537**	**66,537**	66,538	66,538
Reserves	**(3,713)**	**(2,986)**	5,006	4,985
	80,740	**82,251**	92,789	94,251
(Loss)/profit before taxation	**(10,208)**	**(9,521)**	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$50,000 for legal services provided during the quarter. The transactions with this related party were made at the exchange amount.

[7] CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

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 30 June 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.

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

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Lawyers

BURNET, DUCKWORTH & PALMER LLP
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Transfer Agent

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