2010

Q3

Interim Report

Orca Exploration Group Inc.

strategic growth

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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 and gas exploration in Italy and the acquisition and development of high potential exploration opportunities in Europe, the Middle East and Africa. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

Assisting Songas with its Expansion Project and downstream compression will increase overall system capacity to 140 MMcfd.

Financial and Operating Highlights

	THREE MONTHS ENDED OR AS AT			NINE MONTHS ENDED OR AS AT		
	30-Sep 2010	30-Sep 2009	Change	**30-Sep 2010**	30-Sep 2009	Change
Financial (US$'000) except where otherwise stated						
Revenue	**10,975**	7,536	46%	**28,251**	17,480	62%
Profit before taxation	**5,584**	2,682	108%	**12,949**	4,083	216%
Operating netback *(US$/mcf)*	**2.32**	2.17	7%	**2.30**	2.17	6%
Cash and cash equivalents	**22,179**	9,703	129%	**22,179**	9,703	129%
Working capital	**30,093**	12,147	148%	**30,093**	12,147	148%
Shareholders' equity	**77,827**	67,159	16%	**77,827**	67,159	16%
Profit per share - basic *(US$)*	**0.12**	0.05	140%	**0.27**	0.06	350%
Profit per share - diluted *(US$)*	**0.12**	0.05	140%	**0.27**	0.06	350%
Funds flow from operating activities	**6,123**	4,247	44%	**15,349**	8,228	87%
Funds per share from operating activities - basic *(US$)*	**0.21**	0.14	50%	**0.52**	0.28	86%
Funds per share from operating activities - diluted *(US$)*	**0.20**	0.14	43%	**0.50**	0.27	85%
Net cash flows from operating activities	**4,506**	1,959	130%	**9,445**	5,591	69%
Net cash flows per share from operating activities - basic *(US$)*	**0.15**	0.07	128%	**0.32**	0.19	69%
Net cash flows per share from operating activities - diluted *(US$)*	**0.15**	0.06	129%	**0.31**	0.18	69%
Outstanding Shares *('000)*						
Class A shares	**1,751**	1,751	0%	**1,751**	1,751	0%
Class B shares	**27,983**	27,770	1%	**27,983**	27,770	1%
Options	**2,557**	2,797	(9%)	**2,557**	2,797	(9%)
Operating						
Additional Gas sold *(MMcf)* - industrial	**770**	581	32%	**1,817**	1,554	17%
Additional Gas sold *(MMcf)* - power	**2,918**	2,493	17%	**8,014**	5,756	39%
Additional Gas sold *(MMcfd)* - industrial	**8.4**	6.3	33%	**6.7**	5.7	18%
Additional Gas sold *(MMcfd)* - power	**31.7**	27.1	17%	**29.4**	21.1	39%
Average price per mcf *(US$)* - industrial	**8.01**	9.01	(11%)	**8.80**	7.96	10%
Average price per mcf *(US$)* - power	**2.63**	2.41	7%	**2.59**	2.39	8%

Highlights

- Increased profit before taxation by 108% to US$5.6 million (Q3 2009: US$2.7 million).
- Increased funds flow from operating activities by 44% to US$6.1 million (Q3 2009: US$4.2 million).
- Increased Q3 2010 sales of Additional Gas by 20% to 3,688 MMcf or 40.1 MMcfd (Q3 2009: 3,074 MMcf or 33.4 MMcfd).
- Increased working capital by 21% during the quarter to US$30.1 million (US$24.9 million at 30 June 2010).
- Successfully raised gross proceeds of Cdn$19.3 million by means of a 1 for 6 rights issue that was fully subscribed.

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 had a profitable third quarter recording the highest level of gas sales to date at 40.1 MMcfd.

During the third quarter, Orca Exploration took additional steps to accelerate value creation and progress the growth strategies announced in our Q2 Report to shareholders.

- Orca is continuing to monetise the value of our current gas reserves through planned infrastructure expansions that will boost natural gas throughput from the Songo Songo gas field;
- We are on track with plans to drill the low risk, high potential Songo Songo West prospect in 2011; and
- Orca has strengthened its Board of Directors and management team to best execute on our growth strategy.

Orca had a profitable third quarter recording the highest level of gas sales to date at 40.1 MMcfd. The Company generated funds flow from operating activities of US$6.1 million (Q3 2009: US$4.2 million) for the quarter taking it to US$15.3 million for the nine months to 30 September 2010. We remain on target for cash flow of US$20 million for the year.

Third quarter highlights include:

- Progress in finalising a re-rating Agreement with Songas Limited that will increase the infrastructure capacity from 90 MMcfd to 105 MMcfd;
- Notification that Songas will submit an application to the regulator, EWURA, for the permanent expansion of the infrastructure to 140 MMcfd in Q4 2010;
- Notification that TANESCO, the electricity utility, is finalising contractual terms with Jacobsen Elektro AS to install 105 MWs of power generation capacity over the next 15 months and is working to re-commission a 112 MW plant in Dar es Salaam in Q1 2011; and
- The successful conclusion of the fully subscribed Rights Offering that raised gross proceeds of Cdn$19.3 million. When this is added to the Company's working capital at 30 September 2010, Orca now has working capital of US$48 million and no debt.

