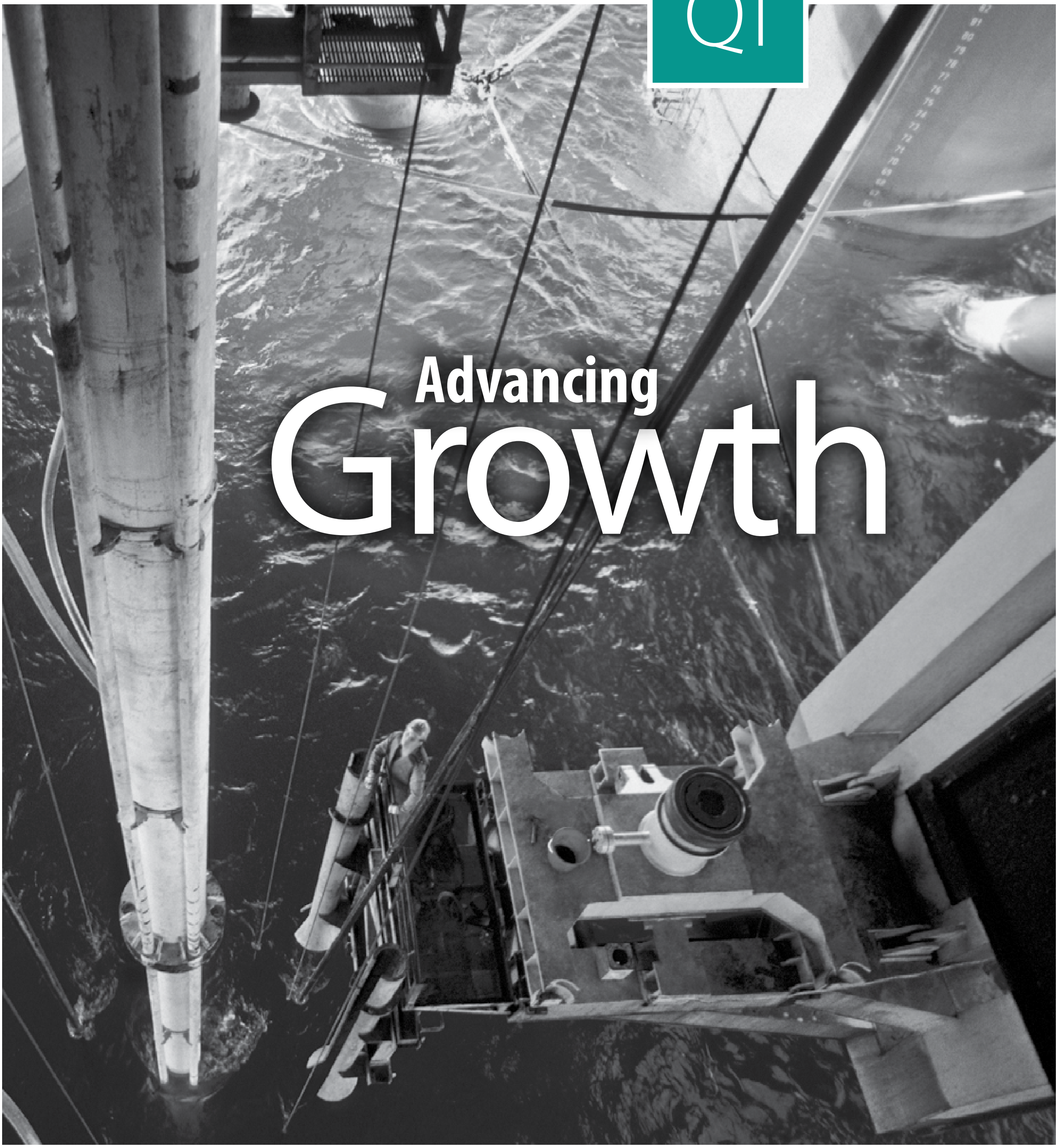
ORCA EXPLORATION GROUP INC.

ORCA

2011 Q1 Interim Report

Q1



Orca Exploration Group Inc. is a well-financed, international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania, the establishment of a coastal gas pipeline network in East Africa, oil appraisal and gas exploration in Italy and the acquisition of high potential exploration opportunities in Europe and Africa.

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

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 per square inch
MMbbl	Million barrels of oil
€	Euro

Highlights

- Increased funds flow from operating activities by 9% to US$4.9 million (Q1 2010: US$4.5 million).
- Increased sales of Additional Gas by 6% to 3,344 MMcf or 37.1MMcfd (Q1 2010: 3,141 MMcf or 34.9 MMcfd).
- Increased working capital by 6% during the quarter to US$55.8 million (US$52.4 million at 31 December 2010).
- Continued to strengthen Orca's management team by recruiting a new chief operating officer.
- Negotiated a Re-rating Agreement with Songas Limited to increase the Songo Songo gas processing infrastructure capacity from 90 MMcfd to 110 MMcfd.
- Connected the SS-10 well to the gas processing plant adding 41 MMcfd of deliverability.

Financial and Operating Highlights

Three months ended or as at	31-Mar 2011	31-Mar 2010	Change
FINANCIAL (US$ EXCEPT WHERE OTHERWISE STATED)			
Revenue	9,640	8,259	17%
Profit before taxation	4,030	3,273	23%
Operating netback (US$/MCF)	2.16	2.19	(1%)
Cash and cash equivalents	47,776	15,517	208%
Working capital	55,759	20,891	167%
Shareholders' equity	100,573	70,955	42%
Earnings per share - basic (US$)	0.07	0.07	0%
Earnings per share - diluted (US$)	0.07	0.06	17%
Funds flow from operating activities	4,947	4,540	9%
Funds flow per share from operating activities - basic (US$)	0.14	0.15	(7%)
Funds flow per share from operating activities - diluted (US$)	0.14	0.15	(7%)
Net cash flows from operating activities	3,496	1,518	130%
Net cash flows per share from operating activities - basic (US$)	0.10	0.05	100%
Net cash flows per share from operating activities - diluted (US$)	0.10	0.05	100%
OUTSTANDING SHARES ('000)			
Class A shares	1,751	1,751	0%
Class B shares	32,939	27,743	19%
Options	2,557	2,797	(9%)
Additional Gas sold (MMCF) - industrial	550	485	13%
Additional Gas sold (MMCF) - power	2,794	2,656	5%
Additional Gas sold (MMCFD) - industrial	6.1	5.4	13%
Additional Gas sold (MMCFD) - power	31.0	29.5	5%
Average price per mcf (US$) - industrial	9.42	9.32	1%
Average price per mcf (US$) - power	2.62	2.56	2%

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.

