2010 Q2

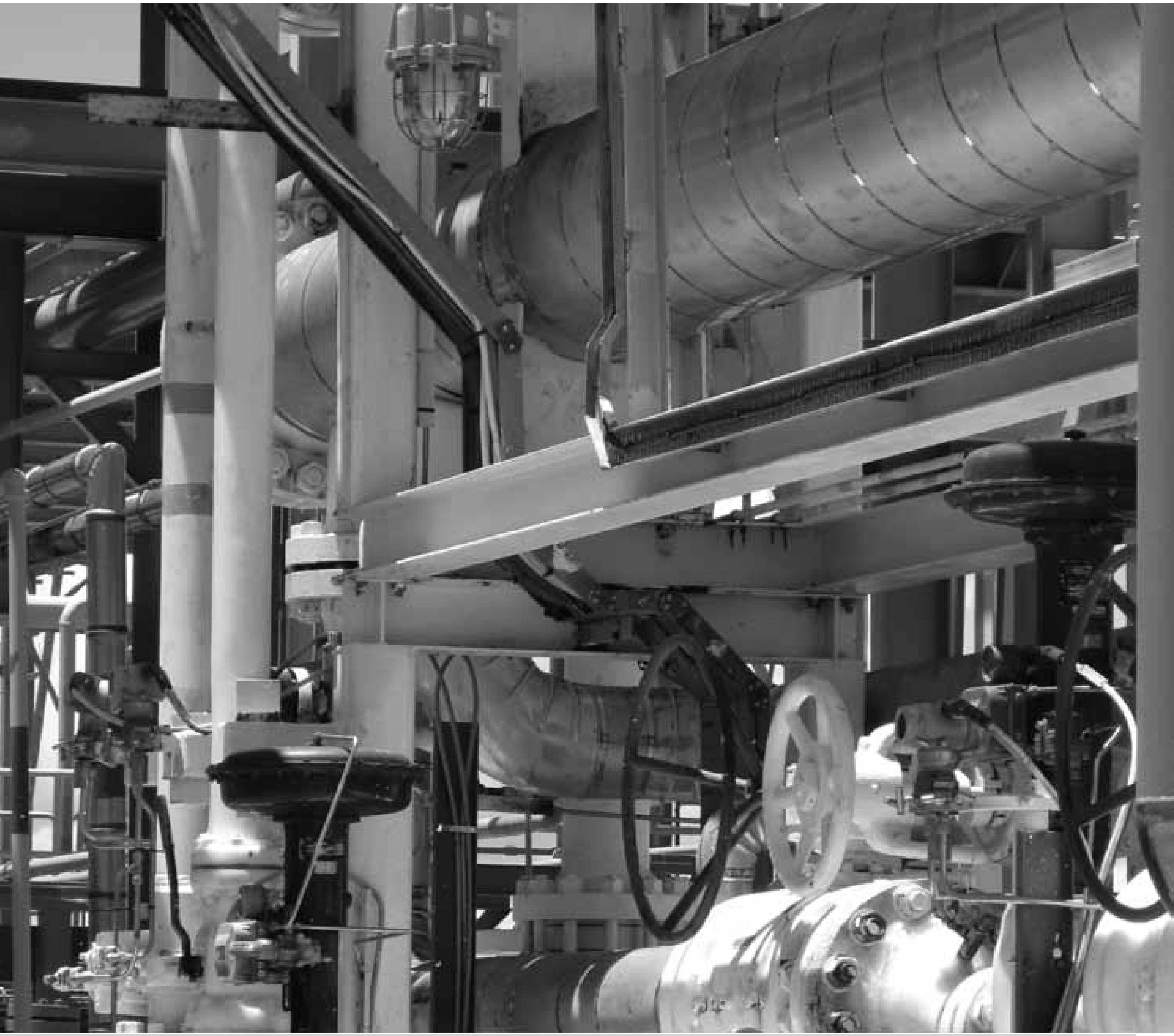
Interim Report

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, oil appraisal in Italy and the acquisition and development of high potential oil exploration 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			SIX MONTHS ENDED OR AS AT		
	30 Jun 2010	30 Jun 2009	Change	**30 Jun 2010**	30 Jun 2009	Change
Financial (US$'000) except where otherwise stated						
Revenue	**9,017**	5,501	64%	**17,276**	9,944	74%
Profit before taxation	**4,092**	1,079	279%	**7,365**	1,401	426%
Operating netback *(US$/mcf)*	**2.37**	2.17	9%	**2.27**	2.18	4%
Cash and cash equivalents	**18,319**	9,072	102%	**18,319**	9,072	102%
Working capital	**24,941**	9,939	151%	**24,941**	9,939	151%
Shareholders' equity	**73,942**	65,477	13%	**73,942**	65,477	13%
Profit per share - basic *(US$)*	**0.09**	0.01	800%	**0.15**	0.01	1,400%
Profit per share - diluted *(US$)*	**0.08**	0.01	700%	**0.15**	0.01	1,400%
Funds flow from operating activities	**4,937**	2,514	96%	**9,226**	3,981	132%
Funds per share from operating activities - basic *(US$)*	**0.17**	0.09	89%	**0.31**	0.13	138%
Funds per share from operating activities - diluted *(US$)*	**0.16**	0.08	100%	**0.30**	0.13	131%
Net cash flows from operating activities	**3,472**	1,728	101%	**4,939**	3,632	36%
Net cash flows per share from operating activities - basic *(US$)*	**0.12**	0.06	100%	**0.17**	0.12	42%
Net cash flows per share from operating activities - diluted *(US$)*	**0.11**	0.06	83%	**0.16**	0.12	33%
Outstanding Shares *('000)*						
Class A shares	**1,751**	1,751	0%	**1,751**	1,751	0%
Class B shares	**27,743**	27,788	0%	**27,743**	27,788	0%
Options	**2,797**	2,797	0%	**2,797**	2,797	0%
Operating						
Additional Gas sold *(MMcf)* - industrial	**562**	613	(8%)	**1,048**	973	8%
Additional Gas sold *(MMcf)* - power	**2,440**	1,693	44%	**5,096**	3,263	56%
Additional Gas sold *(MMcfd)* - industrial	**6.2**	6.7	(7%)	**5.8**	5.4	7%
Additional Gas sold *(MMcfd)* - power	**26.8**	18.6	44%	**28.2**	18.0	56%
Average price per mcf *(US$)* - industrial	**9.45**	7.02	35%	**9.38**	7.35	28%
Average price per mcf *(US$)* - power	**2.56**	2.36	8%	**2.56**	2.37	8%