Strengthening of board and management

In the first half of 2010, the Board of Directors was restructured and a majority of independent directors was elected at the Company's Annual General Meeting. Orca is very fortunate to have three new and highly experienced directors join our Board – Lord Howard of Lympne, Robert (Bob) Wigley and Beer Van Straten.

The Company has also added strength to its management team by the appointment of Andrew Brown as the country manager in Tanzania. He recently served as Managing Director for BG's Nile Valley gas company in Egypt and his experience in downstream gas operations and gas marketing will be extremely valuable in monetising the Company's gas reserves.

Pierre Raillard, who was previously in-country manager has been named Vice President of Orca's new infrastructure division. Mr Raillard who previously played a key role in the development of the company's Songo Songo natural gas operations is heading up an expansion project that could rapidly accelerate the development of natural gas reserves and markets in East Africa.

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

LEFT:
Power demand continues to surge. TANESCO is negotiating to recommission its 112 MW plant.

Expanding infrastructure

There is an urgent need to expand the infrastructure that processes and transports natural gas from Songo Songo Island to Dar es Salaam. During Q3 2010, gas sales from the field averaged 81.3 MMcfd against an installed infrastructure capacity of 90 MMcfd.

To address this challenge infrastructure growth activities in Q3 2010 included:

- Technical evaluations of the gas processing plant to remove any obstacle to re-rate the plant to 110 MMcfd. Lloyds Register has now approved the plant to operate at 110 MMcfd and Orca is now in discussions to sign a re-rating agreement.
- Assisting Songas with its Expansion Project to install new processing capacity and downstream compression that will increase the overall capacity to 140 MMcfd. Songas is expected to submit a tariff methodology to the energy regulator, EWURA, by the end of 2010.
- Presenting interested parties with the opportunity to participate in the creation of an infrastructure company that would construct a new 207 kilometer onshore pipeline to Dar es Salaam.

Growth in power demand

Power demand continues to surge. TANESCO is negotiating with the Independent Power Corporation to re-commission their 112 MW plant. This would create a 24 MMcfd maximum demand for Additional Gas supplied by Orca.

In addition, TANESCO has signed an agreement with the Norwegian power turbine manufacturer, Jacobsen, for the supply of three new 35 MW turbines. That plant is expected to be fully operational by Q1 2012.

Longer term, TANESCO is working to bring an additional 240 MWs of combined cycle plants on line at Kinyerezi by the end of 2013.

By 2014, it is forecast that TANESCO will have completed a US$0.5 billion project (majority financed by the World Bank and other Multilaterals) to strengthen the transmission grid in Tanzania. This will lead to increased construction of gas fired generation as TANESCO connects significant industries and consumers around Lake Victoria.

Well interventions

The Company has recently conducted a logging programme that has indicated that the wells may have to be worked over. These potential workovers could add 40 MMcfd of deliverability (the equivalent of one new well) through adding tubing capacity. The Company has commissioned an expert's report to develop a work programme for 2011.

EastCoast Transmission and Marketing

There is increasing exploration activity offshore East Africa with four gas discoveries by Anadarko in Mozambique and by British Gas 65 kilometers from Songo Songo Island offshore Tanzania. British Gas is expected to drill a further two wells over the next six months. Statoil and Exxon Mobil also have offshore blocks that are expected to be drilled in 2011.

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 Orca's Tanzanian gas reserves whilst also creating a new revenue stream for the Company. If successful, Orca plans to lead in the establishment of a coastal gas pipeline network that can be accessed by other upstream operators and used to transport their gas to the principal industrial hubs in East Africa including Mombasa in Kenya.

To lead in the development of gas markets in East Africa, Orca has created a new infrastructure division, EastCoast Transmission and Marketing.

The first EastCoast Transmission and Marketing project currently 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.

EastCoast Transmission and Marketing is currently in discussion with equity and debt providers about the financing of a new infrastructure company and is anxious 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, high potential appraisal well offshore Italy in the Adriatic. The area has significant oil exploration upside and as part of the farm-in, Orca would earn the right to participate in 11 adjacent exploration blocks in the Central Adriatic.

Petroceltic were due to spud the Elsa-2 well prior to 31 October 2010, but the Italian government passed a decree, following the blowout of the Macondo well in the U.S., that prevented the 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 suspended the permit until such time as the Ministry of Environment issues a decree of environmental compatibility for the drilling program. The project in currently on hold and Orca is not liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

Growing cash flows in Tanzania

During Q3 2010, Orca's gas production and marketing in Tanzania generated funds flow from operating activities of US$6.1 million, a 44% increase compared with the same period in 2009. Industrial gas sales volumes increased by 33% to 8.4 MMcfd. Utility gas sales also increased by 17% to 31.7 MMcfd since Tanzania's hydro generation output declines during the dry season.

Orca's cash flows are forecast to continue to grow on an annualised basis. In the absence of increased capital expenditure, the Company may deplete its cost recovery pool that has been brought forward from previous years during the course of the next few months. Accordingly, until higher capital expenditures are incurred on activities such as the drilling of Songo Songo West, the Company's revenue will reflect the costs incurred during each period plus the relevant profit share.

