Q2

Orca Exploration Group Inc.
2009 Q2 Interim Report

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

Orca's focus is on the exploration, production, development and marketing of natural gas to meet Tanzania's growing power and industrial energy needs.

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

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

FINANCIAL AND OPERATING HIGHLIGHTS

	THREE MONTHS ENDED			SIX MONTHS ENDED		
	30-Jun 2009	**30-Jun 2008**	**Change**	**30-Jun 2009**	**30-Jun 2008**	**Change**
Financial *(US$'000 except where otherwise stated)*						
Revenue	**5,501**	4,826	14%	**9,944**	10,110	(2%)
Profit/(loss) before taxation	**1,079**	(9,710)	n/m	**1,401**	(9,440)	n/m
Operating netback *(US$/mcf)*	**2.17**	3.44	(37%)	**2.18**	2.65	(18%)
Cash and cash equivalents	**9,072**	11,924	(24%)	**9,072**	11,924	(24%)
Working capital	**9,939**	6,094	63%	**9,939**	6,094	63%
Shareholders' equity	**65,477**	62,824	4%	**65,477**	62,824	4%
Profit/(loss) per share - basic and diluted *(US$)*	**0.01**	(0.34)	n/m	**0.01**	(0.35)	n/m
Funds from operations before working capital changes	**2,514**	1,619	55%	**3,981**	4,010	(1%)
Funds per share from operations before working capital changes - basic *(US$)*	**0.09**	0.05	80%	**0.13**	0.03	333%
Funds per share from operations before working capital changes - diluted *(US$)*	**0.08**	0.05	60%	**0.13**	0.03	333%
Net cash flows per share from operating activities - basic and diluted *(US$)*	**0.06**	0.17	(65%)	**0.12**	0.15	(20%)
Outstanding Shares *('000)*						
Class A shares	**1,751**	1,751	(0%)	**1,751**	1,751	(0%)
Class B shares	**27,788**	27,863	(0%)	**27,863**	27,863	(0%)
Options	**2,797**	2,847	(2%)	**2,797**	2,847	(2%)
Operating						
Additional Gas sold *(MMcf)* - industrial	**613**	336	82%	**973**	658	48%
Additional Gas sold *(MMcf)* - power	**1,693**	956	77%	**3,263**	2,939	11%
Average price per mcf *(US$)* - industrial	**7.02**	12.97	(46%)	**7.35**	12.27	(40%)
Average price per mcf *(US$)* - power	**2.36**	2.93	(19%)	**2.37**	2.33	2%

GLOSSARY

mcf	Thousands of standard cubic feet
MMcf	Millions of standard cubic feet
Bcf	Billions of standard cubic feet
Tcf	Trillions of standard cubic feet
MMcfd	Millions of standard cubic feet per day
Mmbtu	Millions of British thermal units
HHV	High heat value
1P	Proven reserves
2P	Proven and probable reserves
3P	Proven, probable and possible reserves
GIIP	Gas initially in place
Kwh	Kilowatt hour
MW	Megawatt
US$	US dollars
Cdn$	Canadian dollars

- Increased profit before taxation to US$1.1 million (Q2 2008: loss before taxation US$9.7 million after incurring an impairment of US$9.5 million).
- 14% increase in Orca's Q2 2009 revenues to US$5.5 million (Q2 2008: US$4.8 million) despite lower gas prices.
- Increased funds from operations before working capital changes by 55% to US$2.5 million (Q2 2008: US$1.6 million).
- Increased working capital by 63% to US$9.9 million (Q2 2008: US$6.1 million).
- Increased Q2 2009 sales of Additional Gas to Dar es Salaam industrial customers by 82% to 613 MMcf or 6.7 MMcfd (Q2 2008: 336 MMcf or 3.7 MMcfd).
- Increased Q2 2009 sales of Additional Gas to the power sector by 77% to 1,693 MMcf or 18.6 MMcfd (Q2 2008: 956 MMcf or 10.5 MMcfd).
- Commissioned the CNG mother station, consisting of one CNG compressor, a vehicle dispenser and two trailer filling facilities to deliver 0.7 MMcfd of compressed natural gas.
- Commissioned a feasibility study to assess how to expand the existing infrastructure system that processes and transports the gas to Dar es Salaam. The objective of the study is to increase the capacity from 90 MMcfd to a peak of 200 MMcfd in the most cost effective manner. The study will be finalised during Q3 2009.

The Company had a good second quarter with the sale of 2.3 Bcf of Additional Gas which represents a 78% increase on the volumes sold in Q2 2008, whilst also recording the highest volume of industrial gas sold in any quarter since commercial operations commenced in Tanzania in 2004. Funds flow from operations increased 55% to US$2.5 million compared with US$1.6 million in Q2 2008. The Company enjoys solid, stable cash flow from its Tanzanian business, and has a working capital of US$9.9 million.

The long term prospects for Orca's Tanzanian project are excellent. We are confident in the reserves already established, the potential upside in Songo Songo West and the future increases in demand for natural gas in the country. We continue to expand our markets for gas and the excellent sales volumes achieved in Q2 2009 confirm steadily growing demand. The immediate short term infrastructure issues have been resolved and there are plans in place to increase throughput capacity to 105 MMcfd. Longer term, your Company is developing a cost effective solution to permanently increase capacity and will focus on delivering this project to financial closure over the next 12 - 18 months.

The Company continues to study ways of monetising the existing gas reserves in the Songo Songo field. The current focus is on expanding the capacity of the existing infrastructure system to meet the increasing demand for gas downstream that is led by the power sector. In the last nine months the Company, as operator of the gas processing facilities, has been successful in modifying the production facilities and reaching agreement with the owner, Songas Limited, to operate the plant at 90 MMcfd. After further inspections of the units during Q2 2009, Lloyds Register has indicated that it will agree to certify the plant to operate at 110 MMcfd. Work is in progress to demonstrate to Songas that the operation of the plant at that level will not put the facilities at risk. During Q2, the total throughput of the infrastructure system averaged 59 MMcfd; accordingly there is 31 MMcfd of spare capacity at current approved operational levels.

In the event that Songas approves the operation of the gas processing plant at 110 MMcfd, the pipeline that transports the gas to Dar es Salaam will need to be serviced to transport 105 MMcfd, with the objective of completing this work by the end of Q1 2010.

The Company is currently working with Songas to design a system expansion that will initially enable 140 MMcfd to be transported through the existing infrastructure. The design involves the addition of two new gas processing trains, and field and pipeline compression in an integrated system to maximise the potential of the existing system without resorting to the construction of new pipelines. Songas has indicated that it is interested in financing this expansion. The target is to have an expanded system in place by the end of 2012 when new power plants are currently expected to be commissioned. It is likely that a new application will have to be submitted by Songas and approved by the energy regulator, EWURA before any notice to proceed can be given.

TANZANIAN RESERVES AND EXPLORATION

The Songo Songo gas field continues to perform well and in line with expectations. All wells have been utilised during the last quarter with the majority of the gas being produced from SS-5. Highly sensitive downhole gauges are due to be pulled from each well during Q4 2009 and will be analysed in advance of the year end evaluation by McDaniel & Associates Consultants Limited.

During Q2 2009, the design for connecting the SS-10 well to the gas processing facilities was completed. The cost of the hook up is forecast to be US$1.2 million and is scheduled to be completed by the end of Q1 2010.

Planning commenced in Q2 for the acquisition of a single transitional zone seismic line taking advantage of the fact that a seismic crew were operating in the area of Songo Songo Island. The seismic will be acquired in Q3 2009 for approximately US$0.3 million and will consist of 5 kilometers of offshore, 3 kilometers across the island and 1 kilometer across a shallow reef. This information will facilitate planning for the drilling of the next deviated well around the time that the infrastructure is expanded and sales volumes increase as new power plants are commissioned.