- Increased profit before taxation by 279% to US$4.1 million (Q2 2009: US$1.1 million).
- Increased funds flow from operating activities by 96% to US$4.9 million (Q2 2009: US$2.5 million).
- Increased Q2 2010 sales of Additional Gas by 30% to 3,002 MMcf or 33.0 MMcfd (Q2 2009: 2,306 MMcf or 25.3 MMcfd).
- Increased working capital by 19% during the quarter to US$24.9 million (US$20.9 million at 31 March 2010).
- Signed a farm in agreement with Petroceltic International plc for a 15% working interest in the B.R268.RG Permit offshore Italy.
- Announced the establishment of a new infrastructure division, EastCoast Transmission and Marketing to develop a gas pipeline network in East Africa.
- Reorganised the Orca Board with the appointment of three experienced non – executive directors namely the Right Honourable Michael Howard QC, Bob Wigley and Beer Van Straten.

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

Orca is focused on maximising and monetising the value of existing assets in Tanzania.

To increase shareholder value, Orca Exploration will focus on three growth strategies:

- Maximise and monetise the value in existing assets in Tanzania; and
- Increase assets by exploring and developing new high impact hydrocarbon opportunities; and
- Development of infrastructure capacity in East Africa.

Our goal is clear – to grow long term shareholder value and have that value recognised.

Over the first half of 2010, Orca has taken important steps to maximise the potential of its Tanzanian gas business and to create additional upside through participation in new exploration and development projects. Our growth activities have included:

- Working with other stakeholders in Tanzania to increase the deliverability of Songo Songo gas;
- Planning for the drilling of the low risk, high potential Songo Songo West exploration prospect in 2011;
- Establishing the EastCoast Transmission and Marketing division of Orca as a catalyst for natural gas expansion in East Africa;
- Farming in on the appraisal drilling of the Elsa-2 well and the evaluation of 11 adjacent exploration prospects in the Italian Adriatic; and
- Working to secure a new low risk high impact oil exploration prospect.

Orca has the financial strength to engage in these vigorous growth initiatives. We have a strong balance sheet and increasing cash reserves. The Company had US$18 million in cash reserves at the end of June and funds flow is expected to increase at approximately US$2 million per month until the end of 2010.

This strong cash position will be supplemented with the proceeds of up to approximately US$18 million from the rights issue which is due to close in October 2010.

Strong and growing funds flow in Tanzania

During the second quarter of 2010, Orca's gas production and marketing in Tanzania generated funds flow of US$4.9 million, an 96% increase compared with the same period in 2009.

Gas sales volumes will continue to increase in Q3 2010 as textile production takes advantage of the availability of cheap cotton and there is greater demand for gas in electricity generation as the country's hydro generation output declines during the dry season.

However, the need to increase gas throughput (currently restricted to 90 MMcfd) remains urgent as there have been recent occasions when demand for gas exceeded the infrastructure capacity. Orca is working with all stakeholders to accelerate the development of Tanzania's infrastructure to relieve this situation.

The Company is an active participant in the project led by Songas Limited to maximise the capacity of the existing system to 140 MMcfd through the construction of new processing trains and the optimisation of pipeline pressures. This is forecast to be operational by the end of 2012.

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.

EastCoast Transmission and Marketing

To lead in the development of natural gas markets in East Africa, Orca recently announced the creation of a new infrastructure division, EastCoast Transmission and Marketing. This will accelerate the commercialisation of the Tanzanian gas reserves above 140 MMcfd whilst also creating a new revenue stream for the Company.

The first EastCoast Transmission and Marketing project being evaluated is the feasibility of a 207-kilometer onshore pipeline that could run parallel to the existing onshore pipeline from the Songo Songo field area to Dar es Salaam.

New gas discoveries will further increase the need for an expanded transmission infrastructure. If there is success with the drilling of Songo Songo West the next EastCoast Transmission project could be the construction of a new 25-kilometer offshore pipeline to bring Songo Songo West gas to market. Interest in Tanzania's potential new gas reserves continues to grow. In recent months a number of larger energy companies including BG Plc, Statoil and Exxon Mobil have been examining opportunities to drill for gas offshore. Significant infrastructure expansion and additions throughout East Africa would be needed to transport gas that these companies discover. Ultimately it is envisioned that an EastCoast Transmission pipeline could be extended along the coast north to Mombasa and south to Mtwara near the border with Mozambique adjacent to the Mnazi Bay gas discovery.

Orca is in a unique position to lead such an infrastructure project. Orca is well established and has positive working relationships with the Government of Tanzania, Tanzanian Petroleum Development Corporation (TDPC) and the energy regulator, EWURA. The Company is currently in discussion with a number of both equity and debt providers about the financing of a new infrastructure company and is keen to have a significant East Africa finance component.