Chairman and CEO's Letter to S

W. DAVID LYONS, CHAIRMAN AND CEO

Orca Exploration had a profitable first quarter recording gas sales of 37.1 MMcfd, an increase of 6% compared with the same period in 2010.

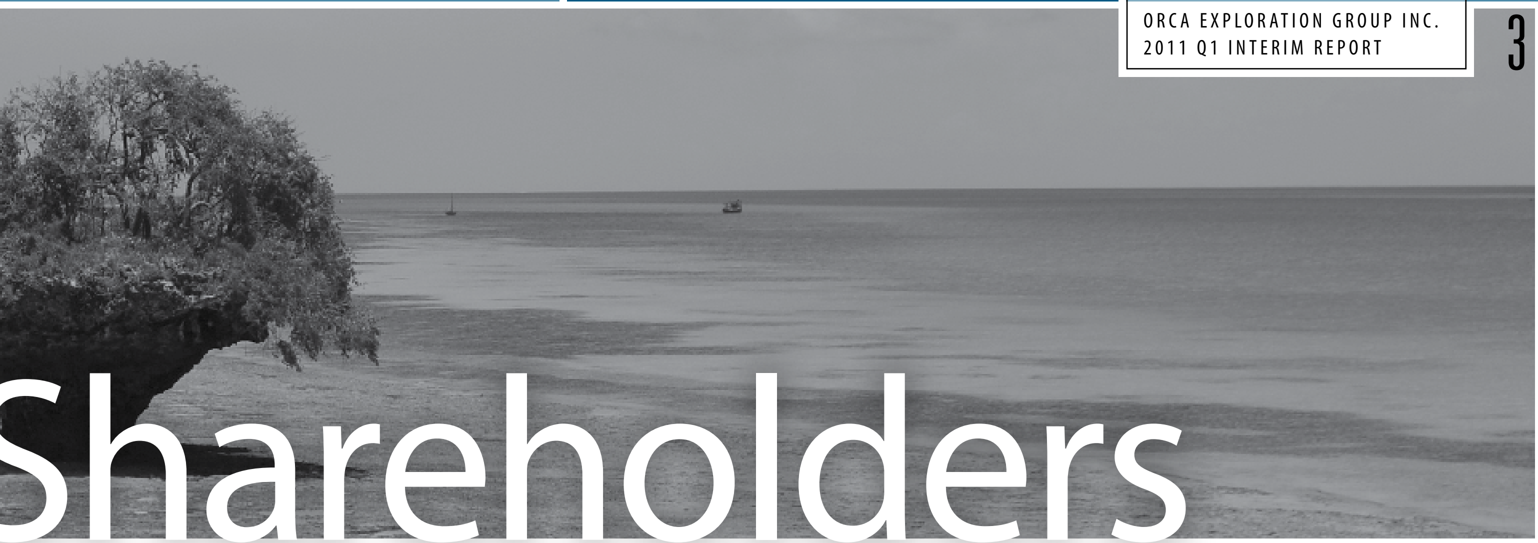
The Company generated funds flow from operating activities of US$4.9 million (Q1 2010: US$4.5 million).

Management continues to take steps that will move Orca to the next level:

- Orca continues to strengthen its senior management team. We have recruited Dale Rollins, as the Company's Chief Operating Officer (COO). He will join the Company in June bringing significant international experience including several years as Deputy Managing Director for Shell's petroleum operations in Nigeria where he was responsible for 25 production operations.
- The Company is on track to drill the La Tosca gas exploration well in the Po Valley Basin in Q4 2011 as the first step in delineating the prospectivity of the Longastrino block.
- Orca has taken action to address the impact of offshore well corrosion concerns. A drilling team has been established to drill a new onshore deviated well (SS-A) and upgrade SS-10 to increase deliverability.
- The same team is in discussions with several jack up rig operators to drill the high potential Songo Songo West (SSW) exploration prospect in 2012.

EXPANDING INFRASTRUCTURE

In Q1 2011, there were positive developments with the Songas Expansion Project that will see the capacity of the infrastructure increase to 140 MMcfd. Songas reached a provisional agreement with the energy regulator, EWURA, on the tariff methodology that should be applied. Songas will now push ahead with detailed design work, the raising of debt and equity financing and the tendering for an engineering and procurement contractor. Orca will be actively involved in this process both as operator of the gas processing plant and principal user of the infrastructure. Once this process has been concluded there will be a final submission to EWURA to determine the tariff that will apply. The target is to reach financial close by the end of 2011.



Shareholders

During Q1 2011, the Company negotiated a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd. The agreement is expected to remain in force for the period until the Songas Expansion Project is operational. If this agreement comes into force, the Company will effectively pay an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

It is anticipated that the Re-rating Agreement will be signed when Jacobsen commissions the first of three 35 MW turbines in Q4 2011.

EXPLORATION ACTIVITIES

Orca now has a greater focus on exploration to balance its cash flow generative asset in Tanzania. This will commence with the drilling of the La Tosca well in the Po Valley Basin in Q4 2011 where the Company has signed a contract with a subsidiary of Northern Petroleum Plc to farm in on between 70% and 75% of its Longastrino exploration block.

The Longastrino block has several potential leads and it is anticipated that 3D seismic will be acquired on completion of the La Tosca well. Further drilling activities will be conducted if the seismic interpretation is positive.

The Company is still optimistic that the Italian government will ultimately issue a decree of environmental compatibility and allow further offshore drilling to re-commence in the Central Adriatic. The drilling of the Elsa-2 well is an excellent opportunity to participate in an appraisal project where there is a known 65 meter oil column that was drilled in 1992. This prospect is particularly attractive at the current oil price. In addition, the farm in provides the Company with significant upside through the ability to participate in the exploration of 11 adjacent blocks at a 15% working interest.

In Tanzania, Orca is actively pursuing a jack up rig to drill the Songo Songo West (SSW) exploration well. The development plan for SSW, and any tie into existing processing capacity, will be reviewed once the results of the well are known.