POWER SECTOR

The Tanzanian electricity utility, TANESCO is currently entering a transitional phase. The emergency gas fired generation that was introduced in 2006 (Dowans 120 MWs and Aggreko 48 MWs) is now being replaced by permanent generation capacity. As a result, Tanzania currently has 148 MWs of generation operating on Additional Gas compared to a capacity of 210 MWs at this time last year. During Q2 2009, the Additional Gas plants were operating at 18.6 MMcfd with a maximum capacity of approximately 29.0 MMcfd. Provided there is no material downtime at the gas fired generation power plants, demand is expected to increase in Q3 2009 as the hydro electricity output declines.

Photo below: *Orca continues to add industrial customers to its low-pressure gas distribution system at Dar es Salaam and to expand gas distribution into other cities using CNG trailers for transport.*

TANESCO is in the process of testing an additional 45 MWs of permanent generation at Tegeta in Dar es Salaam and this is expected to be operational in the latter part of Q4 2009 or Q1 2010. In addition, TANESCO has tendered for a new 100 MW power plant to be located at Ubungo in Dar es Salaam close to existing gas infrastructure, with the objective of it being operational at the end of 2010. This plant, along with the existing gas fired generation, will be supplied by Orca with Additional Gas under the Portfolio Gas Sales Agreement that was initialed in June 2008. TANESCO has now agreed with all the material terms and our agreement has been updated to take into account the change in generation capacity mix and infrastructure development considerations. The agreement will be submitted during Q3 2009 to the energy regulator, EWURA for review.

TANESCO has started planning for the construction of an additional 200 MW power plant at Kinyerezi, Dar es Salaam which would require approximately 40 MMcfd. Negotiation of a Kinyerezi power plant gas supply contract is intrinsically linked with the need to expand the infrastructure system. Discussions have commenced concerning the supply of gas to these units. It is anticipated that the plant could be operational on or around the time that the Songas infrastructure expansion is complete at the end of 2012.

INDUSTRIAL SECTOR

Industrial volumes increased substantially during Q2 to an average of 6.7 MMcfd. This represented an 82% increase on the same quarter in 2008. This increase was primarily the result of average sales of 2.5 MMcfd to Tanzania Portland Cement Company ("TPCC"), the owner of the expanded Wazo Hill cement plant in Dar es Salaam. The newly installed US$100 million Kiln 4 was tested for the majority of the quarter with TPCC maintaining all three of its kilns until kiln 4 was commissioned in July. Kiln 4 is expected to consume an average of 2.0 MMcfd for the remainder of the year. With the flooding of cheap cement imports on the Tanzanian market in the last few months, TPCC will shut down kilns 2 and 3 and refurbisrelh them until an increase in demand for TPCC cement warrants the kilns being brought back on production.

Overall sales to the industrial sector are expected to increase marginally in Q3 2009 as demand for gas by the textile sector increases to offset a small loss in demand by TPCC.

COMPRESSED NATURAL GAS (CNG)

In July 2009, the inauguration of the new CNG "Mother Station" in Dar es Salaam was performed by the Minister for Energy and Minerals: William Ngeleja. The Mother Station consists of a compressor, a vehicle refueling dispenser and two trailer filling facilities. Three "Daughter Stations" are also being added to supply Dar es Salaam industries, hotels and one institution beyond the reach of Orca's low pressure gas pipeline. CNG sales are forecast to be modest during Q3 2009, but are expected to increase as the industries and hotels that have signed contracts for the CNG, make the necessary modifications to their equipment.

FINANCIAL RESULTS

The Company generated funds flow before working capital changes of US$2.5 million during Q2 2009 which enabled the financing of US$1.7 million of capital expenditures, primarily on the CNG project and the upgrade of the pressure reduction station at Wazo Hill.

Orca continues to be successful in cutting General and Administrative ("G&A") costs. In Q2 2009, this resulted in an effective US$0.9 million reduction in G&A expenses compared with Q2 2008. This saving was achieved despite an increase in personnel in Tanzania to manage growth in downstream gas activities and customers.

The Company currently has cash on hand of approximately US$9.1 million and working capital of US$9.9 million. Both are expected to increase through the remainder of 2009.

OUTLOOK

Your Company is the leader in developing Tanzania's natural gas resources and has established an excellent team in Tanzania to develop, produce and market the gas reserves. The demand for cleaner, lower cost fossil fuels continues to grow.

The Company remains well positioned and thanks its shareholders, its partners in Tanzania and in particular the Ministry of Energy and Minerals and TPDC for their continued support.

Peter R. Clutterbuck
President and CEO
28 August 2009

Opposite page: *Orca is supplying Additional Gas to the new US$100 million Kiln 4 constructed at Dar es Salaam by the Tanzania Portland Cement Company.*

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 2009 SHOULD BE READ IN CONJUNCTION WITH THE AUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR YEAR ENDED 31 DECEMBER 2008. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 28 AUGUST 2009.

CERTAIN STATEMENTS IN THIS MD&A INCLUDING (I) STATEMENTS THAT MAY CONTAIN WORDS SUCH AS "ANTICIPATE", "COULD", "EXPECT", "SEEK", "MAY" "INTEND", "WILL", "BELIEVE", "SHOULD", "PROJECT", "FORECAST", "PLAN" AND SIMILAR EXPRESSIONS, INCLUDING THE NEGATIVES THEREOF, (II) STATEMENTS THAT ARE BASED ON CURRENT EXPECTATIONS AND ESTIMATES ABOUT THE MARKETS IN WHICH ORCA OPERATES AND (III) STATEMENTS OF BELIEF, INTENTIONS AND EXPECTATIONS ABOUT DEVELOPMENTS, RESULTS AND EVENTS THAT WILL OR MAY OCCUR IN THE FUTURE, CONSTITUTE "FORWARD-LOOKING STATEMENTS" AND ARE BASED ON CERTAIN ASSUMPTIONS AND ANALYSIS MADE BY ORCA. FORWARD-LOOKING STATEMENTS IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO FUTURE CAPITAL EXPENDITURES, INCLUDING THE AMOUNT, NATURE AND TIMING THEREOF; NATURAL GAS PRICES AND DEMAND.

SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO IMPORTANT RISKS AND UNCERTAINTIES, WHICH ARE DIFFICULT TO PREDICT AND THAT MAY AFFECT ORCA'S OPERATIONS, INCLUDING, BUT NOT LIMITED TO: THE IMPACT OF GENERAL ECONOMIC CONDITIONS IN TANZANIA AND CANADA; INDUSTRY CONDITIONS, INCLUDING THE ADOPTION OF NEW ENVIRONMENTAL, SAFETY AND OTHER LAWS AND REGULATIONS AND CHANGES IN HOW THEY ARE INTERPRETED AND ENFORCED; VOLATILITY OF NATURAL GAS PRICES; NATURAL GAS PRODUCT SUPPLY AND DEMAND; RISKS INHERENT IN ORCA'S ABILITY TO GENERATE SUFFICIENT CASH FLOW FROM OPERATIONS TO MEET ITS CURRENT AND FUTURE OBLIGATIONS; INCREASED COMPETITION; THE FLUCTUATION IN FOREIGN EXCHANGE OR INTEREST RATES; STOCK MARKET VOLATILITY; AND OTHER FACTORS, MANY OF WHICH ARE BEYOND THE CONTROL OF ORCA.