Strategy driven action

Your Company's Board of Directors, Orca's management and all its employees are poised to take the Company to a new level of performance over the next two years.

In Q1 2010 we announced that the Company had signed a PSA pending ratification. Unfortunately we were notified this quarter that the exploration licence had been awarded to a major third party. We remain focused on growth and are sensitive to the need to add new low risk, high potential opportunities. Access to and allocation of capital will be continue to be critical and we are sensitive to the need to work with partners and sources of capital that are compatible with our own growth plans. We were very encouraged by the success of our recently completed and fully subscribed Rights Offering and we appreciate the strength this gives us as we pursue our goal of creating increased shareholder value and having that value recognised.

Together we are taking action to deliver on Orca's renewed growth agenda.

W. David Lyons
Chairman and CEO

29 November, 2010

RIGHT: Orca is on track to drill the low risk, high potential Songo Songo West prospect in 2011.

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 NINE MONTHS ENDED 30 SEPTEMBER 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 29 NOVEMBER 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 and accounting 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 September 2010

Operating Volumes

The sales volumes for the quarter were 3,688 MMcf or 40.1 MMcfd. This represents an increase of 20% over Q3 2009. The total sales volumes for the nine months ended 30 September 2010 were 9,831 MMcf an increase of 34% over 2009.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	**30-Sep 2010**	30-Sep 2009
Gross sales volume *(MMcf):*				
Industrial sector	**770**	581	**1,817**	1,554
Power sector	**2,918**	2,493	**8,014**	5,756
Total volumes	**3,688**	3,074	**9,831**	7,310
Gross daily sales volume *(MMcfd):*				
Industrial sector	**8.4**	6.3	**6.7**	5.7
Power sector	**31.7**	27.1	**29.4**	21.1
Total daily sales volume	**40.1**	33.4	**36.1**	26.8

Industrial sector

Industrial sales volumes of 770 MMcf (8.4 MMcfd) were achieved in Q3 2010, compared to 581 MMcf (6.3 MMcfd) in Q3 2009. The 33% increase in sales is mainly a consequence of a rise in the volume of gas supplied to Kiln 4 at Tanzania Portland Cement Company's ("TPCC") Wazo Hill cement plant. The plant consumed 293 MMcf in Q3 2010 compared to 135 MMcf in Q3 2009. The balance of the increase in sales volume is a consequence of sales to new customers and organic growth from existing customers.

Industrial sales volumes for the nine months ended 30 September 2010 have increased 17% to 1,817 MMcf from 1,554 MMcf in 2009. Sales to Wazo Hill and new customers accounted for 55% and 22% of the increase respectively.

Power sector

Power sector sales volumes increased by 17% to 2,918 MMcf (31.7 MMcfd) in Q3 2010 from 2,493 MMcf (27.1 MMcfd) in Q3 2009. The increase in sales volumes over Q3 2009 is mainly the result of the sale of Additional Gas to the Tegeta 45 MW power plant that was commissioned in Q4 2009.

Power sector sales volumes for the nine months ended 30 September 2010 have increased 39% to 8,014 MMcf from 5,756 MMcf in 2009, with sales to the Tegeta 45 MW plant accounting for 60% 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		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
US$/mcf				
Average sales price				
Industrial sector	8.01	9.01	8.80	7.96
Power sector	2.63	2.41	2.59	2.39
Weighted average price	3.75	3.66	3.74	3.57

Industrial sector

The average sales price achieved for Q3 2010 was US$8.01/mcf compared to US$9.01/mcf in Q3 2009, with the year to date prices for 2010 and 2009 being US$8.80/mcf and US$7.96/mcf respectively.

The decrease in the sales price is a consequence of the increase in the volumes of sales to Wazo Hill. The price of gas for the industrial sector (with the exception of the gas supplied to the Wazo Hill cement plant) is 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$2.63/mcf for Q3 2010 compared to US$2.41/mcf in Q3 2009, with the year to date prices for 2010 and 2009 being US$2.59/mcf and US$2.39/mcf respectively.

The increase in the sales price over Q3 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. The annual inflationary increase in the power price occurs in July each year.

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 40 MMcfd. Consequently the Company's share of revenue after cost recovery ("Profit Gas") was 40%, compared to 30% in Q3 2009.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 85.0% (Q3 2009: 82.5%) of the Net Revenues as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	**30-Sep 2010**	30-Sep 2009
(Figures in US$'000)				
Gross sales revenue	**13,829**	11,250	**36,722**	26,132
Processing and transportation tariff	**(2,199)**	(1,925)	**(5,824)**	(4,432)
Gross revenue after tariff	**11,630**	9,325	**30,898**	21,700

Analysed as to:

Company Cost Gas	**8,722**	6,994	**23,173**	16,275
Company Profit Gas	**1,156**	698	**2,842**	1,541
Company operating revenue	**9,878**	7,692	**26,015**	17,816
TPDC Profit Gas	**1,752**	1,633	**4,883**	3,884
	11,630	9,325	**30,898**	21,700

The Company's revenue reported for the third quarter amounted to US$10,975,000 after adjusting the Company's operating revenue of US$9,878,000 by:

