



Q3

Orca Exploration Group Inc.  
2009 Q3 Interim Report

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

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

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

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

Highlights	1
President & CEO's Letter to Shareholders	3
Management's Discussion & Analysis	6
Consolidated Financial Statements	22
Notes to the Consolidated Financial Statements	26

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

Orca Exploration Group Inc.

## FINANCIAL AND OPERATING HIGHLIGHTS

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	30-Sep 2009	30-Sep 2008	Change	30-Sep 2009	30-Sep 2008	Change

**Financial** (US\$ '000 except where otherwise stated)

Revenue	7,536	7,301	3%	17,480	17,411	0%
Profit/(loss) before taxation	2,682	1,609	67%	4,083	(7,831)	n/m
Operating netback (US\$/mcf)	2.17	2.79	(22%)	2.17	2.71	(20%)
Cash and cash equivalents	9,703	11,178	(13%)	9,703	11,178	(13%)
Working capital	12,147	8,705	40%	12,147	8,705	40%
Shareholders' equity	67,159	64,142	5%	67,159	64,142	5%
Profit/(loss) per share - basic and diluted (US\$)	0.05	0.03	67%	0.06	(0.32)	n/m
Funds from operations before working capital changes	4,247	3,773	13%	8,228	7,783	6%
Funds per share from operations before working capital changes - basic (US\$)	0.14	0.13	8%	0.28	0.26	8%
Funds per share from operations before working capital changes - diluted (US\$)	0.14	0.12	17%	0.27	0.25	8%
Net cash flows from operating activities	1,959	363	440%	5,591	5,765	(3%)
Net cash flows per share from operating activities - basic (US\$)	0.07	0.01	600%	0.19	0.19	0%
Net cash flows per share from operating activities - diluted (US\$)	0.06	0.01	500%	0.18	0.19	(5%)

**Outstanding Shares** ('000)

Class A shares	1,751	1,751	0%	1,751	1,751	0%
Class B shares	27,770	27,863	0%	27,770	27,863	0%
Options	2,797	2,847	(2%)	2,797	2,847	(2%)

**Operating**

Additional Gas sold (MMcf) - industrial	581	425	37%	1,554	1,083	43%
Additional Gas sold (MMcf) - power	2,493	2,097	19%	5,756	5,036	14%
Average price per mcf (US\$) - industrial	9.01	13.29	(32%)	7.96	12.67	(37%)
Average price per mcf (US\$) - power	2.41	2.41	0%	2.39	2.37	1%

## GLOSSARY

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

## HIGHLIGHTS

Orca Exploration Group Inc.

- Increased profit before taxation by 67% to US\$2.7 million for the quarter (Q3 2008: US\$1.6 million).
- Increased funds from operations before working capital changes by 13% to US\$4.2 million for the quarter (Q3 2008: US\$3.8 million).
- Increased working capital by 40% to US\$12.1 million (Q3 2008: US\$8.7 million).
- Increased Q3 2009 sales of Additional Gas to Dar es Salaam industrial customers by 37% to 581 MMcf or 6.3 MMcfd (Q3 2008: 425 MMcf or 4.6 MMcfd).
- Increased Q3 2009 sales of Additional Gas to the power sector by 19% to 2,493 MMcf or 27.1 MMcfd (Q2 2008: 2,097 MMcf or 22.8 MMcfd).
- Designed a 140 MMcfd permanent expansion upgrade to the existing infrastructure system that processes and transports the gas to Dar es Salaam. It will be possible to expand the system to handle up to 200 MMcfd with the addition of a new onshore pipeline.
- Commenced work to identify a jack up rig for the drilling of Songo Songo West in 2011.
- Re-activated the new venture team to identify two new high impact oil opportunities in proven hydrocarbon basins in West Africa and the Middle East. Shortly after the quarter end, the Company participated in a joint bidding application for an exploration licence.

## Orca Exploration reports a positive third quarter.

This is the second consecutive quarter in which gas sales and cash flows from operations increased and G & A expenses decreased. Results were also up significantly over the same period in 2008. These encouraging results were achieved despite infrastructure limitations and current relatively low levels of gas fired generation in the country.

Sales of Additional Gas averaged 33.4 MMcfd (3.1 Bcf for the quarter), an increase of 22% on the volumes sold in Q3 2008. Funds flow from operations before working capital changes increased 13% to US\$4.2 million compared with US\$3.8 million in 2008 and this trend is expected to continue through 2010. The Company currently has working capital of US\$12.1 million and cash of US\$9.7 million.

Having successfully weathered the global financial storm of the past year, your Company is again ready to seek out new high potential exploration opportunities to complement the steady growth of our cash flow generating business and exploration potential within Tanzania. The initial focus is on acquiring two oil exploration prospects with our principle areas of interest being West Africa and the Middle East where the Orca new ventures team has excellent technical experience. The Company's strategic criteria for these new opportunities is that they must be in proven hydrocarbon basins, have significant upside and can be drilled within 24 months. In accordance with this strategy the Company has participated in a joint bidding application in relation to an exploration opportunity. We look forward to updating our shareholders on this and other developments in the coming months.

## TANZANIAN RESERVES AND EXPLORATION

The current Songo Songo gas wells continue to perform well and in line with expectations. Based on current simulations, the main Songo Songo field has established adequate reserves to meet an average gas demand of 160 MMcfd (including approximately 40 MMcfd of Protected Gas) with the addition of two new development wells. Highly sensitive downhole gauges installed in the second quarter were successfully pulled from each producing well just after the end of the third quarter and are currently being analyzed in advance of the year end reserves evaluation by McDaniel & Associates Consultants Ltd.