ORCA'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS COULD DIFFER MATERIALLY FROM THOSE EXPRESSED IN, OR IMPLIED BY, THESE FORWARD-LOOKING STATEMENTS AND, ACCORDINGLY, NO ASSURANCE CAN BE GIVEN THAT ANY OF THE EVENTS ANTICIPATED BY THE FORWARD-LOOKING STATEMENTS WILL TRANSPIRE OR OCCUR, OR IF ANY OF THEM DO TRANSPIRE OR OCCUR, WHAT BENEFITS ORCA WILL DERIVE THEREFROM. SUBJECT TO APPLICABLE LAW, ORCA DISCLAIMS ANY INTENTION OR OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. ALL FORWARD-LOOKING STATEMENTS CONTAINED IN THIS DOCUMENT ARE EXPRESSLY QUALIFIED BY THIS CAUTIONARY STATEMENT.

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE BASED ON FUNDS FLOW FROM OPERATING ACTIVITIES AND OPERATING NETBACKS. 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 utilizes the Protected Gas (maximum 45.1 MMcfd) as feedstock for its gas turbine electricity generators at Ubungo, for onward sale to the Wazo Hill cement plant and for electrification of some villages along the pipeline route. Orca Exploration receives no revenue for the Protected Gas delivered to Songas and operates the field and gas processing plant on a 'no gain no loss' basis.

Orca Exploration has the right to produce and market all gas in the Songo Songo field in excess of the Protected Gas requirements ("Additional Gas").

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 licenses in which the Songo Songo field is located ("Discovery Blocks").

The Proven Section is essentially the area covered by the Songo Songo field within the Discovery Blocks.

(c) No sales of Additional Gas may be made from the Discovery Blocks if in Orca Exploration's reasonable judgment such sales would jeopardise the supply of Protected Gas. Any Additional Gas contracts entered into are subject to interruption. Songas has the right to request that the Company and TPDC obtain security reasonably acceptable to Songas prior to making any sales of Additional Gas from the Discovery Block to secure the Company's and TPDC's obligations in respect of Insufficiency (see (d) below).

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 MMcfd for power generation. The first of the contracts (Amended and Restated Gas Agreement ("ARGA")) covers the supply of gas to the sixth turbine at the Ubungo power plant and provides for a maximum of approximately 9 MMcfd until July 2024. The second initialled contract (Portfolio Gas Sales Agreement ("PGSA")) covers the supply of Additional Gas sales to a portfolio of gas fired generation in Tanzania.

The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep them whole in the event of a Protected Gas insufficiency. Once the IA is signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company shall fund an escrow account at a rate of US$2/Mmbtu on all industrial Additional Gas sales out of its and TPDC's share of revenue and TANESCO shall contribute the same amount on Additional Gas sales to the power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect.

(d) "Insufficiency" occurs if there is insufficient gas from the Discovery Blocks to supply the Protected Gas requirements or is so expensive to develop that its cost exceeds the market price of alternative fuels at Ubungo.

Where there have been third party sales of Additional Gas by Orca Exploration and TPDC from the Discovery Blocks prior to the occurrence of the Insufficiency, Orca Exploration and TPDC shall be jointly liable for the Insufficiency and shall satisfy its related liability by either replacing the Indemnified Volume (as defined in (e) below) at the Protected Gas price with natural gas from other sources; or by paying money damages equal to the difference between: (a) the market price for a quantity of alternative fuel that is appropriate for the five gas turbine electricity generators at Ubungo without significant modification together with the costs of any modification; and (b) the sum of the price for such volume of Protected Gas (at US$0.55/Mmbtu) and the amount of transportation revenues previously credited by Songas to the electricity utility, TANESCO, for the gas volumes.

(e) The "Indemnified Volume" means the lesser of the total volume of Additional Gas sales supplied from the Discovery Blocks prior to an Insufficiency and the Insufficiency Volume. "Insufficiency Volume" means the volume of natural gas determined by multiplying the average of the annual Protected Gas volumes for the three years prior to the Insufficiency by 110% and multiplied by the number of remaining years (initial term of 20 years) of the power purchase agreement entered into between Songas and TANESCO in relation to the five gas turbine electricity generators at Ubungo from the date of the Insufficiency.

As discussed in (c) above a Insufficiency Agreement has been negotiated with TPDC, 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

(f) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas.

Songas is not required to incur capital costs with respect to additional processing and transportation facilities unless the construction and operation of the facilities are, in the reasonable opinion of Songas, financially viable. If Songas is unable to finance such facilities, Songas shall permit the seller of the gas to construct the facilities at its expense, provided that, the facilities are designed, engineered and constructed in accordance with good pipeline and oilfield practices.

Revenue sharing terms and taxation

(g) 75% of the gross revenues less processing and pipeline tariffs and direct sales taxes in any year ("Net Revenues") can be used to recover past costs incurred. Costs recovered out of Net Revenues are termed "Cost Gas".

The Company pays and recovers 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 cost of SS-10 and the cost of future wells 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 and there may be the need for reserve modifications once these discussions are concluded. For the purpose of the reserves certification as at 31 December 2008, 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 incurred, pending the finalisation of the terms of the 'back in'.

(h) 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 MMcfd to 105 MMcfd. 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.

In October 2008, Songas submitted a third tariff application to the regulator, EWURA, to cover the financing and operating costs of a third and fourth train. On 27 February 2009, EWURA issued an order that sees the introduction of flat rate tariffs from 1 January 2010. The tariff level will be set at a rate that enables Songas to make a rate of return on their investment as determined by EWURA. Songas may challenge this order and there is no certainty that they will finance the third and fourth train. 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.

(i) The cost of maintaining the wells and flowlines is split between the Protected Gas and Additional Gas users in proportion to the volume of their respective sales. The cost of operating the gas processing plant and the pipeline to Dar es Salaam is covered through the payment of the pipeline tariff.

(j) Profits on sales from the Proven Section ("Profit Gas") are shared between TPDC and the Company, the proportion of which is dependent on the average daily volumes of Additional Gas sold or cumulative production.

The Company receives a higher share of the net revenues after cost recovery, the higher the cumulative production or the average daily sales, whichever is higher. The profit share is a minimum of 25% and a maximum of 55%.

Average daily sales of Additional Gas	Cumulative sales of Additional Gas	TPDC's share of Profit Gas	Company's share of Profit Gas
MMcfd	*Bcf*	*%*	*%*
0 - 20	0 – 125	75	25
> 20 <= 30	> 125 <= 250	70	30
> 30 <= 40	> 250 <= 375	65	35
> 40 <= 50	> 375 <= 500	60	40
> 50	> 500	45	55

For Additional Gas produced outside of the Proven Section, the Company's profit 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.

(k) Additional Profits Tax is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no Additional Profits Tax is payable until the Company recovers 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

(l) The Company is appointed to develop, produce and process Protected Gas and operate and maintain the gas production facilities and processing plant, including the staffing, procurement, capital improvements, contract maintenance, maintain books and records, prepare reports, maintain permits, handle waste, liaise with GoT and take all necessary safe, health and environmental precautions all in accordance with good oilfield practices. In return, the Company is paid or reimbursed by Songas so that the Company neither benefits nor suffers a loss as a result of its performance.

