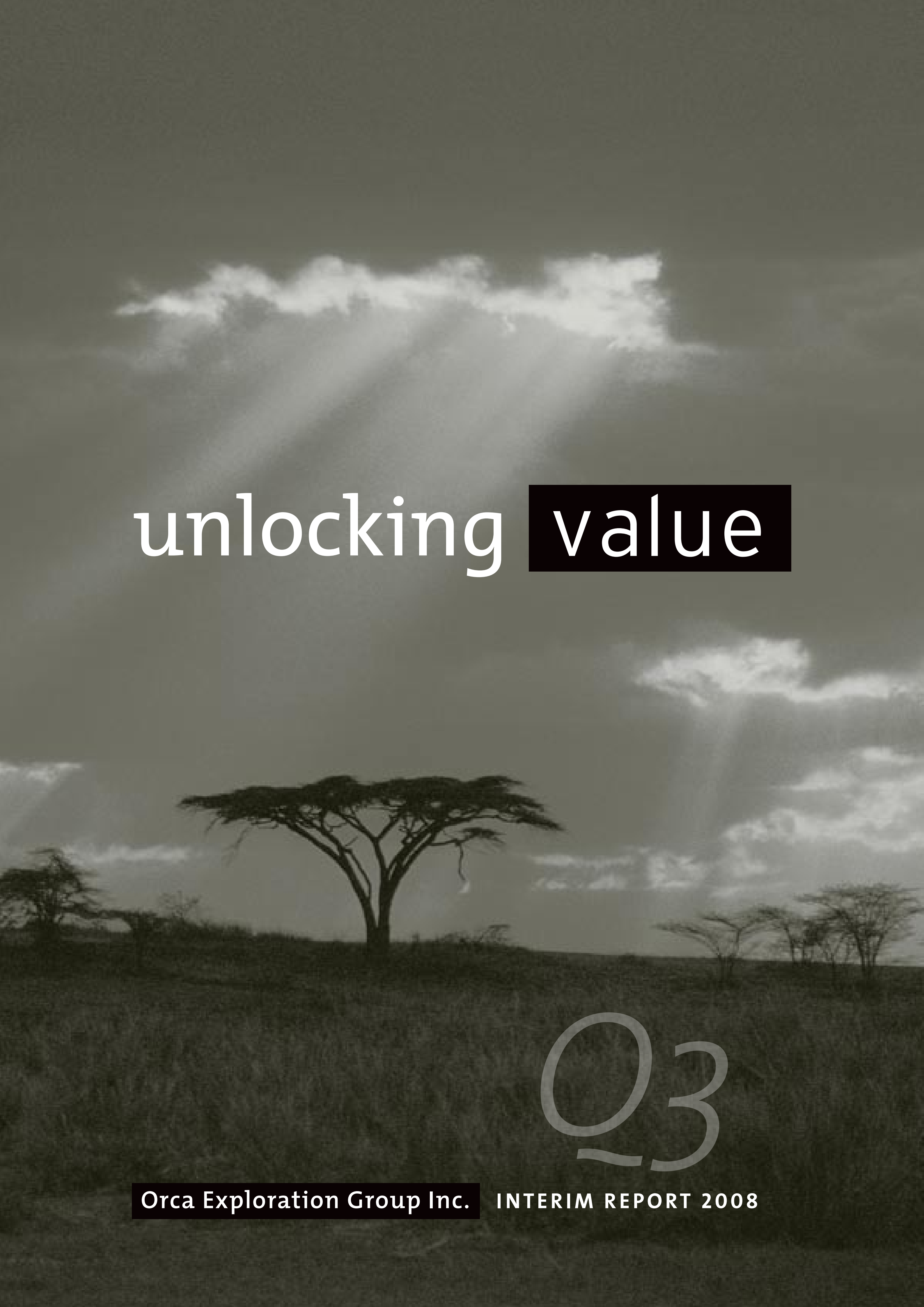


unlocking value

Q3

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 Exploration's immediate focus is on the exploration, production, development and marketing of Tanzanian natural gas.

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

CONTENTS

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

- 15% increase in Orca Exploration's Q3 revenues to US$7.3 million (Q3 2007: US$6.4 million).
- Increased Q3 2008 sales of Additional Gas to the power sector by 6% to 2,097 Mmscf (Q3 2007: 1,974 Mmscf). This equated to an average of 22.8 Mmscf/d (Q3 2007: 21.5 Mmscf/d). Gas sales to the power sector are now underpinned by the long term gas demand by the TANESCO Wärtsilä 100 MW plant and the sixth turbine at Ubungo. The average price for the gas to the power sector was US$2.41/mcf (Q3 2007: US$2.19/mcf).
- Q3 2008 sales of Additional Gas to industrial customers decreased by 4% to 425 Mmscf (Q3 2007: 442 Mmscf). This equated to an average of 4.6 Mmscf/d (Q3 2007: 4.8 Mmscf/d). Average prices were 39% higher at US$13.29/mcf resulting in a 33% increase in industrial sales revenue when compared to Q3 2007.
- 1% increase in funds flow from operations to US$3.8 million (Q3 2007: US$3.7 million). The Company forecasts that it has sufficient working capital to fund its 2009 capital program.
- Orca Exploration signed a five year contract with Tanzania Portland Cement Company ("TPCC"), a subsidiary of HeidelbergCement, for the supply of gas to a new US$100 million kiln at its Wazo Hill plant in Dar es Salaam. The contract is forecast to commence in the first half of 2009 when the kiln is commissioned. Initially, it is forecast that 2 Mmscf/d of Additional Gas will be supplied under the contract, but this is expected to increase to in excess of 6 Mmscf/d by 2012 as TPCC overhauls its existing kilns and brings them back on production to meet increasing demand.
- McDaniel and Associates Consultants Ltd finalised their resource evaluation report of the Songo Songo West prospect which lies 2.5 km west of the Songo Songo field and within the Company's licence acreage. The report concluded the prospect has recoverable unrisked mean gas resources of 552 Bcf with a one in two chance of success. This compares favourably with the gross life of field Additional Gas reserves of 500 Bcf at Songo Songo that is currently being marketed by Orca Exploration under the terms of the production sharing agreement with the Tanzania Petroleum Development Corporation ("TDPC").
- Tendered for a jack up rig with the view to drilling the Songo Songo West prospect. Given the current contraction in the financial markets, Orca Exploration will defer the drilling until 2010 when it is forecast that drilling costs will have fallen.
- In Q3 2008, Orca Exploration ordered US$2.5 million of compressed natural gas ("CNG") facilities, consisting of a compressor, a vehicle dispenser and two trailer filling facilities to deliver 0.7 Mmscf/d of compressed natural gas to industrial customers in Dar es Salaam. The facilities are expected to be operational during Q1 2009.
- As operator of the gas processing plant, constructed pipework and mobilised the equipment to install two new higher capacity Joule-Thompson valves ("JT Valves") at the existing gas processing plant with the objective of increasing the capacity of two existing trains from 70 Mmscf/d to 90 Mmscf/d. The owner of the facilities, Songas Limited, approved the installation of the JT Valves on one of the trains in November and the Company successfully implemented the work. The impact of the modifications on the train is currently being evaluated before Songas will issue the notice to proceed on the second train. Lloyds Register will then formally re-rate the plant. It is expected that this will occur in Q1 2009.