Orca is planning for the exploration drilling of Songo Songo West in 2011. The well will be drilled utilizing a jack up rig and the Company is discussing the possibility of sharing a rig with other operators in Tanzania and Mozambique to reduce mobilization costs. The Songo Songo West prospect has independently assessed mean unrisks resources of 552 Bcf.

## POWER SECTOR

Tanzania continues to experience electricity blackouts caused by a shortage of generation capacity at a time of increasing demand for electricity. Currently the Tanzanian electricity utility, TANESCO, has 148 MWs of generation operating on Additional Gas. During Q3 2009, these Additional Gas plants were operating at 27.1 MMcfd against a maximum current capacity of approximately 29.0 MMcfd. To address this critical situation, TANESCO will be commissioning a 45 MW plant during December 2009 and is planning to add another 100 MWs by the end of 2010 at the Ubungu power plant in Dar es Salaam.

To address longer term power needs, TANESCO has started planning for the construction of an additional 200 MW power plant at Kinyerezi, Dar es Salaam. This would require the availability of approximately 40 MMcfd of Additional Gas. It is anticipated that the Kinyerezi plant could be operational about the time that the Songas infrastructure expansion is to be completed near the end of 2012. Negotiation of a gas supply contract for this plant is directly linked with the need to expand the infrastructure system.

In Q4 2009 power sector demand for gas is expected to be seasonally reduced to approximately Q2 2009 levels. More rain in the last quarter of each year leads to higher hydro output and lower demand for gas fired generation.

## INDUSTRIAL SECTOR

Sales of industrial gas increased substantially during Q3 to an average of 6.3 MMcfd. This was a 37% increase on the same quarter in 2008, primarily as a result of average sales of 1.5 MMcfd to Tanzania Portland Cement Company ("TPCC"), the owner of the expanded Wazo Hill cement plant in Dar es Salaam. The company shut down kilns 2 and 3 for refurbishment during Q3 and in response to the flooding of cheap cement imports on the Tanzanian market. It is anticipated that one of these kilns will be restarted during the second half of 2010. Sales to the industrial sector are expected to be marginally lower in Q4 2009 due to a seasonal reduction in demand for gas by the textile sector.





## INFRASTRUCTURE

As operator of the Songo Songo gas processing plant, the Company made excellent progress during Q3 2009 in designing a permanent expansion upgrade that will enable 140 MMcfd to be transported through the existing system. The design involves the construction of two new gas processing facilities and the addition of more field and pipeline compression. The owner of the existing system, Songas Limited, has indicated its willingness to finance the project providing it can reach appropriate terms with the energy regulator, EWURA. Orca continues to finance the initial design of the project and to assist Songas in its discussions with EWURA.

The target is to have the expanded infrastructure in place by the end of 2012 when new power plants are expected to be commissioned. With the addition of a new onshore pipeline it will be possible to expand the system to handle up to 200 MMcfd.

If the owners of the infrastructure, Songas Limited, gain confidence that the permanent expansion upgrade will be successful, they are likely to approve a temporary re-rating of the existing system to 105 MMcfd (from a current limitation of 90 MMcfd) during 2010. This will be required to meet the forecast demand for gas.

## FINANCIAL RESULTS

The Company generated funds flow before working capital changes of US\$4.2 million during Q3 2009 which enabled the financing of US\$2.0 million of capital expenditures, primarily on CNG and infrastructure development.

Orca was again successful in cutting General and Administrative ("G&A") costs during the quarter. In Q3 2009, this resulted in an effective US\$1.2 million reduction in G&A expenses compared with Q3 2008. The Company currently has cash on hand of approximately US\$9.7 million and working capital of US\$12.1 million. Both are expected to increase in the last quarter of 2009 and operations are expected to generate positive cash flows throughout 2010. New funding will be required for any material new acquisitions.

## OUTLOOK

Your Company remains well positioned to generate increasing cash flows in the growing Tanzanian market for natural gas. These internally generated funds will be allocated to finance the relatively low risk Songo Songo West exploration prospect in 2011.

Management assesses that this is the right time for Orca to invest in two high impact oil opportunities in proven hydrocarbon basins in West Africa and/or the Middle East to sit alongside the yielding cash generative asset in Tanzania. As discussed above, we jointly bid for an exploration licence shortly after the quarter end and we look forward to updating our shareholders on any developments in the coming months.

We thank our shareholders, our employees and our partners and particularly the Tanzanian Ministry of Energy and Minerals and the Tanzanian Petroleum Development Corporation for their continued support.

Peter R. Clutterbuck  
President and CEO  
19 November 2009



# Management's Discussion & Analysis

## FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 19 NOVEMBER 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 OPERATIONS BEFORE WORKING CAPITAL CHANGES AND OPERATING NETBACKS. FUNDS FLOW FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES IS A NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) TERM. 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](http://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 Ubungu, 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 Ubungu power plant, Songas Limited and the Ministry of Energy and Minerals for the supply of approximately 30 - 45 MMcfd of Additional Gas 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 Ubungu 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 Ubungu.

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 Ubungu 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 Ubungu 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 MMcf/d to 105 MMcf/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.