(m) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, Orca Exploration, CDC or insurance coverage, then Orca Exploration is liable to a performance and operation guarantee of US$2.5 million when (i) the loss is caused by the gross negligence or wilful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Results for the quarter ended 30th June 2009

OPERATING VOLUMES

The sales volumes for the quarter were 2,306 MMcf or 25.3 MMcfd. This represents an increase of 78% over Q2 2008. Total sales for the six months ended 30 June 2009 were 4,236 MMcf an increase of 18% over 2008.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30-Jun 2009	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Gross sales volume *(MMcf):*				
Industrial sector	**613**	336	**973**	658
Power sector	**1,693**	956	**3,263**	2,939
Total volumes	**2,306**	1,292	**4,236**	3,597
Gross daily sales volume *(MMcfd):*				
Industrial sector	**6.7**	3.7	**5.4**	3.6
Power sector	**18.6**	10.5	**18.0**	16.2
Total daily sales volume	**25.3**	14.2	**23.4**	19.8

Industrial sector

Industrial sales volumes increased by 82% in Q2 2009 to 613 MMcf or 6.7 MMcfd (Q2 2008: 336 MMcf or 3.7 MMcfd) The increase was primarily due to the commencement of the supply of gas to the new kiln ("Kiln 4") at Tanzania Portland Cement Company's ("TPCC") Wazo Hill cement plant in March 2009.

A total of seven new customers have been connected to the low pressure distribution network since Q2 2008 resulting in a 48% increase in the volume of industrial sales to 973 MMcf compared to 658 MMcf in 2008 with Wazo Hill accounting for 80% of the increase.

Power sector

Power sector sales volumes increased by 77% to 1,693 MMcf (18.6 MMcfd) in Q2 2009 from 956 MMcf (10.5 MMcfd) in Q2 2008. The sales volumes were lower in Q2 2008 due to the delay in the start of the rainy season which resulted in very high hydro utilization rates during Q2 2008.

In August 2008, the new 102 MW TANESCO power plant (operated by Wärtsilä) was fully commissioned. In the six month period to 30 June 2009, the power plant consumed 1,959 MMcf compared to 1,982 MMcf by the emergency power plants operated by Dowans Tanzania Limited ("Dowans") and Aggreko Plc ("Aggreko") during the six months period to 30 June 2008. In July 2008 and December 2008 TANESCO terminated the emergency power purchase agreements with Dowans and Aggreko respectively.

The overall increase in sales to 3,263 MMcf for the six months ended 30 June 2009 from 2,939 MMcf in 2008 has mainly been a consequence of the under-utilization of the gas-fired generation during heavy rains in Q2 2008.

COMMODITY PRICES

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
US$/mcf	**30-Jun 2009**	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Average sales price				
Industrial sector	**7.02**	12.97	**7.35**	12.27
Power sector	**2.36**	2.93	**2.37**	2.33
Weighted average price	**3.60**	5.54	**3.51**	4.15

Industrial sector

The average sales price achieved for Q2 2009 was US$7.02/mcf compared to US$12.97/mcf in Q2 2008, with year to date prices for 2008 and 2009 being US$7.35/mcf and US$12.27/mcf respectively.

The price of gas for the industrial sector (with the exception of the gas supplied to the Wazo Hill cement plant) continued to be set at a discount to the price of Heavy Fuel Oil ("HFO") in Dar es Salaam. In the second quarter of 2008, the Company renegotiated the sales contracts with six of the largest industrial customers, who account for the majority of the industrial sales volumes. Under the new five year contracts the pricing mechanism included both caps and floors, which had the effect of limiting the downside to approximately US$7.38/mcf, whilst imposing a pricing cap of US$12.60/mcf increasing at a rate of 2% per annum.

The average industrial sales price achieved during the quarter excluding Wazo Hill was US$8.80/mcf compared to US$12.97/mcf in Q2 2008. The decline in price was a consequence of the decrease in world energy prices. The contract which was signed in Q3 2008 with TPCC for the supply of gas to the Wazo Hill cement plant has a fixed pricing structure that was set by reference to their alternative fuel supply which is imported coal.

Power sector

The average sales price to the power sector was US$2.36/mcf for the quarter compared to US$2.93/mcf in Q2 2008.

The relatively high price recorded in Q2 2008 was the consequence of the retroactive implementation of the new pricing structure with TANESCO for sales to the Ubungo power plant during Q2 2008 which resulted in an increase to the sales price previously used for the sales volume in March 2008.

During the second quarter of 2008, the Company initialled the two 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 and then increase at 2% per annum. These prices are net of the gas processing and transportation 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 approximately US$2.36/mcf.

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.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 81.3% (Q2 2008: 81.3%) of the Net Revenues as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$ '000	**30-Jun 2009**	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Gross sales revenue	**8,295**	7,159	**14,882**	14,928
Gross tariff for processing plant and pipeline infrastructure	**(1,413)**	(1,140)	**(2,507)**	(2,410)
Gross revenue after tariff	**6,882**	6,019	**12,375**	12,518
Analysed as to:				
Company Cost Gas	**5,163**	4,512	**9,283**	9,404
Company Profit Gas	**430**	379	**841**	861
Company operating revenue	**5,593**	4,891	**10,124**	10,265
TPDC Profit Gas	**1,289**	1,128	**2,251**	2,253
	6,882	6,019	**12,375**	12,518

The Company's revenue reported for the quarter amounted to US$5,501,000 after adjusting the Company's operating revenue of US$5,593,000 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 to reflect the current income tax charge or loss.

ii) US$92,000 for the deferred effect of Additional Profits Tax. This tax is considered a royalty and is netted against revenue.

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

Figures in US$'000	THREE MONTHS ENDED 30-Jun 2009	THREE MONTHS ENDED 30-Jun 2008	SIX MONTHS ENDED 30-Jun 2009	SIX MONTHS ENDED 30-Jun 2008
Industrial sector	**4,294**	4,359	**7,141**	8,072
Power sector	**4,001**	2,800	**7,741**	6,856
Gross sales revenue	**8,295**	7,159	**14,882**	14,928
Processing and transportation tariff	**(1,413)**	(1,140)	**(2,507)**	(2,410)
TPDC share of revenue	**(1,289)**	(1,128)	**(2,251)**	(2,253)
Company operating revenue	**5,593**	4,891	**10,124**	10,265
Additional Profits Tax	**(92)**	(65)	**(180)**	(155)
Current income tax adjustment	**-**	-	**-**	-
Revenue	**5,501**	4,826	**9,944**	10,110

Processing and Transportation Tariff

Under the terms of the project agreements, the current tariff paid for processing and transporting the Additional Gas is calculated as 17.5% of the price of gas at the Songas main pipeline in Dar es Salaam ("Songas Outlet Price").

In calculating the Songas Outlet Price for the industrial customers, an average amount of US$0.57/mcf ("Ringmain Tariff") (Q2 2008: US$1.84/mcf) has been deducted from the achieved industrial sales price of US$7.02/mcf (Q2 2008: US$12.97/mcf) to reflect the gas price that would be achievable at the Songas main pipeline. The Ringmain Tariff represents the amount that would be required to compensate a third party distributor of the gas for constructing 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.

A flat rate gas processing and transportation tariff may be introduced from 1 January 2010 that will be set at a rate that enables Songas to make a rate of return on their investment as determined by EWURA. 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.

PRODUCTION AND DISTRIBUTION EXPENSES

The well maintenance costs are allocated between Protected and Additional Gas based on the proportion of their respective sales during the quarter. The total costs for the maintenance for the quarter was US$137,000 (Q2 2008: US$342,000) and US$60,000 (Q2 2008: US$87,000) 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.

The direct costs of maintaining the distribution pipeline and pressure reduction station (security, insurance and personnel) is forecast to be approximately US$0.8 million per annum in its current form.