FINANCIAL AND OPERATING HIGHLIGHTS

	THREE MONTHS ENDED			NINE MONTHS ENDED		
Financial *(US$'000 except where otherwise stated)*	30 SEP 2008	30 SEP 2007	CHANGE	30 SEP 2008	30 SEP 2007	CHANGE
Revenue	7,301	6,363	15%	17,411	13,215	32%
Profit/(loss) before taxation	1,609	3,012	(47%)	(7,831)	2,918	–
Operating netback (US$/mcf)	2.79	2.30	21%	2.71	2.32	17%
Cash and cash equivalents	11,178	27,436	(59%)	11,178	27,436	(59%)
Working capital	8,705	20,938	(58%)	8,705	20,938	(58%)
Shareholders' equity	64,142	70,996	(10%)	64,142	70,996	(10%)
Profit/(loss) per share - basic (US$)	0.03	0.07	(57%)	(0.32)	0.05	–
Profit/(loss) per share - diluted (US$)	0.03	0.06	(50%)	(0.32)	0.05	–
Funds from operations before working capital changes	3,773	3,718	1%	7,783	5,998	30%
Funds per share from operations before working capital changes - basic (US$)	0.13	0.13	0%	0.26	0.22	18%
Funds per share from operations before working capital changes - diluted (US$)	0.12	0.12	0%	0.25	0.20	25%
Net cash flows from operating activities	363	2,292	(84%)	5,765	4,076	41%
Net cash flows per share from operating activities - basic (US$)	0.01	0.08	(88%)	0.19	0.15	27%
Net cash flows per share from operating activities - diluted (US$)	0.01	0.07	(86%)	0.19	0.14	36%
Outstanding Shares ('000)						
Class A shares	1,751	1,751	0%	1,751	1,751	0%
Class B shares	27,863	27,881	0%	27,863	27,881	0%
Options	2,847	2,622	9%	2,847	2,622	9%
Operating						
Additional Gas sold (Mmscf) - industrial	425	442	(4%)	1,083	1,140	(5%)
Additional Gas sold (Mmscf) - power	2,097	1,974	6%	5,036	4,075	24%
Average price per mcf (US$) - industrial	13.29	9.58	39%	12.67	8.75	45%
Average price per mcf (US$) - power	2.41	2.19	10%	2.37	2.19	8%

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*

ORCA EXPLORATION IS WELL POSITIONED to weather the severe global deterioration in financial markets that commenced in Q3 2008.

- Orca has a solid cash position with deposits of US$11.2 million at 30 September 2008. The Company has no outstanding long term indebtedness and no work program commitments in Tanzania or elsewhere.
- Operating in Tanzania, Orca is partially insulated from the volatility of world oil prices. The Company has long term, utility and industrial gas sales contracts that are not expected to be seriously impacted by the current credit and financial crisis.
- The Company's cash flows remain strong. During Q3 2008 Orca recorded cash flows before working capital changes of US$3.8 million, increasing total cash flows for the nine months ended 30 September 2008 to US$7.8 million. The cash flows from operating activities were U$0.4 million for the quarter and US$5.8 million for the nine months ended 30 September 2008.
- Tanzania's power sector demand is forecast to increase at 7% per annum and utility sales (83% of Orca's total sales volumes) are at fixed prices under long term contracts.
- The term of the Company's seven largest gas supply contracts (representing 87% of Orca's industrial sales) has been recently extended for five years. The new contracts contain pricing caps and floors that limit the industrial downside price to US$7.38/mcf.

Tanzania's economy is not expected to be as severely impacted by the financial crisis given the minimal credit levels in the country. It is currently anticipated that the World Bank and other multi-laterals will continue to finance infrastructure projects including the strengthening of electricity transmission networks, making credit available on a timely basis. While there will be some impact on Tanzania's tourism, and potentially the manufacture and export of textiles, the Company is not anticipating any material deterioration in its gas sales.

Orca Exploration continues to make good progress in developing and supplying gas markets in Tanzania and sees increasing opportunities to maximise and monetise its reserves. The costs of exploring and developing the Songo Songo field, the accumulation in Songo Songo North and the exploration acreage at Songo Songo West are expected to fall significantly as worldwide demand for rigs, ancillary services and infrastructure projects declines.

TANZANIAN RESERVES AND EXPLORATION

Confidence in the Songo Songo field's potential continues to increase 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 2.5 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 report summarises the prospective recoverable resources to be as follows:

Formation	UNRISKED P90 BCF	UNRISKED P50 BCF	UNRISKED MEAN BCF	UNRISKED P10 BCF
Neocomian	170.1	418.1	505.2	1,027.9
Cenomanian	8.5	31.7	46.4	117.7
			551.6	

The Songo Songo West prospect is interpreted by McDaniel as having a high geological chance of success – 52% in the Neocomian and 35% in the Cenomanian reservoirs.

The size of the prospect compares extremely favourably with the existing Songo Songo field that contains total gross 2P recoverable Additional Gas reserves of approximately 500 Bcf on a life of licence basis (gross to the Company 474 Bcf with an NPV 10 of US$255 million) that is available to be marketed and sold by Orca Exploration under the terms of the PSA with the Tanzania Petroleum Development Corporation.

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

LEFT AND OPPOSITE PAGE *Progress was made in Q3 to increase future gas sales from Songo Songo to the power sector.*

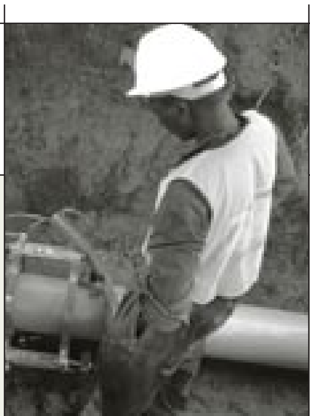
INFRASTRUCTURE

During Q3 2008, the capacity of the gas processing facilities was limited to 70 Mmscf/d. In November 2008, the Company agreed a draft Memorandum of Understanding ("MOU") with Songas that enabled the Company, as operator, to install a larger Joule-Thompson valve on the first of the two gas processing trains. The objective is to increase the capacity of the trains by 20 Mmscf/d to 90 Mmscf/d. The work on the first train was successfully implemented in 30 hours without significant disruption to the supply of gas to customers in Dar es Salaam. The capacity of the train is currently being evaluated and the MOU finalised before Songas will permit further work on the second train. Once the testing is successfully completed on both trains, Lloyds Register will formally re-rate the plant. It is expected that this will occur in Q1 2009. Initial results are promising.

In Q3 2008, Songas submitted a third application to the electricity regulator, EWURA, for the installation of a third and fourth gas processing train. The total cost of these trains is estimated at US$65 million. In the event that the installation of these trains proceeds, it is envisaged that they will be operational by mid-2010. However, it is currently forecast that the capacity of the system (gas processing and pipeline) can be increased to 105 Mmscf/d through some further debottlenecking of the facilities. Accordingly, whilst the third and fourth train will improve security of supply by providing excess gas processing capacity, it will not increase the overall infrastructure capacity until compression or a new pipeline is installed. Ultimately TANESCO will need to determine whether it wishes to pay the major share of the transportation tariffs associated with the US$65 million of expenditure to ensure this security of supply or whether the interim solution combined with the acquisition of sufficient spares will suffice until reserves and demand warrant the construction of new infrastructure.

POWER SECTOR DEVELOPMENTS

In June 2008, the Company initialled two long term power contracts with TANESCO, the owner of the Ubungo power plant, Songas Limited and the Ministry of Energy and Minerals for the supply of approximately 30 - 45 Mmscf/d for power generation. The first of the 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 powered 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 the level of installed gas fired generation. 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. These contracts will be signed once agreements are finalised to increase the infrastructure capacity to approximately 100 Mmscf/d. 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.