- US$1,302,000 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$205,000 for the deferred effect of Additional Profits Tax. This tax is considered a royalty and is netted against revenue.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	**30-Sep 2010**	30-Sep 2009
(Figures in US$'000)				
Industrial sector	**6,165**	5,240	**15,994**	12,381
Power sector	**7,664**	6,010	**20,728**	13,751
Gross sales revenue	**13,829**	11,250	**36,722**	26,132
Processing and transportation tariff	**(2,199)**	(1,925)	**(5,824)**	(4,432)
TPDC share of revenue	**(1,752)**	(1,633)	**(4,883)**	(3,884)
Company operating revenue	**9,878**	7,692	**26,015**	17,816
Additional Profits Tax	**(205)**	(156)	**(565)**	(336)
Current income tax adjustment	**1,302**	–	**2,801**	–
Revenue	**10,975**	7,536	**28,251**	17,480

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 Q3 2009 Songas Outlet Price for the industrial customers, an average amount of US$0.63/mcf ("Ringmain Tariff") was deducted from the achieved industrial sales price of US$9.01/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$229,000 (Q3 2009: US$273,000) and US$104,000 (Q3 2009: US$134,000) was allocated for the Additional Gas.

Other field and operating costs include an apportionment of the annual PSA licence costs, some costs associated with the evaluation of the reserves and direct costs of re-rating the gas processing plant. The increase in Q3 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 the nine months to 30 September 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, with many of the increase in costs becoming effective in Q3 2009.

These costs are summarized in the table below:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	**30-Sep 2010**	30-Sep 2009
(Figures in US$'000)				
Share of well maintenance	**104**	134	**336**	328
Other field and operating costs	**593**	285	**1,447**	578
	697	419	**1,783**	906
Distribution costs	**601**	578	**1,681**	992
Production and distribution expenses	**1,298**	997	**3,464**	1,898

Operating Netbacks

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	**30-Sep 2010**	30-Sep 2009
(Amounts in US$/mcf)				
Gas price – industrial	**8.01**	9.01	**8.80**	7.96
Gas price – power	**2.63**	2.41	**2.59**	2.39
Weighted average price for gas	**3.75**	3.66	**3.74**	3.57
Tariff (after allowance for the Ringmain Tariff in 2009)	**(0.59)**	(0.63)	**(0.59)**	(0.61)
TPDC Profit Gas	**(0.49)**	(0.53)	**(0.50)**	(0.53)
Net selling price	**2.67**	2.50	**2.65**	2.43
Well maintenance and other operating costs	**(0.19)**	(0.14)	**(0.18)**	(0.12)
Distribution costs	**(0.16)**	(0.19)	**(0.17)**	(0.14)
Operating netback	**2.32**	2.17	**2.30**	2.17

The operating netback for the quarter was US$2.32/mcf (Q3 2009: US$2.17/mcf). The increase is largely a result of the increase in the weighted average price of gas.

The increase in the net selling price from US$2.50/mcf to US$2.67/mcf in Q3 2010 is a consequence of the increase in the gas price achieved in the power markets and a change in sales mix towards the higher valued industrial customers. The increase in the net 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 is reduced on a mcf basis by the 20% increase in sales volume to 3,688 MMcf in Q3 2010 from 3,074 MMcf in Q3 2009.

An operating netback of US$2.30/mcf was achieved for the nine months ended 30 September 2010 compared to U$S2.17/mcf in 2009. The 9% increase in weighted average selling price from US$2.43/mcf to US$2.65/mcf was offset by the increase in operating costs from US$0.26/mcf to US$0.35/mcf.

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

Administrative Expenses

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

(Figures in US$'000)	THREE MONTHS ENDED 30-Sep 2010	THREE MONTHS ENDED 30-Sep 2009	NINE MONTHS ENDED 30-Sep 2010	NINE MONTHS ENDED 30-Sep 2009
Employee costs	**534**	548	**1,550**	1,636
Consultants	**638**	643	**1,973**	1,860
Travel and accommodation	**197**	155	**606**	489
Communications	**31**	26	**74**	66
Office	**342**	271	**871**	838
Insurance	**83**	64	**246**	178
Auditing and taxation	**39**	48	**127**	140
Depreciation	**48**	31	**157**	85
Reporting, regulatory and corporate	**252**	154	**480**	371
	2,164	1,940	**6,084**	5,663
Marketing costs including legal fees	**533**	421	**1,468**	1,704
Stock based compensation	**43**	286	**329**	1,266
Net general and administrative expenses	**2,740**	2,647	**7,881**	8,633

The G&A includes the costs of running the gas operations in Tanzania which are recoverable as Cost Gas.

G&A averaged approximately US$0.9 million per month for both Q3 2010 and Q3 2009. G&A per mcf decreased to US$0.74/mcf (Q3 2009: US$0.86/mcf) as a consequence of a 20% increase in the volume of Additional Gas sold.

The main variances to Q3 2009 are summarized below:

Reporting, regulatory and corporate

The increase in costs is a result of the appointment of three new non executive directors to strengthen the board at the annual general meeting in June 2010.

Marketing costs and legal fees

The increase in marketing and legal fees compared to Q3 2009 is a consequence of the increased activity in the negotiation of the long-term power contracts and the long term gas expansion plan. The overall cost has fallen for the nine months as a result 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 in Q2 2010.