Low risk appraisal well in Italy

During Q2 2010, Orca signed a farm-in agreement with Petroceltic International Plc to participate in the drilling of a low risk appraisal well offshore Italy in the Adriatic. The area has significant oil exploration upside.

Under the terms of the farm-in agreement, the Company will fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, Orca will fund all future costs relating to the well and the permit in proportion to its participating interest. Orca has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

The Elsa field was discovered in 1992 by AGIP with the drilling of the Elsa-1 well which encountered an oil column of 65 meters in the Lower Cretaceous Maiolica Formation at a depth of approximately 4,500 meters. The Elsa-2 appraisal well has the primary objective of confirming the commercial production potential of the reservoir when flow tested. Positive results from Elsa-2 will be followed by a 3D seismic survey over the field.

However recent worldwide concerns about offshore drilling caused by the blowout of the Macondo well in the U.S. Gulf has led the Italian government to pass a law exclude drilling in the Italian seas within 5 miles of the coastline and within 12 miles around the perimeter of protected Marine Parks. In view of this, Petroceltic has applied to suspend the current timing requirement that the Elsa-2 well was to be spud prior to 31 October 2010. The permit will remain suspended until such time as the Ministry of Environment issues a decree of environmental compatibility for the drilling program and the partners apply for the permit to be reinstated. Orca is not liable to any costs associated with the drilling of Elsa 2 until a rig contract is signed, but anticipates that this could occur in 2011.

Our goal is clear – to grow long term shareholder value and have that value recognized.

In addition to interest earned by the drilling of Elsa-2 Orca's farm-in agreement with Petroceltic provides an opportunity for Orca to participate on a ground floor basis for 15% of an additional 11 exploration blocks in the Central Adriatic.

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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 remained strong during Q2 despite increased production of hydro electricity during the rainy season.

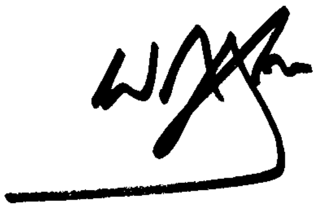
Orca's funds flow are forecast to continue to grow in the second half of 2010 bringing anticipated funds flow for the year to approximately US$20 million. The Company's second quarter G&A expenditures were in line with 2009 at US$2.4 million. This was achieved at the same time as sales volumes increased 30%.

Strategy driven action

Your Company's recently strengthened Board of Directors, Orca's management and all employees are poised to take the Company to a new level of activity, growth and performance over the course of 2010 and 2011. Your Company is taking action to use its long life cash flows in Tanzania to expand production and transportation infrastructure and to increase reserves by the drilling of a relatively low risk exploration well at Songo Songo West.

In Italy, Orca looks forward to building a significant oil business in this proven and stable hydrocarbon basin commencing with the drilling of the Elsa-2 appraisal well as soon as the legal structure permits. To balance our current portfolio we have also signed a production sharing agreement for a high impact low risk exploration licence in a third jurisdiction. The ratification of that agreement will further strengthen your Company's portfolio, providing a fresh opportunity to add value.

We are committed to grow long term shareholder value and to have that value recognized to the benefit of our shareholders. Together, we are taking action to deliver on Orca's renewed growth agenda.



W. David Lyons
Chairman and CEO

26 August, 2010

LEFT:
Orca is participating in work to increase the capacity of the current gas processing and transmission infrastructure to 144 MMcfd.

Orca is working with all stakeholders to accelerate the development of Tanzania's gas transmission infrastructure.

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED 30 JUNE 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 UP TO 26 AUGUST 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 GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY. THESE NON-GAAP MEASURES ARE NOT STANDARDISED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES.

ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION GROUP INC IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT *www.sedar.com*.

Background

Orca Exploration's principal operating asset is its interest in a Production Sharing Agreement ("PSA") with the Tanzania Petroleum Development Corporation ("TPDC") in Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo gas field.

The gas in the Songo Songo field is divided between Protected Gas and Additional Gas. The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the gas to be delivered to Dar es Salaam, namely a gas processing plant on Songo Songo Island, 232 kilometers of pipeline to Dar es Salaam and a 16 kilometer spur to the Wazo Hill Cement Plant.

Songas utilizes the Protected Gas (maximum 45.1 MMcfd) as feedstock for its gas turbine electricity generators at Ubungo, for onward sale to the Wazo Hill cement plant and for electrification of some villages along the pipeline route. Orca Exploration receives no revenue for the Protected Gas delivered to Songas and operates the field and gas processing plant on a 'no gain no loss' basis.

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

Principal terms of the PSA and related agreements

The principal terms of the Songo Songo PSA and related agreements are as follows:

Obligations and restrictions

(a) The Company has the right to conduct petroleum operations, market and sell all Additional Gas produced and share the net revenue with TPDC for a term of 25 years expiring in October 2026.

(b) The PSA covers the two licenses in which the Songo Songo field is located ("Discovery Blocks"). The Proven Section is essentially the area covered by the Songo Songo field within the Discovery Blocks.

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

In June 2008, the Company initialled two long term power contracts with TANESCO, the owner of the Ubungo power plant, Songas Limited and the Ministry of Energy and Minerals for the supply of approximately 30 - 45 MMcfd for power generation. The first of the contracts (Amended and Restated Gas Agreement ("ARGA")) covers the supply of gas to the sixth turbine at the Ubungo power plant and provides for a maximum of approximately 9 MMcfd until July 2024. The second initialled contract (Portfolio Gas Sales Agreement ("PGSA")) covers the supply of Additional Gas sales to a portfolio of gas fired generation in Tanzania.

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

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

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

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

As discussed in (c) above an 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 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 its costs out of Additional Gas revenues plus an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum Additional Profits Tax rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus PPI return. The PSA is, therefore, structured to encourage the Company to develop the market and the gas fields in the knowledge that the profit share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before Additional Profits Tax becomes payable. Additional Profits Tax can have a significant negative impact on the project economics if only limited capital expenditure is incurred.