Orca is on track to drill the La Tosca gas exploration well in Q4 2011

STRENGTHENED BOARD AND MANAGEMENT TEAM

During 2010 the Board of Directors was restructured and three highly experienced independent directors, Lord Howard of Lympne, Robert (Bob) Wigley and Beer van Straten were elected. Orca is now able to announce that Robin Gaeta, currently a Director of a Shell division that focuses on the market entry strategies for small scale liquid natural gas projects, has agreed to be nominated to Orca's Board at the Annual General Meeting of Orca shareholders on 20 June 2011. His experience will increase our ability to develop alternative gas markets.

The Company has also continued to strengthen its management team. Additions were made in 2010 and this has continued into 2011. The recruitment of a highly experienced chief operating officer was identified as critical to the advancement of the Company's growth plans and I am delighted that Dale Rollins will join us in that role. He has a wealth of experience operating in Africa. He will report to me and assume responsibility for the day-to-day management of the Company and the implementation of the Board's strategy, targets and plans.

The Company continues to strengthen its Board and management team

CORROSION UPDATE

Following a corrosion logging survey in Q4 2010, Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie-in of SS-10.

In Q1 2011, the Company conducted a second corrosion logging run on all the wells except SS-5. The data was independently analysed and it was concluded that SS-9 may need to be taken out of production by the end of Q1 2012, subject to the results of re-logging of the well in September 2011. Accordingly, the Company determined that a new high producing onshore deviated well, SS-A, should be drilled in 2011 to ensure adequate deliverability when SS-9 is taken off stream. In addition SS-10 will be upgraded to increase deliverability.

The Company is currently looking to contract a land rig to undertake this work programme within a tight timeframe. The current availability of rigs is limited. The estimated capital cost is US$35 million. To manage this important project, an experienced drilling manager has been recruited and is currently assembling his team in Dar es Salaam. In addition, a new production engineer will be added in Tanzania in the second half of the year to ensure ongoing high level attention to maintaining the integrity of all wells.

FINANCING

The Company's 2011 work programme includes the drilling of SS-A, the enhancement of SS-10, the drilling of La Tosca in the Po Valley and the purchase of long lead time items for Songo Songo West. The indicative capital expenditure programme for 2011 is US$58 million compared with the current cash balance of US$47.8 million. While there should be sufficient funds to undertake this 2011 work programme after taking into account self generated cash flows for the balance of the year, the Company will look to secure a financing facility and/or raise new equity to cover 2012 exploration activities.

In Tanzania we have an extremely strategic asset and in 2011 we will continue to work to maximize its value

The Company's cost pool in Tanzania may be recovered during Q2 2011 as a result of strong sales revenue and relatively low capital expenditure levels. This would result in a reduction in the percentage of net revenue attributable to the Company prior to any significant expenditure on the drilling activities. Orca will also see a reduction in the net revenue allocated to the Company now that a significant proportion of production is coming from the deemed TPDC backed-in well (SS-10).

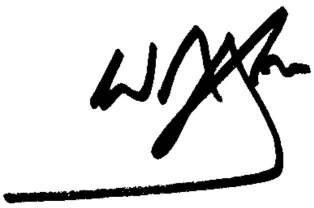
STRATEGY DRIVEN ACTIONS

At Orca we have spent much of the last year repositioning the Company for significant growth. With the Board and staff additions we have made, I believe we are ready to take Orca to the next level. We have a team that is up to the task and we intend to manage both growth and sustainability.

We see significant exploration upside in Italy, our first exploration drilling venture outside Tanzania. Once the initial prospect has been drilled, we will be looking to increase the chance of future success through additional seismic. With exploration success, the Company will look to sell or farm out its interests in Italy prior to the need to finance any development.

In Tanzania, Orca has an extremely strategic asset and in 2011 we will work to maximize its value while still addressing the inherent challenges associated with operating in an emerging hydrocarbon basin.

Orca is by far the largest producer and seller of natural gas in East Africa and it is well positioned to lead the way in developing East African gas markets and infrastructure. This is a very good time to be a natural gas developer in Tanzania. There is significant opportunity to capitalise on recent commercial gas discoveries, accelerate gas sales from the Songo Songo field and develop further infrastructure capacity. Tanzania is poised to capitalise on its new found resources and take the country to a new level of prosperity and energy self sufficiency. Orca is ready to play a significant role in contributing to that goal.



W. David Lyons
Chairman & CEO

27 May 2011

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2011 SHOULD BE READ IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2010. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 27 MAY 2011.

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, ITALY 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 OIL AND NATURAL GAS PRICES; OIL AND NATURAL GAS PRODUCT SUPPLY AND DEMAND, RIG AVAILABILITY; 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; COST POOL AUDITS AND OTHER FACTORS, MANY OF WHICH ARE BEYOND THE CONTROL OF ORCA EXPLORATION.

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

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE BASED ON FUNDS FLOW FROM OPERATING ACTIVITIES AND OPERATING NETBACKS. FUNDS FLOW FROM OPERATING ACTIVITIES IS A NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) TERM THAT REPRESENTS CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS. ORCA EXPLORATION ALSO ASSESSES ITS PERFORMANCE UTILIZING OPERATING NETBACKS. OPERATING NETBACKS REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS RINGMAIN TARIFF, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY. THE OPERATIONS IN ITALY ARE CURRENTLY IN THE EXPLORATION PHASE AND HAVE NO ASSOCIATED OPERATING REVENUE. 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

Tanzania

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").

Italy

During 2010 Orca Exploration farmed in to an oil appraisal block in the Adriatic in Italy and to a gas exploration prospect in the Po Valley in north eastern Italy.

PRINCIPAL TERMS OF THE TANZANIAN 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 the electricity utility, Tanzania Electric Supply Company ("TANESCO"), the owner of the Ubungo power plant, Songas Limited and the Ministry of Energy and Minerals ("MEM") 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 (In Q1 2011 the Company accrued US$0.5 million for marketing costs that have been incurred by TPDC since start up); 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 MEM ("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 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 new 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 2010, it has been assumed that they will 'back in' for 20% for all future new wells and other developments and this is reflected in the Company's net reserve position.

(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, the energy regulator, Energy and Water Utility Regulatory Authority ("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.

During Q1 2011, the Company negotiated a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd. The agreement is expected to remain in force for the period until the Songas Expansion Project is operational. If this agreement comes into force, the Company will effectively pay an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

(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 the Government of Tanzania ("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, Commonwealth Development Corporation 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 31 March 2011

OPERATING VOLUMES

The sales volumes for the quarter were 3,344 MMcf or 37.1 MMcfd. This represents an increase of 6% over Q1 2010.

