2010 Q1

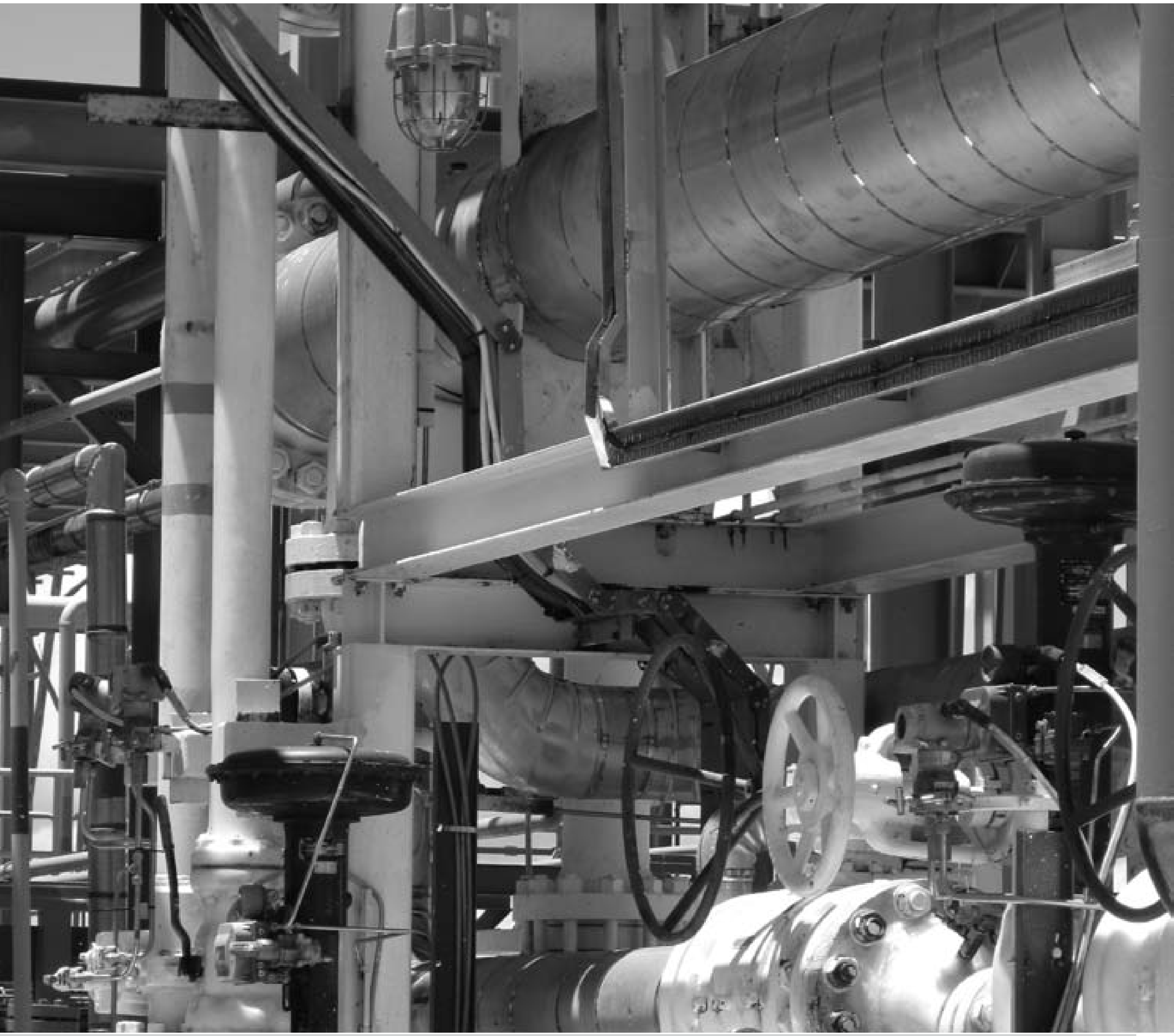
Interim Report

Orca Exploration Group Inc.

strategic growth

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.

Orca Exploration Group Inc. is a well-financed, international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania and the acquisition and development of high potential oil exploration and production opportunities in Europe, the Middle East and Africa. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.



Orca is continuing infrastructure expansion discussions with Songas Limited and the EWURA, Tanzania's energy regulator.