These costs are summarized in the table below:

Figures in US$'000	THREE MONTHS ENDED 30-Jun 2009	THREE MONTHS ENDED 30-Jun 2008	SIX MONTHS ENDED 30-Jun 2009	SIX MONTHS ENDED 30-Jun 2008
Share of well maintenance	**60**	87	**112**	129
Other field and operating costs	**270**	203	**375**	282
Ringmain distribution pipeline	**266**	167	**414**	322
Production and distribution expenses	**596**	457	**901**	733

OPERATING NETBACKS

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

(Amounts in US$/mcf)	THREE MONTHS ENDED 30-Jun 2009	THREE MONTHS ENDED 30-Jun 2008	SIX MONTHS ENDED 30-Jun 2009	SIX MONTHS ENDED 30-Jun 2008
Gas price - industrial	**7.02**	12.97	**7.35**	12.27
Gas price - power	**2.36**	2.93	**2.37**	2.33
Weighted average price for gas	**3.60**	5.54	**3.51**	4.15
Tariff (after allowance for the Ringmain Tariff)	**(0.61)**	(0.88)	**(0.59)**	(0.67)
TPDC Profit Gas	**(0.56)**	(0.87)	**(0.53)**	(0.63)
Net selling price	**2.43**	3.79	**2.39**	2.85
Well maintenance and other operating costs	**(0.14)**	(0.22)	**(0.11)**	(0.11)
Ringmain distribution pipeline	**(0.12)**	(0.13)	**(0.10)**	(0.09)
Operating netback	**2.17**	3.44	**2.18**	2.65

The operating netback for the quarter was US$2.17/mcf (Q2 2008: US$3.44/mcf), a decrease of 37% over Q2 2008.

The decline in the average sales price during Q2 2009 was partially offset by the decrease in the cost base per mcf leading to a decrease in operating netback compared to Q2 2008. The costs structure is relatively fixed in nature and with the higher sales volumes the costs on a per mcf basis decreased in Q2 2009. The lower industrial sales price achieved in Q2 2009 was the result of lower global oil prices and the commencement of sales to the Wazo Hill cement plant that is priced against their least cost alternative, namely coal. The lower power price in Q2 2009 was due to a one off invoicing of an amendment to the power prices in Q2 2008.

An operating netback of US$2.18/mcf was achieved for the six months ended 30 June 2009 compared to US$2.65/mcf in 2008. The overall decrease in the weighted average sales price of 15% in 2009 was offset by reduced costs on a per mcf basis. The costs are relatively fixed in nature and therefore fall with the 18% increase in sale volumes.

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

ADMINISTRATIVE EXPENSES

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

(Figures in US$'000)	THREE MONTHS ENDED 30-Jun 2009	THREE MONTHS ENDED 30-Jun 2008	SIX MONTHS ENDED 30-Jun 2009	SIX MONTHS ENDED 30-Jun 2008
Employee costs	**521**	609	**1,088**	1,103
Consultants	**570**	653	**1,217**	1,218
Travel and accommodation	**198**	325	**334**	499
Communications	**20**	19	**40**	30
Office	**284**	268	**567**	456
Insurance	**61**	64	**114**	134
Auditing and taxation	**48**	48	**92**	99
Depreciation	**31**	20	**54**	36
Reporting, regulatory and corporate	**146**	69	**217**	124
	1,879	2,075	**3,723**	3,699
Marketing costs including legal fees	**544**	1,134	**1,283**	1,965
Stock based compensation	**518**	709	**980**	1,349
Net general and administrative expenses	**2,941**	3,918	**5,986**	7,013

G&A averaged approximately US$1.0 million per month for Q2 2009 and for the six months ended 30 June 2009. This represents a 25% reduction over Q2 2008 and a 15% reduction compared to the six months ended 30 June 2008. G&A per mcf decreased to US$1.28/mcf (Q2 2008: US$3.03/mcf).

Whilst a large proportion of G&A is relatively fixed in nature and therefore declines on a mcf basis as volumes produced increase, costs have continued to be incurred, at a reduced level compared to Q2 2008, on the negotiation of the power contracts, and on legal and arbitration proceedings against a third party contractor for breaches of contract that occurred during the drilling of the SS-10 well in 2007. The main variances to Q2 2008 are summarized below:

Consultants

The decline in consultancy cost is a consequence of a reduction in business development activity compared with 2008. There has also been a concerted effort to reduce the level of dependency on third party consultants during 2009.

Travel and accommodation

The higher level of travel and accommodation costs incurred in Q2 2008 were a result of the increase in the number of business trips to Tanzania by Company officials and other marketing and legal professionals for the negotiation of the power and related contracts.

Office costs

The overall increase in office costs for the six months ended 30 June 2009 compared to the six months ended 30 June 2008 is a result of the expansion of the marketing development activities which led to the establishment of a second office location in Dar es Salaam. The level of expenditure in Q2 2008 and Q2 2009 were the same as a result of one off administrative expenses that were incurred in Q2 2008.

Marketing costs and legal fees

The reduction in marketing and legal fees in Q2 2009 compared to Q2 2008 is mainly a consequence of lower costs being incurred on the negotiation of long term power contracts and on applications to EWURA. There had been a heavy focus on the negotiation of long term power contracts in Q2 2008 which resulted in the initialing of the new power agreements towards the end of the quarter.

Stock based compensation

A total of 2,797,000 stock options were issued and outstanding at the end of Q2 2009. Of these options 1,662,000 were issued in 2004 and were fully expensed by the end of 2007. The remaining 1,135,000 were issued to certain directors, officers and employees of the Company during 2007 with exercise prices between Cdn$8.00 and Cdn$13.55. All of the stock options currently issued have been valued using the Black-Scholes option pricing model and vest over three years from the date of grant. A total charge of US$0.4 million was recorded for the 1,135,000 stock options that were issued in 2007. The decline compared to Q2 2008 is a consequence of the IFRS-2 accounting treatment for the allocation of the costs which sees the majority of the costs being charged in the first two years from the date of grant.

A total of 810,000 stock appreciation rights were outstanding at the end of Q2 2009. Of these 105,000 are capped with a maximum payout of Cdn$3 per right. As stock appreciation rights are settled in cash they are re-valued at each reporting date using the Black-Scholes option pricing model. As at 30 June 2009 the following assumptions were used; stock volatility 128%, a risk free interest rate of 2.05% and a closing stock price of Cdn$3.70. The stock appreciation rights outstanding have an exercise price ranging from Cdn$5.30 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. A charge of US$0.1 million was recorded in Q2 2009 compared to a credit of US$0.2 million in Q2 2008 in respect of these stock appreciation rights. The credit in Q2 2008 was a result of the fall in the Company's share price compared to the previous quarter.

In April 2007, 200,000 Class B treasury stock were awarded to a newly appointed officer. These shares were held in escrow and vest to the officer in three equal annual instalments, all of which were fully vested at the end of Q1 2009, whereas a charge of US$0.2 million was incurred in Q2 2008.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'000)	**30-Jun 2009**	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Stock options	**414**	827	**640**	1,330
Stock appreciation rights	**104**	(155)	**270**	86
Treasury stock	**-**	151	**70**	302
	518	823	**980**	1,718
Capitalized	**-**	(114)	**-**	(369)
	518	709	**980**	1,349

NET FINANCING INCOME/(CHARGES)

Interest income has fallen from 2008 as a consequence of lower cash balances and a reduction in the rate of interest received.

The relatively small gain on foreign exchange experienced in the quarter is a result of the stabilization of the USD against the Tanzanian Shilling. Despite the gas sales price being denominated in US Dollars, the invoices are submitted in Tanzanian Schillings. Therefore, there is an exchange exposure between the time that the invoices are submitted and the date that the payment is received.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'000)	**30-Jun 2009**	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Finance income				
Interest income	**10**	28	**26**	73
Foreign exchange gain	**14**	107	**14**	107
	24	135	**40**	180
Finance charges				
Foreign exchange loss	**-**	-	**(34)**	(282)
	-	-	**(34)**	(282)
Net financing income/(charges)	**24**	135	**6**	(102)

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 in the following period. This is reflected in the accounts by adjusting the Company's revenue by the appropriate amount in the following quarter.