Operatorship

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

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

Results for the quarter ended 30th June 2010

Operating Volumes

The sales volumes for the quarter were 3,002 MMcf or 33.0 MMcfd. This represents an increase of 30% over Q2 2009. The total sales volumes for the six months ended 30 June 2010 were 6,144 MMcf an increase of 45% over 2009.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
Gross sales volume *(MMcf):*				
Industrial sector	**562**	613	**1,048**	973
Power sector	**2,440**	1,693	**5,096**	3,263
Total volumes	**3,002**	2,306	**6,144**	4,236
Gross daily sales volume *(MMcfd):*				
Industrial sector	**6.2**	6.7	**5.8**	5.4
Power sector	**26.8**	18.6	**28.2**	18.0
Total daily sales volume	**33.0**	25.3	**34.0**	23.4

Industrial sector

Industrial sales volumes of 562 MMcf (6.2 MMcfd) were recorded in Q2 2010, compared to 613 MMcf (6.7 MMcfd) in Q2 2009. The 8% decrease in sales is mainly a consequence of a fall in the volume of gas supplied to Kiln 4 at Tanzania Portland Cement Company's ("TPCC") Wazo Hill cement plant. This has offset the increase in gas supplied to new customers who took delivery of Additional Gas for the first time during Q2 2010.

Industrial sales volumes for the six months ended 30 June 2010 have increased 8% to 1,048 MMcf from 973 MMcf in 2009, with sales to the Wazo Hill cement plant accounting for 23% and 27% of the total sales recorded in 2010 and 2009 respectively.

Power sector

Power sector sales volumes increased by 44% to 2,440 MMcf (26.8 MMcfd) in Q2 2010 from 1,693 MMcf (18.6 MMcfd) in Q2 2009. The increase in sales volumes over Q2 2009 is mainly the result of the sale of 374 MMcf of Additional Gas to Tegeta 45 MW power plant that was commissioned in Q4 2009.

The volume of gas consumed by the Ubungo and TANESCO 102 MWs power plants was 22% higher in Q2 2010 compared to Q2 2009 as a consequence of higher demand for electricity during the quarter.

Power sector sales volumes for the six months ended 30 June 2010 have increased 56% to 5,096 MMcf from 3,263 MMcf in 2009, with sales to the Tegeta 45MW accounting for nearly half of the total increase.

Commodity Prices

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	30 Jun 2010	30 Jun 2009
US$/mcf				
Average sales price				
Industrial sector	9.45	7.02	9.38	7.35
Power sector	2.56	2.36	2.56	2.37
Weighted average price	3.85	3.60	3.73	3.51

Industrial sector

The average sales price achieved for Q2 2010 was US$9.45/mcf compared to US$7.02/mcf in Q2 2009. The increase in sales price is a consequence of the improvement in 2010 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 is 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 Q2 2010 compared to US$2.36/mcf in Q2 2009, with the year to date prices for 2010 and 2009 being US$2.56/mcf and US$2.37/mcf respectively.

The increase in the sales price over Q2 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 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 Q2 2009.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 83.75% (Q2 2009: 81.25%) of the Net Revenues as follows:

(Figures in US$'ooo)	THREE MONTHS ENDED 30 Jun 2010	THREE MONTHS ENDED 30 Jun 2009	SIX MONTHS ENDED 30 Jun 2010	SIX MONTHS ENDED 30 Jun 2009
Gross sales revenue	**11,557**	8,295	**22,893**	14,882
Processing and transportation tariff	**(1,772)**	(1,413)	**(3,625)**	(2,507)
Gross revenue after tariff	**9,785**	6,882	**19,268**	12,375
Analysed as to:				
Company Cost Gas	**7,339**	5,163	**14,451**	9,283
Company Profit Gas	**856**	430	**1,686**	841
Company operating revenue	**8,195**	5,593	**16,137**	10,124
TPDC Profit Gas	**1,590**	1,289	**3,131**	2,251
	9,785	6,882	**19,268**	12,375

The Company's revenue reported for the quarter amounted to US$9,017,000 after adjusting the Company's operating revenue of US$8,195,000 by:

- US$1,005,000 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$183,000 for the deferred effect of Additional Profits Tax. This tax is considered a royalty and is netted against revenue.

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

(Figures in US$'ooo)	THREE MONTHS ENDED 30 Jun 2010	THREE MONTHS ENDED 30 Jun 2009	SIX MONTHS ENDED 30 Jun 2010	SIX MONTHS ENDED 30 Jun 2009
Industrial sector	**5,304**	4,294	**9,829**	7,141
Power sector	**6,253**	4,001	**13,064**	7,741
Gross sales revenue	**11,557**	8,295	**22,893**	14,882
Processing and transportation tariff	**(1,772)**	(1,413)	**(3,625)**	(2,507)
TPDC share of revenue	**(1,590)**	(1,289)	**(3,131)**	(2,251)
Company operating revenue	**8,195**	5,593	**16,137**	10,124
Additional Profits Tax	**(183)**	(92)	**(360)**	(180)
Current income tax adjustment	**1,005**	–	**1,499**	–
Revenue	**9,017**	5,501	**17,276**	9,944

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 Q2 2009 Songas Outlet Price for the industrial customers, an average amount of US$0.57/mcf ("Ringmain Tariff") was deducted from the achieved industrial sales price of US$7.35/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$230,000 (Q2 2009: US$137,000) and US$104,000 (Q2 2009: US$60,000) 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 Q2 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 distribution network (security, insurance and personnel) has increased in Q2 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		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
(Figures in US$'000)				
Share of well maintenance	**104**	60	**232**	112
Other field and operating costs	**437**	270	**854**	375
	541	330	**1,086**	487
Distribution costs	**538**	266	**1,080**	414
Production and distribution expenses	**1,079**	596	**2,166**	901