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
<i>MMcfd</i>	<i>Bcf</i>	<i>%</i>	<i>%</i>
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 September 2009

### OPERATING VOLUMES

The sales volumes for the quarter were 3,074 MMcf or 33.4 MMcfd. This represents an increase of 22% over Q3 2008. Total sales for the nine months ended 30 September 2009 were 7,310 MMcf an increase of 19% over 2008.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
Gross sales volume (MMcf):				
Industrial sector	581	425	1,554	1,083
Power sector	2,493	2,097	5,756	5,036
<i>Total volumes</i>	<b>3,074</b>	2,522	<b>7,310</b>	6,119
Gross daily sales volume (MMcfd):				
Industrial sector	6.3	4.6	5.7	4.0
Power sector	27.1	22.8	21.1	18.4
<i>Total daily sales volume</i>	<b>33.4</b>	27.4	<b>26.8</b>	22.4

### Industrial sector

Industrial sales volumes increased by 37% in Q3 2009 to 581 MMcf or 6.3 MMcfd (Q3 2008: 425 MMcf or 4.6 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 eight new customers have been connected to the low pressure distribution network since Q3 2008 resulting in a 43% increase in the volume of industrial sales to 1,554 MMcf for the nine months ended 30 September 2009 compared to 1,083 MMcf in 2008 with Wazo Hill accounting for 85% of the increase.

### Power sector

Power sector sales volumes increased by 19% to 2,493 MMcf (27.1 MMcfd) in Q3 2009 from 2,097 MMcf (22.8 MMcfd) in Q3 2008. The increase in sales volumes compared to Q3 2008 is mainly the consequence of the greater utilization of the 102 MW TANESCO power plant (operated by Wärtsilä) during the quarter to meet increasing demand for electricity in the country.

The overall increase in sales to 5,756 MMcf for the nine months ended 30 September 2009 from 5,036 MMcf in 2008 is a combination of the under utilization of the gas fired generation during heavy rains in Q2 2008 and the dry conditions experienced in Q3 2009.

### 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	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>US\$/mcf</i>				
Average sales price				
Industrial sector	9.01	13.29	7.96	12.67
Power sector	2.41	2.41	2.39	2.37
<i>Weighted average price</i>	<b>3.66</b>	4.25	<b>3.57</b>	4.19

### Industrial sector

The average sales price achieved for Q3 2009 was US\$9.01/mcf compared to US\$13.29/mcf in Q3 2008, with year to date prices for 2009 and 2008 being US\$7.96/mcf and US\$12.67/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 decline in price for both the quarter and the nine months ended 30 September 2009 is a consequence of the decrease in world energy prices and the commencement of sales to the Wazo Hill cement plant, that is priced by reference to their alternative fuel supply which is imported coal.

### Power sector

The average sales price to the power sector was US\$2.41/mcf for the quarters ended 30 September 2008 and 2009.

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.

## 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. As the Additional Gas sales volumes continued to be in excess of 20 MMcf/d, the Company's share of revenue after cost recovery ("Profit Gas") was 30%.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Gross sales revenue	11,250	10,712	26,132	25,640
Gross tariff for processing plant and pipeline infrastructure	(1,925)	(1,733)	(4,432)	(4,143)
Gross revenue after tariff	9,325	8,979	21,700	21,497
<i>Analysed as to:</i>				
Company Cost Gas	6,994	6,730	16,275	16,134
Company Profit Gas	698	678	1,541	1,539
Company operating revenue	7,692	7,408	17,816	17,673
TPDC Profit Gas	1,633	1,571	3,884	3,824
	9,325	8,979	21,700	21,497

The Company's revenue reported for the quarter amounted to US\$7,536,000 after adjusting the Company's operating revenue of US\$7,692,000 by:

- 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.
- US\$156,000 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:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Industrial sector	5,240	5,650	12,381	13,722
Power sector	6,010	5,062	13,751	11,918
<b>Gross sales revenue</b>	<b>11,250</b>	10,712	<b>26,132</b>	25,640
Processing and transportation tariff	(1,925)	(1,733)	(4,432)	(4,143)
TPDC share of revenue	(1,633)	(1,571)	(3,884)	(3,824)
<b>Company operating revenue</b>	<b>7,692</b>	7,408	<b>17,816</b>	17,673
Additional Profits Tax	(156)	(107)	(336)	(262)
Current income tax adjustment	-	-	-	-
<b>Revenue</b>	<b>7,536</b>	7,301	<b>17,480</b>	17,411

#### 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") (Q3 2008: US\$1.89/mcf) has been deducted from the achieved industrial sales price of US\$9.01/mcf (Q3 2008: US\$13.29/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\$273,000 (Q3 2008: US\$125,000) and US\$134,000 (Q3 2008: US\$51,000) 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\$1.0 million per annum in its current form, the increase in costs is a consequence of the employment of dedicated personnel to maintain the high level of service given to customers together with one off costs associated with the maintenance of the pressure reduction stations.

These costs are summarized in the table below:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Share of well maintenance	134	51	328	179
Other field and operating costs	285	152	578	435
Ringmain distribution pipeline	578	188	992	510
<b>Production and distribution expenses</b>	<b>997</b>	391	<b>1,898</b>	1,124



## OPERATING NETBACKS

The operating 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	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(Amounts in US\$/mcf)</i>				
Gas price - industrial	9.01	13.29	7.96	12.67
Gas price - power	2.41	2.41	2.39	2.37
<b>Weighted average price for gas</b>	<b>3.66</b>	4.25	<b>3.57</b>	4.19
Tariff (after allowance for the Ringmain Tariff)	(0.63)	(0.69)	(0.61)	(0.68)
TPDC Profit Gas	(0.53)	(0.62)	(0.53)	(0.62)
<b>Net selling price</b>	<b>2.50</b>	2.94	<b>2.43</b>	2.89
Well maintenance and other operating costs	(0.14)	(0.08)	(0.12)	(0.10)
Ringmain distribution pipeline	(0.19)	(0.07)	(0.14)	(0.08)
<b>Operating netback</b>	<b>2.17</b>	2.79	<b>2.17</b>	2.71

The operating netback for the quarter was US\$2.17/mcf (Q3 2008: US\$2.79/mcf), a decrease of 22% over Q3 2008.