Stock based compensation

A total of 2,557,400 stock options were outstanding at the end of Q3 2010. Of these options 1,662,400 were issued in 2004 and were fully expensed by the end of 2007. 240,000 of these stock options were exercised in July 2010. 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. An expense of US$0.04 million was recorded during the quarter (Q3 2009: US$0.3 million).

A total of 930,000 stock appreciation rights were outstanding at the end of Q3 2010. 225,000 of these stock appreciation rights were issued to the new non-executive directors in 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 September 2010 the following assumptions were used; stock volatility 55% to 71%, a risk free interest rate of 1.50% to 2.50% and a closing stock price of Cdn$3.90. A reduction of US$0.03 million to stock based compensation expenses was recognized in Q3 2010 compared to an increase of US$0.1 million in Q3 2009 in respect of these stock appreciation rights. The reduction is a result of a decline in the share price from Cdn$4.00 at the end of Q2 2010 to Cdn$3.90 at the end of Q3 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 expense is summarized as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
(Figures in US$'ooo)				
Stock options	**73**	188	**607**	828
Stock appreciation rights	**(30)**	98	**(278)**	368
Treasury stock	**–**	–	**–**	70
	43	286	**329**	1,266

Net Financing Charges/Income

While there has been a fall in the interest rate earned since Q3 2009, this has been negated to an extent by the increase in cash balances which now stand at US$22.1 million, an increase of US$12.5 million over Q3 2009.

The loss on foreign exchange experienced in the quarter and in the nine months ended 30th September 2010 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. Where payments are late, the Company invoices interest in accordance with the terms of the contracts.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
(Figures in US$'ooo)				
Finance income				
Interest income	**18**	9	**21**	35
Foreign exchange gain	**–**	19	**27**	33
	18	28	**48**	68
Finance costs				
Overdraft charges	**(1)**	–	**(13)**	–
Foreign exchange loss	**(227)**	**(39)**	**(939)**	(73)
	(228)	**(39)**	**(952)**	(73)
Net finance costs	**(210)**	**(11)**	**(904)**	(5)

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 Tanzanian Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognised a deferred tax liability of US$11.9 million as at 30 September 2010 which includes an additional deferred future income tax charge of US$1.1 million for the quarter. This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC's share of Profit Gas.

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 (Q3 2009: US$0.1 million) has been netted off revenue for the quarter ended 30 September 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 rate of US$0.31/mcf in Q3 2010. In Q3 2009 a depletion rate 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		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
(Figures in US$'000)				
Profit for the period	**3,578**	1,549	**8,126**	1,760
Adjustments *(i)*	**2,545**	2,698	**7,223**	6,468
Funds from operations before working capital changes	**6,123**	4,247	**15,349**	8,228
Working capital adjustments *(i)*	**(1,617)**	(2,288)	**(5,904)**	(2,637)
Net cash flows from operating activities	**4,506**	1,959	**9,445**	5,591
Net cash flows used in investing activities	**(880)**	(1,273)	**(2,043)**	(6,263)
Net cash flows from/(used in) financing activities	**234**	(55)	**234**	(211)
Net increase/(decrease) in cash and cash equivalents	**3,860**	631	**7,636**	(883)

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

The US$1.8 million increase in funds from operations in the quarter to US$6.1 million from US$4.3 million in Q3 2009 is primarily the result of the increased sales revenue recorded in Q3 2010. The total level of expenditure between the two quarters remained fairly consistent despite a 20% increase in the volume of Additional Gas sales.

The US$3.9 million increase in cash and cash equivalents for the quarter is a result of the generation of US$6.1 million of funds from operations before working capital changes during the quarter as offset by US$1.2 million of capital expenditure (Q3 2009: US$2.0 million), together with an overall net cash reduction of US$1.2 million in working capital and the receipt of US$0.2 million from the exercise of stock options.

The US$7.6 million increase in cash and cash equivalents for the nine months ended 30 September 2010 is a result of the generation of US$15.3 million of funds from operations before working capital changes during the period as offset by US$2.3 million of capital expenditure (nine months to 30 September 2009: US$5.6 million), together with an overall net reduction of US$5.6 million in working capital.

Capital Expenditure

Gross capital expenditures amounted to US$1.2 million during the quarter (Q3 2009: US$2.0 million).

The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
(Figures in US$'000)				
Geological and geophysical and well drilling	**502**	338	**991**	691
Pipelines and infrastructure	**692**	1,339	**1,199**	4,286
Power development	**6**	289	**6**	292
Other equipment	**23**	27	**150**	364
	1,223	1,993	**2,346**	5,633

Geological and geophysical and well drilling

During the course of the nine months ended 30 September 2010, a total of US$0.7 million ($S0.3 million in Q3 2010) has been incurred on work undertaken to tie in the SS-10 well to the gas processing plant on Songo Songo Island. The tie in is required to ensure the security of Additional Gas supply to customers. The balance of the expenditure in the quarter has been incurred on the development of the Songo Songo West prospect and other geological studies.