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

Three months ended	31-Mar 2011	31-Mar 2010
GROSS SALES VOLUME (MMcf):		
Industrial sector	**550**	485
Power sector	**2,794**	2,656
Total volumes	**3,344**	3,141
GROSS DAILY SALES VOLUME (MMcfd):		
Industrial sector	**6.1**	5.4
Power sector	**31.0**	29.5
Total daily sales volume	**37.1**	34.9

Industrial sector

Industrial sales volumes of 550 MMcf (6.1 MMcfd) were recorded in Q1 2011. This represents an increase of 13% over the 485 MMcf (5.4 MMcfd) recorded in Q1 2010. The increase is due to the 54% rise in the level of Additional Gas supplied to Kiln 4 at Tanzania Portland Cement Company's ("TPCC") Wazo Hill cement plant.

Power sector

Power sector sales volumes of 2,794 MMcf (31.0 MMcfd) were recorded in Q1 2011. This represents an increase of 5% over the 2,656 MMcf (29.5 MMcfd) recorded in Q1 2010. The volume of gas consumed by the Ubungo power plant remained at a similar level during both periods, whilst there has been a transfer of power generation from the TANESCO 102 MW power plant to the Tegeta 45MW power plant.

COMMODITY PRICES

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

Three months ended	31-Mar 2011	31-Mar 2010
US$/Mcf		
Average sales price		
Industrial sector	9.42	9.32
Power sector	2.62	2.56
Weighted average price	3.74	3.61

Industrial sector

The average sales price achieved for Q1 2011 was US$9.42/mcf compared to US$9.32/mcf in Q1 2010. The increase in sales price is a consequence of the fluctuation in the world energy prices. The price of gas for the industrial sector (with the exception of the gas supplied to the Wazo Hill cement plant) continued to be set at a discount to the price of Heavy Fuel Oil ("HFO") in Dar es Salaam. The supply of gas to Wazo Hill has a fixed pricing structure that was set by reference to their alternative fuel supply which is imported coal.

Power sector

The average sales price to the power sector was US$2.62/mcf for the quarter compared to US$2.56/mcf in Q1 2010. The increase in the sales price over Q1 2010 is due to the annual inflationary increase in respect of the supply of Additional Gas to the power sector.

OPERATING REVENUE

Under the terms of the PSA with TPDC, Orca Exploration is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales.

Orca Exploration is able to recover all costs incurred on the exploration development and operations of the project out of 75% of the Net Revenues ("Cost Gas"). Any costs not recovered in any period are carried forward to be recovered out of future revenues. In addition the recovery of the cost pool has meant that TPDC is now able to recover its past marketing costs (US$0.5 million accrued in Q1 2011 out of an estimated US$2.5 million outstanding) in accordance with the terms of the PSA. The TPDC marketing costs are treated as a reduction to Orca Explorations Cost Gas entitlement.

The Additional Gas sales volumes were in excess of 30 MMcfd for the first quarter in both 2009 and 2010. Consequently, the revenue less cost recovery share of revenue ("Profit Gas") was 35% for both periods.

From January 2011, a significant proportion of the gas production was from a deemed TPDC backed in well (namely SS10). As a result TPDC's profit share increased by 20% for the production attributable to SS-10 well. The Company is still to resolve the final details of the back in with TPDC.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 78.37% (Q1 2010: 83.75%) of the Net Revenues as follows:

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Gross sales revenue	12,512	11,336
Gross tariff for processing plant and pipeline infrastructure	(1,973)	(1,853)
Gross revenue after tariff	10,539	9,483
Analysed as to:		
Company Cost Gas	7,358	7,112
Company Profit Gas	901	830
Company operating revenue	8,259	7,942
TPDC share of revenue	2,280	1,541
	10,539	9,483

The Company's revenue reported for the quarter amounted to US$9,640,000 after adjusting the Company's operating revenue of US$8,259,000 by:

- US$1,574,000 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$193,000 for the deferred effect of Additional Profits Tax. This tax is considered a royalty and is netted against revenue.

The Company's cost pool in Tanzania may be recovered during Q2 2011 as a result of strong sales revenue and relatively low capital expenditure levels. This would result in a reduction in the percentage of net revenue attributable to the Company prior to any significant expenditure on the drilling activities. As an indication of the potential impact of this, if the Company's cost pool had been fully recovered as at 1 January 2011, the Company would have been allocated 55% of the Net Revenues in Q1 2011 versus 78.37% as detailed above.

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

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Industrial sector	5,180	4,525
Power sector	7,332	6,811
Gross sales revenue	12,512	11,336
Processing and transportation tariff	(1,973)	(1,853)
TPDC share of revenue	(2,280)	(1,541)
Company operating revenue	8,259	7,942
Additional Profits Tax	(193)	(177)
Current income tax adjustment	1,574	494
Revenue	9,640	8,259

PROCESSING AND TRANSPORTATION TARIFF

A flat rate gas processing and transportation tariff of US$0.59/mcf has been introduced from 1 January 2010 that will enable Songas to make a rate of return on their investment as determined by EWURA. This rate should remain constant until the completion of the Songas Expansion project which is scheduled for completion in Q1 2013. The Company will pass on any increase or decrease in the EWURA approved charges to TANESCO/Songas in respect of sales to the power sector. This protocol insulates Orca Exploration from any increases in the gas processing and pipeline infrastructure costs.

During Q1 2011, the Company negotiated a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd. The agreement is expected to remain in force for the period until the Songas Expansion Project is operational. If this agreement comes into force, the Company will effectively pay an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

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$176,000 (Q1 2010: US$281,000) and US$99,000 (Q1 2010: US$128,000) was allocated for the Additional Gas.

Other field and operating costs include an apportionment of the annual PSA licence costs, regulatory fees and some costs associated with the evaluation of the reserves and the cost of personnel that are not recoverable from Songas. The decline in Q1 2011 is a consequence of a reduction in the payments to Songas for their historic agreement to re-rate the gas processing plant from 70 MMcfd to 90 MMcfd.

Distribution costs represent the direct cost of maintaining the ring-main distribution pipeline and pressure reduction station (security, insurance and personnel).

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is still to be discussed in detail with both TPDC and MEM.