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

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 Exploration 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 pricing provisions (gas processing, pipeline, marketing and distribution costs) require EWURA approval 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 Exploration from any increases in the gas processing and pipeline infrastructure tariffs.

Based on the applications that Songas and Orca Exploration submitted to EWURA during Q2 2008, 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.

In response to the Tanzanian Power Sector Master Plan, which projects growth in electricity demand at 7% per annum, TANESCO has commenced planning for a 200 MW gas fired plant at Kinyerezi in Dar es Salaam. Orca Exploration has commenced discussions with interested parties in respect to the supply of gas to this plant (which could be operational by 2012).

There are currently approximately 190 MWs of gas fired generation in country operating on Additional Gas (maximum demand of 40 Mmscf/d). This includes the TANESCO Wärtsilä 100 MW plant, the sixth 42 MW turbine at Ubungo and 48 MWs of Aggreko emergency generation. Effective 31 July 2008, TANESCO terminated its power purchase agreement with Dowans Tanzania Limited ("Dowans") for 120 MWs of emergency generation. Dowans has recently offered these units for sale and accordingly it is expected that this generation will now remain in country and that a new power purchase agreement covering these units will be negotiated with TANESCO. A further 45 MWs is due to be commissioned at Tegeta during the second half of 2009 and in the event that Dowans remains in country, it is expected that the Aggreko contract will terminate at the end of 2008. When these factors are considered, it is forecast that there will be 262 MWs of installed generation at the end of 2008 rising to 307 MWs by the end of 2009. This will be in line with the gas processing and infrastructure capacity once the proposed interim solutions referred to above are implemented.

INDUSTRIAL SECTOR DEVELOPMENTS

During Q3 2008, Orca Exploration signed a contract with Tanzania Portland Cement Company ("TPCC") for the supply of gas to a new kiln at its Wazo Hill cement plant that is currently under construction. The supply of gas is expected to commence during Q2 2009 at a rate of approximately 2.0 Mmscf/d increasing to an expected 4.0 Mmscf/d in 2010. It is anticipated that TPCC may increase gas consumption above the contracted rates as early as 2010 given the significant growth in cement demand in Tanzania.

The Company has extended the term of seven contracts accounting for 87% of the industrial gas sales volumes for an additional five years from the dates that existing contracts were due to expire (the earliest termination date is now September 2014). In return the Company has agreed to cap the price of gas to these customers 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 at 2% per annum).

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 Q3 2008 and gas is currently being supplied to 20 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.

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

LEFT *Orca Exploration continues to increase the capacity of its low-pressure gas distribution system by adding pressure reduction stations.*

COMPRESSED NATURAL GAS ("CNG") DEVELOPMENTS

During Q3, the Company continued to install CNG facilities in Dar es Salaam, including a compressor, a vehicle refuelling dispenser and two trailer filling facilities at a cost of US$2.5 million. The CNG facilities are expected to be operational in Q1 2009 leading to 0.7 Mmscf/d of CNG sales. It is anticipated that this market will expand rapidly to supply gas to consumers that cannot be cost-effectively connected to Orca Exploration's existing low pressure gas distribution system. Internal assessments are that this market has the potential to grow to 15 Mmscf/d, with the majority of the load growth being achieved in the industrial centres of Morogoro and Tanga and through the usage of CNG in vehicles.

FINANCIAL RESULTS

Total sales of Additional Gas to the power sector were up 6 % to 2,097 Mmscf (22.8 Mmscf/d) in Q3 2008 from 1,974 Mmscf (21.5 Mmscf/d) in Q3 2007. Power sales were constrained by the current gas processing infrastructure capacity limitations. Sales are expected to remain high in Q4 2008, although the short rains in December, with increased usage of the 561 MWs of installed hydro generation, may reduce demand during that period.

Sales of Additional Gas to Orca Exploration's industrial customers decreased 4 % to 425 Mmscf (4.6 Mmscf/d) in Q3 2008 compared with 442 Mmscf (4.8 Mmscf/d) in Q3 2007. However the average achieved price was up 39 % at US$13.29/mcf. Q3 2008 sales to the industrial sector followed historical trends with higher production than in the first half of the year as textile manufacturers increased output to maximise the benefit of cheaper indigenous cotton supplies.

Orca Exploration's Q3 2008 revenues increased 15 % to US$7.3 million compared to Q3 2007. Funds from operations before working capital changes were up 1 % to US$3.8 million. A review is currently underway to reduce the general and administrative costs and this will be implemented in Q1 2009.

The Company had cash and cash equivalents of approximately US$11.2 million at the end of Q3 2008 and an undrawn US$5.0 million short term overdraft facility.

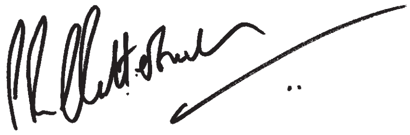
OUTLOOK

Orca Exploration is taking positive steps to adapt to the changing financial climate. We have increased our focus on the Company's core Tanzanian asset and are vigorously reviewing all aspects of our cost structure. Since the Company is well positioned to increase its value from its existing asset base, we will not be looking to acquire assets outside of Tanzania until the markets settle.

The implementation of infrastructure expansion in Tanzania in a timely manner remains the key focus of Orca Exploration. Interim solutions are now being implemented and once long term infrastructure expansion is committed, Orca Exploration anticipates the signing of the initialled long term power contracts within a relatively short period.

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

In a changing world, management fully appreciates that the Company's sustainability and growth are always dependent on our skilled and dedicated employees and our loyal shareholders. The demand for natural gas continues to grow in Tanzania and your Company remains committed to seek ways to increase reserves, expand markets and monetise its assets.



Peter R.Clutterbuck
President & CEO
27 November 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 NINE MONTHS ENDED 30 SEPTEMBER 2008 AND THE AUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR YEAR ENDED 31 DECEMBER 2007. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 27 NOVEMBER 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 FROM OPERATING ACTIVITIES. FUNDS FLOW FROM OPERATING ACTIVITIES IS A NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) TERM THAT REPRESENTS CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS. 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).

On 4 September 2008, Songas wrote to the Company confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo power plant (maximum 9 Mmscf/d) and for an additional 28 Mmscf/d to all other customers in the period to 31 December 2008. It is intended that this letter is superseded by the signing of the Insufficiency Agreement (see below).

The Company and TPDC have initialled an Insufficiency Agreement with Songas and TANESCO that specifies the terms under which Songas may demand cash security in order to keep them whole in the event of a Protected Gas insufficiency. Once the Insufficiency Agreement is signed, the agreement will govern the basis for determining security. The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect.

(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 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 TDPC, Songas 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 as at 31 December 2007, 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 Gas when costs have been recovered with an annual return of 35 % plus PPI return. The PSA is, therefore, structured to encourage the Company to develop the market and the gas fields in the knowledge that the profit share can increase with larger daily gas sales and that the costs will be recovered with a 25 % plus PPI annual return before Additional Profits Tax becomes payable. Additional Profits Tax can have a significant negative impact on the project economics if only limited capital expenditure is incurred.