THREE MONTHS ENDED OR AS AT	31 March 2010	31 March 2009	Change
Financial (US$'000 except where otherwise stated)			
Revenue	**8,259**	4,443	86%
Profit before taxation	**3,273**	322	916%
Operating netback *(US$/mcf)*	**2.19**	2.18	(0%)
Cash and cash equivalents	**15,517**	9,710	60%
Working capital	**20,891**	9,154	128%
Shareholders' equity	**70,955**	64,684	10%
Profit/(loss) per share - basic *(US$)*	**0.07**	(0.01)	n/a
Profit/(loss) per share - diluted *(US$)*	**0.06**	(0.01)	n/a
Funds flow from operating activities	**4,289**	1,458	194%
Funds flow per share from operating activities - basic *(US$)*	**0.15**	0.05	200%
Funds flow per share from operating activities - diluted *(US$)*	**0.14**	0.05	180%
Net cash flows from operating activities	**1,467**	1,904	(23%)
Net cash flows per share from operating activities - basic *(US$)*	**0.05**	0.06	(17%)
Net cash flows per share from operating activities - diluted *(US$)*	**0.05**	0.06	(17%)
Outstanding Shares *('000)*			
Class A shares	**1,751**	1,751	0%
Class B shares	**27,743**	27,788	0%
Options	**2,797**	2,797	0%
Operating			
Additional Gas sold *(MMcf)* - industrial	**485**	360	35%
Additional Gas sold *(MMcf)* - power	**2,656**	1,570	69%
Additional Gas sold *(MMcfd)* - industrial	**5.4**	4.0	35%
Additional Gas sold *(MMcfd)* - power	**29.5**	17.4	69%
Average price per mcf *(US$)* - industrial	**9.32**	7.91	18%
Average price per mcf *(US$)* - power	**2.56**	2.39	7%

- Increased profit before taxation by 916% to US$3.3 million (Q1 2009: US$0.3 million).
- Increased funds flow from operating activities by 194% to US$4.3 million (Q1 2009: US$1.5 million).
- Increased Q1 2010 sales of Additional Gas to Dar es Salaam industrial customers by 35% to 485 MMcf or 5.4 MMcfd (Q1 2009: 360 MMcf or 4.0 MMcfd). The majority of the increase is a result of increased sales to the Wazo Hill cement plant.
- Increased working capital by 24% during the quarter to US$20.9 million (US$16.8 million at 31 December 2009).
- Increased Q1 2010 sales of Additional Gas to the power sector by 69% to 2,656 MMcf or 29.5 MMcfd (Q1 2009: 1,570 MMcf or 17.4 MMcfd).
- Commenced work on connecting the SS-10 well to the gas processing plant.
- Undertook extensive evaluation of several new projects culminating in the signing of a Production Sharing Contract that is pending ratification.

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
LHV	Low 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
bar	Fifteen pounds pressure per square inch

With the new 45 MW Tegeta power plant operational, Q1 Additional Gas sales to the power sector increased by 69% to 29.5 MMcfd.

During the first quarter of 2010 Orca Exploration's gas production and marketing efforts in Tanzania generated funds flow from operating activities of US$4.3 million, a 194% increase compared with the same period in 2009. To build on this level of performance and earnings Orca Exploration is vigorously pursuing two strategies.

First, Orca will work with all stakeholders and other interested parties to accelerate the development of Tanzania's gas production, infrastructure and markets. Second, the Company has put an immediate priority on the acquisition of two new high potential oil prospects that can be drilled within two years.

We have identified the challenges that stand in the way of achieving these goals and are committed to address them through a combination of internal and external actions. At the same time we have initiated a strategic review to find ways to accelerate the monetisation of Tanzania's gas reserves. Orca intends to pursue this goal in a spirit of partnership and respect for the interests of Tanzania, our partners, our shareholders and employees.

Monetising gas reserves in Tanzania

Orca's initial monetising objective is to further develop and increase the natural gas processing and transportation infrastructure in Tanzania. This will give Orca greater access to Additional Gas and help monetise existing Songo Songo 2P gross reserves of 490 Bcf. This is sufficient to supply a daily average of 100 to 120 MMcfd of Additional Gas (140 – 160 MMcfd including Protected Gas) on an annual basis. The Songo Songo infrastructure capacity is currently constrained by a gas processing limit of 90 MMcfd.

During Q1 2010, Orca continued infrastructure expansion discussions with Songas Limited, the owner of the Songo Songo gas processing plant and EWURA, Tanzania's energy regulator. The objective is to implement a long term infrastructure expansion (the "Expansion Project") that will increase the infrastructure capacity to 144 MMcfd. Talks are currently on track for the Expansion Project to achieve financial closure by Q1 2011 to enable it to be in place by the end of 2012. The majority of the increased gas throughput is expected to be consumed by Tanzania's growing power sector.

Work has also commenced to identify alternative options to accelerate the commercialisation of the Songo Songo West exploration prospect. Assuming commercial success, Songo Songo West is projected to have unrisked P50 resources of 450 Bcf. The Company plans to drill the first well during the second half of 2011.

FAR LEFT:
The new Wazo Hill cement plant kiln #4 is operating on Additional Gas supplied by Orca.

LEFT:
A new pressure reduction station was constructed to expand the Company's industrial gas distribution capacity.

Gas sales and financial results

The Company's natural gas production and marketing operations in Tanzania continue to provide Orca with a solid financial and operating foundation. Gas sales to the power sector increased again following the commissioning of the new Dar es Salaam located 45 MW gas fired unit in Q4 2009.

Funds flow are expected to continue to grow in the second half of 2010 with forecast funds flow from operating activities for the year of between US$15 million and US$20 million. During the second quarter of 2010 seasonal reductions in natural gas demand are expected due to TANESCO's ability to utilise a higher proportion of hydro electricity during the rainy season.

