growth

ORCA EXPLORATION

Q1

2007 Q1 INTERIM REPORT

Orca Exploration Group Inc. is a well-financed, international public company engaged in hydrocarbon exploration, development and marketing. The Company's operations are directed from offices in Dar es Salaam, Tanzania.

Orca's immediate focus is on the exploration, production, development and marketing of Tanzanian natural gas and the acquisition of oil interests with significant exploration potential.

Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A. At the Company's Annual General Meeting 17 November 2006, shareholders approved a name change from EastCoast Energy Corporation to Orca Exploration Group Inc.

Quarter Highlights

- Earned profit before tax of US$0.4 million (Q1 2006 US$0.3 million) with funds from operations before working capital changes of US$1.2 million (Q1 2006: US$0.7 million). This is despite an increase in costs attributable to the business development activities.
- Successfully completed the remedial downhole work on SS-9 with an increase in the Songo Songo production capacity by 30 mmscf/d.
- Signed a contract with Caroil SA for the drilling of SS-10. The well was spudded on 28 April 2007 and is forecast to be complete by the end of Q2, with a forecast 50 mmscf/d increase in production capacity.
- Commenced the installation of an additional 8 kilometers of low distribution pipeline to improve security of supply and to hook up four new industrial customers. This line is due to be completed in early Q3 2007.
- Increased Q1 2007 sales of Additional Gas to Dar es Salaam industrial customers by 31% to 301 mmscf (an average of 3.3 mmscf/d) compared with Q1 2006. Average industrial prices remained strong at US$7.70/mcf.
- Increased Q1 2007 sales of Additional Gas to the power sector by 99% to 1,356 mmscf (an average of 15.1 mmscf/d) compared with 682 mmscf in Q1 2006, at an average price of US$2.19/mcf.
- Established a proven team to develop new oil opportunities with a particular focus on Africa.

← Cover Photo:
A rig on contract to Orca Exploration is drilling a new production well in the Songo Songo field. When completed SS-10 is expected to increase field deliverability by 50 mmscf/d.

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.

Financial and Operating Highlights

Quarter ended	31 Mar 2007	31 Mar 2006	Change
Financial *(US$'000 except where otherwise stated)*			
Operating revenue	**3,632**	2,034	79%
Profit before taxation	**430**	266	62%
Operating netback *(US$/mcf)*	**2.03**	2.05	(1%)
Cash and cash equivalents	**14,736**	3,454	327%
Working capital	**10,570**	2,118	399%
Shareholders' equity	**37,983**	16,928	124%
Profit per share - basic *(US$)*	**–**	–	–
Profit per share - diluted *(US$)*	**–**	–	–
Funds from operations before working capital changes	**1,190**	671	77%
Funds per share from operations before working capital changes – basic *(US$)*	**0.04**	0.03	33%
Funds per share from operations before working capital changes – diluted *(US$)*	**0.04**	0.03	33%
Outstanding Shares *('000)*			
Class A shares	**1,751**	1,751	–
Class B shares	**25,053**	21,513	16%
Options	**2,092**	1,987	5%
Operating			
Additional Gas sold (mmscf) - industrial	**301**	230	31%
Additional Gas sold (mmscf) - power	**1,356**	682	99%
Average price per mcf (US$) - industrial	**7.70**	7.63	1%
Average price per mcf (US$) - power	**2.19**	1.79	22%

GLOSSARY

Mcf
Thousands of standard cubic feet

Mmscf
Millions of standard cubic feet

Bcf
Billions of standard cubic feet

Tcf
Trillions of standard cubic feet

Mmscf/d
Millions of standard cubic feet per day

Mmbtu
Millions of British thermal units

1P
Proven reserves

2P
Proven and probable reserves

GIIP
Gas initially in place

Kwh
Kilowatt hour

MW
Megawatt

US$
US dollars

Cdn$
Canadian dollars

President & CEO's Letter to Shareholders

Over Q1 2007 Orca Exploration took decisive steps to expand its natural gas activities in Tanzania and to lay the foundation for new high potential exploration plays within established oil basins in sub Saharan Africa.

