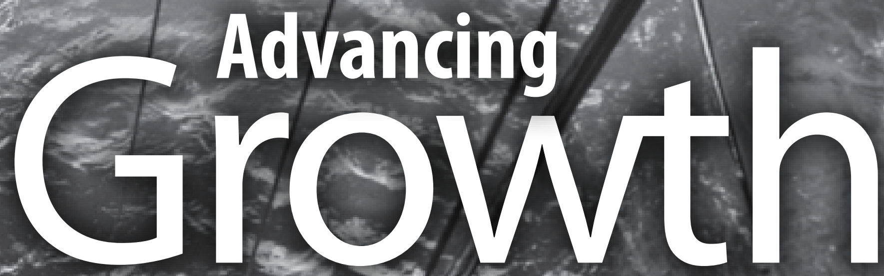
ORCA EXPLORATION GROUP INC.

2011 Q3 Interim Report

Q3



Orca Exploration Group Inc is a well financed, international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania and oil appraisal and gas exploration in Italy.

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

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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 sales of Additional Gas by 40% to 5,161 MMcf or 56.1 MMcfd (Q3 2010: 3,688 MMcf or 40.1 MMcfd).
- Increased working capital during the quarter to US$58.4 million (US$57.1 million at 30 June 2011).
- Mobilised land rig (Sakson PR5) to drill a new deviated well on Songo Songo Island and undertake remedial work on SS-10 to increase deliverability to 160 MMcfd.
- Presented a report to the Government of Tanzania that details how production from the existing Songo Songo gas field can be increased to 200 MMcfd in parallel with the Government's proposed investment in gas processing and pipeline infrastructure.
- Continued to source a jack-up rig for the drilling of the highly prospective Songo Songo West exploration well.
- Established a presence in Italy for the forthcoming drilling of the La Tosca well.

Financial and Operating Highlights

	Three months ended or as at			Nine months ended or as at		
	30-Sep 2011	30-Sep 2010	Change	30-Sep 2011	30-Sep 2010	Change
FINANCIAL (FIGURES IN US$ '000 EXCEPT WHERE OTHERWISE STATED)						
Revenue	10,457	10,975	(5%)	28,393	28,251	1%
Profit before taxation	1,289	5,584	(78%)	6,660	12,949	(49%)
Operating netback (US$/MCF)	1.78	2.32	(23%)	1.88	2.30	(18%)
Cash and cash equivalents	42,632	22,179	92%	42,632	22,179	92%
Working capital	58,369	30,093	94%	58,369	30,093	94%
Shareholders' equity	101,563	77,827	30%	101,563	77,828	30%
Earnings per share - basic (US$)	0.00	0.12	(100%)	0.08	0.27	(70%)
Earnings per share - diluted (US$)	0.00	0.12	(100%)	0.08	0.27	(74%)
Funds flow from operating activities [(i)]	5,323	6,288	(15%)	13,562	15,829	(14%)
Funds per share from operating activities - basic (US$)	0.15	0.21	(29%)	0.39	0.54	(28%)
Funds per share from operating activities - diluted (US$)	0.15	0.20	(25%)	0.38	0.52	(27%)
Net cash flows from operating activities	(2,457)	4,568	–	3,181	9,758	(67%)
Net cash flows per share from operating activities - basic (US$)	(0.07)	0.15	–	0.09	0.33	(73%)
Net cash flows per share from operating activities - diluted (US$)	(0.07)	0.15	–	0.09	0.32	(72%)
OUTSTANDING SHARES ('000)						
Class A shares	1,751	1,751	0%	1,751	1,751	0%
Class B shares	32,939	27,983	18%	32,939	27,983	18%
Options	2,807	2,557	10%	2,807	2,557	10%
Additional Gas sold (MMCF) - industrial	719	770	(7%)	1,957	1,817	8%
Additional Gas sold (MMCF) - power	4,442	2,918	52%	10,201	8,014	27%
Additional Gas sold (MMCFD) - industrial	7.8	8.4	(7%)	7.2	6.7	7%
Additional Gas sold (MMCFD) - power	48.3	31.7	52%	37.4	29.4	27%
Average price per mcf (US$) - industrial	10.47	8.01	29%	10.10	8.80	14%
Average price per mcf (US$) - power	2.76	2.63	(1%)	2.69	2.59	2%

(i) FUNDS FLOW FROM OPERATING ACTIVITIES IS A NON GAAP MEASURE PLEASE REFER TO PAGE 6

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

W. DAVID LYONS, CHAIRMAN AND CEO

In the third quarter 2011 (Q3 2011), Orca Exploration Group increased sales of Additional Gas by 40% to 5,161 MMcf (compared with 3,688 MMcf in Q3 2010). This was achieved by operating at a peak infrastructure capacity of 102 MMcfd through most of the period to maximise delivery of natural gas to Tanzania's gas-fired power generation hub at Dar es Salaam.

Tanzania continues to experience severe power shortages that have made rolling blackouts and restrictions in the supply of power to residential, commercial and industrial customers an ongoing fact of life. To accelerate the drive to create solutions, the Government of Tanzania (GoT) has announced plans to expand the capacity of the infrastructure that processes and transports gas from Songo Songo Island to Dar es Salaam. In the first phase it is understood that the GoT will construct a new gas processing facility on Songo Songo Island and lay an oversized pipeline system from the island to Dar es Salaam.

TANZANIA TO EXPAND NATURAL GAS INFRASTRUCTURE

In October, the Government of Tanzania announced that it had agreed to financial terms with the Chinese Exim Bank for a US$1 billion loan and would be constructing a new 140 MMcfd gas processing plant on Songo Songo Island, a 36" onshore pipeline and a 24" offshore line to run parallel to the existing system. Orca welcomes this news and looks forward to the commencement of the infrastructure construction.

In the last year, there have been several commercial gas discoveries offshore Tanzania. These new gas reserves now make it strategically appropriate to produce the Songo Songo field at a higher daily rate with the knowledge that new gas production will be available as the Songo Songo field declines. This is a significant development that will help to remove the infrastructure constraints that have historically held up the production of the Songo Songo gas reserves.

The GoT has secured preferential financing from the Chinese Exim Bank to fund these infrastructure developments and is planning to oversize the facilities to cater for increased production from the Songo Songo field and the future commercialisation of the other commercial discoveries in country.