Operatorship

(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 September 2008

OPERATING VOLUMES

The sales volumes for the quarter were 2,522 Mmscf or 27.4 Mmscf/d. This represents an overall increase of 4% over Q3 2007 and a 95% increase over Q2 2008. The Company sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Gross sales volume *(Mmscf):*					
Industrial sector	**425**	336	442	**1,083**	1,140
Power sector	**2,097**	956	1,974	**5,036**	4,075
Total volumes	**2,522**	1,292	2,416	**6,119**	5,215
Gross daily sales volume *(Mmscf/d):*					
Industrial sector	**4.6**	3.7	4.8	**4.0**	4.2
Power sector	**22.8**	10.5	21.5	**18.4**	14.9
Total daily sales volume (Mmscf/d)	**27.4**	14.2	26.3	**22.4**	19.1

Industrial sector

Industrial sales volumes of 425 Mmscf (4.6 Mmscf/d) were recorded in Q3 2008. This represents an increase of 26% over the 336 Mmscf (3.7 Mmscf/d) recorded in Q2 2008 as textile customer demand peaked to take advantage of low cotton prices during harvest season. The 4% fall in the sales volume from Q3 2007 is primarily the result of sales to the textile customers being lower due to increased competition in the world textile markets. Two new industrial customer were connected to the local Dar es Salaam gas distribution network in September 2008 bringing the total number of industrial customers to 20 (Q3 2007: 16).

Power sector

Power sector sales volumes increased by 6% from 1,974 Mmscf (21.5 Mmscf/d) in Q3 2007 to 2,097 Mmscf (22.8 Mmscf/d) in Q3 2008. The increase in sales volumes over Q3 2007 is largely the result of the Additional Gas consumed by the Ubungo 100 MW generator in September 2008, which has replaced the emergency power generators operated by Dowans Tanzania Limited ("Dowans"). The level of gas consumed by the power sector in Q3 2008 increased by 119% to 2,097 Mmscf from 956 Mmscf in Q2 2008. This increase is a consequence of the lower hydro generation utilization rates following the start of the dry season together with increasing demand for electricity.

COMMODITY PRICES

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

	THREE MONTHS ENDED			NINE MONTHS ENDED	
US$/mcf	**30-SEP 2008**	**30-JUN 2008**	**30-SEP 2007**	**30-SEP 2008**	**30-SEP 2007**
Average sales price					
Industrial sector	**13.29**	12.97	9.58	**12.67**	8.75
Power sector	**2.41**	2.93	2.19	**2.37**	2.19
Weighted average price	**4.25**	5.54	3.54	**4.19**	3.62

The Company is partially insulated from the current volatility in world oil prices. In Q3 2008, 83 % of the sales volumes were at fixed gas prices under the terms of the provisional long term contracts with the power sector. In addition, during the last six months, the Company has signed new contracts with industrial customers (accounting for approximately 87 % of the industrial volumes) that contain pricing caps and floors. This limits the downside to in excess of US$7.38/mcf. Finally the newly signed contract with Tanzania Portland Cement Company for the supply of gas to the Wazo Hill cement plant has a fixed pricing structure.

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 Q3 2008 of US$13.29/mcf (Q3 2007: US$9.58/mcf), compared to US$12.97/mcf in Q2 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 in Q3 2008 was US$12.14/mcf to US$17.79/mcf.

Power sector

The average sales price to the power sector was US$2.41/mcf in the quarter compared to US$2.19/mcf in Q3 2007. The increase in the sales price is primarily due to the new sales contracts with the 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. Under the new sales contract the price of gas no longer fluctuates with the availability of turbines, and is based on a fixed price which is subject to an annual inflationary increase. As a result an Additional Gas price of US$2.34/mcf was recorded in the quarter for sales to the Ubungo power plant and the 100 MWs of generation operated by Wärtsilä.

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.

During Q2 2008, the Company initialled the long term contracts for the supply of a forecast 200 - 250 Bcf of Additional Gas to the power sector. The wellhead price is fixed at approximately US$1.95/mcf and will increase 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 approved by EWURA, 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.

In Q3 2008, the Additional Gas sales volumes were in excess of 20 Mmscf/d, resulting in an increase in the Company's share of revenue after cost recovery ("Profit Gas") from 25% to 30%.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 82.5% (Q2 2008: 81.25%) of the Net Revenues (Q3 2007: 82.5%) as follows:

	THREE MONTHS ENDED			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Gross sales revenue	**10,712**	7,159	8,561	**25,640**	18,885
Gross tariff for processing plant and pipeline infrastructure	**(1,733)**	(1,140)	(1,447)	**(4,143)**	(3,057)
Gross revenue after tariff	**8,979**	6,019	7,114	**21,497**	15,828
Analysed as to:					
Company Cost Gas	**6,730**	4,512	5,338	**16,134**	11,875
Company Profit Gas	**678**	379	539	**1,539**	1,081
Company operating revenue	**7,408**	4,891	5,877	**17,673**	12,956
TPDC Profit Gas	**1,571**	1,128	1,237	**3,824**	2,872
	8,979	6,019	7,114	**21,497**	15,828

The Company's revenue reported for the quarter amounted to US$7,301,000 after adjusting the Company's operating revenue of US$7,408,000 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$107,000, 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			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Industrial sector	**5,650**	4,359	4,236	**13,722**	9,971
Power sector	**5,062**	2,800	4,325	**11,918**	8,914
Gross sales revenue	**10,712**	7,159	8,561	**25,640**	18,885
Processing and transportation tariff	**(1,733)**	(1,140)	(1,447)	**(4,143)**	(3,057)
TPDC share of revenue	**(1,571)**	(1,128)	(1,237)	**(3,824)**	(2,872)
Company operating revenue	**7,408**	4,891	5,877	**17,673**	12,956
Additional Profits Tax	**(107)**	(65)	(112)	**(262)**	(226)
Current income tax adjustment	**–**	–	598	**–**	485
Revenue	**7,301**	4,826	6,363	**17,411**	13,215

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 ("Ring-main tariff") of US$1.89/mcf (Q3 2007: US$1.12/mcf) has been deducted from the achieved industrial sales price of US$13.29/mcf (Q3 2007: US$9.58/mcf) to reflect the gas price that would be achievable at the Songas main pipeline. The Ring-main 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 initialled 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, EWURA. During August 2008, EWURA informed Songas that they would need to re-submit their application on the grounds that the costs of the engineering and procurement contract needed to be firm. In October, Songas re-submitted their application but it is not considered that EWURA will issue an order before Q1 2009. As such, it is not envisaged that these trains will be operational until mid 2010.

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 Exploration from any increases in the gas processing and pipeline infrastructure costs.

Orca Exploration has proposed a temporary solution to increase the capacity of the gas processing plants by 20-35 Mmscf/d through a re-rating of the existing facilities. In November, the Company as operator, installed larger Joule Thompson valves on one of the trains and this is currently being tested. The second train is due to be upgraded in early December 2008 at which point Lloyds Register will be asked to re-rate the trains. The re-rating process is expected to be completed in Q1 2009. It is currently assumed that the tariff regime will remain at 17.5 % of the Songas Outlet Price for any increase in capacity arising from these interim solutions, but EWURA may look to amend the tariff regime.