The underlying strength of the Company's ambitious growth plans can be attributed to three factors. The first is the increased reserves and deliverability from the Songo Songo field. The second is the rapid growth in utility and industrial markets for natural gas in Tanzania and the third is the proven track record of the exploration team that has joined Orca to lead the search for new oil opportunities.

With the workover of the SS-9 well in Q1, Orca has added 30 mmscf/d to Songo Songo's production capacity. The Company is now drilling a development well (SS-10) that is expected to add another 50 mmscf/d by the end of Q2. These activities reinforce the confidence needed to vigorously pursue expanded markets for natural gas in Tanzania and possibly into Kenya.

In addition to continuing to develop its natural gas markets in Tanzania, Orca is currently evaluating a number of oil exploration and development opportunities. The Company's strengthened exploration team is targeting commencement of oil exploration activities in early 2008 soon after acquisitions are completed.

Within the current markets, growth in the utility sector has been dramatic. At the end of Q1 2007 there was 110 MWs of gas-fired generation fuelled by Additional Gas supplied by Orca. It is forecast that this will increase to 310 MWs by year end 2007 as new permanent and emergency power plants become operational.

The industrial sector also continued to grow during what is normally the slowest quarter of the year for the sale of natural gas in Tanzania. Sale of Additional Gas to Orca's industrial customers was up 31% to 3.3 mmscf/d in Q1 2007 compared with 2.6 mmscf/d in Q1 2006. This demand is forecast to continue to increase over 2007 as Orca constructs additional new low pressure distribution lines in the Dar es Salaam area. It is expected that over 2007, Orca will average industrial gas sales of 6.0 mmscf/d.

Increasing Reserves and Production

At year end 2006, gross proven and probable reserves ("2P") for the Songo Songo field on a life-of-licence basis increased by 14% to 648 bcf (2005: 569 bcf). The proportion in which the Company has a financial interest, under the Songo Songo PSA ("Additional Gas"), increased by 30% to 415 bcf (2005: 320 bcf). Orca is targeting continued increase in the level of these reserves through diligent monitoring of the reservoir and selective appraisal and exploration drilling.

In Q1 2007, increasing the Songo Songo field deliverability to meet the increasing power sector demand for gas was the top priority. In February 2007, Orca successfully completed the removal of over 5,000 feet of wireline and two pressure gauges that were left in the offshore SS-9 well in 1997 and which had severely impacted gas production. The removal of the debris, increased overall Songo Songo deliverability to 160 mmscf/d.

In February 2007 the Company signed a drilling contract with Caroil SA. Spudding of the new Songo Songo development well commenced on 28 April 2007. SS-10 is being drilled with a land rig and will deviate 1 kilometer offshore into the main reservoir. It expected to be completed by the end of June 2007 and is forecast to add deliverability of 50 mmscf/d, increasing total Songo Songo production to 210 mmscf/d.

To further increase reserves, the Company is also planning to drill an appraisal well in the northern portion of the field ("Songo Songo North") and to also drill an exploration prospect approximately 2 kilometers west of the existing field ("Songo Songo West"). Both wells could be drilled using a jack up rig or barge mounted rig or a land rig if an artificial island was constructed in the relatively shallow water near the two drilling prospects. An evaluation of the drilling options will be undertaken on completion of the SS-10 development well.

Above ↑
A land rig was erected on Songo Songo Island in March 2007 to drill SS-10, a new development well that is expected to substantially increase field deliverability.

Opposite →
Orca has entered into negotiations with Songas and TANESCO for the installation of a third and fourth gas processing train at the Songo Songo Island gas plant.

Market Development

Power and industrial markets continue to develop in line with expectations. During 2007 the Company is forecasting average sales of 21 mmscf/d – 23 mmscf/d.