As at 30 June 2009, 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$6.7 million which represents an additional charge of US$0.7 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$92,000 has been netted off revenue for the quarter ended 30 June 2009 (Q2 2008: US$65,000).

Management does not anticipate that any APT will be payable in 2009, 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 2009. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure programme.

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

DEPLETION AND DEPRECIATION

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2008 the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd were 389.4 Bcf on a life of licence basis. This resulted in a depletion charge of US$0.38/mcf in Q2 2009. In Q2 2008 a depletion charge of US$0.61/mcf was recorded based on proven reserves on a life of licence basis of 308.6 Bcf.

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. No impairment has been recorded for the six months ended 30th June 2009.

FUNDS GENERATED BY OPERATIONS

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'000)	**30-Jun 2009**	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Profit/(loss) after taxation	**379**	(10,208)	**211**	(10,351)
Adjustments [1]	**2,135**	11,827	**3,770**	14,361
Funds from operations before working capital changes	**2,514**	1,619	**3,981**	4,010
Working capital adjustments [1]	**(786)**	2,947	**(349)**	1,392
Net cash flows from operating activities	**1,728**	4,566	**3,632**	5,402
Net cash flows used in investing activities	**(2,366)**	(5,163)	**(4,990)**	(9,991)
Net cash flows used in financing activities	**-**	-	**(156)**	(2)
Net (decrease) in cash and cash equivalents	**(638)**	(597)	**(1,514)**	(4,591)

(1) Please refer to consolidated statement of cash flows for breakdown on page 24.

The 55% increase in funds from operation to US$2.5 million in Q2 2009 compared to US$1.6 million in Q2 2008, is primarily the result of the increased sales revenue recorded in Q2 2009 and the reduced level of cash operating and administrative expenses. There has been no significant change in the funds from operations before working capital changes for the six month ended 30 June 2008 and 30 June 2009 as the increased sales volumes in 2009 have been offset by the higher sales prices achieved in 2008.

The US$0.6 million decrease in cash and cash equivalents for the three months ended 30 June 2009, is a consequence of the US$2.5 million funds from operations before working capital changes being offset by capital expenditure of US$1.7 million during the period together with a net cash reduction of US$1.4 million in working capital.

The overall decline in cash and cash equivalents of US$1.5 million in the six months ended 30th June 2009 is a result of the US$4.0 million funds from operations before working capital changes being offset by US$3.6 million of capital expenditure incurred during the period together with a net cash reduction of US$1.7 million in working capital, and a normal course share repurchase of US$0.2 million.

CAPITAL EXPENDITURE

Gross capital expenditures amounted to US$1.7 million during the quarter (Q1 2008: US$1.4 million). The capital expenditure may be analysed as follows:

(Figures in US$'000)	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30-Jun 2009	30-Jun 2008	30-Jun 2009	30-Jun 2008
Geological and geophysical and well drilling	**222**	2,851	**353**	4,041
Pipelines and infrastructure	**1,317**	979	**2,947**	1,225
Power development	**3**	21	**3**	21
Other equipment	**207**	-	**337**	-
	1,749	3,851	**3,640**	5,287

Geological and geophysical and well drilling

A total of US$0.15 million of expenditure was incurred on reservoir studies during the quarter, with the balance being spent on well preparation work for the future drilling of exploration wells on the Songo Songo West prospect. The Songo Songo West prospect is classified as an exploration and evaluation asset.

The high level of capital expenditure in Q2 2008 related to the work undertaken on the analysis of seismic data from Exploration Areas EA5 in Uganda. The technical analysis consequently led to the decision not to pursue the Ugandan opportunity, resulting in the subsequent US$9.5 million impairment being recorded in the Q2 2008 income statement.

Pipelines and infrastructure

During the quarter a total of US$0.8 million was spent on the completion of the compressed natural gas ("CNG") mother station at the Ubungo power plant and on the civils work for the construction of the daughter station. The initial CNG project is targeting local hotels and industries in Dar es Salaam and the conversion of motor vehicles to CNG.

A total of US$0.3 million was incurred on infrastructure studies including the possible expansion of the existing gas processing capacity to 110 MMcfd and future pipeline development. Management is studying various ways of increasing pipeline capacity from gas compression to the construction of a separate transmission pipeline.

During the quarter, US$0.1 million was incurred on the continued improvement of the low pressure pipeline distribution network in Dar es Salaam. A further US$0.1 million was incurred on the commissioning of the new pressure reduction station at the Wazo Hill cement plant that was constructed during Q1 2009.

WORKING CAPITAL

Working capital as at 30 June 2009 was US$9.9 million compared with US$9.7 million as at 31 December 2008 and may be analyzed as follows:

(Figures in US$'000)	AS AT 30-Jun 2009	AS AT 31-Dec 2008
Cash and cash equivalents	**9,072**	10,586
Trade and other receivables	**9,037**	13,196
	18,109	23,782
Trade and other payables	**8,170**	14,055
Working capital	**9,939**	9,727

The level of working capital, increased by 2% during the six months ended 30 June 2009.

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 June 2009, US$6.1 million was represented by trade receivables (Q4 2008: US$11.9 million), US$2.3 million (Q4 2008: US$0.7 million) prepayments and other receivables and taxes US$0.6 million (Q4 2008: US$0.6 million).

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 30 June 2009, US$3.5 million (Q4 2008: US$3.0 million) of trade receivables was due from the industrial customers of which 56% is due from 4 customers. The balance of US$2.6 million in trade receivables includes an amount of US$0.6 million (Q4 2008: US$4.9 million) due from Songas for the supply of Additional Gas to the Ubungo power plant and US$2.0 million (Q4 2008: US$4.0 million) from TANESCO for the supply of Additional Gas to their 102 MW plant operated by Wärtsilä.

The reduction in both receivables and payables as at 30 June 2009 was primarily the result of the late receipt from Songas Limited of funds for gas sold to the Ubungo power plant and the payment of tariffs for the use of the gas processing and pipeline facilities that had been held back pending the receipt of these revenues.

The contracts with Songas and TANESCO accounted for 48% of the Company's operating revenue during the quarter. Songas' financial security is 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.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Capital Investment

Re-rating of the Songas processing plant

Orca Exploration is committed to paying Songas US$0.5 million on successful completion and operation of the gas processing facilities at 90 MMcfd together with a further US$0.5 million on the first anniversary of the successful completion of the project. The gas processing plant was re-rated from 70 MMcfd to 90 MMcfd by Lloyds Register in January 2009. The re-rating was approved by Songas in Q1 2009.

Funding

Management forecasts that the Company will be able to meet its 2009 capital expenditure program through the use of existing cash balances and self-generated cash flows. The Company currently has no bank borrowings and there is scope for utilising debt funding once the longer term contracts for the supply of gas to the power sector are in place.

Contractual Obligations

Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US$0.55/Mmbtu) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (27.6 Bcf as at 30 June 2009).

The Gas Agreement has been amended by an initialled Amended and Restated Gas Agreement ("ARGA"). The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies 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, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company shall fund an escrow account at a rate of US$2/Mmbtu on all industrial Additional Gas sales out of its and TPDC share of revenue, and TANESCO shall contribute the same amount on Additional Gas sales to the power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. 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 and there may be the need for reserve modifications once these discussions are concluded. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements do not take account of any reimbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Operating leases

The Company has entered into 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 June 2009, 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$37,500 to this firm for services provided on legal services. The transactions with this related party was made at the exchange amount.