ORCA EXPANDING SONGO SONGO PRODUCTION CAPACITY

At the request of the GoT, the Company has submitted a plan demonstrating how Orca can deliver 200 MMcfd from the main Songo Songo field in parallel with the Government's plan to expand infrastructure and downstream gas-fired generating capacity. It is understood that the GoT's planned infrastructure expansion will be designed so that Songo Songo production could potentially be increased to 300 MMcfd if Songo Songo West is a commercial discovery at the 2P resource level estimate.

The first part of Orca's expansion plan is currently being implemented with the drilling of a new onshore deviated well (SS-A). The Sakson PR5 rig has been mobilised from Syria and it is currently being rigged up on Songo Songo Island. The SS-A well is due to spud in December and is expected to add 60 MMcfd of deliverability.

Shareholders

CURRENT PRODUCTION COSTS CONFORM TO PSA TERMS

On 18 November 2011 the Parliament of Tanzania received a report from a special Parliamentary Committee that accused Orca's subsidiary PanAfrican Energy Limited ("PanAfrican") of certain irregularities and recommended that PanAfrican be removed from the Songo Songo Production Sharing Agreement ("PSA"). It is understood that the critical issue was whether or not PanAfrican had conformed to the terms of the PSA with respect to the allocation of costs. The Company contends that the costs being disputed were appropriately incurred and allocated by PanAfrican on the Songo Songo project. Orca strongly rejects the findings of the Parliamentary Committee and intends to firmly defend its rights and agreements in accordance with Tanzanian law.

SUSTAINABLE PRODUCTION INCREASES BEING ACHIEVED

Orca's recorded gas sales of 56 MMcfd in the third quarter were achieved primarily because the capacity of the infrastructure was increased to approximately 102 MMcfd in mid June. This followed the signing of a Re-rating Agreement with the owners of the infrastructure, Songas Limited and the electricity utility, TANESCO.

This level of sales is expected to continue in Q4 2011, though the volumes may be marginally impacted by increased hydro generation capacity over the short rainy season which has just started.

To provide longer term sustainable gas production increases, Orca is planning a number of actions over the next 18 months:

- Drilling of a new onshore deviated well (SS-A) and remedial work on SS-10 using the Sakson PR5 rig to increase deliverability to approximately 150 – 160 MMcfd by the end of Q1 2012;
- Drilling of the high potential Songo Songo West (SSW) exploration prospect;
- Drilling of a new onshore deviated well and/or workovers of existing wells to ensure that there is at least 200 MMcfd of field deliverability once the infrastructure is expanded.

The pace of this program will be dependent on the resolution of matters raised by the Parliamentary Committee, together with the growth of infrastructure capacity.

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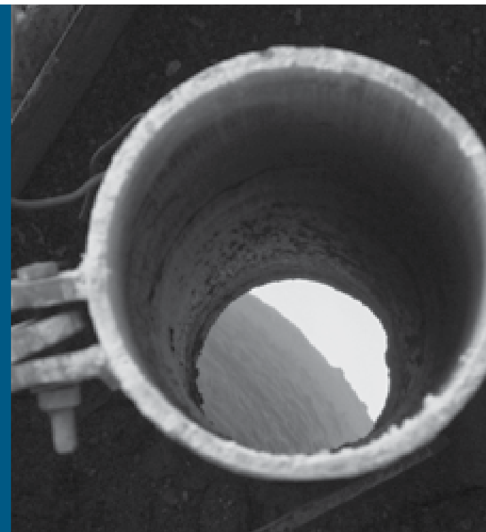


Orca's farm in on the drilling of the Elsa-2 well is an excellent opportunity to participate in an appraisal project where there is a known 65 meter oil column that was drilled in 1992.

LONG TERM POWER SECTOR DEMAND

Frequent blackouts and power rationing continues in Tanzania following drought induced reductions in the country's hydro generation capacity. To address this shortfall, the GoT has contracted for 50 MWs of emergency oil fired generation from Aggreko with 37 MWs of its facilities to run on jet fuel. It is understood that a further 60 MWs of diesel generation will be installed in Dodoma during 2012.

Currently there is 301 MWs (or approximately 66 MMcfd at peak load) of generation capacity in country that can potentially consume Orca's Additional Gas. Power capacity will increase by a further 105 MWs over the next three to six months as Jacobsen Elektro commissions its plant at Dar es Salaam (increasing demand for Additional Gas by 22 MMcfd). There are several other gas fired power plants at the planning stage that will crystallise when there is sufficient infrastructure capacity in place.

The Government's announced intention is to have 2,780 MW of power in place by 2015. This will more than double the current installed capacity of 1,117 MW over the next three years. When the current planned infrastructure expansion is complete, Orca is well positioned to play a significant role in developing the country's natural gas resources to the mutual benefit of Tanzanians and the Company's investors.

SONGO SONGO WELLS UPDATE

Orca currently has the capacity to deliver 113 MMcfd from the five producing Songo Songo gas wells. In Q3 2011, a corrosion log was run in SS-9 to assess when this well will need to be taken out of production. This log indicated that there had not been a significant deterioration in the tubing and that SS-9 could probably be produced until 31 May 2012, subject to the running of an additional log in March 2012.

To add new production Orca will commence drilling a new high producing onshore deviated well, SS-A, during December 2011. When SS-9 is shut in and replaced by SS-A, there will then be a predominance of onshore wells feeding into the gas processing facilities. As a consequence the produced gas will be hotter and will need to be cooled to meet the required system specifications. To address this Orca has ordered a gas cooling facility which will be installed in April 2012 along with the new flowlines at a cost of US$8 million. Any delay with the installation of these new facilities will impact the Company's production when SS-9 has to be suspended.

ITALY UPDATE

The La Tosca gas exploration well in the Po Valley Basin will be drilled in Q1 2012 at an estimated cost of US$8 million as the first step in delineating the prospectivity of the Longastrino block. In the event of a discovery, it is anticipated that 3D seismic will be acquired over several potential leads in the block. Additional drilling will be conducted if the seismic interpretation is positive.

Following the recent political changes in Italy, the Company is more optimistic that the Italian government will issue a decree of environmental compatibility and allow further offshore drilling to re-commence in the Central Adriatic. Orca's farm in on 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. The Company has no obligation to pay any costs until a rig contract has been signed and there is no time limit in the farm in agreement with Petroceltic plc.