Operating Netbacks

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
(Amounts in US$/mcf)				
Gas price – industrial	**9.45**	7.02	**9.38**	7.35
Gas price – power	**2.56**	2.36	**2.56**	2.37
Weighted average price for gas	**3.85**	3.60	**3.73**	3.51
Tariff (after allowance for the Ringmain Tariff in 2009)	**(0.59)**	(0.61)	**(0.59)**	(0.59)
TPDC Profit Gas	**(0.53)**	(0.56)	**(0.51)**	(0.53)
Net selling price	**2.73**	2.43	**2.63**	2.39
Well maintenance and other operating costs	**(0.18)**	(0.14)	**(0.18)**	(0.11)
Distribution costs	**(0.18)**	(0.12)	**(0.18)**	(0.10)
Operating netback	**2.37**	2.17	**2.27**	2.18

The operating netback for the quarter was US$2.37/mcf (Q2 2009: US$2.17/mcf).

The increase in the net selling price from US$2.43/mcf to US$2.73/mcf in Q2 2010 is a consequence of the increase in 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 distribution network as described above. The overall impact, of the increase in costs having been reduced, on a mcf basis, by the 30% increase in sales volume to 3,002 MMcf in Q2 2010 from 2,306 MMcf in Q2 2009.

An operating netback of US$2.27/mcf was achieved for the six months ended 30 June 2010 compared to U$S2.18/mcf in 2009. The 6% increase in weighted average selling price from US$3.51/mcf to US$3.73/mcf was offset by the increase in operating costs.

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

Administrative Expenses

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	30 Jun 2010	30 Jun 2009
(Figures in US$'000)				
Employee costs	**507**	521	**1,016**	1,088
Consultants	**664**	570	**1,335**	1,217
Travel and accommodation	**231**	198	**409**	334
Communications	**15**	20	**43**	40
Office	**252**	284	**529**	567
Insurance	**75**	61	**163**	114
Auditing and taxation	**45**	48	**88**	92
Depreciation	**57**	31	**109**	54
Reporting, regulatory and corporate	**163**	146	**228**	217
	2,009	1,879	**3,920**	3,723
Marketing costs including legal fees	**409**	544	**935**	1,283
Stock based compensation	**(10)**	518	**286**	980
Net general and administrative expenses	**2,408**	2,941	**5,141**	5,986

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$0.8 million per month for Q2 2010 compared to US$1.0 million in Q2 2009. G&A per mcf decreased to US$0.80/mcf (Q2 2009: US$1.28/mcf).

The main variances to Q2 2009 are summarized below:

Marketing costs and legal fees

The decrease in marketing and legal fees compared to Q2 2009 is a consequence of the decrease in the level expenditure on the third party claim for breach of contract during the drilling of SS-10 in 2007. The claim was settled during Q2 2010.

Stock based compensation

A total of 2,797,000 stock options were outstanding at the end of Q2 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$0.4 million was recorded during the quarter (Q2 2009: US$0.4 million).

A total of 930,000 stock appreciation rights were in issue at the end of Q2 2010. As stock appreciation rights are settled in cash they are re-valued at each reporting date using the Black-Scholes option pricing model. As at 30 June 2010 the following assumptions were used; stock volatility 67% to 71%, a risk free interest rate of 1.50% to 2.50% and a closing stock price of Cdn$4.00. A credit of US$0.4 million was recorded in Q2 2010 compared to a charge of US$0.1 million in Q2 2009 in respect of these stock appreciation rights. The credit recorded is a result of a decline in the share price from Cdn$5.35 at the end of Q1 2010 to Cdn$4.00 at the end of Q2 2010.

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$'000)	THREE MONTHS ENDED 30 Jun 2010	THREE MONTHS ENDED 30 Jun 2009	SIX MONTHS ENDED 30 Jun 2010	SIX MONTHS ENDED 30 Jun 2009
Stock options	**379**	414	**534**	640
Stock appreciation rights	**(389)**	104	**(248)**	270
Treasury stock	**–**	–	**–**	70
	(10)	518	**286**	980

Net Financing Charges/Income

Interest income has fallen as a consequence of a dramatic decline in interest rates received since Q2 2009.

The loss on foreign exchange experienced in the quarter is a result of the strengthening of the US Dollars 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 movement in net financing charge is summarized in the table below:

(Figures in US$'000)	THREE MONTHS ENDED 30 Jun 2010	THREE MONTHS ENDED 30 Jun 2009	SIX MONTHS ENDED 30 Jun 2010	SIX MONTHS ENDED 30 Jun 2009
Finance income				
Interest income	**2**	10	**3**	26
Foreign exchange gain	**1**	14	**27**	14
	3	24	**30**	40
Finance charges				
Overdraft charges	**(2)**	–	**(12)**	–
Foreign exchange loss	**(508)**	–	**(712)**	(34)
	(510)	–	**(724)**	(34)
Net financing (charges)/income	**(507)**	24	**(694)**	6

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.

There are 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$10.8 million as at 30 June 2010 which includes an additional deferred future income tax charge of US$0.8 million for the quarter. This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC's share of Profit Gas.