Shareholders' Equity and Outstanding Share Data

Number of shares ('000)	AS AT 31-Jun 2009	AS AT 31-Dec 2008
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**27,788**	27,863
	29,539	29,614
Convertible securities		
Stock options	**2,797**	2,814
Diluted Class A and Class B shares	**32,336**	32,428
Weighted average		
Class A and Class B shares	**29,563**	29,614
Convertible securities		
Stock options	**1,156**	1,425
Weighted average diluted Class A and Class B shares	**30,719**	31,039

Shares outstanding

No stock options were issued or exercised during the quarter.

During Q1 2009, 75,000 Class B shares were purchased pursuant to a normal course issuer bid and a total of 17,000 options were cancelled by way of forfeiture.

As at 28 August 2009, there were a total of 1,751,195 Class A shares and 27,784,428 Class B shares outstanding.

SUMMARY QUARTERLY RESULTS

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

	2009		2008				2007	
(Figures in US$'000 except where otherwise stated)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Financial								
Revenue	**5,501**	4,443	6,371	7,301	4,826	5,284	5,562	6,363
Profit/(loss)	**379**	(168)	12	816	(10,208)	(143)	284	1,942
Operating netback *(US$/mcf)*	**2.17**	2.18	2.32	2.79	3.44	2.21	2.27	2.30
Working capital	**9,939**	9,154	9,727	8,705	6,094	8,297	7,299	20,939
Shareholders' equity	**65,477**	64,684	64,712	64,142	62,824	72,053	71,544	70,996
Profit/(loss) per share - basic and diluted *(US$)*	**0.01**	(0.01)	0.00	0.03	(0.35)	0.00	0.01	0.07
Capital expenditures								
Geological and geophysical and well drilling	**222**	131	(987)	419	2,851	1,190	16,323	10,426
Pipeline and infrastructure	**1,317**	1,630	2,217	705	979	246	469	314
Power development	**3**	-	13	4	21	-	4	7
Other equipment	**207**	130	31	51	-	-	-	108
Operating								
Additional Gas sold - industrial *(MMcf)*	**613**	360	392	425	336	322	364	442
Additional Gas sold - power *(MMcf)*	**1,693**	1,570	2,149	2,097	956	1,983	2,152	1,974
Average price per mcf - industrial *(US$)*	**7.02**	7.91	10.08	13.29	12.97	11.55	11.08	9.58
Average price per mcf - power *(US$)*	**2.36**	2.39	2.39	2.41	2.93	2.05	2.19	2.19

Consolidated Income Statements *(unaudited)*

(thousands of US dollars except per share amounts)	NOTE	THREE MONTHS ENDED 30-Jun 2009	THREE MONTHS ENDED 30-Jun 2008	SIX MONTHS ENDED 30-Jun 2009	SIX MONTHS ENDED 30-Jun 2008
Revenue		**5,501**	4,826	**9,944**	10,110
Cost of sales					
Production and distribution expenses		**(596)**	(457)	**(901)**	(733)
Depletion expense		**(909)**	(776)	**(1,662)**	(2,182)
Impairment of exploration and evaluation assets	*2*	**-**	(9,520)	**-**	(9,520)
		3,996	(5,927)	**7,381**	(2,325)
Administrative expenses		**(2,941)**	(3,918)	**(5,986)**	(7,013)
Net financing income/(charges)		**24**	135	**6**	(102)
Profit/(loss) before taxation		**1,079**	(9,710)	**1,401**	(9,440)
Taxation	*1*	**(700)**	(498)	**(1,190)**	(911)
Profit/(loss) after taxation		**379**	(10,208)	**211**	(10,351)
Profit/(loss) per share					
Basic and diluted (US$)		**0.01**	(0.34)	**0.01**	(0.35)

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheets *(unaudited)*

(thousands of US dollars)	NOTE	30-Jun 2009	31-Dec 2008
ASSETS			
Current assets			
Cash and cash equivalents		**9,072**	10,586
Trade and other receivables		**9,037**	13,196
		18,109	23,782
Exploration and evaluation assets	*2*	**754**	648
Property, plant and equipment	*3*	**62,635**	60,818
		63,389	61,466
		81,498	85,248
LIABILITIES			
Current liabilities			
Trade and other payables		**8,170**	14,055
Non current liabilities			
Deferred income taxes	*1*	**6,700**	5,510
Deferred additional profits tax		**1,151**	971
		16,021	20,536
SHAREHOLDERS' EQUITY			
Capital stock	*4*	**66,369**	66,537
Capital reserve		**4,437**	3,715
Accumulated (loss)		**(5,329)**	(5,540)
		65,477	64,712
		81,498	85,248

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

Consolidated Statements of Cash Flows *(unaudited)*

(thousands of US dollars)	THREE MONTHS ENDED 30-Jun 2009	THREE MONTHS ENDED 30-Jun 2008	SIX MONTHS ENDED 30-Jun 2009	SIX MONTHS ENDED 30-Jun 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) after taxation	**379**	(10,208)	**211**	(10,351)
Adjustment for:				
Depletion and depreciation	**940**	794	**1,717**	2,216
Impairment of exploration and evaluation assets	**-**	9,520	**-**	9,520
Stock-based compensation	**414**	978	**710**	1,632
Deferred income taxes	**700**	498	**1,190**	911
Deferred additional profits tax	**92**	65	**180**	155
Interest income	**(11)**	(28)	**(27)**	(73)
	2,514	1,619	**3,981**	4,010
(Increase)/decrease in trade and other receivables	**(718)**	70	**4,159**	1,009
(Decrease)/increase in trade and other payables	**(68)**	2,877	**(4,508)**	383
Net cash flows from operating activities	**1,728**	4,566	**3,632**	5,402
CASH FLOWS USED IN INVESTING ACTIVITIES				
Exploration and evaluation expenditures	**(67)**	(2,220)	**(106)**	(2,639)
Property, plant and equipment expenditures	**(1,682)**	(1,631)	**(3,534)**	(2,648)
Interest income	**11**	28	**27**	73
Decrease in trade and other payables	**(628)**	(1,340)	**(1,377)**	(4,777)
Net cash used in investing activities	**(2,366)**	(5,163)	**(4,990)**	(9,991)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Normal course issuer bid	**-**	-	**(156)**	(2)
Net cash flow used in financing activities	**-**	-	**(156)**	(2)
Decrease in cash and cash equivalents	**(638)**	(597)	**(1,514)**	(4,591)
Cash and cash equivalents at the beginning of the period	**9,710**	12,521	**10,586**	16,515
Cash and cash equivalents at the end of the period	**9,072**	11,924	**9,072**	11,924

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 2008	66,538	1,023	3,983	71,544
Stock-based compensation	–	1,632	–	1,632
Normal course issuer bid	(1)	–	–	(1)
Loss for the period	–	–	(10,351)	(10,351)
Balance as at 30 June 2008	**66,537**	**2,655**	**(6,368)**	**62,824**

(thousands of US dollars)	Capital stock	Capital reserve	Accumulated Income/(loss)	Total
Note	*4*			
Balance as at 1 January 2009	66,537	3,715	(5,540)	64,712
Stock-based compensation	–	710	–	710
Normal course issuer bid	(168)	12	–	(156)
Profit for the period	–	–	211	211
Balance as at 30 June 2009	**66,369**	**4,437**	**(5,329)**	**65,477**

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 2008. The interim consolidated financial statements for the six months ended 30 June 2009 should be read in conjunction with the audited consolidated financial statements and related notes for the year ended 31 December 2008.