The lower industrial sales price achieved in Q3 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 higher well maintenance costs per unit in Q3 2009 were the result the removal of pressure gauges for reservoir studies and additional repair work undertaken on well platforms.

An operating netback of US\$2.17/mcf was achieved for the nine months ended 30 September 2009 compared to US\$2.71/mcf in 2008, a decrease of 20%. The overall decrease was the result of a 15% reduction in the weighted average sales price in 2009 to US\$3.57/mcf from US\$4.19/mcf and higher costs on a per mcf basis. This was the result of an increase in the cost base for both well maintenance and the additional costs incurred on the ringmain distribution pipeline.

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	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(Figures in US\$'000)</i>				
Employee costs	548	572	1,636	1,675
Consultants	643	861	1,860	2,079
Travel and accommodation	155	131	489	630
Communications	26	21	66	51
Office	271	238	838	694
Insurance	64	65	178	199
Auditing and taxation	48	51	140	152
Depreciation	31	12	85	46
Reporting, regulatory and corporate	154	126	371	250
	1,940	2,077	5,663	5,776
Marketing costs including legal fees	421	1,783	1,704	3,748
Stock based compensation	286	(39)	1,266	1,310
<b>Net general and administrative expenses</b>	<b>2,647</b>	3,821	<b>8,633</b>	10,834

G&A averaged approximately US\$0.9 million per month for Q3 2009 and for the nine months ended 30 September 2009. This represents a 31% reduction over Q3 2008 and a 20% reduction compared to the nine months ended 30 September 2008. G&A per mcf decreased to US\$0.86/mcf (Q3 2008: US\$1.52/mcf).

Whilst a large proportion of G&A is relatively fixed in nature and therefore declines on a per mcf basis as volumes produced increase, costs have continued to be incurred, at a reduced level compared to Q3 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 Q3 2008 are summarized below:

### Consultants

The decline in consultancy costs 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 decrease in the level of travel and accommodation costs for the nine months ended 30 September 2009 is a result of the decrease in the number of business trips to Tanzania by Company officials and other marketing and legal professionals in relation to the negotiation of the power and related contracts.

### Office costs

The overall increase in office costs for the nine months ended 30 September 2009 compared to the nine months ended 30 September 2008 is a result of the expansion of the downstream activities which led to the establishment of a second office location in Dar es Salaam.

### Marketing costs and legal fees

The reduction in marketing and legal fees in Q3 2009 compared to Q3 2008 is mainly a consequence of lower costs being incurred on the negotiation of long term power contracts and on applications to EWURA. Significant time was spent on the preparation of applications to EWURA during Q3 2008. In addition US\$0.6 million was incurred in Q3 2008 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.

### Stock based compensation

A total of 2,797,000 stock options were issued and outstanding at the end of Q3 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 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\$0.2 million was recorded for the 1,135,000 stock options that were issued in 2007. The decline compared to Q3 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 Q3 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 September 2009 the following assumptions were used; stock volatility 122%, a risk free interest rate of 2.05% and a closing stock price of Cdn\$3.24. 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 Q3 2009 compared to a credit of US\$0.5 million in Q3 2008 in respect of these stock appreciation rights. The credit in Q3 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, the first third vesting in full on 7 April 2007. All of the 200,000 Class B shares were fully vested at the end of Q1 2009, whereas a charge of US\$0.2 million was incurred in Q3 2008.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(Figures in US\$'000)</i>				
Stock options	188	350	828	1,680
Stock appreciation rights	98	(541)	368	(455)
Treasury stock	-	152	70	454
	286	(39)	1,266	1,679
Capitalized	-	-	-	(369)
	286	(39)	1,266	1,310

## NET FINANCING 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 US dollar against the Tanzanian shilling. Despite the gas sales price being denominated in US dollars, the invoices are submitted in Tanzanian shillings. Therefore, there is an exchange exposure between the time that the invoices are submitted and the date that the payment is received. The small loss on foreign exchange incurred in the quarter is in relation to the conversion of funds held in British pound sterling.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(Figures in US\$'000)</i>				
<b>Finance income</b>				
Interest income	9	11	35	84
Foreign exchange gain	19	113	33	220
	<b>28</b>	124	<b>68</b>	304
<b>Finance charges</b>				
Overdraft charges	-	(50)	-	(50)
Foreign exchange loss	(39)	-	(73)	(282)
	<b>(39)</b>	(50)	<b>(73)</b>	(332)
<b>Net financing income/(charges)</b>	<b>(11)</b>	74	<b>(5)</b>	(28)

## 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 September 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\$7.8 million which represents an additional charge of US\$1.1 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\$156,000 has been netted off revenue for the quarter ended 30 September 2009 (Q3 2008: US\$107,000).

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 Q3 2009. In Q3 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 nine months ended 30th September 2009.