In Q1 2007, TANESCO increased its installed emergency gas fired generation to 68 MWs by adding 20 MWs of emergency generation. When combined with the 42 MWs of generation at the Ubungo Power Plant, 110 MWs of gas fired generation in Tanzania was operating on Additional Gas as at 31 March 2007. It is forecast that this will increase to 310 MWs by year end 2007, with the further additions of 100 MWs of emergency generation and a new 100 MW permanent unit.

After several years of drought, above average rainfall in January 2007 (thought to be attributable to El Nino) significantly improved the utilisation rates for the 561 MWs of Tanzania's installed hydro generation. The Mtera dam, which supplies water to the 80 MW Mtera and the 204 MW Kidatu hydro stations rose from a non operational level of 687 meters above sea level to its maximum capacity of 698 meters. This enabled TANESCO to run these units at high utilisation rates in Q1 2007 whilst the rains also enabled good electricity contributions from the remaining 277 MWs of 'run of river' hydros.

Total sales of Additional Gas to the power sector averaged 15.1 mmscf/d in Q1 2007 (Q1 2006: 7.6 mmscf/d). The Company is forecasting that sales to the power sector will average approximately 15 mmscf/d – 17 mmscf/d during 2007. Higher quarterly volumes are anticipated during the dry months in the catchment areas and lower sales during the rainy periods (generally April, May, November and December).

As anticipated, Q1 sales to the industrial sector followed historical trends as customers undertook maintenance and textile manufacturers cut back production due to the lack of indigenous cotton supplies. In addition, the glass manufacturer, Kioo Limited had a serious breakdown with one of its furnaces that was not remedied until 5 March 2007. Despite this, sales to the industrial sector increased 31% over Q1 2006 to 3.3 mmscf/d. This is expected to increase to 4.5 mmscf/d in Q2.

In the second half of 2007, the Company is expecting to connect 4-6 new industrial customers once 16 kilometers of a new low pressure distribution system is installed and operational. Based on these developments, Orca forecasts that average industrial sales of 6.0 mmscf/d will be achieved during 2007.

To further expand sales to the lower volume, higher price non-power sector, Orca is planning, in collaboration with TDPC, to commence the sale of Compressed Natural Gas ("CNG") to industrial customers and to markets that are not located near the existing distribution pipeline. New CNG markets also include all of the major hotels in Dar es Salaam and Zanzibar, so displacing liquid petroleum gas.

The Company is also reviewing the possibility of applying for an electricity generation licence and selling power directly to industrial customers. Discussions commenced with a large potential customer in Dar es Salaam in Q1 2007 and are expected to progress further over the next few months.

Infrastructure

The current infrastructure limits the supply of gas to Dar es Salaam to 70 mmscf/d. During 2007, the Company forecasts that it will be able to meet its sales targets with no additional infrastructure development. However, from mid-2008, a third and fourth gas processing train will be required to meet peak demand. Investments in pipeline infrastructure may also be needed as the 25 kms 12" offshore pipeline from Songo Songo Island has an estimated maximum throughput of 105 mmscf/d.

During Q4 2006, the Company entered into negotiations with Songas Limited for the installation of a third and fourth gas processing trains on Songo Songo Island. Once completed these additions would increase processing capacity to 140 mmscf/d. During Q1 2007, Songas proceeded with work on these additions and expects to complete engineering in Q2 2007. Tender documents could then be submitted for an engineering, procurement and construction contract that will be financed by Songas. It is expected that it will take 12 months from the time of awarding the tender for the trains to be operational.

Work will be also be undertaken in 2007 to assess the most cost effective infrastructure configuration to achieve the forecast peak deliverability rates over the next few years. Additional compression or a new offshore pipeline may be required to meet peak loads.

New exploration ventures

Orca is currently evaluating a number of oil exploration and development opportunities in sub Saharan Africa. Project selection criteria include low entry cost, significant exploration upside and the potential to mature the projects within a relatively short period of time. These new oil projects will expand Orca's growth potential but are not intended to limit full development of the Company's Tanzanian project, which continues to have significant exploration upside.

Top ↑ Welders connect a pipeline to supply "Additional Gas" to an emergency power generation unit at Dar es Salaam.