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 summarized in note 5.

1 TAXATION

Under the terms of the Production Sharing Agreement with TPDC, the Company is liable to pay income tax at the corporate rate of 30% on profits generated in Tanzania. The amount paid is then recovered in full from TPDC by adjusting their share of profit gas

The tax charge is as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30-Jun 2009**	**30-Jun 2008**	**30-Jun 2009**	**30-Jun 2008**
Current tax	-	-	-	-
Deferred tax	**700**	498	**1,190**	911
	700	498	**1,190**	911

Tax Rate Reconciliation	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30-Jun 2009**	**30-Jun 2008**	**31-Jun 2009**	**31-Jun 2008**
Profit/(loss) before taxation	**1,079**	(9,710)	**1,401**	(9,440)
Provision for income tax calculated at the statutory rate of 30%	**324**	(2,913)	**420**	(2,832)
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**247**	304	**484**	464
Stock based compensation	**155**	213	**294**	358
Other income	**(50)**	(13)	**(47)**	(13)
Impairment of exploration and evaluation assets	**-**	2,856	**-**	2,856
Permanent differences	**24**	51	**39**	78
	700	498	**1,190**	911

As at 30 June 2009 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 30 June 2009. The deferred income tax liability includes the following temporary differences:

	As at 30-Jun 2009	As at 31-Dec 2008
Differences between tax base and carrying value of property, plant and equipment	**8,029**	6,338
Provision for stock option bonuses	**(2)**	(2)
Income tax recoverable	**221**	221
Other liabilities	**(222)**	(196)
Additional profits tax	**(345)**	(291)
Tax losses	**(981)**	(560)
	6,700	5,510

2 EXPLORATION AND EVALUATION ASSETS

Figures in US'000	Tanzania
Costs	
As at 1 January 2009	648
Additions	106
As at 30 June 2009	754
Depletion/Depreciation	
As at 1 January 2009	-
Impairment	-
As at 30 June 2009	-
Net Book Values	
As at 30 June 2009	754
As at 31 December 2008	648

Tanzania

The exploration and evaluation asset relates to initial evaluation of the Songo Songo West prospect which is pending the determination of proven and probable reserves.

Uganda

As a result of the seismic shot in 2007, it was decided in June 2008 not to progress with the drilling of an appraisal well, as such the Company did not exercise its option to acquire a 50% working interest in Exploration Area 5 in Uganda. A total cost of US$9.5 million was subsequently recognized as an impairment and written off in full to the income statement.

3 PROPERTY, PLANT AND EQUIPMENT

Figures in US'000	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2009	72,732	185	207	122	52	73,298
Additions	3,197	35	204	65	33	3,534
Disposal	-	-	-	(20)	-	(20)
As at 30 June 2009	75,929	220	411	167	85	76,812
Depletion/Depreciation						
As at 1 January 2009	12,072	156	126	85	41	12,480
Charge for period	1,662	4	30	18	2	1,716
Depreciation on disposal	-	-	-	(19)	-	(19)
As at 30 June 2009	13,734	160	156	84	43	14,177
Net Book Values						
As at 30 June 2009	62,195	60	255	83	42	62,635
As at 31 December 2008	60,660	29	81	37	11	60,818

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$86.1 million (Q2 2008: US$123.8 million) will be required to bring the total proved reserves to production.

4 CAPITAL STOCK

Number of shares (thousands)	Authorized	Issued	Valuation at par value
CLASS A			
As at 31 December 2008 and 30 June 2009	50,000	1,751	983
CLASS B			
As at 31 December 2008	50,000	27,863	65,554
Normal course issuer bid	–	(75)	(168)
As at 30 June 2009	50,000	27,788	65,386
Total Class A and Class B as at 30 June 2009	**100,000**	**29,539**	**66,369**

All of the issued capital stock is fully paid. In February 2009, a total of 75,000 shares were repurchased at Cdn$2.60 under the normal course issuer bid.

Stock options

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

The table below details the outstanding share options and the movements for the six months ended 30 June 2009:

Thousands of options or Cdn$	Options	Exercise Price
Outstanding as at 31 December 2008	2,814	1.00 to 13.55
Forfeited	(17)	12.00
Outstanding as at 30 June 2009	2,797	1.00 to 13.55

The weighted average remaining life and weighted average exercise price of options at 30 June 2009 were as follows:

Exercise Price (Cdn$)	Number Outstanding as at 30 June 2009	Weighted Average Remaining Contractual Life	Number Exercisable as at 30 June 2009	Weighted Average Exercise Price (Cdn$)
1.00	1,662	5.17	1,662	1.00
8.00 - 13.55	1,135	2.87	698	11.36

Stock Appreciation Rights

Thousands of stock appreciation rights or Cdn$	Options	Exercise Price
Outstanding as at 31 December 2008 and 30 June 2009	810	5.30 to 13.55

(i) A total of 705,000 stock appreciation rights have a term of five years and vest in three equal instalments, the first third vesting on the anniversary of the grant date. There is no maximum liability associated with these rights.

(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.

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 2.05%, stock volatility 128% with a level of forfeitures between 0% and 33%.

As at 30 June 2009, a total liability of US$0.4 million had been recorded in trade and other payables in respect of the outstanding 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 recognized 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 June 2009 (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-Jun 2009		31-Dec 2008	
Figures in US$'000	IFRS	CDN	IFRS	CDN
Current assets	**18,109**	**18,109**	23,782	23,782
Exploration and evaluation assets	**754**	**-**	648	-
Property, plant and equipment	**62,635**	**64,902**	60,818	63,010
	81,498	**83,011**	85,248	86,792
Current liabilities	**8,170**	**7,743**	14,055	13,899
Non current liabilities	**7,851**	**9,586**	6,481	8,226
Capital stock	**66,369**	**66,369**	66,537	66,537
Reserves	**(892)**	**(687)**	(1,825)	(1,870)
	81,498	**83,011**	85,248	86,792
Profit/(loss) before taxation	**1,401**	**1,649**	(7,056)	(7,140)

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$37,500 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

Capital Investment

Re-rating of the Songas processing plant

Orca Exploration is committed to paying Songas US$0.5 million on successful completion and operation of the gas processing facilities at 90 MMcfd together with a further US$0.5 million on the first anniversary of the successful completion of the project. The gas processing plant was re-rated from 70 MMcfd to 90 MMcfd by Lloyds Register in January 2009. The re-rating was approved by Songas in Q1 2009.

Contractual Obligations

Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US$0.55/Mmbtu) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (27.6 Bcf as at 30 June 2009).

The Gas Agreement has been amended by an initialled Amended and Restated Gas Agreement ("ARGA"). The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies 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, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company shall fund an escrow account at a rate of US$2/Mmbtu on all industrial Additional Gas sales out of its and TPDC share of revenue, and TANESCO shall contribute the same amount on Additional Gas sales to the power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. 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 and there may be the need for reserve modifications once these discussions are concluded. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements do not take account of any reimbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in.'

Operating leases

The Company has entered into 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.

BOARD OF DIRECTORS

W. DAVID LYONS
Non-Executive Chairman
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United Kingdom

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

NIGEL A. FRIEND
Executive Vice President
& Chief Financial Officer
London
United Kingdom

PIERRE RAILLARD
Vice President Operations
Dar es Salaam
Tanzania

JOHN PATTERSON
Non-Executive Director
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DAVID ROSS
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LAWYERS

BURNET, DUCKWORTH & PALMER LLP
Calgary
Canada

TRANSFER AGENT

CIBC MELLON TRUST TRUST COMPANY
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