## FUNDS GENERATED BY OPERATIONS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(Figures in US\$'000)</i>				
Profit/(loss) after taxation	1,549	816	1,760	(9,535)
Adjustments <sup>(1)</sup>	2,698	2,957	6,468	17,318
<b>Funds from operations before working capital changes</b>	<b>4,247</b>	3,773	<b>8,228</b>	7,783
Working capital adjustments <sup>(1)</sup>	(2,288)	(3,410)	(2,637)	(2,018)
<b>Net cash flows from operating activities</b>	<b>1,959</b>	363	<b>5,591</b>	5,765
Net cash flows used in investing activities	(1,273)	(1,109)	(6,263)	(11,100)
Net cash flows used in financing activities	(55)	-	(211)	(2)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>631</b>	(746)	<b>(883)</b>	(5,337)

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

The 440% increase in net cash flows from operations to US\$2.0 million in Q3 2009 compared to US\$0.4 million in Q3 2008, is primarily the result of the increased level of profit recorded in Q3 2009 together with a smaller reduction in the level of working capital in Q3 2009 compared to Q3 2008. There has been no significant change in the net cash flows from operations for the nine month ended 30 September 2008 and 30 September 2009 as the increased sales volumes in 2009 have been offset by the higher sales prices achieved in 2008.

The US\$0.6 million increase in cash and cash equivalents for the three months ended 30 September 2009 is a consequence of the US\$4.2 million funds from operations before working capital changes being offset by capital expenditure of US\$2.0 million during the period together with a net cash reduction of US\$1.6 million in working capital.

The overall decline in cash and cash equivalents of US\$0.9 million in the nine months ended 30 September 2009 is a result of the US\$8.2 million funds from operations before working capital changes being offset by US\$5.6 million of capital expenditure incurred during the period together with a net cash reduction of US\$3.3 million in working capital, and a normal course share repurchase of US\$0.2 million.

## CAPITAL EXPENDITURE

Gross capital expenditures amounted to US\$2.0 million during the quarter (Q3 2008: US\$1.2 million). The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(Figures in US\$ '000)</i>				
Geological and geophysical and well drilling	338	419	691	4,460
Pipelines and infrastructure	1,339	705	4,286	1,930
Power development	289	4	292	25
Other equipment	27	45	364	45
	1,993	1,173	5,633	6,460

### *Geological and geophysical and well drilling*

A total of US\$0.1 million of expenditure was incurred on reservoir studies during the quarter, with a further US\$0.2 million being spent on acquiring and interpreting a new 2D seismic line that was acquired during the quarter over the existing Songo Songo field.

The high level of capital expenditure in the nine months ended 30 September 2008 relates to the work undertaken on the analysis of seismic data from Exploration Areas EA5 in Uganda during the first half of 2008. 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*

A total of US\$0.3 million was incurred on infrastructure studies during the quarter including the possible expansion of the existing gas processing capacity to 140 MMcf/d and future pipeline development.

During the quarter, a total of US\$1.0 million was spent on the completion of the compressed natural gas ("CNG") mother station at Ubungu and on the construction of the daughter stations. The initial CNG project is targeting local hotels and industries in Dar es Salaam and the conversion of motor vehicles to CNG.

## WORKING CAPITAL

Working capital as at 30 September 2009 was US\$12.1 million compared with US\$9.7 million as at 31 December 2008 and may be analyzed as follows:

	AS AT	AS AT
	30-Sep 2009	30-Dec 2008
<i>(Figures in US\$ '000)</i>		
Cash and cash equivalents	9,703	10,586
Trade and other receivables	11,098	13,196
	20,801	23,782
Trade and other payables	8,654	14,055
<b>Working capital</b>	<b>12,147</b>	<b>9,727</b>

The level of working capital, increased by 25% during the nine months ended 30 September 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 September 2009, US\$9.2 million was represented by trade receivables (Q4 2008: US\$11.9 million), US\$1.3 million (Q4 2008: US\$1.0 million) prepayments and other receivables and taxes US\$0.6 million (Q4 2008: US\$0.3 million).

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 30 September 2009, US\$4.4 million (Q4 2008: US\$3.0 million) of trade receivables was due from the industrial customers of which 58% is due from 4 customers. The balance of US\$4.8 million in trade receivables includes an amount of US\$1.5 million (Q4 2008: US\$4.9 million) due from Songas for the supply of Additional Gas to the Ubungu power plant and US\$3.3 million (Q4 2008: US\$4.0 million) from TANESCO for the supply of Additional Gas to their 102 MW plant operated by Wärtsilä.

The contracts with Songas and TANESCO accounted for 53% 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 paid Songas US\$0.5 million on the successful completion and operation of the gas processing facilities at 90 MMcfd and is committed to paying 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 capital expenditure program for the next twelve months in Tanzania 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. The Company will require additional funding for any material new acquisition.

### 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 (30.7 Bcf as at 30 September 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'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.



### 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% for all future development 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 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.

### Post Balance Sheet Event

On 10 November 2009, the Company signed a Joint Bidding Agreement in relation to an exploration licence. In the event that the bid is successful, there will be a requirement to raise additional capital to finance the exploration work commitments.