During the last two decades we have successfully worked with the Government of Tanzania to develop the Songo Songo project … one of the most successful gas-to-electricity projects in Africa.

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.

PROJECTS FINANCING

Funds flow from operating activities declined to US$5.3 million (Q3 2010: US$6.3 million) primarily due to the depletion of the cost recovery pool and the payment of past marketing costs to Tanzania Petroleum Development Corporation (TDPC) in accordance with the terms of the Production Sharing Agreement.

The Company's cost pool in Tanzania was depleted early in Q2 2011. This resulted in a reduction in the percentage of net revenue attributable to the Company. This will continue until there are significant expenditures on drilling activities which will commence in Q4 2011. Over the same period Orca will also see a reduction in the net revenue allocated to the Company now that a significant proportion of current production is coming from the deemed TPDC backed-in well (SS-10).

The Company has indicated that it intends to undertake a capital work programme over the coming 18-24 months of approximately US$130 million in parallel with an expansion of the infrastructure capacity in Tanzania and the growth in the generation capacity. Whilst this work program is underway, the pace will now be dependent on a resolution of the matters raised by the Parliamentary Committee and the timing of infrastructure expansions. In addition, there needs to be an improvement in TANESCO's payment performance which has deteriorated in the last few months.

THE TASK AT HAND

During the last two decades we have successfully worked with the Government of Tanzania to develop the Songo Songo project. It is widely recognised to be one of the most successful gas-to-electricity projects in Africa. Orca is committed to continue to play its part by increasing the field deliverability in line with the Government's announced infrastructure expansion. This will ensure over both the short term and longer term that there is adequate power to support a growing economy.

We remain optimistic and confident that the Government of Tanzania will recognise the Company's long-standing contributions as a trusted partner in building a secure, environmentally sustainable and efficient delivery system to produce and deliver natural gas to meet Tanzania's urgent power needs. We look forward to the resolution of the current dispute so that the Songo Songo project and Orca's involvement in it can once again be held out as a true Tanzania success story.

W. David Lyons, Chairman & CEO
28 November 2011

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 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 28 NOVEMBER 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 WORLD ECONOMIC CONDITIONS AND SPECIFCALLY 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; SANCTITY OF CONTRACT; 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, THIRD PARTY FINANCE OR ASSETS SALES 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 PROCESSING AND TRANSPORTATION TARIFFS, 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 (until July 2024) 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 Sea 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 a long term power contract (Amended and Restated Gas Agreement ("ARGA") 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"). This contract 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 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. Ndovu Resources Limited which has a small gas field on Songo Songo Island has indicated that it wishes to tie its production into the gas processing plant. This is currently under discussion.

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 (US$1.4 million for the nine months ended 30 September 2011 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) 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 initialed ARGA and the Portfolio Gas Sales Agreement 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 or other operators in respect of sales to the power sector.

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays 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 Gas 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 Gas share is 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, 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 30 September 2011

OPERATING VOLUMES

The additional gas sales volumes for the quarter were 5,161 MMcf or 56.1 MMcfd. This represents an increase of 40% over Q3 2010. The total additional gas sales volumes for the nine months ended 30 September 2011 were 12,158 MMcf or 56.1 MMcfd an increase of 24% over 2010.

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

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
GROSS SALES VOLUME (MMCF):				
Industrial sector	719	770	1,957	1,817
Power sector	4,442	2,918	10,201	8,014
Total volumes	5,161	3,688	12,158	9,831
GROSS DAILY SALES VOLUME (MMCFD):				
Industrial sector	7.8	8.4	7.2	6.7
Power sector	48.3	31.7	37.4	29.4
Total daily sales volume	56.1	40.1	44.6	36.1

Industrial sector

Industrial sales volumes of 719 MMcf (7.8 MMcfd) were recorded in Q3 2011. This represents a decrease of 7% over the 770 MMcf (8.4 MMcfd) recorded in Q3 2010. The decrease is mainly due to the fall in the level of Additional Gas supplied to Kiln 4 at Tanzania Portland Cement Company's ("TPCC") Wazo Hill cement plant compared to Q3 2010.

Industrial sales volumes for the nine months ended 30 September 2011 have increased by 8% to 1,957 MMcf from 1,817 MMcfd in 2010, with the sales to Wazo Hill cement plant accounting for 30% of the total sales recorded in 2011 and 2010.

Power sector

Power sector sales volumes of 4,442 MMcf (48.3 MMcfd) were recorded in Q3 2011. This represents an increase of 52% over the 2,918 MMcf (31.7 MMcfd) recorded in Q3 2010. The volume of gas consumed by the Ubungo power plant has remained at a similar level during both periods. The increase is a consequence of the supply of gas to the Symbion power plant that was re-commissioned in July 2011 in response to the Tanzanian power crisis.

Power sector sales volumes for the nine months ended 30 September 2011 have increased by 27% to 10,201 MMcf from 8,014 MMcf in 2010. The increase is the result of a decline in the use of hydro-generation due to the low levels of rain fall experienced during 2011 and a general increase in electricity demand.

COMMODITY PRICES

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

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
US$/MCF				
Average sales price				
Industrial sector	10.47	8.01	10.10	8.80
Power sector	2.76	2.63	2.69	2.59
Weighted average price	3.83	3.75	3.88	3.74

Industrial sector

The average sales price achieved for Q3 2011 was US$10.47/mcf compared to US$8.01/mcf in Q3 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$2.76/mcf for the quarter compared to US$2.63/mcf in Q3 2010. The increase in the sales price over Q3 2010 is primarily 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 in 2011 has meant that TPDC is now able to recover its past marketing costs (US$1.4 million for the nine months ended 30 September 2011, of which US$0.6 million was paid during the quarter) in accordance with the terms of the PSA. The TPDC marketing costs are treated as a reduction to the Company's Cost Gas entitlement.

The Additional Gas sales volumes were in excess of 50 MMcfd for Q3 2011 and 30 MMcfd for Q3 2010. Consequently, the revenue less cost recovery share of revenue ("Profit Gas") was 55% for Q3 2011 and 35% for Q3 2010 in accordance with the terms of the PSA.

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 the SS-10 well. The Company is still to resolve the details of the back in with TPDC.