These costs are summarized in the table below:

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Share of well maintenance	99	128
Other field and operating costs	328	417
	427	545
Distribution costs	599	542
Production and distribution expenses	1,026	1,087

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	31-Mar 2011	31-Mar 2010
AMOUNTS IN US$/MCF		
Gas price – industrial	9.42	9.32
Gas price – power	2.62	2.56
Weighted average price for gas	3.74	3.61
Tariff	(0.59)	(0.59)
TPDC share of revenue	(0.68)	(0.49)
Net selling price	2.47	2.53
Well maintenance and other operating costs	(0.13)	(0.17)
Distribution costs	(0.18)	(0.17)
Operating netback	2.16	2.19

The operating netback for the quarter was US$2.16/mcf (Q1 2010: US$2.19/mcf).

The increase in the net selling price from US$3.61/mcf to US$3.74/mcf in Q1 2011 is a consequence of the increase in both the gas price achieved in both the industrial and power markets. The increase in sales price has been further enhanced by a marginal decline in the overall cost associated with well maintenance and other field operating costs.

During Q1 2011, TPDC's share of revenue increased as a result of greater production from a backed in well, SS-10 and the recovery of US$0.5 million (out of a total of US$2.5 million) of past marketing costs in accordance with the terms of the PSA.

The operating netbacks are currently benefiting from cost recovery of 75% of the Net Revenues, after the deduction of TPDC share of marketing costs.

ADMINISTRATIVE EXPENSES

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

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Employee costs	704	492
Consultancy	557	671
Travel & accommodation	168	178
Communications	20	28
Office	343	294
Insurance	136	88
Auditing & taxation	61	43
Depreciation	43	52
Reporting, regulatory and corporate finance	218	65
	2,250	1,911
Marketing and legal costs	362	449
New ventures	165	77
Stock based compensation	73	296
General and administrative expenses	2,850	2,733

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$0.96 million per month for Q1 2011 compared to US$0.91 million in Q1 2010. G&A per mcf decreased to US$0.85/mcf (Q1 2010: US$0.87/mcf).

The main variances to Q1 2010 are summarized below:

Employee costs

The increase in employment costs is mainly a consequence of fees incurred in relation to senior executive appointments.

Reporting, regulatory and corporate finance

The increase of costs is a result of the strengthening of the board of directors and the amount of time incurred in relation to the development of the drilling programme in response to the corrosion tubing issue identified in Q4 2010.

Marketing costs and legal fees

The decrease in marketing and legal fees compared to Q1 2010 is a consequence of the reduced costs incurred on the negotiation of long term power contracts. The total cost incurred in Q1 2010 also included legal fees associated with a third party claim for breach of contract during the drilling of SS-10, which was settled in Q1 2010.

Stock based compensation

A total of 2,557,000 stock options were outstanding at the end of Q1 2011 compared to 2,797,000 at the end of Q1 2010. Of these options 1,662,000 were issued in 2004 and were fully expensed by the end of 2007. The remaining 1,135,000 were issued during 2007 and were fully expensed by the end of 2010. 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 240,000 were exercised in Q4 2010.

A total of 930,000 stock appreciation rights were in issue at the end of Q1 2011, compared to 705,000 at the end of Q1 2010. In June 2010, 225,000 stock appreciation rights were issued to the new non executive directors with an exercise price of Cdn$4.20 per share. These rights have a five year term and vest in five equal instalments, the first fifth vesting on the anniversary of the grant date. As stock appreciation rights are settled in cash they are re-valued at each reporting date using the Black-Scholes option pricing model. As at 31 March 2011 the following assumptions were used; stock volatility 54% to 79%, a risk free interest rate between 1.50% and 2.50% and a closing stock price of Cdn$5.78. A charge of US$0.07 million was recorded in Q1 2011 compared to a charge of US$0.14 million in Q1 2010 in respect of these stock appreciation rights.

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

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Stock options	–	155
Stock appreciation rights	73	141
	73	296

NET FINANCE COSTS

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 small gain in foreign exchange is a result of the strengthening US Dollar against the British pound sterling which has resulted in gains following the payment of trade payables.

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

	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
FINANCE INCOME		
Interest income	**3**	1
Foreign exchange gain	**23**	26
	26	27
FINANCE COSTS		
Overdraft charges	**–**	(10)
Foreign exchange loss	**(178)**	(204)
	(178)	(214)
Net finance costs	**(152)**	(187)

TAXATION

Income Tax

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

As at 31 March 2011, there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes under the Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognised a deferred tax liability of US$13.3 million which includes an additional deferred future income tax charge of US$0.5 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 20%. Accordingly, US$0.2 million (Q1 2010: US$0.2 million) has been netted off revenue for the quarter ended 31 March 2011.

Management does not anticipate that any APT will be payable in 2011, 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 2011. 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 2010 the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd were 369.2 Bcf on a life of licence basis. This resulted in a depletion charge of US$0.47/mcf in Q1 2011.

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 AMOUNTS 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

Funds flow from operating activities were US$4.9 million for the quarter ended 31 March 2011 (Q1 2010: US$4.5 million).

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Profit after taxation	2,390	1,940
Adjustments [(1)]	2,557	2,600
Funds flow from operating activities changes	4,947	4,540
Working capital adjustments [(1)]	(1,451)	(3,022)
Net cash flows from operating activities	3,496	1,518
Net cash flows used in investing activities	(1,242)	(493)
Effect of change in foreign exchange	3	(51)
Net increase in cash and cash equivalents	2,257	974

[(1)] PLEASE REFER TO CONSOLIDATED STATEMENT OF CASH FLOWS FOR BREAKDOWN.

The US$2.3 million increase in cash and cash equivalents is a result of the US$4.9 million of funds from operations before working capital changes during the quarter being offset by US$1.2 million of capital expenditure incurred together with an overall net cash reduction of US$1.4 million in working capital.

CAPITAL EXPENDITURES

Gross capital expenditures amounted to US$1.4 million during the quarter (Q1 2010: US$0.2 million).

The capital expenditure may be analysed as follows:

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Geological and geophysical and well drilling	899	169
Pipelines and infrastructure	362	15
Other equipment	4	50
Business development	91	–
	1,356	234

Geological and geophysical and well drilling

A total of US$0.4 million of expenditure was incurred on work undertaken in relation to the tie in of the well SS-10 to the gas processing plant. The balance of US$0.5 million of expenditure was spent on geological and geophysical studies in preparation for the drilling of Songo Songo West in 2011 and the planning for the drilling of SS-A well and the enhancement of the SS-10 production well.

Pipelines and infrastructure

The total of US$0.4 million of expenditure was incurred on the development of the compressed natural gas ("CNG") distribution facilities, the long term expansion project and connection of new customers to the low pressure distribution network in Da es Salaam.