PRODUCTION AND DISTRIBUTION EXPENSES

The direct costs of maintaining the Ring-main distribution pipeline and pressure reduction station (security, insurance and personnel) is forecast to be approximately US$0.7 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$125,000 (Q3 2007: US$435,000) and US$51,000 (Q3 2007: US$137,000) 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			NINE MONTHS ENDED	
Figures in US$'000	**30-SEP 2008**	30-JUN 2008	30-SEP 2007	**30-SEP 2008**	30-SEP 2007
Ring-main distribution pipeline	**188**	167	101	**510**	311
Share of well maintenance	**51**	87	137	**179**	279
Other field and operating costs	**152**	203	73	**435**	246
Production and distribution expenses	**391**	457	311	**1,124**	836
Depletion	**1,554**	776	1,334	**3,736**	2,879

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			NINE MONTHS ENDED	
(Amounts in US$/mcf)	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Gas price - industrial	**13.29**	12.97	9.58	**12.67**	8.75
Gas price - power	**2.41**	2.93	2.19	**2.37**	2.19
Weighted average price for gas	**4.25**	5.54	3.54	**4.19**	3.62
Tariff (after allowance for the Ring-main tariff)	**(0.69)**	(0.88)	(0.60)	**(0.68)**	(0.59)
TPDC Profit Gas	**(0.62)**	(0.87)	(0.51)	**(0.62)**	(0.55)
Net selling price	**2.94**	3.79	2.43	**2.89**	2.48
Well maintenance and other operating costs	**(0.08)**	(0.22)	(0.09)	**(0.10)**	(0.10)
Ring-main distribution pipeline	**(0.07)**	(0.13)	(0.04)	**(0.08)**	(0.06)
Operating netback	**2.79**	3.44	2.30	**2.71**	2.32

Operating netback for the quarter was US$2.79/mcf (Q3 2007: US$2.30/mcf), an increase of 21% over Q3 2007 and a decrease of 19% over Q2 2008. The increase over Q3 2007 is primarily the consequence of the higher price achieved for industrial sales as a result of strengthening prices in the global energy markets.

The higher netback achieved in Q2 2008 compared to the current quarter is primarily a consequence of the sales volumes' mix between the industrial and power sectors. In the current quarter, the industrial sector accounted for 17% of the total sales volumes compared to 26% in 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			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Employee costs	**572**	609	451	**1,675**	1,317
Stock based compensation	**(39)**	709	550	**1,310**	1,581
Consultants	**861**	653	604	**2,079**	1,824
Travel and accommodation	**131**	325	183	**630**	471
Communications	**21**	19	20	**51**	68
Office	**238**	268	172	**694**	427
Insurance	**65**	64	43	**199**	129
Auditing and taxation	**51**	50	26	**152**	73
Depreciation	**18**	18	41	**52**	98
Profit on sale of vehicle	**(6)**	–	–	**(6)**	–
Marketing costs including legal fees	**1,783**	1,134	414	**3,748**	1,308
Reporting, regulatory and corporate finance	**101**	45	41	**191**	153
Directors' fees	**25**	24	23	**59**	71
Net general and administrative expenses	**3,821**	3,918	2,568	**10,834**	7,520

G&A averaged approximately US$1.3 million per month for Q3 2008, and was marginally lower than Q2 2008 (Q3 2007: US$0.9 million). G&A per mcf increased to US$1.51/mcf (Q3 2007: US$1.06/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 three quarters in the negotiation of the power contracts, renewing sales contracts with industrial customers, the preparation of applications to the energy regulator, EWURA and the commencement of arbitration proceedings against a third party contractor for breaches of contract that occurred during the drilling of the SS-10 well in 2007. This has led to the G&A costs being relatively high per mcf. It is expected that these will fall as volumes increase and long term power contracts are signed.

The total general and administrative expenses have decreased by 3 % compared to the previous quarter and have increased by 49 % over Q3 2007. The main variances are summarised below:

Stock based compensation

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

	THREE MONTHS ENDED			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Stock options	**350**	827	289	**1,680**	368
Stock appreciation rights	**(541)**	(155)	270	**(455)**	1,134
Treasury stock	**152**	151	135	**454**	795
	(39)	823	694	**1,679**	2,297
Capitalized	–	(114)	(144)	**(369)**	(716)
	(39)	709	550	**1,310**	1,581

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$8.00 to Cdn$13.55. As at 30 September 2007, 960,000 of these stock options had been issued. The total compensation recorded of US$0.4 million in Q3 2008 includes US$0.1 million in relation to the 225,000 stock options issued after Q3 2007. The decrease of US$0.4 million over Q2 2008 is a result of the change in forfeiture rate in Q2 2008 on the vesting of one third of the options. 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.

As at 30 September 2008, a total of 705,000 uncapped stock appreciation rights were in issue. A charge of US$0.1 million was recorded in Q3 2007 compared to a credit of US$0.5 million in Q3 2008 in respect of these stock appreciation rights. The decrease in the charge is the result of the decrease in the stock market price of the Company's shares. 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 September 2008 the following assumptions were used; stock volatility 64 %, a risk free interest rate of 3.5 % and a closing stock price of Cdn$5.25. 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 September 2007, a total of 400,000 stock appreciation rights were in issue with a cap of Cdn$3.00 per right. The capped liability of US$1.2 million was fully expensed by the end of 2007. In respect of these rights a total charge of U$0.15 million was recorded in Q3 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 which as a consequence of the decrease in the stock market price of the Company's shares has resulted in a credit of US$43,000 being recorded in the income statement for Q3 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 charge of US$152,000 was expensed in the quarter.

Consultancy Costs

The increase in consultancy costs over Q3 2007 is the result of the costs incurred on business development being expensed in Q3 2008. Some of the costs of the new developments department were capitalized to the Ugandan venture until it was written off in Q2 2008.

Marketing costs including legal fees

Marketing and legal fees remain high due to the time spent negotiating the initialled long term power contracts and the preparation of applications for EWURA. In addition, a total of US$0.6 million was incurred during the quarter on legal costs associated with the commencement of arbitration proceedings against a third party contractor for breaches of contract that occurred during the drilling of the SS-10 well in 2007.

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			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Finance income					
Interest income	**11**	28	273	**84**	434
Foreign exchange gain	**113**	107	589	**220**	589
	124	135	862	**304**	1,023
Finance Charges					
Overdraft charges	**(50)**	–	–	**(50)**	–
Foreign exchange loss	**–**	–	–	**(282)**	(85)
Net Finance income/(charges)	**74**	135	862	**(28)**	938

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 September 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$4.9 million which represents an additional charge of US$0.8 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$107,000 has been netted off revenue for the quarter ended 30 September 2008 (Q3 2007: US$112,000).

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 program.

The APT can have a significant negative impact on the Songo Songo project economics as measured by the net present value of the cash flow streams. Higher revenue in the initial years leads to a rapid payback of the project costs and consequently accelerates the payment of the APT that can account for up to 55% of the Company's profit share. Therefore, the terms of the PSA rewards the Company for taking higher risks by incurring capital expenditure in advance of revenue generation.

DEPLETION AND DEPRECIATION

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 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 the first three quarters of 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.

In Q2 2008, a total of US$9.5 million was written off to the income statement following the Company's decision not to exercise its option to secure a 50% interest in Exploration Area 5 in Uganda.