### Shareholders' Equity and Outstanding Share Data

	AS AT	AS AT
	30-Sep 2009	31-Dec 2008
<i>Number of shares ('000)</i>		

#### Shares outstanding

Class A shares	1,751	1,751
Class B shares	27,770	27,863
	29,521	29,614

#### Convertible securities

Stock options	2,797	2,814
<b>Diluted Class A and Class B shares</b>	<b>32,318</b>	32,428

#### Weighted average

Class A and Class B shares	29,554	29,614
----------------------------	--------	--------

#### Convertible securities

Stock options	1,167	1,425
<b>Weighted average diluted Class A and Class B shares</b>	<b>30,721</b>	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.

During Q3 2009, 18,000 Class B shares were purchased pursuant to a normal course issuer bid.

As at 19 November 2009, there were a total of 1,751,195 Class A shares and 27,745,228 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4

(Figures in US\$'000 except where otherwise stated)

## Financial

Revenue	7,536	5,501	4,443	6,371	7,301	4,826	5,284	5,562
Profit/(loss) after taxation	1,549	379	(168)	12	816	(10,208)	(143)	284
Operating netback (US\$/mcf)	2.17	2.17	2.18	2.32	2.79	3.44	2.21	2.27
Working capital	12,147	9,939	9,154	9,727	8,705	6,094	8,297	7,299
Shareholders' equity	67,159	65,477	64,684	64,712	64,142	62,824	72,053	71,544
Profit/(loss) per share - basic and diluted (US\$)	0.05	0.01	(0.01)	0.00	0.03	(0.35)	0.00	0.01

## Capital expenditures

Geological and geophysical and well drilling	338	222	131	(987)	419	2,851	1,190	16,323
Pipeline and infrastructure	1,339	1,317	1,630	2,217	705	979	246	469
Power development	289	3	0	13	4	21	-	4
Other equipment	27	207	130	31	45	-	-	-

## Operating

Additional Gas sold - industrial (MMcf)	581	613	360	392	425	336	322	364
Additional Gas sold - power (MMcf)	2,493	1,693	1,570	2,149	2,097	956	1,983	2,152
Average price per mcf - industrial (US\$)	9.01	7.02	7.91	10.08	13.29	12.97	11.55	11.08
Average price per mcf - power (US\$)	2.41	2.36	2.39	2.39	2.41	2.93	2.05	2.19



# Consolidated Income Statements *(unaudited)*

		THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOTE	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
(thousands of US dollars except per share amounts)					
Revenue		7,536	7,301	17,480	17,411
Cost of sales					
Production and distribution expenses		(997)	(391)	(1,898)	(1,124)
Depletion expense		(1,199)	(1,554)	(2,861)	(3,736)
Impairment of exploration and evaluation assets2		-	-	-	(9,520)
		5,340	5,356	12,721	3,031
Administrative expenses		(2,647)	(3,821)	(8,633)	(10,834)
Net financing income/(charges)		(11)	74	(5)	(28)
Profit/(loss) before taxation		2,682	1,609	4,083	(7,831)
Taxation1		(1,133)	(793)	(2,323)	(1,704)
Profit/(loss) after taxation		1,549	816	1,760	(9,535)
Profit/(loss) per share					
Basic and diluted (US\$)		0.05	0.03	0.06	(0.32)

See accompanying notes to the interim consolidated financial statements.

## Consolidated Balance Sheets *(unaudited)*

(thousands of US dollars)

	NOTE	30-Sep 2009	31-Dec 2008
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		9,703	10,586
Trade and other receivables		11,098	13,196
		20,801	23,782
Exploration and evaluation assets	2	757	648
Property, plant and equipment	3	63,395	60,818
		64,152	61,466
		84,953	85,248
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		8,654	14,055
<b>Non current liabilities</b>			
Deferred income taxes	1	7,833	5,510
Deferred additional profits tax		1,307	971
		17,794	20,536
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	4	66,329	66,537
Capital reserve		4,610	3,715
Accumulated (loss)		(3,780)	(5,540)
		67,159	64,712
		84,953	85,248

Contractual obligations and committed capital investment (Note 7)

Post balance sheet event (Note 8)

See accompanying notes to the interim consolidated financial statements.

## Consolidated Statements of Cash Flows *(unaudited)*

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(thousands of US dollars)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Profit/(loss) after taxation</b>	<b>1,549</b>	816	<b>1,760</b>	(9,535)
Adjustment for:				
Depletion and depreciation	<b>1,230</b>	1,566	<b>2,947</b>	3,782
Impairment of exploration and evaluation assets	-	-	-	9,520
Stock-based compensation	<b>188</b>	502	<b>898</b>	2,134
Deferred income taxes	<b>1,133</b>	793	<b>2,323</b>	1,704
Deferred additional profits tax	<b>156</b>	107	<b>336</b>	262
Interest income	<b>(9)</b>	(11)	<b>(36)</b>	(84)
	<b>4,247</b>	3,773	<b>8,228</b>	7,783
(Increase)/decrease in trade and other receivables	<b>(2,061)</b>	(3,116)	<b>2,098</b>	(2,106)
(Decrease)/increase in trade and other payables	<b>(227)</b>	(294)	<b>(4,735)</b>	88
<b>Net cash flows from operating activities</b>	<b>1,959</b>	363	<b>5,591</b>	5,765
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Exploration and evaluation expenditures	<b>(3)</b>	(412)	<b>(109)</b>	(3,051)
Property, plant and equipment expenditures	<b>(1,990)</b>	(761)	<b>(5,524)</b>	(3,409)
Interest income	<b>9</b>	11	<b>36</b>	84
Increase/(decrease) in trade and other payables	<b>711</b>	53	<b>(666)</b>	(4,724)
<b>Net cash used in investing activities</b>	<b>(1,273)</b>	(1,109)	<b>(6,263)</b>	(11,100)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Normal course issuer bid	<b>(55)</b>	-	<b>(211)</b>	(2)
<b>Net cash flow used in financing activities</b>	<b>(55)</b>	-	<b>(211)</b>	(2)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>631</b>	(746)	<b>(883)</b>	(5,337)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>9,072</b>	11,924	<b>10,586</b>	16,515
<b>Cash and cash equivalents at the end of the period</b>	<b>9,703</b>	11,178	<b>9,703</b>	11,178

See accompanying notes to the interim consolidated financial statements.