WORKING CAPITAL

Working capital as at 31 March 2011 was US$55.8 million compared with US$52.4 million as at 31 December 2010 and may be analyzed as follows:

As at	31-Mar 2011	31-Dec 2010
FIGURES IN US$'000		
Cash and cash equivalents	47,776	45,519
Trade and other receivables	14,384	13,583
Taxation receivable	5,471	4,009
Prepayments	381	409
	68,012	63,520
Trade and other payables	9,151	9,156
Taxation payable	3,102	2,000
Working capital	55,759	52,364

During the quarter the level of working capital increased by 10% over Q4 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 31 March 2011, US$11.5 million was represented by trade receivables (Q4 2010: US$11.9 million) and US$2.9 million other receivables (Q4 2010: US$1.7 million). The increase in other receivables is a consequence of the increased level of monies owed by Songas for the operation of the Songo Songo gas processing plant.

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 31 March 2011, US$5.0 million (Q4 2010: US$4.2 million) of trade receivables was due from the industrial customers. A significant part of this amount has been subsequently received. The balance of US$6.5 million (Q4 2009: US$7.7 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 59% 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 (51.0 Bcf as at 31 March 2011).

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

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future new 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 additional 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 new drilling activities and other developments and this is reflected in the Company's net reserve position.

Unbundling

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is still to be discussed in detail with both TPDC and MEM.

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

Italy

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.

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 nautical miles of the coastline and within 12 nautical 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.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million and 70% of the costs thereafter. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million and 75% thereafter. The Company will also pay back past costs of €0.6 million.

Songo Songo

In Q4 2010 the Company reduced the deliverability from its Songo Songo wells following receipt of results of a corrosion logging survey. Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie in of the new onshore well SS10. As of today, the Company can produce approximately 113 MMcfd though this is currently restricted by the infrastructure capacity to 90 MMcfd.

The corrosion model forecasts that the offshore well, SS-9 currently producing in the region of 30 MMcfd, may need to be taken out of production at the end of Q1 2012, subject to re-logging of the well in September 2011 to confirm its condition. Accordingly, the Company has determined that in 2011, subject to TPDC approval and rig availability a new onshore deviated well should be drilled followed by an enhancement of the SS-10 well. It is anticipated that the capital cost of this programme will be in the region of US$35 million and could increase deliverability from the field to 172 MMcfd by the time SS-9 is taken out of production.

Songo Songo West

The Company is currently planning to drill one well on the Songo Songo West prospect at a cost of US$25 million. It is currently estimated that the well will be spud in the second quarter of 2012. Assuming the well is a success a substantial well test program will be undertaken before the well is suspended at the mudline as a potential future producer.

Cost Sharing Agreement

In January 2011, the Company signed a cost sharing agreement with Songas, whereby the Company will fund 50% of the costs of getting the Songas Expansion Project (installation of gas processing capacity and downstream compression to increase the infrastructure capacity to 140 MMcfd) to financial close. In the event that the costs are approved by the regulator, EWURA, the funds will be repaid by Songas at financial close. If the project is not successful, the costs will be recoverable by the Company under the terms of the PSA with TPDC.

Funding

The Company's 2011 work programme principally includes the drilling of the new onshore deviated well, SS-A, the enhancement of SS-10, the drilling of La Tosca in the Po Valley and the purchase of long lead items for SSW. While there should be sufficient funds to undertake this work programme in 2011 through the use of existing cash balances and self generated cash flows, the Company will look to secure a financing facility and/or raise new equity to cover the 2012 exploration activity.

RELATED PARTY TRANSACTIONS

One of the non executive Directors is a partner at a law firm. During the quarter, the Company incurred US$37,500 to this firm for services provided on legal services. The transactions with this related party was made at the exchange amount.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

As at	31-Mar 2011	31-Dec 2010
NUMBER OF SHARES ('000)		
SHARES OUTSTANDING		
Class A shares	1,751	1,751
Class B shares	32,939	32,939
	34,690	34,690
CONVERTIBLE SECURITIES		
Stock options	2,557	2,557
Diluted Class A and Class B shares	37,247	37,247
WEIGHTED AVERAGE		
Class A and Class B shares	34,690	30,795
Convertible securities		
Stock options	1,177	1,098
Weighted average diluted Class A and Class B shares	35,867	31,893

Shares outstanding

No stock options were issued or exercised during the quarter.

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

As at 27 May 2011, there were a total of 1,751,195 Class A shares and 32,938,615 Class B shares outstanding.

SUMMARY QUARTERLY RESULTS

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

	2011	2010				2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Revenue	9,640	10,557	10,975	9,017	8,259	7,837	7,536	5,501
Profit after taxation	2,390	1,885	3,578	2,608	1,940	1,564	1,549	379
Operating netback (US$/MCF)	2.16	2.28	2.32	2.37	2.19	2.29	2.17	2.17
Working capital	55,759	52,364	30,093	24,941	20,891	16,835	12,147	9,939
Shareholders' equity	100,573	100,183	77,827	73,942	70,955	68,860	67,159	65,477
Earnings per share – basic (US$)	0.07	0.05	0.12	0.09	0.07	0.06	0.05	0.01
Earnings per share – diluted (US$)	0.07	0.05	0.12	0.08	0.06	0.06	0.05	0.01
CAPITAL EXPENDITURES								
Geological and geophysical and well drilling	899	607	502	320	169	(890)	338	222
Pipeline and infrastructure	362	383	692	492	15	157	1,339	1,317
Power development	4	–	6	–	–	343	289	3
Other equipment	91	45	23	77	50	69	27	207
OPERATING								
Additional Gas sold – industrial (MMCF)	550	687	770	562	485	542	581	613
Additional Gas sold – power (MMCF)	2,794	2,926	2,918	2,440	2,656	2,570	2,493	1,693
Average price per mcf – industrial (US$)	9.42	8.67	8.01	9.45	9.32	9.49	9.02	7.02
Average price per mcf – power (US$)	2.62	2.63	2.63	2.56	2.56	2.41	2.41	2.36

Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

Three months ended	NOTE	31-Mar 2011	31-Mar 2010
THOUSANDS OF US DOLLARS EXCEPT PER SHARE AMOUNTS			
Revenue		**9,640**	8,259
Cost of sales			
Production and distribution expenses		**(1,026)**	(1,087)
Depletion expense		**(1,582)**	(979)
		7,032	6,193
General and administrative expenses		**(2,850)**	(2,733)
Net finance costs		**(152)**	(187)
Profit before taxation		**4,030**	3,273
Taxation	1	**(1,640)**	(1,333)
Profit after taxation and comprehensive income		**2,390**	1,940
Earnings per share			
Basic (US$)		**0.07**	0.07
Diluted (US$)		**0.07**	0.06

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.