Bottom ↑ The Aggreko 48 MW generation units rely on "Additional Gas" supplied by Orca Exploration.

Opposite → Additional Gas supplied by Orca Exploration feeds emergency power units.

Outlook

This stage in the Company's growth is an exciting time for both shareholders and employees. The Songo Songo reservoir provides Orca with a strong foundation that includes significant opportunities to increase reserves and build new markets. Our oil acquisition and exploration team is rapidly advancing assessment of potential new oil projects in sub Saharan Africa. Management is committed to full development of our existing assets and careful selection and development of new assets.

Your Company is in a strong financial position with working capital of US$10.6 million as at 31 March 2007. In the short term, these funds are committed to the drilling of SS-10, the development of markets in Tanzania and supporting the business development activities. In the medium term, this asset is forecast to generate excellent operating cash flows that can be used to fund additional growth and the development of new assets.

The time is right to rapidly expand Orca over the next two to three years. We have clear goals, the financial resources, employee expertise and determination to succeed.

We thank our employees and shareholders for their continuing support.

Peter R. Clutterbuck

President & CEO

30 May 2007

Management's Discussion & Analysis

FORWARD LOOKING STATEMENTS

THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS AND NOTES THERETO FOR THE THREE MONTHS ENDED 31 MARCH 2007 AND THE AUDITED FINANCIAL STATEMENTS AND THE RELATED NOTES FOR THE YEAR ENDED 31 DECEMBER 2006. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON 30 MAY 2007. IT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, CERTAIN OF WHICH ARE BEYOND ORCA EXPLORATION GROUP INC'S ("ORCA EXPLORATION" OR "THE COMPANY" - FORMERLY EASTCOAST ENERGY CORPORATION) CONTROL, INCLUDING THE IMPACT OF GENERAL ECONOMIC CONDITIONS IN THE AREAS IN WHICH THE COMPANY OPERATES, CIVIL UNREST, INDUSTRY CONDITIONS, CHANGES IN LAWS AND REGULATIONS INCLUDING THE ADOPTION OF NEW ENVIRONMENTAL LAWS AND REGULATIONS AND CHANGES IN HOW THEY ARE INTERPRETED AND ENFORCED, INCREASED COMPETITION, THE LACK OF AVAILABILITY OF QUALIFIED PERSONNEL OR MANAGEMENT, FLUCTUATIONS IN COMMODITY PRICES, FOREIGN EXCHANGE OR INTEREST RATES, STOCK MARKET VOLATILITY AND OBTAINING REQUIRED APPROVALS OF REGULATORY AUTHORITIES. IN ADDITION THERE ARE RISKS AND UNCERTAINTIES ASSOCIATED WITH GAS OPERATIONS. THEREFORE, ORCA EXPLORATION'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENT COULD DIFFER MATERIALLY FROM THOSE EXPRESSED, OR IMPLIED BY, THESE FORWARD-LOOKING ESTIMATES AND, ACCORDINGLY, NO ASSURANCES CAN BE GIVEN THAT ANY OF THE EVENTS ANTICIPATED BY THE FORWARD LOOKING ESTIMATES WILL TRANSPIRE OR OCCUR, OR IF ANY OF THEM DO SO, WHAT BENEFITS, INCLUDING THE AMOUNTS OF PROCEEDS, THAT ORCA EXPLORATION WILL DERIVE THEREFROM.

THE COMPANY EVALUATES ITS PERFORMANCE BASED ON EARNINGS AND FUNDS FLOW. FUNDS FLOW FROM OPERATING ACTIVITIES IS A NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) TERM THAT REPRESENTS EARNINGS BEFORE DEPLETION, DEPRECIATION AND STOCK-BASED COMPENSATION. IT IS A KEY MEASURE AS IT DEMONSTRATES COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS. ORCA EXPLORATION ALSO ASSESSES ITS PERFORMANCE UTILIZING OPERATING NETBACKS. OPERATING NETBACKS REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS RINGMAIN TARIFF, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. 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.