Ongoing control of Orca's expenditure levels has resulted in a 10% reduction of G&A expenses to US$2.7 million in Q1 2010. This was achieved at the same time as sales volumes increased 63%. These G&A costs are primarily incurred on our operations in Tanzania. G&A costs for the balance of 2010 are projected to be somewhat higher as a result of internal reorganisation, the increased focus on new business activities and a greater concentration on monetising Orca's reserves in Tanzania.

Step change planning

As we move towards a step change in the growth of the Company, Orca is taking a number of actions to increase the strength of our Board and our management team. Three new, independent non-executive directors will be nominated as additions to the Board at our Annual General Meeting of Shareholders on 23 June 2010. We will continue to add key employees whose skills, local knowledge and experience are appropriate to our growth plans.

Positive growth

Orca is poised to take the Company to a new level of activity, growth and performance over the course of 2010 and 2011. The Company intends to build on its strong, long life cash flows in Tanzania, fully utilising the skills of our tested and experienced employee team. We anticipate that this will involve an expansion of gas production, processing and transportation infrastructure and the drilling of a relatively low risk exploration well. Our Board and management are committed to deliver on this growth agenda.

In economic times that still carry a measure of uncertainty we are mindful of the need to carefully balance our growth plans with sensitivity to external realities. However, we are fortunate to be focused on finding, developing and marketing energy sources that are in great demand.

An increasing range of opportunities for growth is available to us. We are pursuing those that have substantial potential to build greater value for our loyal shareholders. We look forward to reporting on the implementation of our strategies and the results that are achieved over the course of 2010 and beyond.

W. David Lyons
Chairman and CEO

27 May, 2010

Orca is poised to take the company to a new level of activity, growth and performance over the course of 2010 and 2011.

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2010 SHOULD BE READ IN CONJUNCTION WITH THE AUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR YEAR ENDED 31 DECEMBER 2009. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 27 MAY 2010.

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 EXPLORATION 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 EXPLORATION. 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 EXPLORATION'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 EXPLORATION'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 EXPLORATION.

ORCA EXPLORATION'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 EXPLORATION WILL DERIVE THEREFROM. SUBJECT TO APPLICABLE LAW, ORCA EXPLORATION 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

(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 currently being discussed 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 2009, it has been assumed that they will 'back in' for 20% for all future developments 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 in 2009 was 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").

On 27 February 2009, EWURA issued an order that saw the introduction of a flat rate tariff of US$0.59/mcf from 1 January 2010. The Company's long term gas price to the power sector as set out in the short term and initialed long term agreements is 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 three months ended 31st March 2010

Operating Volumes

The sales volumes for the quarter were 3,141 MMcf or 34.9 MMcfd. This represents an increase of 63% over Q1 2009.

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

	THREE MONTHS ENDED	
	31 Mar 2010	31 Mar 2009
Gross sales volume *(MMcf)*:		
Industrial sector	**485**	360
Power sector	**2,656**	1,570
Total volumes	**3,141**	1,930
Gross daily sales volume *(MMcfd)*:		
Industrial sector	**5.4**	4.0
Power sector	**29.5**	17.4
Total daily sales volume	**34.9**	21.4

Industrial sector

Industrial sales volumes of 485 MMcf (5.4 MMcfd) were recorded in Q1 2010. This represents an increase of 35% over the 360 MMcf (4.0 MMcfd) recorded in Q1 2009. This increase is mainly the result of a 73% increase in the supply of gas to Kiln 4 at Tanzania Portland Cement Company's ("TPCC") Wazo Hill cement plant, together with sales to new customers who took delivery of Additional Gas for the first time during Q1 2010.

Power sector

Power sector sales volumes increased by 69% from 1,570 MMcf (17.4 MMcfd) in Q1 2009 to 2,656 MMcf (29.5 MMcfd) in Q1 2010. The increase in sales volumes over Q1 2009 is a result of the delay in the start of the rainy season in 2010 which reduced the utilization rates for hydro generation, together with the sales of 509 MMcf of Additional Gas to Tegeta 45 MW power plant that was commissioned in Q4 2009.

The volume of gas consumed by the Ubungo power plant remained at a similar level during both periods, with the TANESCO 102 MWs power plant consuming 1,417 MMcf of gas in Q1 2010 compared to 885 MMcf in Q1 2010.

Commodity Prices

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

	THREE MONTHS ENDED	
US$/mcf	31 Mar 2010	31 Mar 2009
Average sales price		
Industrial sector	**9.32**	7.91
Power sector	**2.56**	2.39
Weighted average price	**3.61**	3.41

Industrial sector

The average sales price achieved for Q1 2010 was US$9.32/mcf compared to US$7.91/mcf in Q1 2009. The increase in sales price is a consequence of the fluctuation in the world energy prices. 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. The supply of gas to Wazo Hill 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$2.56/mcf for the quarter compared to US$2.39/mcf in Q1 2009. The increase in the sales price over Q1 2009 is due to the annual inflationary increase in respect of the supply of Additional Gas to the power sector and the higher processing and transportation charge per unit.

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.