Condensed Consolidated Interim Statement of Financial Position (unaudited)

As at	NOTE	31-Mar 2011	31-Dec 2010
THOUSANDS OF US DOLLARS			
ASSETS			
Current Assets			
Cash and cash equivalents		**47,776**	45,519
Trade and other receivables		**14,384**	13,583
Taxation receivable		**5,471**	4,009
Prepayments		**381**	409
		68,012	63,520
Non-Current Assets			
Exploration and evaluation assets	2	**1,166**	942
Property, plant and equipment	3	**59,448**	59,946
		60,614	60,888
Total Assets		**128,626**	124,408
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables		**9,151**	9,156
Taxation payable		**3,102**	2,000
		12,253	11,156
Non-Current Liabilities			
Deferred income taxes	1	**13,347**	12,809
Deferred additional profits tax		**2,453**	2,260
		15,800	15,069
Total Liabilities		**28,053**	26,225
Equity			
Capital stock	4	**85,100**	85,100
Contributed surplus		**5,288**	5,288
Accumulated income		**10,185**	7,795
		100,573	98,183
Total Equity and Liabilities		**128,626**	124,408

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.
CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENTS (NOTE 6)

The condensed consolidated interim financial statements were approved by the Board of Directors on 27 May 2011.

Director

Director

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

Three months ended	NOTE	31-Mar 2011	31-Mar 2010
THOUSANDS OF US DOLLARS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after taxation		**2,390**	1,940
Adjustment for:			
Depletion and depreciation	3	**1,630**	1,031
Stock-based compensation		**73**	296
Deferred income taxes		**538**	987
Deferred additional profits tax		**193**	177
Gain on disposal of vehicle		**(5)**	–
Interest income		**(3)**	(1)
Unrealised foreign exchange loss		**131**	110
		4,947	4,540
Increase in trade and other receivables		**(887)**	(3,525)
Increase in taxation receivable		**(1,462)**	(148)
Decrease/(increase) in prepayments		**28**	(1,035)
(Decrease)/increase in trade and other payables		**(232)**	1,340
Increase in taxation payable		**1,102**	346
Net cash flows from operating activities		**3,496**	1,518
CASH FLOWS USED IN INVESTING ACTIVITIES			
Exploration and evaluation expenditures		**(224)**	(3)
Property, plant and equipment expenditures		**(1,132)**	(231)
Proceeds from sale of vehicle		**5**	–
Interest received		**3**	1
Increase/(decrease) in trade and other payables		**106**	(260)
Net cash used in investing activities		**(1,242)**	(493)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Normal course issuer bid		**–**	–
Net cash flow used in financing activities		**–**	–
Increase in cash and cash equivalents		**2,254**	1,025
Cash and cash equivalents at the beginning of the period		**45,519**	14,543
Effect of change in foreign exchange		**3**	(51)
Cash and cash equivalents at the end of the period		**47,776**	15,517

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity
(unaudited)

	Capital stock	Contributed surplus	Accumulated loss	Total
THOUSANDS OF US DOLLARS				
Balance as at 1 January 2010	66,267	4,809	(2,216)	68,860
Stock-based compensation	–	155	–	155
Total comprehensive income for the period	–	–	1,940	1,940
Balance as at 31 March 2010	**66,267**	**4,964**	**(276)**	**70,955**

	Capital stock	Contributed surplus	Accumulated income	Total
THOUSANDS OF US DOLLARS				
Note	4			
Balance as at 1 January 2011	85,100	5,288	7,795	98,183
Total comprehensive income for the period	–	–	2,390	2,390
Balance as at 31 March 2011	**85,100**	**5,288**	**10,185**	**100,573**

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

GENERAL INFORMATION

Orca Exploration Group Inc ("Orca Exploration " or the "Company") was incorporated on 28 April 2004 under the laws of the British Virgin Islands. The Company is a participant in a gas-to-electricity project in Tanzania and has gas and oil exploration interests in Italy. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2011 comprise the Company and all its wholly owned subsidiaries (collectively, the "Company").

BASIS OF PREPARATION

The condensed consolidated interim 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 have been applied in the preparation of these condensed consolidated interim financial statements as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2010.

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results could differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010.

Certain 2010 comparative numbers have been reclassified in order to conform with the current period presentation.

STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements of Orca Exploration Group Inc ("Orca Exploration" or the "Company"), have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for the full annual financial statements. These condensed consolidated interim financial statements were approved by the Board of Directors on 27 May 2011.

1 TAXATION

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

The tax charge is as follows:

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Current tax	1,102	346
Deferred tax	538	987
	1,640	1,333

Tax Rate Reconciliation

Three months ended	31-Mar 2011	31-Mar 2010
FIGURES IN US$'000		
Profit before taxation	4,030	3,273
Provision for income tax calculated at the statutory rate of 30%	1,209	982
Add the tax effect of non-deductible income tax items:		
Administrative and operating expenses	391	240
Stock- based compensation	22	89
Permanent differences	18	22
	1,640	1,333

As at 31 March 2011 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 31 March 2011. The deferred income tax liability includes the following temporary differences:

As at	31-Mar 2011	31-Dec 2010
FIGURES IN US$'000		
Differences between tax base and carrying value of property, plant and equipment	12,647	12,194
Income tax recoverable	1,615	1,349
Other liabilities	(179)	(56)
Additional profits tax	(736)	(678)
	13,347	12,809

2 EXPLORATION AND EVALUATION ASSETS

	Tanzania
FIGURES IN US'000	
COSTS	
As at 1 January 2011	942
Additions	224
As at 31 March 2011	**1,166**
NET BOOK VALUES	
As at 31 March 2011	**1,166**
As at 31 December 2010	942

TANZANIA

The exploration and evaluation asset relates to initial evaluation of the Songo Songo West prospect which is pending the determination of proven and probable reserves. There were no general administrative costs capitalized in the quarter.

ITALY

During 2010, the Company farmed in to two exploration licences in Italy. No capital costs have been incurred on these assets and all the costs associated with the farm in have been recognized in the statement of comprehensive income.