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 (Q2 2009: US$0.1 million) has been netted off revenue for the quarter ended 30 June 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 Q2 2010. In Q2 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		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
(Figures in US$'ooo)				
Profit after taxation	**2,608**	379	**4,548**	211
Adjustments *(i)*	**2,329**	2,135	**4,678**	3,770
Funds from operations before working capital changes	**4,937**	2,514	**9,226**	3,981
Working capital adjustments *(i)*	**(1,465)**	(786)	**(4,287)**	(349)
Net cash flows from operating activities	**3,472**	1,728	**4,939**	3,632
Net cash flows used in investing activities	**(670)**	(2,366)	**(1,163)**	(4,990)
Net cash flows used in financing activities	**–**	–	**–**	(156)
Net increase/(decrease) in cash and cash equivalents	**2,802**	(638)	**3,776**	(1,514)

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

The US$2.4 million increase in funds from operations in the quarter to US$4.9 million from US$2.5 million in Q2 2009 is primarily the result of the increased sales revenue recorded in Q2 2010.

The US$2.8 million increase in cash and cash equivalents for the quarter is a result of the US$4.9 million of funds from operations before working capital changes during the quarter being offset by US$0.9 million of capital expenditure, together with an overall net cash reduction of US$1.2 million in working capital.

The US$3.8 million increase in cash and cash equivalents for the six months ended 30 June 2010 is a result of the US$9.2 million of funds from operations before working capital changes during the period being offset by US$1.1 million of capital expenditure, together with an overall net cash reduction of US$4.3 million in working capital.

Capital Expenditure

Gross capital expenditures amounted to US$0.9 million during the quarter (Q2 2009: US$1.8 million).

The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	30 Jun 2010	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
(Figures in US$'ooo)				
Geological and geophysical and well drilling	**320**	222	**489**	353
Pipelines and infrastructure	**492**	1,317	**507**	2,947
Power development	**–**	3	**–**	3
Other equipment	**77**	207	**127**	337
	889	1,749	**1,123**	3,640

Geological and geophysical and well drilling

A total of US$0.3 million of expenditure was incurred on work undertaken in relation to the tie in of the SS-10 well to the gas processing plant. The tie in is required to ensure the security of Additional Gas supply to customers.

Pipelines and infrastructure

A total of U$0.2 million was incurred on the development of infrastructure facilities at Songo Songo Island to enable the existing processing capacity to be expanded towards the long term target of 140 MMcfd. The current processing capacity is restrained to 90 MMcfd by infrastructure constraints. A further US$0.3 million was incurred on connection costs for new industrial customers.

Working Capital

Working capital as at 30 June 2010 was US$24.9 million compared with US$16.8 million as at 31 December 2009 and may be analyzed as follows:

AS AT *(Figures in US$'000)*	30 Jun 2010	31-Dec 2009
Cash and cash equivalents	**18,319**	14,543
Trade and other receivables	**13,098**	9,181
	31,417	23,724
Trade and other payables	**6,476**	6,889
Working capital	**24,941**	16,835

The level of working capital has increased 48% during the six months ended 30 June 2010.

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

Of the total trade and other receivables at 30 June 2010, US$9.4 million was represented by trade receivables (Q4 2009: US$7.1 million), US$1.1 million (Q4 2009: US$0.5 million) prepayments and other receivables US$2.6 million (Q4 2009: US$1.6 million).

The increase in prepayments relates primarily to the increased annual insurance premiums together with the payment of a deposit for the purchase of a gas to gas exchanger. 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 and tax recoverable from TPDC.

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 30 June 2010, US$3.8 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$5.6 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 54% 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 (40.3 Bcf as at 30 June 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.

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.

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

Drilling of the Elsa 2 appraisal well was due to begin in Q4 2010. On 30 June 2010, the Italian Minister of Environment, Stafania Prestigiacomo, announced that an outline proposed decree to amend the Italian Environmental Code had been adopted by the Council of Ministers that will inter alia prohibit drilling in the Italian seas within 5 miles of the coastline and within 12 miles around the perimeter of protected Marine Parks. The Elsa structure straddles the proposed 5 mile restriction. This has now been passed into law and Petroceltic has applied to suspend the licence (and defer the commitments) pending further clarification of the legal issues.

In June 2010 the Company committed to purchase a gas to gas exchanger for US$0.8 million in order to provide additional security over gas supply to customers. The payment for the equipment will be made in instalments during the manufacture process. As at the end the quarter a cash advance of US$0.2 million has been made and has been recorded in prepayments.

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.

The Company is in the process of raising up to approximately Cdn$19.3 million before expenses by way of a rights issue. Each holder of a Class B Subordinated Voting share ("Class B Share") on the record date of the rights issue will receive one right for each Class B Share held and that six rights will entitle the holder to subscribe for one Class B Share at Cdn$3.90 per share. The funds will be primarily used to drill the Elsa-2 appraisal well in Italy and the Songo Songo West exploration prospect in Tanzania in 2011.

Subsequent Event

On 13 July 2010 the Company announced the creation of EastCoast Transmission and Marketing as the new infrastructure division of the Orca group of companies. The Company is currently in discussion with potential pipeline expansion partners and is keen to have a significant East Africa finance component as part of the infrastructure project. EastCoast Transmission will initially focus on expanding the onshore natural gas pipeline system transporting Songo Songo gas to Dar es Salaam. This will require the twinning of the existing 207 kilometer pipeline from Somanga Funga, where the marine pipeline from the Songo Songo gas field connects to the mainland, to the pipeline's current terminus at Dar es Salaam.

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$18,300 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	30 Jun 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	**1,279**	1,163
Weighted average diluted Class A and Class B shares	**30,773**	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 26 August 2010, there were a total of 1,751,195 Class A shares and 27,982,928 Class B shares outstanding.