During the quarter the Additional Gas sales volumes were in excess of 30 MMcfd, consequently the Company's share of revenue after cost recovery ("Profit Gas") was 35%, compared to 30% in Q1 2009.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 83.75% (Q1 2009: 82.5%) of the Net Revenues as follows:

	THREE MONTHS ENDED	
(Figures in US$'000)	**31 Mar 2010**	**31 Mar 2009**
Gross sales revenue	**11,336**	6,587
Gross tariff for processing plant and pipeline infrastructure	**(1,853)**	(1,094)
Gross revenue after tariff	**9,483**	5,493
Analysed as to:		
Company Cost Gas	**7,112**	4,120
Company Profit Gas	**830**	411
Company operating revenue	**7,942**	4,531
TPDC Profit Gas	**1,541**	962
	9,483	5,493

The Company's revenue reported for the quarter amounted to US$8,259,000 after adjusting the Company's operating revenue of US$7,942,000 by:

- US$494,000 for current income tax. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's share of Profit Gas when the tax is payable. To account for this, revenue is adjusted to reflect the current income tax charge.
- US$177,000 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	
(Figures in US$'000)	**31 Mar 2010**	**31 Mar 2009**
Industrial sector	**4,525**	2,847
Power sector	**6,811**	3,740
Gross sales revenue	**11,336**	6,587
Processing and transportation tariff	**(1,853)**	(1,094)
TPDC share of revenue	**(1,541)**	(962)
Company operating revenue	**7,942**	4,531
Additional Profits Tax	**(177)**	(88)
Current income tax adjustment	**494**	–
Revenue	**8,259**	4,443

Processing and Transportation Tariff

A flat rate gas processing and transportation tariff of US$0.59/mcf was introduced from 1 January 2010 by Songas as approved by the energy regulator, EWURA.

The 2009 tariff was calculated as 17.5% of the price of gas at the Songas main pipeline in Dar es Salaam ("Songas Outlet Price").

In calculating the Q1 2009 Songas Outlet Price for the industrial customers, an average amount of US$1.47/mcf ("Ringmain Tariff") was deducted from the achieved industrial sales price of US$7.91/mcf to reflect the gas price that would have been achievable at the Songas main pipeline. The Ringmain Tariff represented the amount that would have been required to compensate a third party distributor of the gas for constructing the connections from the Songas main pipeline to the industrial customers.

The Company passes 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$281,000 (Q1 2009: US$138,000) and US$128,000 (Q1 2009: US$52,000) 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 increase in Q1 2010 is mainly the result of the amortisation of the annual Songas re-rating fee following the re-rating of the gas processing plant from 70 MMcfd to 90 MMcfd.

The direct cost of maintaining the ringmain distribution pipeline and pressure reduction station (security, insurance and personnel) has increased in Q1 2010 as a consequence of the employment of dedicated personnel to maintain the integrity of the distribution system. There has also been an increase in costs associated with insurance and the preventative maintenance program.

These costs are summarized in the table below:

	THREE MONTHS ENDED	
(Figures in US$'000)	**31 Mar 2010**	**31 Mar 2009**
Share of well maintenance	**128**	52
Other field and operating costs	**417**	105
	545	157
Ring main distribution pipeline	**542**	148
Production and distribution expenses	**1,087**	305

Operating Netbacks

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

	THREE MONTHS ENDED	
(Amounts in US$/mcf)	**31 Mar 2010**	**31 Mar 2009**
Gas price – industrial	**9.32**	7.91
Gas price – power	**2.56**	2.39
Weighted average price for gas	**3.61**	3.41
Tariff (after allowance for the Ringmain Tariff in Q1 2009)	**(0.59)**	(0.57)
TPDC Profit Gas	**(0.49)**	(0.50)
Net selling price	**2.53**	2.34
Well maintenance and other operating costs	**(0.17)**	(0.08)
Ringmain distribution pipeline	**(0.17)**	(0.08)
Operating netback	**2.19**	2.18

The operating netback for the quarter was US$2.19/mcf (Q1 2009: US$2.18/mcf).

The increase in the net selling price from US$2.34/mcf to US$2.53/mcf in Q1 2010 is a consequence of the increase in both the gas price achieved in both the industrial and power markets. The increase in sales price is offset by the increase in the well maintenance and other operating costs and the Ringmain distribution pipeline as described above. The overall impact of the increased cost having been reduced, on a mcf basis, by the 63% increase in sales volume from 1,930 MMcf in Q1 2009 to 3,141 MMcf in Q1 2010.

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

Administrative Expenses

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

(Figures in US$'ooo)	THREE MONTHS ENDED 31 Mar 2010	31 Mar 2009
Employee costs	**492**	567
Consultants	**671**	647
Travel and accommodation	**178**	136
Communications	**28**	20
Office	**294**	283
Insurance	**88**	53
Auditing and taxation	**43**	44
Depreciation	**52**	23
Reporting, regulatory and corporate	**65**	71
	1,911	1,844
Marketing costs including legal fees	**526**	739
Stock based compensation	**296**	462
Net general and administrative expenses	**2,733**	3,045

The G&A primarily consists of costs of running the gas distribution business in Tanzania and the majority of it is recoverable as Cost Gas and is relatively fixed in nature.

G&A averaged approximately US$0.9 million per month for Q1 2010 compared to US$1.0 million in Q1 2009. G&A per mcf decreased to US$0.87/mcf (Q1 2009: US$1.58/mcf).