DISCLOSURE CONTROLS AND PROCEDURES

Based on the requirements of Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings, the Chief Executive Officer and Chief Financial Officer of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109) as of 31 March 2007. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as at 31 March 2007 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

BACKGROUND

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

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

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

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

Principal terms of the PSA and related agreements

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

Obligations and restrictions

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

(b) The PSA covers the two licences 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 judgement such sales would jeopardise the supply of Protected Gas. Any Additional Gas contracts entered into prior to 31 July 2009 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 (e) below).

Songas has written to Orca Exploration confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo Power Plant, for the supply of up to 15 mmscf/d for a period of five years for additional power generation and up to 10 mmscf/d for the industrial sector. As the current emergency power generation operating in the country could take demand above 15 mmscf/d for power generation, Songas has confirmed that the Company may sell 17 mmscf/d for power generation over the next two years without the need for security.

The Company is looking to agree a security mechanism with Songas that provides clear guidance as to how Songas will operate their rights to security. It is anticipated that, under certain circumstances, the Company and TPDC may have to allocate a proportion of the Additional Gas revenues to an escrow account, in the event of a forecast Protected Gas insufficiency. It is forecast that the principle terms of a security mechanism will be finalised by the end of Q2 2007.

(d) By 31 July 2009, the Government of Tanzania ("GoT") can request Orca Exploration to sell 100 bcf of Additional Gas for the generation of electricity over a period of 20 years from the start of its commercial use, subject to a maximum of 6 bcf per annum or 20 mmscf/d ("Reserved Gas"). In the event that the GoT does not nominate by 31 July 2009, or consumption of the Reserved Gas has not commenced within three years of the nomination date, then the reservation shall terminate. Where Reserved Gas is utilised, TPDC and the Company will receive a price that is no greater than 75% of the market price of the lowest cost alternative fuel delivered at the facility to receive Reserved Gas or the price of the lowest cost alternative fuel at Ubungo.

(e) "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 (f) 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.

(f) 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 (where the fifth turbine has been installed, but has not been operational for three years an imputed amount of annual gas consumption for the fifth turbine is incorporated) 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.

Access and development of infrastructure

(g) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas.

Songas is not required to incur capital costs with respect to additional processing and transportation facilities unless the construction and operation of the facilities are, in the reasonable opinion of Songas, financially viable. If Songas is unable to finance such facilities, Songas shall permit the seller of the gas to construct the facilities at its expense, provided that, the facilities are designed, engineered and constructed in accordance with good pipeline and oilfield practices.

Revenue sharing terms and taxation

(h) 75% of the gross revenues less pipeline tariffs and direct sales taxes in any year ("Net Revenues") can be used to recover past costs incurred. Costs recovered out of Net Revenues are termed "Cost Gas".

The Company pays and recovers all costs of exploring, developing and operating the Additional Gas with two exceptions: (i) TPDC may recover reasonable market and market research costs as defined under the PSA; and (ii) TPDC has the right to elect to participate in the drilling of at least one well for Additional Gas in the Discovery Blocks for which there is a development program as detailed in the Additional Gas plans as submitted to the Ministry of Energy and Minerals ("Additional Gas Plan") subject to TPDC being able to elect to participate in a development program only once and TPDC having to pay a proportion of the costs of such development program by committing to pay between 5% and 20% of the total costs ("Specified Proportion"). If TPDC does not notify the Company within 90 days of notice from the Company that the Ministry of Energy and Minerals 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 costs of the future wells including SS-10 in return for a 20% increase in the profit share percentage for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements have not taken account of any re-imbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

(i) The price payable to Songas for the general processing and transportation of the gas is 17.5% of the price of gas delivered to a third party less any direct taxes payable by the customer that are included in the gas price less any tariffs paid for non-Songas owned distribution facilities ("Songas Outlet Price").