FUNDS GENERATED BY OPERATIONS

Figures in US$'000	THREE MONTHS ENDED 30-SEP 2008	30-JUN 2008	30-SEP 2007	NINE MONTHS ENDED 30-SEP 2008	30-SEP 2007
Profit/(loss) after taxation	**816**	(10,208)	1,942	**(9,535)**	1,462
Adjustments *(i)*	**2,957**	11,827	1,776	**17,318**	4,536
Funds from operations before working capital changes	**3,773**	1,619	3,718	**7,783**	5,998
Working capital adjustments	**(3,410)**	2,947	(1,426)	**(2,018)**	(1,922)
Net cash flows from operating activities	**363**	4,566	2,292	**5,765**	4,076
Net cash flows used in investing activities	**(1,109)**	(5,163)	(13,210)	**(11,100)**	(28,214)
Net cash flows (used in)/from financing activities	**–**	–	30,753	**(2)**	30,896
Net (decrease)/increase in cash and cash equivalents	**(746)**	(597)	19,835	**(5,337)**	(6,758)

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

The 1% increase in funds from operations to US$3.8 million from US$3.7 million in Q3 2007 is primarily the result of the increase in the sales price of natural gas during the period.

The US$0.7 million decline in cash and cash equivalents from Q2 2008 is a consequence of the US$3.0 million increase in the level of trade receivables offsetting the US$2.0 million reduction in the level of capital expenditures over the prior quarter, together with the US$0.3 million reduction in the level of trade and other payables.

CAPITAL EXPENDITURE

Gross capital expenditures amounted to US$1.2 million during the quarter (Q3 2007: US$10.9 million). The high level of capital expenditure in Q3 2007 was the result of the drilling of the SS-10 development well. The capital expenditure may be analysed as follows:

Figures in US$'000	THREE MONTHS ENDED 30-SEP 2008	30-JUN 2008	30-SEP 2007	NINE MONTHS ENDED 30-SEP 2008	30-SEP 2007
Geological and geophysical and well drilling	**419**	2,851	10,426	**4,460**	34,806
Pipelines and infrastructure	**705**	979	314	**1,930**	1,799
Power development	**4**	21	7	**25**	141
Other equipment	**51**	–	108	**51**	175
	1,179	3,851	10,855	**6,466**	36,921

GEOLOGICAL AND GEOPHYSICAL AND WELL DRILLING

A total of US$0.4 million of expenditure was incurred on studies for the future drilling of exploration wells adjacent to Songo Songo Island on the Songo Songo west prospect.

PIPELINES AND INFRASTRUCTURE

During the quarter, two additional industrial customers were connected to the Company's distribution network at a total cost of US$0.1 million. A total of US$0.2 million was incurred on the construction of a pressure reduction station at the Wazo Hill cement plant operated by the Tanzania Portland Cement Company. The pressure reduction station is required to enable the delivery of Additional Gas of up to 6 Mmscf/d.

A total of US$0.4 million was incurred on the purchase of compressed natural gas ("CNG") equipment during the quarter. The initial CNG project which is targeting local hotels and industries 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 September 2008 was US$8.7 million (Q2 2008: US$6.1 million) and US$7.3 million as at 31 December 2007 and may be analysed as follows:

	AS AT		
(Figures in US$'000)	30-SEP 2008	30-JUN 2008	31-DEC 2007
Cash and cash equivalents	**11,178**	11,924	16,515
Trade and other receivables	**10,342**	7,227	8,236
	21,520	19,151	24,751
Trade and other payables	**12,815**	13,057	17,452
Working capital	**8,705**	6,094	7,299

The working capital level has increased by 43 % over Q2 2008; the increase is mainly due to the higher level of trade receivables.

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

Of the total trade and other receivables at 30 September 2008, US$9.4 million was represented by trade receivables (Q2 2008: US$6.2 million), US$0.3 million (Q2 2008: US$0.4 million) prepayments and other receivables and taxes US$0.6 million (Q2 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 September 2008, US$4.0 million (Q2 2008: US$3.9 million) of trade receivables was due from the industrial customers of which 58 % is due from 4 customers. A significant part of this amount has been subsequently received. The balance of US$5.5 million in trade receivables includes an amount of US$3.4 million (Q2 2008: US$1.4 million) due from Songas for the supply of Additional Gas to the Ubungo power plant and US$2.1 million (Q2 2008: US$0.9 million) from TANESCO for the supply of Additional Gas to the emergency power units and Wärtsilä.

The contracts with Songas and TANESCO accounted for 47 % (Q2 2008: 35 %) 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 level of current liabilities remained mainly constant compared to the previous quarter. The slight fall in creditors can be attributed to the decline in liability with regards to stock appreciation rights during the quarter. Of the total liabilities, US$3.1 million is attributable to creditors related to capital expenditure compared to US$3.4 million as at 30 June 2008.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Protected Gas

Under the terms of the Gas Agreement, 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 (18.7 Bcf as at 30 September 2008).

On 4 September 2008, Songas wrote to the Company confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo power plant (maximum 9 Mmscf/d) and for an additional 28 Mmscf/d to all other customers in the period to 31 December 2008. It is intended that this letter is superseded by the signing of the Insufficiency Agreement (see below).

The Company and TPDC have initialled an Insufficiency Agreement with Songas and TANESCO that specifies the terms under which Songas may demand cash security in order to keep them whole in the event of a Protected Gas insufficiency. Once the Insufficiency Agreement is signed, the agreement will govern the basis for determining security. The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect.

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 as at 31 December 2007, 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 two five year rental agreements that expire on 30 November 2012 and 30 November 2013 respectively at a cost of approximately US$0.2 million per annum for the use of offices in Dar es Salaam.

OFF BALANCE SHEET ARRANGEMENTS

As at 30 September 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$88,000 to this firm for services provided on legal services. The transactions with this related party was made at the exchange amount.

CAPITAL COMMITMENTS

Re-rating of the Songas processing plant

Orca Exploration is committed to paying Songas US$0.5 million for the installation of equipment and pipework with the objective of increasing the existing gas processing capacity of the plant from 70 Mmscf/d to a forecast 90 Mmscf/d by Q1 2009, together with a further US$0.5 million on the first anniversary of the successful completion of the project.

Wazo Hill cement plant

Orca Exploration signed a five year contract with Tanzania Portland Cement Company ("TPCC"), a subsidiary of HeidelbergCement, for the supply of gas to a new US$100 million kiln at its Wazo Hill plant in Dar es Salaam. In order to honour this contract, Orca Exploration is committed to installing a second pressure reduction station at Wazo Hill at a cost of US$0.7 million.

Compressed natural gas

In Q3 2008, Orca Exploration ordered US$2.5 million of CNG facilities, consisting of a compressor, a vehicle dispenser and two trailer filling facilities to deliver 0.7 Mmscf/d of CNG to industrial customers in Dar es Salaam. The facilities are expected to be operational during the first quarter of 2009.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

	AS AT		
Number of shares ('000)	30-SEP 2008	30-JUN 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			
Stock 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			
Stock options	**1,464**	1,479	1,543
Weighted average diluted Class A and Class B shares	**31,078**	31,093	29,802

SHARES OUTSTANDING

No stock options were issued or exercised during the quarter.