The main variances to Q1 2009 are summarized below:

Marketing costs and legal fees

The decrease in marketing and legal fees compared to Q1 2009 is a consequence of the reduced costs incurred on the negotiation of long term power contracts and the decrease in the level expenditure on the third party claim for breach of contract during the drilling of SS-10 in 2007. This claim has now been settled.

Stock based compensation

A total of 2,797,000 stock options were outstanding at the end of Q1 2010. 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. 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$0.15 million was recorded during the quarter. The decline compared to Q1 2009 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 705,000 stock appreciation rights were in issue at the end of Q1 2010. 105,000 capped stock appreciation rights with an exercise price of Cdn$11.05 per right expired during the quarter. 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 31 March 2010 the following assumptions were used; stock volatility 77%, a risk free interest rate of 2.05% and a closing stock price of Cdn$5.35. A charge of US$0.14 million was recorded in Q1 2010 compared to a charge of US$0.17 million in Q1 2009 in respect of these stock appreciation rights.

In April 2007, 200,000 Class B treasury stock were awarded to a newly appointed officer. These shares are held in escrow and vest to the officer in three equal annual instalments, the final third having vested in April 2009.

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

(Figures in US$'ooo)	THREE MONTHS ENDED 31 Mar 2010	31 Mar 2009
Stock options	**155**	226
Stock appreciation rights	**141**	166
Treasury stock	–	70
	296	462

Net Financing Charges

Interest income has fallen as a consequence of a dramatic decline in interest rates received since Q1 2009.

The loss on foreign exchange experienced in the quarter is a result of the strengthening of the USD 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 gain in foreign exchange is a result of the strengthening USD against the British pound sterling which has resulted in gains following the payment of trade payables.

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

	THREE MONTHS ENDED	
(Figures in US$'ooo)	**31 Mar 2010**	**31 Mar 2009**
Finance income		
Interest income	**1**	16
Foreign exchange gain	**26**	–
	27	16
Finance charges		
Overdraft charges	**(10)**	
Foreign exchange loss	**(204)**	(34)
	(214)	(34)
Net financing (charge)	**(187)**	(18)

Taxation

Income Tax

Under the terms of the PSA with TPDC, the Company is liable for income tax in Tanzania at the corporate tax rate of 30%. However, where income tax is payable, this is recovered from TPDC by deducting an amount from TPDC's profit share. This is reflected in the accounts by adjusting the Company's revenue by the appropriate amount.

As at 31 March 2010, 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$10.1 million which includes an additional deferred future income tax charge of US$1.0 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.

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 the PSA license. The effective APT rate has been calculated to be 21%. Accordingly, US$0.2 million (Q1 2009: US$0.1 million) has been netted off revenue for the quarter ended 31 March 2010.

Management does not anticipate that any APT will be payable in 2010, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the PPI percentage change and the forecast expenditures for 2010. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

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

Depletion and Depreciation

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2009 the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd were 384.9 Bcf on a life of licence basis. This resulted in a depletion charge of US$0.31/mcf in Q1 2010. In Q1 2009 a depletion charge of US$0.38/mcf was recorded based on proven reserves on a life of licence basis of 389.4 Bcf. The fall in the depletion charge is a result of a decline in the expected future capital expenditure required to extract the proven reserves compared to 2009.

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.

Funds Generated by Operations

	THREE MONTHS ENDED	
(Figures in US$'000)	**31 Mar 2010**	**31 Mar 2009**
Profit/(loss) after taxation	**1,940**	(168)
Adjustments *(i)*	**2,349**	1,626
Funds from operations before working capital changes	**4,289**	1,458
Working capital adjustments *(i)*	**(2,822)**	446
Net cash flows from operating activities	**1,467**	1,904
Net cash flows used in investing activities	**(493)**	(2,624)
Net cash flows used in financing activities	**–**	(156)
Net increase/(decrease) in cash and cash equivalents	**974**	(876)

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

The US$1.0 million increase in cash and cash equivalents is a result of the US$4.3 million of funds from operations before working capital changes during the quarter being offset by US$0.2 million of capital expenditure incurred together with an overall net cash reduction of US$3.1 million in working capital as a consequence of the US$4.6 million increase in trade and other receivables being offset by a US$1.5 million increase in trade and other payables.

Capital Expenditures

Gross capital expenditures amounted to US$0.2 million during the quarter (Q1 2009: US$1.9 million).

The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED	
(Figures in US$'000)	31 Mar 2010	31 Mar 2009
Geological and geophysical and well drilling	**169**	131
Pipelines and infrastructure	**15**	1,630
Other equipment	**50**	130
	234	1,891

Geological and geophysical and well drilling

A total of US$0.13 million of expenditure was incurred on work undertaken in relation to the tie in of the well SS-10 to the gas processing plant. The balance of the expenditure was spent on geological and geophysical studies in preparation for the drilling of Songo Songo West in 2011.

Pipelines and infrastructure

No significant expenditure was undertaken during the quarter. The US$1.6 million incurred in Q1 2009 was in relation to the construction of a pressure reduction station at the Wazo Hill cement plant and the installation of compressed natural gas ("CNG") distribution facilities at the Ubungo power plant.