Summary Quarterly Results

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

	2010		2009				2008	
(Figures in US$'ooo except where otherwise stated)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Revenue	**9,017**	8,259	7,837	7,536	5,501	4,443	6,371	7,301
Profit/(loss) after taxation	**2,608**	1,940	1,564	1,549	379	(168)	12	816
Operating netback *(US$/mcf)*	**2.37**	2.19	2.29	2.17	2.17	2.18	2.32	2.79
Working capital	**24,941**	20,891	16,835	12,147	9,939	9,154	9,727	8,705
Shareholders' equity	**73,942**	70,955	68,860	67,159	65,477	64,684	64,712	64,142
Profit/(loss) per share – basic *(US$)*	**0.09**	0.07	0.06	0.05	0.01	(0.01)	0.00	0.03
Profit/(loss) per share – diluted *(US$)*	**0.08**	0.06	0.06	0.05	0.01	(0.01)	0.00	0.03
Capital expenditures								
Geological and geophysical and well drilling	**320**	169	(890)	338	222	131	(987)	419
Pipeline and infrastructure	**492**	15	157	1,339	1,317	1,630	2,217	705
Power development	–	–	343	289	3	–	13	2
Other equipment	**77**	50	69	27	207	130	31	51
Operating								
Additional Gas sold – industrial *(MMcf)*	**562**	485	542	581	613	360	392	425
Additional Gas sold – power *(MMcf)*	**2,440**	2,656	2,570	2,493	1,693	1,570	2,149	2,097
Average price per mcf – industrial *(US$)*	**9.45**	9.32	9.49	9.02	7.02	7.91	10.08	13.29
Average price per mcf – power *(US$)*	**2.56**	2.56	2.41	2.41	2.36	2.39	2.39	2.41

Consolidated Statement of Comprehensive Income (unaudited)

		THREE MONTHS ENDED		SIX MONTHS ENDED	
	NOTE	30 Jun 2010	30 Jun 2009	30 Jun 2010	30 Jun 2009
(thousands of US dollars except per share amounts)					
Revenue		**9,017**	5,501	17,276	9,944
Cost of sales					
Production and distribution expenses		**(1,079)**	(596)	(2,166)	(901)
Depletion expense		**(931)**	(909)	(1,910)	(1,662)
		7,007	3,996	13,200	7,381
Administrative expenses		**(2,408)**	(2,941)	(5,141)	(5,986)
Net financing (charges)/income		**(507)**	24	(694)	6
Profit before taxation		**4,092**	1,079	7,365	1,401
Taxation	1	**(1,484)**	(700)	(2,817)	(1,190)
Profit and comprehensive income		**2,608**	379	4,548	211
Profit per share					
Basic *(US$)*		**0.09**	0.01	0.15	0.01
Diluted *(US$)*		**0.08**	0.01	0.15	0.01

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position (unaudited)

AS AT *(thousands of US dollars)*	NOTE	30 Jun 2010	31-Dec 2009
ASSETS			
Current assets			
Cash and cash equivalents		**18,319**	14,543
Trade and other receivables		**13,098**	9,181
		31,417	23,724
Non-current assets			
Exploration and evaluation asset	*2*	**763**	760
Property, plant and equipment	*3*	**60,894**	61,793
		61,657	62,553
		93,074	86,277
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**6,476**	6,889
Non-current liabilities			
Deferred income taxes	*1*	**10,836**	9,068
Deferred additional profits tax		**1,820**	1,460
		19,132	17,417
Equity attributable to owners			
Capital stock	*4*	**66,267**	66,267
Other components of equity		**5,343**	4,809
Accumulated income/(loss)		**2,332**	(2,216)
		73,942	68,860
		93,074	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 26 August 2010.

Director

Director

Consolidated Statement of Cash Flows (unaudited)

		THREE MONTHS ENDED		SIX MONTHS ENDED	
	NOTE	30 Jun 2010	30 Jun 2009	30 Jun 2010	30 Jun 2009
(thousands of US dollars)					
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit after taxation		**2,608**	379	**4,548**	211
Adjustment for :					
Depletion and depreciation	3	**988**	940	**2,019**	1,717
Stock-based compensation		**379**	414	**534**	710
Deferred income taxes		**781**	700	**1,768**	1,190
Deferred additional profits tax		**183**	92	**360**	180
Interest income		**(2)**	(11)	**(3)**	(27)
		4,937	2,514	**9,226**	3,981
Decrease/(increase) in trade and other receivables		**661**	(718)	**(3,917)**	4,159
Decrease in trade and other payables		**(2,126)**	(68)	**(370)**	(4,508)
Net cash flows from operating activities		**3,472**	1,728	**4,939**	3,632
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**–**	(67)	**(3)**	(106)
Property, plant and equipment expenditures		**(889)**	(1,682)	**(1,120)**	(3,534)
Interest income		**2**	11	**3**	27
Increase/(decrease) in trade and other payables		**217**	(628)	**(43)**	(1,377)
Net cash used in investing activities		**(670)**	(2,366)	**(1,163)**	(4,990)
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		**2,802**	(638)	**3,776**	(1,514)
Cash and cash equivalents at the beginning of the period		**15,517**	9,710	**14,543**	10,586
Cash and cash equivalents at the end of the period		**18,319**	9,072	**18,319**	9,072

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	–	710	–	710
Normal course issuer bid	(168)	12	–	(156)
Total comprehensive income for the period	–	–	211	211
Balance as at 30 June 2009	**66,369**	**4,437**	**(5,329)**	**65,477**

(thousands of US dollars)	Capital stock	Other components of equity	Accumulated income/(loss)	Total
Note	*4*			
Balance as at 1 January 2010	**66,267**	**4,809**	**(2,216)**	**68,860**
Stock-based compensation	–	534	–	534
Total comprehensive income for the period	–	–	4,548	4,548
Balance as at 30 June 2010	**66,267**	**5,343**	**2,332**	**73,942**