Orca Exploration had partial cost recovery through the quarter and accordingly was allocated 68.3% (Q3 2010: 85.0%) of the Net Revenues as follows:

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Gross sales revenue	19,754	13,829	47,154	36,722
Gross tariff for processing plant and pipeline infrastructure	(3,717)	(2,199)	(7,845)	(5,824)
Gross revenue after tariff	16,037	11,630	39,309	30,898
Analysed as to:				
Company Cost Gas	4,844	8,722	17,150	23,173
Company Profit Gas	6,113	1,156	9,801	2,842
Company operating revenue	10,957	9,878	26,951	26,015
TPDC share of revenue	5,080	1,752	12,358	4,883
	16,037	11,630	39,309	30,898

The Company's revenue reported for the quarter amounted to US$10,457,000 after adjusting the Company's operating revenue of US$10,957,000 by:

- US$659,000 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 increased to reflect the current income tax charge.
- US$1,159,000 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 was fully recovered during Q2 2011 as a result of strong sales revenue and relatively low capital expenditure levels. This has resulted in a reduction in the percentage of net revenue attributable to the Company prior to any significant expenditure on the drilling activities, which is due to commence at significant levels in Q4 2011. As a result of the recovery of the cost pool during Q2 2011, the cost gas recovery was limited to 30% of the gross revenue after tariff in Q3 2011 compared to 75% in Q3 2010.

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

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Industrial sector	7,517	6,165	19,763	15,994
Power sector	12,237	7,664	27,391	20,728
Gross sales revenue	19,754	13,829	47,154	36,722
Processing and transportation tariff	(3,717)	(2,199)	(7,845)	(5,824)
TPDC share of revenue	(5,080)	(1,752)	(12,358)	(4,883)
Company operating revenue	10,957	9,878	26,951	26,015
Additional Profits Tax	(1,159)	(205)	(1,946)	(565)
Current income tax adjustment	659	1,302	3,388	2,801
Revenue	10,457	10,975	28,393	28,251

PROCESSING AND TRANSPORTATION TARIFF

A flat rate gas processing and transportation tariff of US$0.59/mcf was introduced on 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 Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). The agreement was ratified in July 2011 and 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. The charge for the additional tariff was US$0.7 million for the quarter.

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$690,000 (Q3 2010: US$229,000) and US$401,000 (Q3 2010: US$104,000) was allocated for the Additional Gas. The total cost for well maintenance for the nine months ended 30 September 2011 was US$612,000 compared to US$336,000 for the nine months ended 30 September 2010. The increase in cost during the quarter is the result of an extensive maintenance program.

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.

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		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Share of well maintenance	401	104	612	336
Other field and operating costs	776	593	1,484	1,447
	1,177	697	2,096	1,783
Ringmain distribution pipeline	623	601	1,913	1,681
Production and distribution expenses	1,800	1,298	4,009	3,464

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 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
(AMOUNTS IN US$/MCF)				
Gas price – industrial	10.47	8.01	10.10	8.80
Gas price – power	2.76	2.63	2.69	2.59
Weighted average price for gas	3.83	3.75	3.88	3.74
Processing and transportation tariff	(0.72)	(0.60)	(0.65)	(0.59)
TPDC share of revenue	(0.98)	(0.48)	(1.02)	(0.50)
Net selling price	2.13	2.67	2.21	2.65
Well maintenance and other operating costs	(0.23)	(0.19)	(0.17)	(0.18)
Ringmain distribution pipeline	(0.12)	(0.16)	(0.16)	(0.17)
Operating netback	1.78	2.32	1.88	2.30

The operating netback for the quarter was US$1.78/mcf (Q3 2010: US$2.32/mcf).

The increase in the net selling price from US$3.75/mcf to US$3.83/mcf in Q3 2011 is a consequence of the increase in the gas price achieved in both the industrial and power markets.

During Q3 2011, TPDC's share of revenue increased as a result of greater production from a backed in well, SS-10 and the recovery of past marketing costs in accordance with the terms of the PSA. As a result of the recovery of the cost pool during Q2 2011 and the relatively modest capital expenditure during Q3 2011, the cost recovery during the quarter was limited to 30% of the Net Revenues. This has been reflected in the overall decline in the operating net back from US$2.32/mcf to US$1.78/mcf.

The increase in well maintenance and other operating costs is a consequence of the additional chemicals used in the cleaning of the gas processing flow-lines during the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Employee costs	1,401	534	3,106	1,550
Consultants	648	638	1,970	1,973
Travel and accommodation	276	197	718	606
Communications	27	31	80	74
Office	333	342	1,165	871
Insurance	106	83	378	246
Auditing and taxation	45	39	261	127
Depreciation	95	48	187	157
Reporting, regulatory and corporate	345	252	765	480
	3,276	2,164	8,630	6,084
Marketing costs including legal fees	537	456	1,352	1,323
New ventures	93	77	351	145
Stock based compensation	493	43	403	329
General and administrative expenses	4,399	2,740	10,736	7,881

The G&A includes the costs of running the gas business in Tanzania the majority of which is recoverable as Cost Gas.

G&A averaged approximately US$1.33 million per month for Q3 2011 compared to US$0.90 million in Q3 2010. G&A per mcf decreased to US$0.78/mcf (Q3 2010: US$0.74/mcf).

The main variances for both the quarter and the nine months ended 30 September 2011 compared to the same periods in 2010 are summarized below:

Employee costs

The increase in employment costs is mainly a consequence of fees and bonus payments incurred in relation to senior executive appointments and their respective salaries. During the last six months, there has been a one of step change in the G&A costs as the management has been upgraded in anticipation of the extensive development program in Tanzania.

Office costs

The level of office costs have increased due to the establishment of a separate serviced office.

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.

Stock based compensation

A total of 2,807,400 stock options were outstanding at the end of Q3 2011 compared to 2,557,400 at the end of Q3 2010. In August 2011, 250,000 stock options were issued to a newly appointed officer. These options have an exercise price of Cdn$4.75 a term of five years and fully vest on the date of grant, a charge of US$0.61million was recorded as a one off charge in relation to these options. A total of 240,000 options were exercised in Q4 2010. Of the outstanding options, 1,662,400 were issued in 2004 and were fully expensed by the end of 2007. A total of 895,000 were issued during 2007 and were fully expensed by the end of 2010. All the stock options have been valued using the Black-Scholes option pricing model.