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

<i>(thousands of US dollars)</i>	Capital stock	Capital reserve	Accumulated Income/(loss)	Total
<b>Balance as at 1 January 2008</b>	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)
<b>Balance as at 30 September 2008</b>	<b>66,537</b>	<b>3,157</b>	<b>(5,552)</b>	<b>64,142</b>

<i>(thousands of US dollars)</i>	Capital stock	Capital reserve	Accumulated Income/(loss)	Total
<b>Note</b>	4			
<b>Balance as at 1 January 2009</b>	66,537	3,715	(5,540)	64,712
Stock-based compensation	-	898	-	898
Normal course issuer bid	(208)	(3)	-	(211)
Profit for the period	-	-	1,760	1,760
<b>Balance as at 30 September 2009</b>	<b>66,329</b>	<b>4,610</b>	<b>(3,780)</b>	<b>67,159</b>

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 nine months ended 30 September 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		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Current tax	-	-	-	-
Deferred tax	1,133	793	2,323	1,704
	1,133	793	2,323	1,704

Tax Rate Reconciliation	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Profit/(loss) before taxation	2,682	1,609	4,083	(7,831)
Provision for income tax calculated at the statutory rate of 30%	805	483	1,225	(2,349)

Add/(deduct) the tax effect of non-deductible income tax items:

Administrative and operating expenses	217	299	701	763
Stock based compensation	86	(12)	380	346
Other expenses / (income)	4	(5)	(43)	(18)
Impairment of exploration and evaluation assets	-	-	-	2,856
Permanent differences	21	28	60	106
	1,133	793	2,323	1,704

As at 30 September 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 September 2009. The deferred income tax liability includes the following temporary differences:

<i>Figures in US'000</i>	<b>As at 30-Sep 2009</b>	<b>As at 31-Dec 2008</b>
Differences between tax base and carrying value of property, plant and equipment	<b>8,859</b>	6,338
Provision for stock option bonuses	-	(2)
Income tax recoverable	<b>180</b>	221
Other liabilities	<b>(107)</b>	(196)
Additional profits tax	<b>(389)</b>	(291)
Tax losses	<b>(710)</b>	(560)
	<b>7,833</b>	5,510

## 2 EXPLORATION AND EVALUATION ASSETS

<i>Figures in US'000</i>	<b>Tanzania</b>
<b>Costs</b>	
As at 1 January 2009	648
Additions	109
<b>As at 30 September 2009</b>	<b>757</b>
<b>Depletion/Depreciation</b>	
As at 1 January 2009	-
<b>As at 30 September 2009</b>	<b>-</b>
<b>Net Book Values</b>	
<b>As at 30 September 2009</b>	<b>757</b>
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. There were no general administrative costs capitalized in the quarter (Q3 2008: US\$ nil).

### 3 PROPERTY, PLANT AND EQUIPMENT

<i>Figures in US'000</i>	<b>Tanzania</b>	<b>Leasehold improvements</b>	<b>Computer equipment</b>	<b>Vehicles</b>	<b>Fixtures &amp; Fittings</b>	<b>Total</b>
<b>Costs</b>						
As at 1 January 2009	72,732	185	207	122	52	73,298
Additions	5,159	35	225	65	40	5,524
Disposal	-	-	-	(20)	-	(20)
<b>As at 30 September 2009</b>	<b>77,891</b>	<b>220</b>	<b>432</b>	<b>167</b>	<b>92</b>	<b>78,802</b>
<b>Depletion/Depreciation</b>						
As at 1 January 2009	12,072	156	126	85	41	12,480
Charge for period	2,861	6	49	27	3	2,946
Depreciation on disposal	-	-	-	(19)	-	(19)
<b>As at 30 September 2009</b>	<b>14,933</b>	<b>162</b>	<b>175</b>	<b>93</b>	<b>44</b>	<b>15,407</b>
<b>Net Book Values</b>						
<b>As at 30 September 2009</b>	<b>62,958</b>	<b>58</b>	<b>257</b>	<b>74</b>	<b>48</b>	<b>63,395</b>
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 (Q3 2008: US\$123.8 million) will be required to bring the total proved reserves to production. There were no capitalized general administrative costs during the quarter (Q3 2008: US\$ nil).

### 4 CAPITAL STOCK

<i>Number of shares (thousands)</i>	<b>Authorized</b>	<b>Issued</b>	<b>Par value</b>
<b>CLASS A</b>			
<b>As at 31 December 2008 and 30 September 2009</b>	50,000	1,751	983
<b>CLASS B</b>			
As at 31 December 2008	50,000	27,863	65,554
Normal course issuer bid	-	(93)	(208)
<b>As at 30 September 2009</b>	50,000	27,770	65,346
<b>Total Class A and Class B as at 30 September 2009</b>	<b>100,000</b>	<b>29,521</b>	<b>66,329</b>

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, with a further 18,000 shares repurchased during the quarter at an average price of Cdn\$3.40.