Pipelines and infrastructure

The development of infrastructure facilities on Songo Songo Island is instrumental in ensuring that the existing 90 MMcfd processing capacity is expanded to 140 MMcfd in the near term to meet growing Additional Gas demand. To this end, US$0.2 million was incurred on the development of an early production facility during the quarter. A further US$0.4 million was incurred on connection costs for new industrial customers, with an additional US$0.1 million on the expansion of the CNG infrastructure at the Mikocheni hub.

Working Capital

Working capital as at 30 September 2010 was US$30.1 million compared with US$16.8 million as at 31 December 2009 and may be analyzed as follows:

AS AT	30-Sep 2010	31-Dec 2009
(Figures in US$'000)		
Cash and cash equivalents	**22,179**	14,543
Trade and other receivables	**15,982**	9,181
	38,161	23,724
Trade and other payables	**8,068**	6,889
Working capital	**30,093**	16,835

The level of working capital has increased 79% during the nine months ended 30 September 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 September 2010, US$11.5 million was represented by trade receivables (Q4 2009: US$7.1 million), US$1.2 million of prepayments (Q4 2009: US$0.5 million) and other receivables of US$3.3 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 progress payments for the manufacture 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 September 2010, US$3.9 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$7.6 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 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 previously settled in full the outstanding balance subsequent to each quarter end and management expects that this will continue. Subsequent to the quarter end a total of US$2.4 million has been collected.

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 (43.9 Bcf as at 30 September 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 and accounting 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

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, to date no costs have been paid.

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 of the quarter a cash advance of US$0.5 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 (see note 8). 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.

Subsequent Event

On 5 October, 2010 the Company completed its previously announced rights offering. At closing, the Company issued 4,955,687 Class B Subordinated Voting shares at a price of Cdn$3.90 per Class B Share for gross proceeds of Cdn$19.3 million. The Company intends to use the proceeds of the Rights Offering primarily to drill the Songo Songo West exploration prospect in Tanzania in the latter half of 2011 as well as to drill the Elsa-2 appraisal well in Italy once the legislative issues concerning offshore drilling are resolved. In addition, some of the funds will be allocated to the development of energy infrastructure in East Africa through the newly formed division of Orca, East Coast Transmission and Marketing.

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. It is not considered probable that an additional payment will be made and as such no additional provision has been recognized.

Related Party Transactions

One of the non-executive Directors is a partner at a law firm. During the three and nine months ended September 30, 2010, the Company incurred legal expenses in the amount of US$30,000 and US $105,000 respectively (September 30, 2009 US $37,500 and US $112,500 for the three and nine months respectively), of which US $63,000 are included in trade and other payables in the statement of financial position as at September 30, 2010. The transactions with this related party were made at the exchange amount.

Off Statement of Financial Position Arrangements.

As at 30 September 2010, the company had no off statement of financial position arrangements.

Shareholders' Equity and Outstanding Share Data

Number of shares ('000)	As at 30-Sep 2010	As at 31-Dec 2009
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**27,983**	27,743
	29,734	29,494
Convertible securities		
Stock options	**2,557**	2,797
Diluted Class A and Class B shares	**32,291**	32,291
Weighted average		
Class A and Class B shares	**29,573**	29,541
Convertible securities		
Stock options	**1,085**	1,163
Weighted average diluted Class A and Class B shares	**30,658**	30,704

Shares outstanding

A total of 240,000 stock options were exercised in July 2010.

On 10 October, 2010 the Company initiated a Normal Course issuer Bid, which subject to TSX approval will run for twelve months ending October 9, 2011. The Company will be entitled to purchase up to a maximum of 1,387,146 Class B shares for total expenditure of Cdn$5 million.

As at 26 November 2010, there were a total of 1,751,195 Class A shares and 32,938,615 Class B shares outstanding, following the issue of 4,955,687 on 5 October, 2010 as a result of the successful completion of the rights issue.

If the rights issue had occurred on the last day of the quarter, the weighted average diluted Class A and Class B Shares for the year to date would have been 30,676,735.

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$'ooo except where otherwise stated	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenue	**10,975**	**9,017**	8,259	7,837	7,536	5,501	4,443	6,371
Profit/(loss) after taxation	**3,578**	**2,608**	1,940	1,564	1,549	379	(168)	12
Operating netback *(US$/mcf)*	**2.32**	**2.37**	2.19	2.29	2.17	2.17	2.18	2.32
Working capital	**30,093**	**24,941**	20,891	16,835	12,147	9,939	9,154	9,727
Shareholders' equity	**77,827**	**73,942**	70,955	68,860	67,159	65,477	64,684	64,712
Profit/(loss) per share – basic *(US$)*	**0.12**	**0.09**	0.07	0.06	0.05	0.01	(0.01)	0.00
Profit/(loss) per share – diluted *(US$)*	**0.12**	**0.08**	0.06	0.06	0.05	0.01	(0.01)	0.00
Capital expenditures								
Geological and geophysical and well drilling	**502**	**320**	169	(890)	338	222	131	(987)
Pipeline and infrastructure	**692**	**492**	15	157	1,339	1,317	1,630	2,217
Power development	**6**	–	–	343	289	3	–	13
Other equipment	**23**	**77**	50	69	27	207	130	31
Operating								
Additional Gas sold – industrial *(MMcf)*	**770**	**562**	485	542	581	613	360	392
Additional Gas sold – power *(MMcf)*	**2,918**	**2,440**	2,656	2,570	2,493	1,693	1,570	2,149
Average price per mcf – industrial *(US$)*	**8.01**	**9.45**	9.32	9.49	9.02	7.02	7.91	10.08
Average price per mcf – power *(US$)*	**2.63**	**2.56**	2.56	2.41	2.41	2.36	2.39	2.39