A total of 930,000 stock appreciation rights were in issue at the end of Q3 2011 and Q3 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 30 September 2011 the following assumptions were used; stock volatility 42% to 72%, a risk free interest rate between 1.50% and 2.50% and a closing stock price of Cdn$3.80. A reduction to stock based compensation of US$0.17 million was recorded in Q3 2011 compared to a reduction of US$0.03 million in Q3 2010 in respect of these stock appreciation rights, resulting in a total reduction of US$0.26 million being recorded for the nine months ending 30 September 2011, compared to a total credit of US$0.28 million in 2010.

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

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Stock options	661	73	661	607
Stock appreciation rights	(168)	(30)	(258)	(278)
	493	43	403	329

NET FINANCE COSTS

The loss on foreign exchange experienced in the quarter is a result of the 9% appreciation 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:

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
FINANCE INCOME				
Interest income	1	18	5	21
Foreign exchange gain	–	–	32	27
	1	18	37	48
FINANCE CHARGES				
Overdraft charges	–	(1)	–	(13)
Foreign exchange loss	(323)	(227)	(1,068)	(939)
	(323)	(228)	(1,068)	(952)
Net finance costs	(322)	(210)	(1,031)	(904)

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 30 September 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$14.2 million which includes an additional deferred future income tax charge of US$0.7 million for the quarter (Q3 2010: US$1.1 million), resulting in a total charge for the nine months to 30 September of US$1.4 million and US$2.9 million for 2011 and 2010 respectively. 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$1.2 million (Q3 2010: US$0.2 million) has been netted off revenue for the quarter ended 30 September 2011. The total adjustment for the nine months to 30 September was US$2.0 million and US$0.6 million for 2011 and 2010 respectively.

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 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, Q2 and Q3 2011. The depletion charge in 2010 for the quarter and for the nine months ended 30 September 2010 was US$0.31/ mcf.

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.

EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit after taxation and comprehensive income for the nine months ended 30 September 2011 of US2.7 million (2010: US$8.1 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,689,810 (2010: 29,734,123).

In computing the diluted earnings per share, the dilutive effect of the stock options was 1,168,558 (2010: 1,085,338) shares. These are added to the weighted average number of common shares outstanding for the year to date resulting in a diluted weighted average number of Class A and Class B shares of 35,858,368 for nine months ended 30 September, 2011.

The decline in the earnings per share during 2011 is a result of the decrease in net revenue as a consequence of the recovery of the costs pool in Tanzania and an overall rise in the level of general administrative expenditure as personnel were recruited to enhance the management team.

FUNDS GENERATED BY OPERATIONS

Funds flow from operating activities were US$5.3 million for the quarter ended 30 September 2011 (Q3 2010: US$6.3 million) and US$13.6 million for the nine months ended 30 September 2011 (2010: US$15.8 million).

	Three months ended		Nine months ended	
FIGURES IN US$'000	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
(Loss)/profit after taxation	(54)	3,578	2,719	8,126
Adjustments [1]	5,377	2,710	10,843	7,703
Funds from operations before working capital changes	5,323	6,288	13,562	15,829
Working capital adjustments [1]	(7,780)	(1,720)	(10,381)	(6,071)
Net cash flows (used in)/from operating activities	(2,457)	4,568	3,181	9,758
Net cash flows used in investing activities	(3,772)	(880)	(5,852)	(2,043)
Net cash flows from financing activities	–	234	–	234
Effect of change in foreign exchange	(132)	(62)	(216)	(313)
Net (decrease)/increase in cash and cash equivalents	(6,361)	3,860	(2,887)	7,636

[1] PLEASE REFER TO CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR BREAKDOWN

The US$6.4 million decrease in cash and cash equivalents for the quarter is a result of the US$5.3 million of funds from operations before working capital changes during the quarter being offset by US$3.9 million of capital expenditure incurred together with an overall net cash reduction of US$7.8 million in working capital.

The US$2.9 million decrease in cash and cash equivalents for the nine months ended 30 September 2011 is a result of the US$13.6 million of funds generated from operations before working capital changes during the period being offset by US$6.9 million of capital expenditure, together with an overall net decrease in working capital of US$9.6 million.

CAPITAL EXPENDITURE

Gross capital expenditures amounted to US$3.9 million during the quarter (Q3 2010: US$1.2 million) and US$6.9 million for the nine months ended 30 September 2011 (2010: US$2.3 million).

The capital expenditure may be analysed as follows:

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Geological and geophysical and well drilling	3,463	502	5,486	991
Pipelines and infrastructure	421	692	1,147	1,199
Power development	–	6	15	6
Other equipment	41	23	226	150
	3,925	1,223	6,874	2,346

Geological and geophysical and well drilling

A total of US$0.3 million of expenditure was incurred during the quarter on geological and geophysical studies in preparation for the drilling of Songo Songo West in 2012. The balance of US$2.4 million was spent on the preparation for the drilling of the SS-A well.

A further US$0.8 million was incurred in relation to contractual payments under the terms of the farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The exploration well is due to be drilled in Q1 2012.

Pipelines and infrastructure

A total of US$0.4 million of expenditure was incurred during the quarter 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 Dar es Salaam.

WORKING CAPITAL

Working capital as at 30 September 2011 was US$58.4 million compared with US$52.4 million as at 31 December 2010 and may be analyzed as follows:

	As at	
	30-Sep 2011	31-Dec 2010
FIGURES IN US$'000		
Cash and cash equivalents	42,632	45,519
Trade and other receivables	26,883	13,583
Taxation receivable	4,066	4,009
Prepayments	511	409
	74,092	63,520
Trade and other payables	14,407	9,156
Taxation payable	1,316	2,000
Working capital	58,369	52,364

The level of working capital has increased by 11% during the nine months ended 30 September 2011.

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.

Of the total trade and other receivables at 30 September 2011, US$22.4 million was represented by trade receivables (Q4 2010: US$11.9 million) and US$4.4 million other receivables (Q4 2010: US$1.7 million). The increase in other receivables is a consequence of the increased amount owed by Songas for the operation of the Songo Songo gas processing plant, together with costs that are due to be repaid by Songas if the long term expansion project reaches financial close.

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 2011, US$6.0 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$16.4 million (Q4 2010: US$7.7 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 62% 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. However, there is concern that TANESCO's financial position may be deteriorating as it funds the emergency oil fired generation at a time of declining receipts for electricity from parastatal bodies.