Working Capital

Working capital as at 31 March 2010 was US$20.9 million compared with US$16.8 million as at 31 December 2009 and may be analyzed as follows:

	AS AT	
(Figures in US$'000)	31 Mar 2010	31 Dec 2009
Cash and cash equivalents	**15,517**	14,543
Trade and other receivables	**13,759**	9,181
	29,276	23,724
Trade and other payables	**8,385**	6,889
Working capital	**20,891**	16,835

During the quarter the level of working capital increased by 24% over Q4 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 31 March 2010, US$9.9 million was represented by trade receivables (Q4 2009: US$7.1 million), US$1.5 million (Q4 2009: US$0.5 million) prepayments and other receivables and taxes US$2.4 million (Q4 2009: US$1.6 million).

The increase in prepayments relates primarily to the increased annual insurance premiums, whilst the increase in other receivables and taxes is a consequence of the increased level of monies owed by Songas for the operation of the Songo Songo gas processing plant.

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 31 March 2010, US$3.3 million (Q4 2009: US$4.2 million) of trade receivables was due from the industrial customers. A significant part of this amount has been subsequently received. The balance of US$6.6 million (Q4 2009: US$2.9 million) in trade receivables is made up of amounts due from the two power customers, TANESCO and Songas. The majority of this amount has subsequently been received.

The contracts with Songas and the electricity utility, TANESCO, accounted for 60% of the Company's operating revenue during the quarter. Songas' financial security is heavily reliant on the payment of capacity and energy charges by 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

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 (37.3 Bcf as at 31 March 2010).

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 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.

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 currently being discussed 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 two office rental agreements in Dar es Salaam, expiring on 30 November 2012 and 31 October 2013 at an annual rental of US$122,000 and US$110,000 per annum respectively.

Capital Commitments

In January 2010, the Company signed a Production Sharing Contract ("PSC") in relation to an exploration licence. In the event that the PSC is ratified the Company will have exploration work commitments.

Funding

Management forecasts that the Company will be able to meet its 2010 Tanzanian 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. New funding will be required for the future planned acquisitions.

Subsequent Event

In April 2010, an agreement was reached with a third party contractor, related to a long term dispute of the drilling of the SS-10 well in 2007. As a result, in December 2009 a credit of US$1.1 million was recognized in property, plant and equipment for the cancellation of invoices that had not been paid by the Company to the third party, with a resulting reduction in trade and other payables.

Contingency

There is a potential claim for US$0.3 million for additional withholding tax in relation to the seismic program that was undertaken by Orca in Uganda in early 2008. Whilst it is not considered probable that an additional payment will be made and as such no additional provision has been recognized, the Company cannot go so far as to say that the possibility is remote.

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

	AS AT	
Number of shares ('000)	**31 Mar 2010**	**31 Dec 2009**
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**27,743**	27,743
	29,494	29,494
Convertible securities		
Stock options	**2,797**	2,797
Diluted Class A and Class B shares	**32,291**	32,291
Weighted average		
Class A and Class B shares	**29,494**	29,541
Convertible securities		
Stock options	**1,242**	1,163
Weighted average diluted Class A and Class B shares	**30,736**	30,704

Shares outstanding

No stock options were issued or exercised during the quarter.

No Class B shares were purchased under the normal course issuer bid.

As at 27 May 2010, there were a total of 1,751,195 Class A shares and 27,742,928 Class B shares outstanding.

Summary Quarterly Results

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

(Figures in US$'000 except where otherwise stated)	2010	2009				2008		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Financial								
Revenue	**8,259**	7,837	7,536	5,501	4,443	6,371	7,301	4,826
Profit/(loss) after taxation	**1,940**	1,564	1,549	379	(168)	12	816	(10,208)
Operating netback *(US$/mcf)*	**2.19**	2.29	2.17	2.17	2.18	2.32	2.79	3.44
Working capital	**20,891**	16,835	12,147	9,939	9,154	9,727	8,705	6,094
Shareholders' equity	**70,955**	68,860	67,159	65,477	64,684	64,712	64,142	62,824
Profit/(loss) per share – basic *(US$)*	**0.07**	0.06	0.05	0.01	(0.01)	0.00	0.03	(0.35)
Profit/(loss) per share – diluted *(US$)*	**0.06**	0.06	0.05	0.01	(0.01)	0.00	0.03	(0.35)
Capital expenditures								
Geological and geophysical and well drilling	**169**	(890)	338	222	131	(987)	419	2,851
Pipeline and infrastructure	**15**	157	1,339	1,317	1,630	2,217	705	979
Power development	**–**	343	289	3	–	13	2	21
Other equipment	**50**	69	27	207	130	31	51	–
Operating								
Additional Gas sold – industrial *(MMcf)*	**485**	542	581	613	360	392	425	336
Additional Gas sold – power *(MMcf)*	**2,656**	2,570	2,493	1,693	1,570	2,149	2,097	956
Average price per mcf – industrial *(US$)*	**9.32**	9.49	9.02	7.02	7.91	10.08	13.29	12.97
Average price per mcf – power *(US$)*	**2.56**	2.41	2.41	2.36	2.39	2.39	2.41	2.93