3 PROPERTY, PLANT AND EQUIPMENT

	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
FIGURES IN US'000						
COSTS						
As at 1 January 2011	80,323	320	509	231	108	81,491
Additions	1,041	–	44	47	–	1,132
Disposals	–	–	–	(29)	–	(29)
As at 31 March 2011	**81,364**	**320**	**553**	**249**	**108**	**82,594**
DEPLETION/DEPRECIATION						
As at 1 January 2011	20,741	244	345	149	66	21,545
Charge for period	1,582	6	26	12	4	1,630
Depreciation on disposals	–	–	–	(29)	–	(29)
As at 31 March 2011	**22,323**	**250**	**371**	**132**	**70**	**23,146**
NET BOOK VALUES						
As at 31 March 2011	**59,041**	**70**	**182**	**117**	**38**	**59,448**
As at 31 December 2010	59,582	76	164	82	42	59,946

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$115.6 million (Q1 2010: US$57.5 million) will be required to bring the total proved reserves to production.

4 CAPITAL STOCK

Authorized and issued Share Capital

Number of shares (THOUSANDS)	Authorised	Issued	Amount
CLASS A			
As at 1 January 2011 and 31 March 2011	50,000	1,751	983
CLASS B			
As at 1 January 2011 and 31 March 2011	50,000	32,939	84,117
Total Class A and Class B as at 1 January 2011 and 31 March 2011	100,000	34,690	85,100

All of the issued capital stock is fully paid.

Stock Options

The table below details the outstanding share options and the movements for the three months ended 31 March 2011:

THOUSANDS OF OPTIONS OR CDN$	Options	Exercise Price (Cdn$)
Outstanding as at 1 January 2011 and 31 March 2011	2,557	1.00 to 13.55

The weighted average remaining life and weighted average exercise price of options at 31 March 2011 were as follows:

Exercise Price (CDN$)	Number outstanding as at 31 March 2011 ('000)	Weighted average remaining contractual life (YEARS)	Number exercisable as at 31 March 2011 ('000)	Weighted average exercise price (CDN$)
1.00	1,422	3.42	1,422	1.00
8.00 - 13.55	1,135	1.11	1,135	11.36
	2,557		2,557	

Stock Appreciation Rights

THOUSANDS OF STOCK APPRECIATION RIGHTS OR CDN$	Options	Exercise Price
Outstanding as at 1 January 2011 and 31 March 2011 (i)/(ii)	930	4.20 to 13.55

(i) A total of 225,000 stock appreciation rights were issued in June 2010 with an exercise price of Cdn$4.20. These rights have a term of five years and vest in five equal instalments, the first fifth vesting on the anniversary of the grant date. There is no maximum liability associated with these rights.

(ii) A total of 705,000 stock appreciation rights have a term of five years. All of these options vested over a period of three years and are now fully vested. 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 balance sheet. In the valuation of these stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50% to 2.50%, stock volatility of 54% to 79%, 0% dividend yield and a range of forfeiture from 0% to 33% and a closing stock price of Cdn$5.78 per share.

As at 31 March 2011, a total accrued liability of US$0.6 million has been recognised in relation to the stock appreciation rights. A total charge of US$0.1 million has been recorded during the period, (Q1 2010 : US$0.1 million).

Shareholders' Equity and Outstanding Share Data

As at	31-Mar 2011	31-Dec 2010
NUMBER OF SHARES ('000)		
SHARES OUTSTANDING		
Class A shares	1,751	1,751
Class B shares	32,939	32,939
	34,690	34,690
CONVERTIBLE SECURITIES		
Stock options	2,557	2,557
Diluted Class A and Class B shares	37,247	37,247
WEIGHTED AVERAGE		
Class A and Class B shares	34,690	30,795
CONVERTIBLE SECURITIES		
Stock options	1,177	1,098
Weighted average diluted Class A and Class B shares	35,867	31,893

5 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. The Company incurred US$37,500 for legal services received during the quarter. The transactions with this related party were made at the exchange amount.

6 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENTS

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 (51.0 Bcf as at 31 March 2011).

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

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future new 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 additional 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 new wells and other developments and this is reflected in the Company's net reserve position.

Unbundling

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is still to be discussed in detail with both TPDC and MEM.

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

Italy

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.

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 nautical miles of the coastline and within 12 nautical 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.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million and 70% of the costs thereafter. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million and 75% thereafter. The Company will also pay back past costs of €0.6 million.

Songo Songo

In Q4 2010 the Company reduced the deliverability from its Songo Songo wells following receipt of results of a corrosion logging survey. Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie in of the new onshore well SS10. As of today, the Company can produce approximately 113 MMcfd though this is currently restricted by the infrastructure capacity to 90 MMcfd.

The corrosion model forecasts that the offshore well, SS-9 currently producing in the region of 30 MMcfd, may need to be taken out of production at the end of Q1 2012, subject to re-logging of the well in September 2011 to confirm its condition. Accordingly, the Company has determined that in 2011, subject to TPDC approval and rig availability a new onshore deviated well should be drilled followed by an enhancement of the SS-10 well. It is anticipated that the capital cost of this programme will be in the region of US$35 million and could increase deliverability from the field to 172 MMcfd by the time SS-9 is taken out of production.

Songo Songo West

The Company is currently planning to drill one well on the Songo Songo West prospect at a cost of US$25 million. It is currently estimated that the well will be spud in the second quarter of 2012. Assuming the well is a success a substantial well test program will be undertaken before the well is suspended at the mudline as a potential future producer.

Cost Sharing Agreement

In January 2011, the Company signed a cost sharing agreement with Songas, whereby the Company will fund 50% of the costs of getting the Songas Expansion Project (installation of gas processing capacity and downstream compression to increase the infrastructure capacity to 140 MMcfd) to financial close. In the event that the costs are approved by the regulator, EWURA, the funds will be repaid by Songas at financial close. If the project is not successful, the costs will be recoverable by the Company under the terms of the PSA with TPDC.

Funding

The Company's 2011 work programme principally includes the drilling of the new onshore deviated well, SS-A, the enhancement of SS-10, the drilling of La Tosca in the Po Valley and the purchase of long lead items for SSW. While there should be sufficient funds to undertake this work programme in 2011 through the use of existing cash balances and self generated cash flows, the Company will look to secure a financing facility and/or raise new equity to cover the 2012 exploration activity.

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Chief Executive Officer
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United Kingdom

Lord Howard of Lympne
Non-Executive Director
London
United Kingdom

Robert Wigley
Non-Executive Director
Waterlooville, Hampshire
United Kingdom

Beer van Straten
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