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 (59.8 Bcf as at 30 September 2011).

The Gas Agreement may be 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 new 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 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.

Re-rating Agreement

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas Limited to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays 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.

Under the terms of this agreement, the Company agreed to indemnify Songas Limited for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies.

Portfolio Gas Sales Agreement

On 17 June 2011, a long term (to June 2023) Portfolio Gas Sales Agreement (PGSA) was signed between Orca and TANESCO. Under the PGSA, Orca is obligated, subject to infrastructure capacity, to sell a maximum of approximately 37 MMcfd for use in any of TANESCO's current power plants except those operated by Songas at Ubungo. The current basic wellhead gas price of US$ 2.02/ Mcf is due to increase to approximately US$2.70/Mcf on 1 July 2012.

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 La Tosca exploration well will be drilled in Q1 2012 at an estimated cost to the Company of US$8 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 a maximum of 102 MMcfd.

The original corrosion model forecast that the offshore well, SS-9 (currently producing in the region of 30 MMcfd), would have to be taken out of production at the end of Q1 2012. A new corrosion logging was undertaken shortly after the quarter end to confirm its condition and it is now considered that the well may stay on production until 31 May 2012 subject to further logging in March 2012. The Company has mobilised a rig to Songo Songo Island and a new onshore deviated well will be drilled by the time that SS-9 is taken off production. The total cost of the SS-A well is estimated at US$28 million. The Company has also committed to purchasing long lead items for Songo Songo West exploration well, the SS-10 enhancement and one further well at a total cost of US$11 million.

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, up to a maximum of US$2.4 million. In the event that the costs are approved by the regulator, EWURA, the funds will be repaid by Songas at financial close. To date the company has funded US$0.6 million of expenditure. If the project is not successful, the costs will be recoverable by the Company under the terms of the PSA as a cost pool expense with TPDC and will be written off to the income statement.

Funding

There is sufficient funding to complete the 2011 drilling programme, namely the drilling of the new onshore deviated well, SS-A. The Company's 2012 work programme in Tanzania, other than the completion of SS-A and the purchase of long lead items, will be dependent on a resolution of the matters raised by the Parliamentary Committee and an improvement in TANESCO's payment performance which has deteriorated in the last few months. If these are resolved, the Company will need to secure a financing facility and/or raise new equity to complete the expansion program in Tanzania on a timely basis.

CONTINGENCIES

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.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. The Company is currently in discussions with Ndovu to agree appropriate commercial terms.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q2 2011. This resulted in a reduction in the percentage of net revenue attributable to the Company that will continue until there is any significant expenditure on the drilling activities which will commence in Q4 2011. TPDC is still in the process of auditing the historic cost recovery pool and is currently disputing US$34 million of costs that have been allocated to the cost pool for the period 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. To the extent that it is not possible to resolve the differences with TPDC, the Company will utilise the extensive dispute mechanisms outlined in the PSA which includes international arbitration.

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 (Q3 2010: US$30,000) to this firm for services provided on legal services, resulting in a total expenditure of US$112,500 for the nine months ended 30 September 2011 (2010: US$105,000) . The transactions with this related party were made at the exchange amount.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

	As at	
	30-Sep 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	2,807	2,557
Diluted Class A and Class B shares	37,497	37,247
WEIGHTED AVERAGE		
Class A and Class B shares	34,690	30,795
Convertible securities		
Stock options	1,169	1,098
Weighted average diluted Class A and Class B shares	35,859	31,893

Shares outstanding

A total of 250,000 Class B stock options were issued in August 2011.

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

As at 28 November 2011, there were a total of 1,751,195 Class A shares and 32,872,315 Class B shares outstanding.

SUMMARY QUARTERLY RESULTS

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

FIGURES IN US$'000 EXCEPT WHERE OTHERWISE STATED	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
FINANCIAL								
Revenue	10,457	8,296	9,640	10,557	10,975	9,017	8,259	7,837
(Loss)/profit after taxation	(54)	383	2,390	1,885	3,578	2,608	1,940	1,564
Operating netback (US$/MCF)	1.78	1.80	2.16	2.28	2.32	2.37	2.19	2.29
Working capital	58,369	57,070	55,759	52,364	30,093	24,941	20,891	16,385
Shareholders' equity	101,563	100,956	100,573	98,183	77,827	73,942	70,955	68,860
Earnings per share – basic (US$)	0.00	0.01	0.07	0.05	0.12	0.09	0.07	0.06
Earnings per share – diluted (US$)	0.00	0.01	0.07	0.05	0.12	0.08	0.06	0.06
CAPITAL EXPENDITURES								
Geological and geophysical and well drilling	3,463	1,124	899	607	502	320	169	(890)
Pipeline and infrastructure	421	364	362	383	692	492	15	157
Power development	–	11	4	–	6	–	–	343
Other equipment	41	94	91	45	23	77	50	69
OPERATING								
Additional Gas sold – industrial (MMCF)	719	688	550	687	770	562	485	542
Additional Gas sold – power (MMCF)	4,442	2,965	2,794	2,926	2,918	2,440	2,656	2,570
Average price per mcf – industrial (US$)	10.47	10.28	9.42	8.67	8.01	9.45	9.32	9.49
Average price per mcf – power (US$)	2.76	2.64	2.62	2.63	2.63	2.56	2.56	2.41

Condensed Consolidated Interim Statement of Comprehensive (Loss)/Income

(unaudited)

	NOTE	Three months ended 30-Sep 2011	Three months ended 30-Sep 2010	Nine months ended 30-Sep 2011	Nine months ended 30-Sep 2010
THOUSANDS OF US DOLLARS EXCEPT PER SHARE AMOUNTS					
Revenue		10,457	10,975	28,393	28,251
Cost of sales					
Production and distribution expenses		(1,800)	(1,298)	(4,009)	(3,464)
Depletion expense		(2,647)	(1,143)	(5,957)	(3,053)
		6,010	8,534	18,427	21,734
General and administrative expenses		(4,399)	(2,740)	(10,736)	(7,881)
Net finance costs		(322)	(210)	(1,031)	(904)
Profit before taxation		1,289	5,584	6,660	12,949
Taxation	1	(1,343)	(2,006)	(3,941)	(4,823)
(Loss)/profit after taxation and comprehensive (loss)/ income		(54)	3,578	2,719	8,126
Earnings per share					
Basic (US$)		0.00	0.12	0.08	0.27
Diluted (US$)		0.00	0.12	0.08	0.27

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.