Consolidated Statement of Comprehensive Income (unaudited)

THREE MONTHS ENDED	NOTE	31 Mar 2010	31 Mar 2009
(thousands of US dollars except per share amounts)			
Revenue		**8,259**	4,443
Cost of sales			
Production and distribution expenses		**(1,087)**	(305)
Depletion expense		**(979)**	(753)
		6,193	3,385
Administrative expenses		**(2,733)**	(3,045)
Net financing (charges)		**(187)**	(18)
Profit before taxation		**3,273**	322
Taxation	1	**(1,333)**	(490)
Profit/(loss) and comprehensive income/(loss)		**1,940**	(168)
Profit/(loss) per share			
Basic (US$)		**0.07**	(0.01)
Diluted (US$)		**0.06**	(0.01)

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position (unaudited)

AS AT	NOTE	31 Mar 2010	31 Dec 2009
(thousands of US dollars)			
ASSETS			
Current assets			
Cash and cash equivalents		**15,517**	14,543
Trade and other receivables		**13,759**	9,181
		29,276	23,724
Non-current assets			
Exploration and evaluation asset	2	**763**	760
Property, plant and equipment	3	**60,993**	61,793
		61,756	62,553
		91,032	86,277
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**8,385**	6,889
Non-current liabilities			
Deferred income taxes	1	**10,055**	9,068
Deferred additional profits tax		**1,637**	1,460
		20,077	17,417
Equity attributable to owners			
Capital stock	4	**66,267**	66,267
Other components of equity		**4,964**	4,809
Accumulated loss		**(276)**	(2,216)
		70,955	68,860
		91,032	86,277

See accompanying notes to the interim consolidated financial statements.

Contractual obligations and committed capital investment (Note 6)
Subsequent event (Note 7)
Contingency (Note 8)

The consolidated financial statements were approved by the Board of Directors on 27 May 2010.

John Patterson — Director

Nigel Friend — Director

Consolidated Statement of Cash Flows (unaudited)

THREE MONTHS ENDED	NOTE	31 Mar 2010	31 Mar 2009
(thousands of US dollars)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) after taxation		**1,940**	(168)
Adjustment for:			
Depletion and depreciation	*3*	**1,031**	777
Stock-based compensation		**155**	296
Deferred income taxes		**987**	490
Deferred additional profits tax		**177**	79
Interest income		**(1)**	(16)
		4,289	1,458
(Increase)/decrease in trade and other receivables		**(4,578)**	4,877
Increase/(decrease) in trade and other payables		**1,756**	(4,431)
Net cash flows from operating activities		**1,467**	1,904
CASH FLOWS USED IN INVESTING ACTIVITIES			
Exploration and evaluation asset expenditures		**(3)**	(39)
Property, plant and equipment expenditures		**(231)**	(1,852)
Interest income		**1**	16
Decrease in trade and other payables		**(260)**	(749)
Net cash used in investing activities		**(493)**	(2,624)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Normal course issuer bid		**–**	(156)
Net cash flow used in financing activities		**–**	(156)
Increase/(decrease) in cash and cash equivalents		**974**	(876)
Cash and cash equivalents at the beginning of the period		**14,543**	10,586
Cash and cash equivalents at the end of the period		**15,517**	9,710

See accompanying notes to the interim consolidated financial statements.

Statement of Changes in Shareholders' Equity (unaudited)

(thousands of US dollars)	Capital stock	Other components of equity	Accumulated loss	Total
Balance as at 1 January 2009	66,537	3,715	(5,540)	64,712
Stock-based compensation	–	296	–	296
Normal course issuer bid	(168)	12	–	(156)
Total comprehensive loss for the period	–	–	(168)	(168)
Balance as at 31 March 2009	**66,369**	**4,023**	**(5,708)**	**64,684**

(thousands of US dollars)	Capital stock	Other components of equity	Accumulated loss	Total
Note	*4*			
Balance as at 1 January 2010	**66,267**	**4,809**	**(2,216)**	**68,860**
Stock-based compensation	–	155	–	155
Total comprehensive income for the period	–	–	1,940	1,940
Balance as at 31 March 2010	**66,267**	**4,964**	**(276)**	**70,955**

See accompanying notes to the interim consolidated financial statements.

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 2009. The interim consolidated financial statements for the three months ended 31 March 2010 should be read in conjunction with the audited consolidated financial statements and related notes for the year ended 31 December 2009.

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.

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	31 Mar 2010	31 Mar 2009
(Figures in US$'ooo)		
Current tax	346	–
Deferred tax	987	490
	1,333	490

TAX RATE RECONCILIATION

THREE MONTHS ENDED *(Figures in US$'000)*	31 Mar 2010	31 Mar 2009
Profit before taxation	**3,273**	322
Provision for income tax calculated at the statutory rate of 30%	**982**	97
Add/(deduct) the tax effect of non-deductible income tax items:		
Administrative and operating expenses	**240**	241
Stock-based compensation	**89**	138
Permanent differences	**22**	14
	1,333	490

As at 31 March 2010 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 31 March 2010. The deferred income tax liability includes the following temporary differences:

AS AT *(Figures in US$'000)*	31 Mar 2010	31 Dec 2009
Differences between tax base and carrying value of property, plant and equipment	**10,298**	9,639
Income tax recoverable	**315**	167
Other liabilities	**(67)**	(54)
Additional profits tax	**(491)**	(435)
Tax losses	**–**	(249)
	10,055	9,068

2 EXPLORATION AND EVALUATION ASSETS

(Figures in US$'000)	Tanzania
Costs	
As at 1 January 2010	760
Additions	3
As at 31 March 2010	**763**
Net Book Values	
As at 31 March 2010	**763**
As at 31 December 2009	**760**

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.