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 six months ended 30 June 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		SIX MONTHS ENDED	
(Figures in US$'ooo)	**30 Jun 2010**	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
Current tax	**703**	–	**1,049**	–
Deferred tax	**781**	700	**1,768**	1,190
	1,484	700	**2,817**	1,190

TAX RATE RECONCILIATION

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'ooo)	**30 Jun 2010**	30 Jun 2009	**30 Jun 2010**	30 Jun 2009
Profit before taxation	**4,092**	1,079	**7,365**	1,401
Provision for income tax calculated at the statutory rate of 30%	**1,228**	324	**2,210**	420
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**241**	247	**482**	484
Stock based compensation	**(3)**	155	**86**	294
Other income	**(2)**	(50)	**(3)**	(47)
Permanent differences	**20**	24	**42**	39
	1,484	700	**2,817**	1,190

As at 30 June 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 30 June 2010. The deferred income tax liability includes the following temporary differences:

AS AT *(Figures in US$'000)*	30 Jun 2010	31 Dec 2009
Differences between tax base and carrying value of property, plant and equipment	**10,992**	9,639
Income tax recoverable	**616**	167
Other liabilities	**(104)**	(54)
Additional profits tax	**(545)**	(435)
Tax losses	**(123)**	(249)
	10,836	9,068

2 EXPLORATION AND EVALUATION ASSET

(Figures in US$'000)	Tanzania
Costs	
As at 1 January 2010	760
Additions	3
As at 30 June 2010	**763**
Net Book Values	
As at 30 June 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$'ooo)	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2010	77,319	265	455	161	92	78,292
Additions	993	39	5	70	13	1,120
As at 30 June 2010	**78,312**	**304**	**460**	**231**	**105**	**79,412**
Depletion/Depreciation						
As at 1 January 2010	15,902	220	230	102	45	16,499
Charge for period	1,910	11	63	25	10	2,019
As at 30 June 2010	**17,812**	**231**	**293**	**127**	**55**	**18,518**
Net Book Values						
As at 30 June 2010	**60,500**	**73**	**167**	**104**	**50**	**60,894**
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 (Q2 2009: US$86.1 million) will be required to bring the total proved reserves to production.

4 CAPITAL STOCK

Number of shares (thousands)	Authorised	Issued	Valuation at par value
Class A			
As at 31 December 2009 and 30 June 2010	50,000	1,751	983
Class B			
As at 31 December 2009 and 30 June 2010	50,000	27,743	65,284
Total Class A and Class B as at 31 December 2009 and 30 June 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 six months ended 30 June 2010:

STOCK OPTIONS	Options	Exercise Price
Thousands of options or Cdn$		
Outstanding as at 1 January 2010 and 30 June 2010	**2,797**	**1.00 to 13.55**

The weighted average remaining life and weighted average exercise price of options at 30 June 2010 were as follows:

	Number Outstanding as at 30 Jun 2010	Weighted Average Remaining Contractual Life	Number Exercisable as at 30 Jun 2010	Weighted Average Exercise Price (Cdn$)
Exercise Price (Cdn$)				
1.00	**1,662**	4.17	**1,662**	1.00
8.00 - 13.55	**1,135**	1.87	**1,026**	11.36
	2,797		**2,688**	

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
Issued *(ii)*	225	4.20
Outstanding as at 30 June 2010 *(iii)*	930	4.20 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 225,000 stock appreciation rights were issued in June 2010 with an exercise price of Cdn$4.20. The rights have a term of five years and vest in five equal instalments, the first fifth vesting on the anniversary of the grant date.

(iii) 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 of 1.50% to 2.50%, stock volatility 67% to 71% with a level of forfeitures between 0% and 33%.

As at 30 June 2010, a total liability of US$0.2 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 Jun 2010	31 Dec 2009
Number of shares *('ooo)*		
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$18,300 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 (40.3 Bcf as at 30 June 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.

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.

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

Drilling of the Elsa-2 appraisal well was due to begin in Q4 2010. On 30 June 2010, the Italian Minister of Environment, Stafania Prestigiacomo, announced that an outline proposed decree to amend the Italian Environmental Code had been adopted by the Council of Ministers that will inter alia prohibit drilling in the Italian seas within 5 miles of the coastline and within 12 miles around the perimeter of protected Marine Parks. The Elsa structure straddles the proposed 5 mile restriction. This has now been passed into law and Petroceltic has applied to suspend the licence (and defer the commitments) pending further clarification of the legal issues.

In June 2010 the Company committed to purchase a gas to gas exchanger for US$0.8 million in order to provide additional security over gas supply to customers. The payment for the equipment will be made in instalments during the manufacture process. As at the end the quarter a cash advance of US$0.2 million has been made and has been recorded in prepayments.

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.

The Company is in the process of raising up to approximately Cdn$19.3 million before expenses by way of a rights issue. Each holder of a Class B Subordinated Voting share ("Class B Share") on the record date of the rights issue will receive one right for each Class B Share held and that six rights will entitle the holder to subscribe for one Class B Share at a discounted price. The funds will be primarily used to drill the Elsa-2 appraisal well in Italy in 2011 and for the drilling of the Songo Songo West exploration prospect in Tanzania in the latter half of 2011.

7 SUBSEQUENT EVENT

On 13 July 2010 the Company announced the creation of EastCoast Transmission and Marketing as the new infrastructure division of the Orca group of companies. The Company is currently in discussion with potential pipeline expansion partners and is keen to have a significant East Africa finance component as part of the infrastructure project. EastCoast Transmission will initially focus on expanding the onshore natural gas pipeline system transporting Songo Songo gas to Dar es Salaam. This will require the twinning of the existing 207 kilometer pipeline from Somanga Funga, where the marine pipeline from the Songo Songo gas field connects to the mainland, to the pipeline's current terminus at Dar es Salaam.

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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