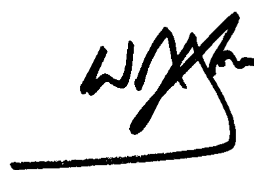
Condensed Consolidated Interim Statement of Financial Position (unaudited)

As at	NOTE	30-Sep 2011	31-Dec 2010
THOUSANDS OF US DOLLARS			
ASSETS			
Current Assets			
Cash and cash equivalents		**42,632**	45,519
Trade and other receivables		**26,883**	13,583
Taxation receivable		**4,066**	4,009
Prepayments		**511**	409
		74,092	63,520
Non-Current Assets			
Exploration and evaluation assets	2	**2,496**	942
Property, plant and equipment	3	**59,119**	59,946
		61,615	60,888
Total Assets		**135,707**	124,408
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables		**14,407**	9,156
Taxation payable		**1,316**	2,000
		15,723	11,156
Non-Current Liabilities			
Deferred income taxes	1	**14,215**	12,809
Deferred additional profits tax		**4,206**	2,260
		18,421	15,069
Total Liabilities		**34,144**	26,225
Equity			
Capital stock	4	**85,100**	85,100
Contributed surplus		**5,949**	5,288
Retained earnings		**10,514**	7,795
		101,563	98,183
Total Equity and Liabilities		**135,707**	124,408

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.
CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT (NOTE 6)
CONTINGENCIES (NOTE 7)
SUBSEQUENT EVENTS (NOTE 8)

The condensed consolidated interim financial statements were approved by the Board of Directors on 28 November 2011.

Director



Director

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

	NOTE	Three months ended 30-Sep 2011	Three months ended 30-Sep 2010	Nine months ended 30-Sep 2011	Nine months ended 30-Sep 2010
THOUSANDS OF US DOLLARS					
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/profit after taxation		(54)	3,578	2,719	8,126
Adjustment for:					
Depletion and depreciation	3	2,741	1,191	6,147	3,210
Gain on disposal of vehicle		–	–	(5)	–
Stock-based compensation		493	43	403	329
Deferred income taxes		718	1,094	1,406	2,862
Deferred additional profits tax		1,158	205	1,946	565
Interest income		(1)	(18)	(5)	(21)
Unrealised foreign exchange loss/(gain)		268	195	951	758
		5,323	6,288	13,562	15,829
Increase in trade and other receivables		(8,802)	(1,540)	(14,120)	(4,451)
Decrease/(increase) in taxation receivable		559	(1,302)	(57)	(2,153)
Decrease/(increase) in prepayments		278	(146)	(102)	(773)
Increase in trade and other payables		779	357	4,582	(7)
(Decrease)/increase in taxation payable		(594)	911	(684)	1,313
Net cash flows (used in)/from operating activities		(2,457)	4,568	3,181	9,758
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		(1,016)	(146)	(1,554)	(149)
Property, plant and equipment expenditures		(2,909)	(1,077)	(5,320)	(2,197)
Interest received		1	18	5	21
Proceeds from sale of vehicle		–	–	5	–
Increase in trade and other payables		152	325	1,012	282
Net cash used in investing activities		(3,772)	(880)	(5,852)	(2,043)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Stock options exercised		–	234	–	234
Net cash flow from financing activitiess		–	234	–	234
(Decrease)/increase in cash and cash equivalents		(6,229)	3,922	(2,671)	7,949
Cash and cash equivalents at the beginning of the period		48,993	18,319	45,519	14,543
Effect of change in foreign exchange		(132)	(62)	(216)	(313)
Cash and cash equivalents at the end of the period		42,632	22,179	42,632	22,179

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

(unaudited)

THOUSANDS OF US DOLLARS	Capital stock	Contributed surplus	Retained earnings/ deficit	Total
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 September 2010	**66,807**	**5,110**	**5,910**	**77,827**

THOUSANDS OF US DOLLARS	Capital stock	Contributed surplus	Retained earnings	Total
Note	4			
Balance as at 1 January 2011	85,100	5,288	7,795	98,183
Stock-based compensation	–	661	–	661
Stock options exercised	–	–	–	–
Total comprehensive income for the period	–	–	2,719	2,719
Balance as at 30 September 2011	**85,100**	**5,949**	**10,514**	**101,563**

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 and appraisal interests in Italy. The condensed consolidated interim financial statements of the Company as at and for the three months and nine months ended 30 September 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.

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 28 November 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 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 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Current tax	625	912	2,535	1,961
Deferred tax	718	1,094	1,406	2,892
	1,343	2,006	3,941	4,823

Total taxes of US$3.25 million (2010: US$0.1 million) have been paid during the period, in relation to the settlement of the 2010 tax liability and a provisional payment for 2011.

Tax Rate Reconciliation

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
FIGURES IN US$'000				
Profit before taxation	1,289	5,584	6,660	12,949
Provision for income tax calculated at the statutory rate of 30%	387	1,675	1,998	3,885
Add (deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	591	294	1,559	778
Stock based compensation	148	13	121	99
Other income	23	–	7	–
Permanent differences	194	24	256	61
	1,343	2,006	3,941	4,823

As at 30 September 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 30 September 2011. The deferred income tax liability includes the following temporary differences:

As at	30-Sep 2011	31-Dec 2010
FIGURES IN US$'000		
Differences between tax base and carrying amount of property, plant and equipment	13,435	12,194
Income tax recoverable	2,366	1,349
Other liabilities	(324)	(56)
Additional profits tax	(1,262)	(678)
	14,215	12,809

2 EXPLORATION AND EVALUATION ASSETS

	Italy	Tanzania	Total
FIGURES IN US'000			
COSTS			
As at 1 January 2011	–	942	942
Additions	802	752	1,554
As at 30 September 2011	**802**	**1,694**	**2,496**
NET BOOK VALUES			
As at 30 September 2011	**802**	**1,694**	**2,496**
As at 31 December 2010	–	942	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 during the nine months ended 30 September 2011.

ITALY

During 2010, the Company farmed in to two exploration licences in Italy. During the quarter the Company was invoiced for costs under the terms of the farm-in agreement. All costs associated with the acquisition of the licence have been recognized in the statement of comprehensive income.