As at 27 November 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$'000 except where otherwise stated)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenue	**7,301**	4,826	5,284	5,562	6,363	3,021	3,831	4,722
Profit/(loss) after taxation	**816**	(10,208)	(143)	284	1,942	(608)	128	1,025
Operating netback *(US$/mcf)*	**2.79**	3.44	2.21	2.27	2.30	2.79	2.03	2.17
Working capital	**8,705**	6,094	8,297	7,299	20,938	(3,050)	10,570	20,430
Shareholders' equity	**64,142**	62,824	72,053	71,544	70,996	38,292	37,983	37,889
Profit/(loss) per share – basic *(US$)*	**0.03**	(0.34)	0.00	0.01	0.06	(0.02)	0.00	0.04
Capital expenditures								
Geological and geophysical and well drilling	**419**	2,851	1,190	16,323	10,426	13,723	10,657	2,748
Pipelines and infrastructure	**705**	979	246	468	314	1,205	279	130
Power development	**4**	21	–	5	7	26	109	531
Other equipment	**51**	–	–	–	108	35	30	–
Operating								
Additional Gas sold – industrial *(Mmscf)*	**425**	336	322	364	442	397	301	398
Additional Gas sold – power *(Mmscf)*	**2,097**	956	1,983	2,152	1,974	745	1,356	1,206
Average price per mcf – industrial *(US$)*	**13.29**	12.97	11.55	11.08	9.58	8.61	7.70	7.64
Average price per mcf – power *(US$)*	**2.41**	2.93	2.05	2.20	2.19	2.17	2.19	1.95

Consolidated Income Statements *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars except per share amounts)	NOTE	THREE MONTHS ENDED 30-SEP 2008	THREE MONTHS ENDED 30-JUN 2008	THREE MONTHS ENDED 30-SEP 2007	NINE MONTHS ENDED 30-SEP 2008	NINE MONTHS ENDED 30-SEP 2007
Revenue		**7,301**	4,826	6,363	**17,411**	13,215
Cost of sales						
Production and distribution expenses		**(391)**	(457)	(311)	**(1,124)**	(836)
Depletion expense		**(1,554)**	(776)	(1,334)	**(3,736)**	(2,879)
Impairment of exploration and evaluation assets	2	**–**	(9,520)	–	**(9,520)**	–
		5,356	(5,927)	4,718	**3,031**	9,500
Administrative expenses		**(3,821)**	(3,918)	(2,568)	**(10,834)**	(7,520)
Net financing income/(charges)		**74**	135	862	**(28)**	938
Profit/(loss) before taxation		**1,609**	(9,710)	3,012	**(7,831)**	2,918
Taxation	1	**(793)**	(498)	(1,070)	**(1,704)**	(1,456)
Profit/(loss) after taxation		**816**	(10,208)	1,942	**(9,535)**	1,462
Profit/(loss) per share						
Basic (US$)		**0.03**	(0.34)	0.07	**(0.32)**	0.05
Diluted (US$)		**0.03**	(0.34)	0.06	**(0.32)**	0.05

See accompanying notes to the interim consolidated financial statements.

(thousands of US dollars)		30-SEP 2008	30-JUN 2008	31-DEC 2007
ASSETS	**NOTE**			
Current assets				
Cash and cash equivalents		**11,178**	11,924	16,515
Trade and other receivables		**10,342**	7,227	8,236
		21,520	19,151	24,751
Exploration and evaluation assets	*2*	**412**	–	6,881
Property, plant and equipment	*3*	**60,784**	61,589	61,157
		61,196	61,589	68,038
		82,716	80,740	92,789
LIABILITIES				
Current liabilities				
Trade and other payables		**12,815**	13,057	17,452
Non current liabilities				
Deferred income taxes	*1*	**4,909**	4,116	3,205
Deferred additional profits tax		**850**	743	588
SHAREHOLDERS' EQUITY				
Capital stock	*4*	**66,537**	66,537	66,538
Capital reserve		**3,157**	2,655	1,023
Accumulated (loss)/income		**(5,552)**	(6,368)	3,983
		64,142	62,824	71,544
		82,716	80,740	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-SEP 2008	30-JUN 2008	30-SEP 2007	NINE MONTHS ENDED 30-SEP 2008	30-SEP 2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) after taxation	**816**	(10,208)	1,942	**(9,535)**	1,462
Adjustment for:					
Depletion and depreciation	**1,566**	794	1,375	**3,788**	2,977
Impairment of exploration and evaluation assets	**–**	9,520	–	**9,535**	–
Stock-based compensation	**502**	978	324	**2,134**	1,064
Deferred income taxes	**793**	498	652	**1,704**	1,117
Deferred additional profits tax	**107**	65	112	**262**	226
Interest income	**(11)**	(28)	(273)	**(84)**	(434)
Foreign exchange gain	**–**	–	(414)	**–**	(414)
	3,773	1,619	3,718	**7,783**	5,998
(Increase)/decrease in trade and other receivables	**(3,116)**	70	(3,109)	**(2,106)**	(3,765)
(Increase) in assets held for sale	**–**	–	–	**–**	(2,847)
(Decrease)/increase in trade and other payables	**(294)**	2,877	1,683	**88**	4,690
Net cash flows from operating activities	**363**	4,566	2,292	**5,765**	4,076
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures	**(412)**	(2,220)	(792)	**(3,051)**	(1,557)
Property, plant and equipment expenditures	**(761)**	(1,631)	(9,964)	**(3,409)**	(35,263)
Interest income	**11**	28	273	**84**	434
(Decrease)/increase in trade and other payables	**53**	(1,340)	(2,727)	**(4,724)**	8,172
Net cash used in investing activities	**(1,109)**	(5,163)	(13,210)	**(11,100)**	(28,214)
CASH FLOWS FROM FINANCING ACTIVITIES					
Normal course issuer bid	**–**	–	(27)	**(2)**	(27)
Shares issued	**–**	–	30,366	**–**	30,366
Foreign exchange gain	**–**	–	414	**–**	414
Proceeds from exercise of options	**–**	–	–	**–**	143
Net cash flow from financing activities	**–**	–	30,753	**(2)**	30,896
Decrease in cash and cash equivalents	**(746)**	(597)	19,835	**(5,337)**	6,758
Cash and cash equivalents at the beginning of the period	**11,924**	12,521	7,601	**16,515**	20,678
Cash and cash equivalents at the end of the period	**11,178**	11,924	27,436	**11,178**	27,436

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
Balance as at 1 January 2007	34,469	1,182	2,238	**37,889**
Shares issued	31,971	(810)	–	**31,161**
Options exercised	143	–	–	**143**
Stock-based compensation	–	368	–	**368**
Normal course issuer bid	(27)	–	–	**(27)**
Profit for the period	–	–	1,462	**1,462**
Balance as at 30 September 2007	**66,556**	**740**	**3,700**	**70,996**

(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	–	2,134	–	**2,134**
Normal course issuer bid	(1)	–	–	**(1)**
Loss for the period	–	–	(9,535)	**(9,535)**
Balance as at 30 September 2008	**66,537**	**3,157**	**(5,552)**	**64,142**

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 audited consolidated financial statements at 31 December 2007. The interim consolidated financial statements for the three and nine months ended 30 September 2008 should be read in conjunction with the audited consolidated 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			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Current tax	–	–	418	–	339
Deferred tax	**793**	498	652	**1,704**	1,117
	793	498	1,070	**1,704**	1,456

TAX RATE RECONCILIATION

	THREE MONTHS ENDED			NINE MONTHS ENDED	
Figures in US$'000	30-SEP 2008	30-JUN 2008	30-SEP 2007	30-SEP 2008	30-SEP 2007
Profit/(loss) before taxation	**1,609**	(9,710)	3,012	**(7,831)**	2,918
Provision for income tax calculated at the statutory rate of 30%	**483**	(2,913)	904	**(2,349)**	876
Add/(deduct) the tax effect of non-deductable income tax items:					
Administrative and operating expenses	**299**	304	175	**763**	441
Impairment of exploration and evaluation assets	–	2,856	–	**2,856**	–
Stock based compensation	**(12)**	213	120	**346**	339
Other income	**(5)**	(13)	(229)	**(18)**	(277)
Permanent differences	**28**	51	100	**106**	77
	793	498	1,070	**1,704**	1,456