3 PROPERTY, PLANT AND EQUIPMENT

(Figures in US$'000)	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2010	77,319	265	455	161	92	78,292
Additions	181	39	–	–	11	231
As at 31 March 2010	**77,500**	**304**	**455**	**161**	**103**	**78,523**
Depletion/Depreciation						
As at 1 January 2010	15,902	220	230	102	45	16,499
Charge for period	979	3	31	14	4	1,031
As at 31 March 2010	**16,881**	**223**	**261**	**116**	**49**	**17,530**
Net Book Values						
As at 31 March 2010	**60,619**	**81**	**194**	**45**	**54**	**60,993**
As at 31 December 2009	61,417	45	225	59	47	61,793

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$57.5 million (2009: US$89.1 million) will be required to bring the total proved reserves to production.

4 CAPITAL STOCK

Number of shares (thousands)	Authorised	Issued	Valuation
Class A			
As at 31 December 2009 and 31 March 2010	50,000	1,751	983
Class B			
As at 31 December 2009 and 31 March 2010	50,000	27,743	65,284
Total Class A and Class B as at 31 December 2009 and 31 March 2010	100,000	29,494	66,267

All of the issued capital stock is fully paid.

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 three months ended 31 March 2010:

STOCK OPTIONS	Options	Exercise Price
Thousands of options or Cdn$		
Outstanding as at 1 January 2010 and 31 March 2010	**2,797**	**1.00 to 13.55**

The weighted average remaining life and weighted average exercise price of options at 31 March 2010 were as follows:

Exercise Price (Cdn$)	Number Outstanding as at 31 March 2010	Weighted Average Remaining Contractual Life	Number Exercisable as at 31 March 2010	Weighted Average Exercise Price (Cdn$)
1.00	**1,662**	4.42	**1,662**	1.00
8.00 - 13.55	**1,135**	2.11	**856**	11.36
	2,797		**2,518**	

STOCK APPRECIATION RIGHTS	Options	Exercise Price
Thousands of stock appreciation rights or Cdn$	*SAR*	*Exercise Price*
Outstanding as at 1 January 2010	810	8.00 to 13.55
Expired *(i)*	(105)	11.05
Outstanding as at 31 March 2010 *(ii)*	705	8.0 to 13.55

(i) A total of 105,000 capped stock appreciation rights expired in February 2010 with an exercise price of Cdn$11.05 .

(ii) 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.

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 77% with a level of forfeitures between 0% and 33%.

As at 31 March 2010, a total liability of US$0.6 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	31 Mar 2010	31 Dec 2009
Number of shares ('000)		
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**27,743**	27,743
	29,494	29,494
Convertible securities		
Stock options	**2,797**	2,797
Diluted Class A and Class B shares	**32,291**	32,291
Weighted average		
Class A and Class B shares	**29,494**	29,541
Convertible securities		
Stock options	**1,242**	1,163
Weighted average diluted Class A and Class B shares	**30,736**	30,704

5 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.

6 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

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 (37.3 Bcf as at 31 March 2010).

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 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 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 currently being discussed 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 two office rental agreements in Dar es Salaam, expiring on 30 November 2012 and 31 October 2013 at an annual rental of US$122,000 and US$110,000 per annum respectively.

Capital Commitments

In January 2010, the Company signed a Production Sharing Contract ("PSC") in relation to an exploration licence. In the event that the PSC is ratified the Company will have exploration work commitments.

Funding

Management forecasts that the Company will be able to meet its 2010 Tanzanian 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. New funding will be required for the future planned acquisitions.

7 SUBSEQUENT EVENT

In April 2010, an agreement was reached with a third party contractor, related to a long term dispute of the drilling of the SS-10 well in 2007. As a result, in December 2009 a credit of US$1.1 million was recognized in property, plant and equipment for the cancellation of invoices that had not been paid by the Company to the third party, with a resulting reduction in trade and other payables.

8 CONTINGENCY

There is a potential claim for US$0.3 million for additional withholding tax in relation to the seismic program that was undertaken by Orca in Uganda in early 2008. Whilst it is not considered probable that an additional payment will be made and as such no additional provision has been recognized, the Company cannot go so far as to say that the possibility is remote.

FORWARD LOOKING STATEMENTS

This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca Exploration's control, including the impact of general economic conditions in the areas in which Orca Exploration operates, civil unrest, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. In addition there are risks and uncertainties associated with oil and gas operations, therefore Orca Exploration's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that Orca Exploration will derive therefrom.

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Pierre Raillard
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EXPLORATION

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