3 PROPERTY, PLANT AND EQUIPMENT

FIGURES IN US'000	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
COSTS						
As at 1 January 2011	80,323	320	509	231	108	81,491
Additions	5,091	–	182	47	–	5,320
Disposals	–	–	–	(29)	–	(29)
As at 30 September 2011	**85,414**	**320**	**691**	**249**	**108**	**86,782**
DEPLETION/DEPRECIATION						
As at 1 January 2011	20,741	244	345	149	66	21,545
Charge for period	5,957	20	112	44	14	6,147
Depreciation on disposals	–	–	–	(29)	–	(29)
As at 30 September 2011	**26,698**	**264**	**457**	**164**	**80**	**27,663**
NET BOOK VALUES						
As at 30 September 2011	**58,716**	**56**	**234**	**85**	**28**	**59,119**
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$113 million (Q3 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 30 September 2011	50,000	1,751	983
CLASS B			
As at 1 January 2011 and 30 September 2011	50,000	32,939	84,117
Total Class A and Class B as at 1 January 2011 and 30 September 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 30 September 2011:

THOUSANDS OF OPTIONS OR CDN$	Options	Exercise price (CDN$)
Outstanding as at 1 January 2011 and 30 September 2011	2,557	1.00 to 13.55
Granted during the quarter	250	4.75
Outstanding as at 30 September 2011	2,807	1.00 to 13.55

The 250,000 stock options granted during the quarter fully vested at the date of grant and have a five year term. The options were valued using the Black-Scholes fair valuation option pricing model resulting in a charge of US$0.61 million to the income statement during the quarter. The weighted average remaining life and weighted average exercise price of options at 30 September 2011 were as follows:

Exercise Price (CDN$)	Number outstanding as at 30 September 2011 ('000)	Weighted average remaining contractual life (YEARS)	Number exercisable as at 30 September 2011 ('000)	Weighted average exercise price (CDN$)
1.00	1,422	2.92	1,422	1.00
8.00 - 13.55	1,135	0.61	1,135	11.36
4.75	250	4.86	250	4.75
	2,807		2,807	

Stock Appreciation Rights ("SARS")

THOUSANDS OF STOCK APPRECIATION RIGHTS OR CDN$	SARS	Exercise price
Outstanding as at 1 January 2011 and 30 September 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 42% to 72%, 0% dividend yield, a 0% forfeiture and a closing stock price of Cdn$3.80 per share.

As at 30 September 2011, a total accrued liability of US$0.2 million has been recognised in relation to the stock appreciation rights. The liability was reduced by US$0.2 million during the period (Q3 2010: reduction of US$0.02 million) as a result in an overall decline in the valuation of the stock appreciation rights.

Shareholders' Equity and Outstanding Share Data

	As at 30-Sep 2011	As at 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	2,807	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	1,169	1,098
Weighted average diluted Class A and Class B shares	35,859	31,893

5 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 (Q3 2010: US$30,000) to this firm for services provided on legal services, resulting in a total expenditure of US$112,500 for the nine months ended 30 September 2011 (2010: US$105,000). 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 (59.8 Bcf as at 30 September 2011).

The Gas Agreement may be 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 new 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 determination, 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.

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.

Re-rating Agreement

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas Limited to increase the gas processing capacity to a maximum of 110 MMcfd. (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays 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.

Under the terms of this agreement, the Company agreed to indemnify Songas Limited for damage to its facilities caused by the re-rating up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies.

Portfolio Gas Sales Agreement

On 17 June 2011, a long term (to June 2023) Portfolio Gas Sales Agreement (PGSA) was signed between Orca and TANESCO. Under the PGSA, Orca is obligated, subject to infrastructure capacity, to sell a maximum of approximately 37 MMcfd for use in any of TANESCO's current power plants except those operated by Songas at Ubungo. The current basic wellhead gas price of US$ 2.02/ Mcf is due to increase to approximately US$2.70/Mcf on 1 July 2012.

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 La Tosca exploration well will be drilled in Q1 2012 at an estimated cost to the Company of US$8 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 a maximum of 102 MMcfd.

The original corrosion model forecast that the offshore well, SS-9 (currently producing in the region of 30 MMcfd), would have to be taken out of production at the end of Q1 2012. A new corrosion logging was undertaken shortly after the quarter end to confirm its condition and it is now considered that the well may stay on production until 31 May 2012 subject to further logging in March 2012. The Company has mobilised a rig to Songo Songo Island and a new onshore deviated well will be drilled by the time that SS-9 is taken off production. The total cost of the SS-A well is estimated at US$28 million. The Company has also committed to purchasing long lead items for Songo Songo West exploration well, the SS-10 enhancement and one further well at a total cost of US$11 million.

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, up to a maximum of US$2.4 million. In the event that the costs are approved by the regulator, EWURA, the funds will be repaid by Songas at financial close. To date the Company has incurred US$0.6 million of expenditure. If the project is not successful, the costs will be recoverable by the Company under the terms of the PSA with TPDC.

7 CONTINGENCIES

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.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. The Company is currently in discussions with Ndovu to agree appropriate commercial terms.

Cost recovery

The Company's cost pool in Tanzania was depleted early in Q2 2011. This resulted in a reduction in the percentage of net revenue attributable to the Company that will continue until there is any significant expenditure on the drilling activities which will commence in Q4 2011. TPDC is still in the process of auditing the historic cost recovery pool and is currently disputing US$34 million of costs that have been allocated to the cost pool for the period 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. To the extent that it is not possible to resolve the differences with TPDC, the Company will utilise the extensive dispute mechanisms outlined in the PSA which includes international arbitration.

8 SUBSEQUENT EVENTS

On 7 October 2011 the Company activated a Normal Course Issuer Bid and received the TSX Venture Exchange approval to purchase upto 1,701,345 Class B shares during the period 10 October 2011 to 9 October 2012. As at 28 November 2011 a total of 66,300 Class B Shares have been purchased.

On 18 November 2011 the Parliament of Tanzania received a report from a special Parliamentary Committee that accused Orca's subsidiary PanAfrican Energy Limited ("PanAfrican") of certain irregularities and recommended that PanAfrican be removed from the Songo Songo Production Sharing Agreement ("PSA"). Orca strongly rejects the findings of the Parliamentary Committee and if the Parliament accepts the finding of the report, then the Company will vigorously defend its rights and agreements in accordance with Tanzanian and International law.

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