## 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 IFRS 2, 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 2009:

<i>Thousands of options or Cdn\$</i>	<b>Options</b>	<b>Exercise Price</b>
Outstanding as at 31 December 2008	2,814	1.00 to 13.55
Forfeited	(17)	12.00
Outstanding as at 30 September 2009	2,797	1.00 to 13.55

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

<b>Exercise Price (Cdn\$)</b>	<b>Number Outstanding as at 30 September 2009</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Number Exercisable as at 30 September 2009</b>	<b>Weighted Average Exercise Price (Cdn\$)</b>
1.00	1,662	4.92	1,662	1.00
8.00 - 13.55	1,135	2.61	698	11.36

## Stock Appreciation Rights

<i>Thousands of stock appreciation rights or Cdn\$</i>	<b>Options</b>	<b>Exercise Price</b>
Outstanding as at 31 December 2008 and 30 September 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 IFRS 2, 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 122% with a level of forfeitures between 0% and 33%.

As at 30 September 2009, a total liability of US\$0.5 million had been recorded in trade and other payables in respect of the outstanding stock appreciation rights.

**Shareholders' Equity and Outstanding Share Data**

	As at 30-September 2009	As at 31 December 2008
<i>Number of shares ('000)</i>		
<b>Shares outstanding</b>		
Class A shares	1,751	1,751
Class B shares	27,770	27,863
	29,521	29,614
<b>Convertible securities</b>		
Stock options	2,797	2,814
<b>Diluted Class A and Class B shares</b>	32,318	32,428
<b>Weighted average</b>		
Class A and Class B shares	29,554	29,614
<b>Convertible securities</b>		
Stock options	1,167	1,425
<b>Weighted average diluted Class A and Class B shares</b>	30,721	31,039

**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 September 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-Sep 2009		31-Dec 2008	
	IFRS	CDN	IFRS	CDN
<i>Figures in US\$ '000</i>				
Current assets	20,801	20,801	23,782	23,782
Exploration and evaluation assets	757	-	648	-
Property, plant and equipment	63,395	65,644	60,818	63,010
	84,953	86,445	85,248	86,792
Current liabilities	8,654	8,127	14,055	13,899
Non current liabilities	9,140	10,868	6,481	8,226
Capital stock	66,329	66,329	66,537	66,537
Reserves	830	1,121	(1,825)	(1,870)
	84,953	86,445	85,248	86,792
<b>Profit/(loss) before taxation</b>	<b>4,083</b>	<b>4,416</b>	<b>(7,056)</b>	<b>(7,140)</b>

## 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 paid Songas US\$0.5 million on the successful completion and operation of the gas processing facilities at 90 MMcf and is committed to paying 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 MMcf to 90 MMcf 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 (30.7 Bcf as at 30 September 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'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.

### 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% for all future development 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.

## 8 POST BALANCE SHEET EVENT

On 10 November 2009, the Company signed a Joint Bidding Agreement in relation to an exploration licence. In the event that the bid is successful, there will be a requirement to raise additional capital to finance the exploration work commitments.

## CORPORATE INFORMATION

Orca Exploration Group Inc.

### BOARD OF DIRECTORS

#### W. DAVID LYONS

Non-Executive Chairman  
Winchester  
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  
Nanoose Bay  
Canada

#### DAVID ROSS

Non-Executive Director  
Calgary  
Canada

#### JAMES SMITH

Vice President Exploration  
Hurst  
United Kingdom

### OPERATING OFFICE

#### ORCA EXPLORATION GROUP INC.

Barclays House, 5th Floor  
Ohio Street, P.O. Box 80139  
Dar es Salaam  
Tanzania  
Tel: + 255 22 2138737  
Fax: + 255 22 2138938

### REGISTERED OFFICE

#### ORCA EXPLORATION GROUP INC.

P.O. Box 3152,  
Road Town  
Tortola  
British Virgin Islands

### INVESTOR RELATIONS

#### NIGEL A. FRIEND

Chief Financial Officer  
Tel: + 255 22 2138737  
nfriend@orcaexploration.com  
www.orcaexploration.com

### INTERNATIONAL SUBSIDIARIES

#### PANAFRICAN ENERGY TANZANIA LIMITED

Barclays House, 5th Floor  
Ohio Street  
P.O. Box 80139  
Dar es Salaam  
Tanzania  
Tel: + 255 22 2138737  
Fax: + 255 22 2138938

#### PAE PANAFRICAN ENERGY CORPORATION

1st Floor  
Cnr St George/Chazal Streets  
Port Louis  
Mauritius  
Tel: + 230 207 8888  
Fax: + 230 207 8833

#### ORCA EXPLORATION (VENTURES) INC. ORCA EXPLORATION UGANDA (HOLDING) INC. ORCA EXPLORATION UGANDA INC

P.O. Box 3152  
Road Town  
Tortola  
British Virgin Islands

### ENGINEERING CONSULTANTS

#### MCDANIEL & ASSOCIATES CONSULTANTS LTD.

Calgary  
Canada

### AUDITORS

#### KPMG LLP

Calgary  
Canada

### LAWYERS

#### BURNET, DUCKWORTH & PALMER LLP

Calgary  
Canada

### TRANSFER AGENT

#### CIBC MELLON TRUST TRUST COMPANY

Toronto, Montreal  
Canada



[www.orcaexploration.com](http://www.orcaexploration.com)