Consolidated Statement of Comprehensive Income (unaudited)

	NOTE	THREE MONTHS ENDED 30-Sep 2010	THREE MONTHS ENDED 30-Sep 2009	NINE MONTHS ENDED 30-Sep 2010	NINE MONTHS ENDED 30-Sep 2009
(thousands of US dollars except per share amounts)					
Revenue		**10,975**	7,536	**28,251**	17,480
Cost of sales					
Production and distribution expenses		**(1,298)**	(997)	**(3,464)**	(1,898)
Depletion expense		**(1,143)**	(1,199)	**(3,053)**	(2,861)
		8,534	5,340	**21,734**	(12,271)
Administrative expenses		**(2,740)**	(2,647)	**(7,881)**	(8,633)
Net finance costs		**(210)**	(11)	**(904)**	(5)
Profit before taxation		**5,584**	2,682	**12,949**	4,083
Taxation	1	**(2,006)**	(1,133)	**(4,823)**	(2,323)
Profit and total comprehensive income		**3,578**	1,549	**8,126**	1,760
Profit per share					
Basic *(US$)*		**0.12**	0.05	**0.27**	0.06
Diluted *(US$)*		**0.12**	0.05	**0.27**	0.06

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position (unaudited)

AS AT *(thousands of US dollars)*	NOTE	30-Sep 2010	31-Dec 2009
ASSETS			
Current assets			
Cash and cash equivalents		**22,179**	14,543
Trade and other receivables		**15,982**	9,181
		38,161	23,724
Non-current assets			
Exploration and evaluation asset	2	**909**	760
Property, plant and equipment	3	**60,780**	61,793
		61,589	62,553
		99,850	86,277
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**8,068**	6,889
Non-current liabilities			
Deferred income taxes	1	**11,930**	9,068
Deferred additional profits tax		**2,025**	1,460
		22,023	17,417
Equity attributable to owners			
Capital stock	4	**66,807**	66,267
Other components of equity		**5,110**	4,809
Accumulated income/(loss)		**5,910**	(2,216)
		77,827	68,860
		99,850	86,277

See accompanying notes to the interim consolidated financial statements.

Contractual obligations and committed capital investment (Note 6)

Contingency (Note 7)

Subsequent event (Note 8)

The consolidated financial statements were approved by the Board of Directors on 29 November 2010.

Director

Director

Consolidated Statement of Cash Flows (unaudited)

	NOTE	THREE MONTHS ENDED 30-Sep 2010	THREE MONTHS ENDED 30-Sep 2009	NINE MONTHS ENDED 30-Sep 2010	NINE MONTHS ENDED 30-Sep 2009
(thousands of US dollars)					
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit for the period		**3,578**	1,549	**8,126**	1,760
Adjustment for:					
Depletion and depreciation	3	**1,191**	1,230	**3,210**	2,947
Stock-based compensation		**73**	188	**607**	898
Deferred income taxes		**1,094**	1,133	**2,862**	2,323
Deferred additional profits tax		**205**	156	**565**	336
Interest income		**(18)**	(9)	**(21)**	(36)
		6,123	4,247	**15,349**	8,228
(Increase)/decrease in trade and other receivables		**(2,884)**	(2,061)	**(6,801)**	2,098
Increase/(decrease) in trade and other payables		**1,267**	(227)	**897**	(4,735)
Net cash flows from operating activities		**4,506**	1,959	**9,445**	5,591
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**(146)**	(3)	**(149)**	(109)
Property, plant and equipment expenditures		**(1,077)**	(1,990)	**(2,197)**	(5,524)
Interest income		**18**	9	**21**	36
Increase/(decrease) in trade and other payables		**325**	711	**282**	(666)
Net cash used in investing activities		**(880)**	(1,273)	**(2,043)**	(6,263)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Normal course issuer bid		**–**	(55)	**–**	(211)
Proceeds from exercise of stock options		**234**	–	**234**	–
Net cash flow from/(used in) financing activities		**234**	(55)	**234**	(211)
Increase/(decrease) in cash and cash equivalents		**3,860**	631	**7,636**	(883)
Cash and cash equivalents at the beginning of the period		**18,319**	9,072	**14,543**	10,586
Cash and cash equivalents at the end of the period		**22,179**	9,703	**22,179**	9,703

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	–	898	–	898
Normal course issuer bid	(208)	(3)	–	(211)
Total comprehensive profit for the period	–	–	1,760	1,760
Balance as at 30 Sep 2009	**66,329**	**4,610**	**(3,780)**	**67,159**

(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	–	607	–	607
Stock options exercised	540	(306)	–	234
Total comprehensive income for the period	–	–	8,126	8,126
Balance as at 30 Sep 2010	**66,807**	**5,110**	**5,910**	**77,827**

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 and nine months ended 30 September 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 Interim Financial Reporting 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		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
(Figures in US$'000)				
Current tax	**912**	–	**1,961**	–
Deferred tax	**1,094**	1,133	**2,862**	2,323
	2,006	1,133	**4,823**	2,323