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

	AS AT		
Figures in US$'000	30-SEP 2008	30-JUN 2008	31-DEC 2007
Differences between tax base and carrying value of property, plant and equipment	**5,520**	4,913	3,542
Provision for stock option bonuses	**(2)**	(2)	(360)
Income tax recoverable	**174**	178	230
Other liabilities	**(75)**	(77)	(31)
Additional profit tax	**(255)**	(222)	(176)
Tax losses	**(454)**	(674)	–
	4,909	4,116	3,205

[2] EXPLORATION AND EVALUATION ASSETS

Figures in US$'000	TANZANIA	UGANDA	TOTAL
Costs			
As at 1 January 2008	–	6,881	**6,881**
Additions - Q1	–	419	**419**
Additions - Q2	–	2,220	**2,220**
Additions - Q3	412	–	**412**
As at 30 September 2008	412	9,520	**9,932**
Depletion/Depreciation			
As at 1 January 2008	–	–	–
Impairment	–	(9,520)	**(9,520)**
As at 30 September 2008	–	(9,520)	**(9,520)**
Net Book Values			
As at 30 September 2008	412	–	**412**
As at 31 December 2007	–	(6,881)	**6,881**

On 1 August 2008, the Company announced that it would not exercise its option to secure a 50% working interest in Exploration Area 5 in Uganda. The Company had incurred a total of US$9.5 million in respect of the Ugandan program, and this amount has been written off in full to the income statement.

There were no general administrative costs capitalized in the quarter (Q3 2007: US$228,000).

[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
Additions - Q3	716	8	43	–	–	767
Disposals	–	–	–	(38)	–	(38)
As at 30 September 2008	**71,726**	**164**	**207**	**101**	**41**	**72,239**
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
Charge for the period - Q3	1,554	–	9	9	–	1,572
Depreciation on disposals	–	–	–	(38)	–	(38)
As at 30 September 2008	**11,092**	**156**	**109**	**57**	**41**	**11,445**
Net Book Values						
As at 30 September 2008	**60,634**	**8**	**98**	**44**	**–**	**60,784**
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 September 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 September 2008	**50,000**	**27,863**	**65,554**
Total Class A and Class B as at 30 September 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 nine months ended 30 September 2008:

Number of options (thousands)	NUMBER OF OPTIONS	EXERCISE PRICE (CDN$)
Outstanding as at 31 December 2007 and 30 September 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 *(Cdn$)*	NUMBER OUTSTANDING AS AT 30 SEPTEMBER 2008	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER EXERCISABLE AS AT 30 SEPTEMBER 2008	WEIGHTED AVERAGE EXERCISE PRICE *(Cdn$)*
1.00	1,662	6.15	1,662	1.00
8.00 to 13.55	1,185	3.68	320	11.39

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)	(400)	4.00
Granted (ii)	105	11.00
Granted (iii)	15	5.30
Outstanding as at 30 September 2008	**810**	**8.00 to 13.55**

(i) A total of 227,500 stock appreciation rights were exercised in Q1 2008. A further 172,500 of these capped appreciation rights were exercised in Q3 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 capped 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.

(iii) A total of 15,000 stock appreciation rights were issued in September 2008 with an exercise price of Cdn$5.30. These stock appreciation rights have no maximum liability with a five year term and vest equally over three years from the date of grant.

In accordance with IFRS2, the Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in the balance sheet. In the valuation of these stock appreciation rights the following assumptions have been made: the risk free rate of interest equal to 3.5 %, stock volatility 64 % with a level of forfeitures between 0 % and 33 %.

As at 30 September 2008, a total liability of US$0.3 million has been recorded in trade and other payables in respect of the oustannding stock appreciation rights.

[5] RECONCILIATION TO CANADIAN GAAP

The consolidated financial statements have been prepared in accordance with IFRS, which differ in some respects from Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Any difference in accounting principles as they pertain to the accompanying consolidated financial statements were immaterial except as described below:

a) Taxation

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

b) Stock-based compensation

There were 810,000 stock appreciation rights outstanding as at 30 September 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.

c) Exploration and evaluation assets

Under IFRS 6 there is a requirement for separate disclosure of costs associated with exploration and evaluation assets. There is no such requirement under Canadian GAAP and the costs are aggregated within property, plant and equipment.

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

	30-SEPTEMBER 2008		31-DECEMBER 2007	
Figures in US$'000	IFRS	CDN	IFRS	CDN
Current assets	**21,520**	**21,520**	24,751	24,751
Exploration and evaluation assets	**412**	–	6,881	
Property, plant and equipment	**60,784**	**62,769**	61,157	69,500
	82,716	**84,289**	92,789	94,251
Current liabilities	**12,815**	**12,373**	17,452	17,187
Non current liabilities	**5,759**	**7,513**	3,793	5,541
Capital stock	**66,537**	**66,537**	66,538	66,538
Reserves	**(2,395)**	**(2,134)**	5,006	4,985
	82,716	**84,289**	92,789	94,251
(Loss)/profit before taxation	**(7,831)**	**(7,144)**	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$88,000 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

Protected Gas

Under the terms of the Gas Agreement, 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 (18.7 Bcf as at 30 September 2008).

On 4 September 2008, Songas wrote to the Company confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo power plant (maximum 9 Mmscf/d) and for an additional 28 Mmscf/d to all other customers in the period to 31 December 2008. It is intended that this letter is superseded by the signing of the Insufficiency Agreement (see below).

The Company and TPDC have initialled an Insufficiency Agreement with Songas and TANESCO that specifies the terms under which Songas may demand cash security in order to keep them whole in the event of a Protected Gas insufficiency. Once the Insufficiency Agreement is signed, the agreement will govern the basis for determining security. The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect.

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 as at 31 December 2007, 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 two five year rental agreements that expire on 30 November 2012 and 30 November 2013 respectively at a cost of approximately US$0.2 million per annum for the use of offices in Dar es Salaam.

Capital Commitments

Re-rating of the Songas processing plant

Orca Exploration is committed to paying Songas US$0.5 million for the installation of equipment and pipework with the objective of increasing the existing gas processing capacity of the plant from 70 Mmscf/d to a forecast 90 Mmscf/d by Q1 2009, together with a further US$0.5 million on the first anniversary of the successful completion of the project.

Wazo Hill cement plant

Orca Exploration signed a five year contract with Tanzania Portland Cement Company ("TPCC"), a subsidiary of HeidelbergCement, for the supply of gas to a new US$100 million kiln at its Wazo Hill plant in Dar es Salaam. In order to honour this contract, Orca Exploration is committed to installing a second pressure reduction station at Wazo Hill at a cost of US$0.7 million.

Compressed natural gas

In Q3 2008, Orca Exploration ordered US$2.5 million of CNG facilities, consisting of a compressor, a vehicle dispenser and two trailer filling facilities to deliver 0.7 Mmscf/d of compressed natural gas to industrial customers in Dar es Salaam. The facilities are expected to be operational during the first quarter of 2009.

Corporate Information

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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

PIERRE RAILLARD
Executive Director
Dar es Salaam
Tanzania

DAVID ROSS
Non-Executive Director
Calgary
Canada

JAMES SMITH
Vice President
Hurst
United Kingdom

Officers

PIERRE RAILLARD
Vice President Operations

DAVID W. ROSS
Company Secretary

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Lawyers

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