TAX RATE RECONCILIATION

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2010	30-Sep 2009	30-Sep 2010	30-Sep 2009
(Figures in US$'000)				
Profit before taxation	**5,584**	2,682	**12,949**	4,083
Provision for income tax calculated at the statutory rate of 30%	**1,675**	805	**3,885**	1,225
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**294**	217	**778**	701
Stock based compensation	**13**	86	**99**	380
Other income	**–**	4	**–**	(43)
Permanent differences	**24**	21	**61**	60
	2,006	1,133	**4,823**	2,323

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

AS AT *(Figures in US$'000)*	30-Sep 2010	31-Dec 2009
Differences between tax base and carrying value of property, plant and equipment	**11,671**	9,639
Income tax recoverable	**1,007**	167
Other liabilities	**(79)**	(54)
Additional profits tax	**(608)**	(435)
Tax losses	**(61)**	(249)
	11,930	9,068

2 EXPLORATION AND EVALUATION ASSET

(Figures in US$'000)	Tanzania
Costs	
As at 1 January 2010	760
Additions	149
As at 30 September 2010	**909**
Net Book Values	
As at 30 September 2010	**909**
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	2,048	55	10	70	14	2,197
As at 30 September 2010	**79,367**	**320**	**465**	**231**	**106**	**80,489**
Depletion/Depreciation						
As at 1 January 2010	15,902	220	230	102	45	16,499
Charge for period	3,053	17	89	36	15	3,210
As at 30 September 2010	**18,955**	**237**	**319**	**138**	**60**	**19,709**
Net Book Values						
As at 30 September 2010	**60,412**	**83**	**146**	**93**	**46**	**60,780**
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 (Q3 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
Class A			
As at 31 December 2009 and 30 September 2010	50,000	1,751	983
Class B			
As at 31 December 2009	50,000	27,743	65,284
Stock options exercised	–	240	540
As at 30 September 2010	**50,000**	**27,983**	**65,284**
Total Class A and Class B as at 30 September 2010	**100,000**	**29,734**	**66,807**

All of the issued capital stock is fully paid.

A total of 240,000 stock options were exercised in July 2010 at a price of Cdn$1.00 per share.

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. The fair value of stock options are measured using the Black-Scholes option pricing model. The value is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to the historic traded daily closing share price.

The table below details the outstanding share options and the movements for the nine months ended 30 September 2010:

STOCK OPTIONS	Options	Exercise Price
Thousands of options or Cdn$		
Outstanding as at 1 January 2010	**2,797**	**1.00 to 13.55**
Exercised	**(240)**	**1.00**
Outstanding as at 30 September 2010	**2,557**	**1.00 to 13.55**

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

	Number Outstanding as at 30-Sep 2010	Weighted Average Remaining Contractual Life	Number Exercisable as at 30-Sep 2010	Weighted Average Exercise Price (Cdn$)
Exercise Price (Cdn$)				
1.00	**1,422**	3.92	**1,422**	1.00
8.00 - 13.55	**1,135**	1.61	**1,026**	11.36
	2,557		**2,488**	

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 September 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.

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 statement of financial position. 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 55% to 71% with a level of forfeitures between 0% and 33%.

As at 30 September 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. During the three months and nine months ended 30th September 2010 credits of US$30,000 and US$278,000 have been recognized respectively in the statement of comprehensive income.

Shareholders' Equity and Outstanding Share Data

AS AT	30-Sep 2010	31-Dec 2009
Number of shares *('000)*		
Class A shares	**1,751**	1,751
Class B shares	**27,983**	27,743
	29,734	29,494
Convertible securities		
Stock options	**2,557**	2,797
Diluted Class A and Class B shares	**32,291**	32,291
Weighted average		
Class A and Class B shares	**29,573**	29,541
Convertible securities		
Stock options	**1,085**	1,163
Weighted average diluted Class A and Class B shares	**30,658**	30,704

5 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the three and nine months ended September 30, 2010, the Company incurred legal expenses in the amount of US$30,000 and US $105,000 respectively (September 30, 2009 – US $37,500 and US $112,500 for the three and nine months respectively), of which US $63,000 are included in trade and other payables in the statement of financial position as at September 30, 2010. 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 (43.9 Bcf as at 30 September 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

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, to date no costs have been paid.

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 of the quarter a cash advance of US$0.5 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 (see note 8). 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.

7 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. It is not considered probable that an additional payment will be made and as such no additional provision has been recognized.

8 SUBSEQUENT EVENT

On 5 October, 2010 the Company completed its previously announced rights offering. At closing, the Company issued 4,955,687 Class B Subordinated Voting shares at a price of $3.90 per Class B Share for gross proceeds of Cdn$19.3 million. The Company intends to use the proceeds of the Rights Offering primarily to drill the Songo Songo West exploration prospect in Tanzania in the latter half of 2011 as well as to drill the Elsa-2 appraisal well in Italy once the legislative issues concerning offshore drilling are resolved. In addition, some of the funds will be allocated to the development of energy infrastructure in East Africa through the newly formed division of Orca, EastCoast Transmission and Marketing.

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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