In September 2001, the GoT made a formal request to the World Bank for funds to increase the diameter of the onshore pipeline from 12 inches to 16 inches at a projected incremental cost of US$3.5 million. The World Bank agreed to finance this increase and accordingly the pipeline capacity was increased from circa 65 mmscf/d to 105 mmscf/d. The tariff that is payable to GoT for this incremental capacity has yet to be formally agreed, but the Company expects it to be 17.5% of the Songas Outlet Price.

17.5% of the Songas Outlet Price is also the rate that is expected to apply to cover the financing and operating costs of the third and fourth train which will increase the gas processing capacity to 140 mmscf/d.

(j) 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.

(k) Profits on sales from the Proven Section ("Profit Gas") are shared between TPDC and the Company, the proportion of which is dependent on the average daily volumes of Additional Gas sold or cumulative production.

The Company receives a higher share of the Net Revenues after cost recovery, the higher the cumulative production or the average daily sales, whichever is higher. The profit share is a minimum of 25% and a maximum of 55%.

Average daily sale of Additional Gas	mmscf/d Cumulative sales of Additional Gas	TPDC's share of Profit Gas	Company's share of Profit Gas
mmscf/d	bcf	%	%
0 - 20	0 – 125	75	25
>20 <=30	>125<=250	70	30
>30 <=40	>250<=375	65	35
>40 <=50	>375<=500	60	40
>50	>500	45	55

For Additional Gas produced outside of the Proven Section, the Company's profit share increases to 55%.

Where TPDC elects to participate in a development program, their profit share percentage increases by the Specified Proportion (for that development program) with a corresponding decrease in the Company's percentage share of Profit Gas.

The Company is liable to income tax. Where income tax is payable, there is a corresponding deduction in the amount of the Profit Gas payable to TPDC.

(l) Additional Profits Tax is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no Additional Profits Tax is payable until the Company recovers all its costs out of Additional Gas revenues plus an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum Additional Profits Tax rate is 55% of the Company's profit share 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

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

(n) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, Orca Exploration, CDC or insurance coverage, then Orca Exploration is liable to a performance and operation guarantee of US$2,500,000 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 31st March 2007

Operating Volumes

The sales volumes for the quarter were 1,657 mmscf or 18.4 mmscf/d. This represents an overall increase of 3% over the previous quarter and 82% over the same quarter last year. The Company sales volumes were split between the industrial and power sectors as follows:

	THREE MONTHS ENDED		
	31-Mar 2007	31-Dec 2006	31-Mar 2006
Gross sales volume *(mmscf):*			
Industrial sector	**301**	398	230
Power sector	**1,356**	1,206	682
Total volumes	**1,657**	1,604	912
Gross daily sales volume *(mmscf/d)*			
Industrial sector	**3.3**	4.3	2.6
Power sector	**15.1**	13.1	7.6
Total daily sales volume (mmscf/d)	**18.4**	17.4	10.1

Industrial sector

Industrial sales volumes decreased by 24% during Q1 2007 from 398 mmscf in Q4 2006 to 301 mmscf as textile customers cut back production for maintenance due to seasonally low cotton harvest. The sales to Kioo Limited were also low in the quarter as a consequence of a serious breakdown with one of its furnaces that was not remedied until 5 March 2007. Industrial sales averaged 3.3 mmscf/d (Q4 2006: 4.3 mmscf/d) compared with 2.6 mmscf/d for the same quarter in 2006. Gas consumption by the industrial customers is expected to increase in Q2 2007 as textile customers increase their production.

Power sector

Power sector sales volumes increased by 12% during the quarter to 1,356 mmscf. The increase in sales volumes was largely the result of increased gas consumption by the 48 MWs of emergency power installed by Aggreko Plc in October 2006. Consumption of Additional Gas by these units increased by 27% to 760 mmscf from 597 mmscf in the previous quarter. On 24 January 2007 the Company also commenced supply of Additional Gas to a further 20 MWs of emergency generation operated by Dowans Tanzania Limited. A total of 166 mmscf was supplied to these units during the quarter. The increase in sales volumes to the emergency power units was offset to a large extent by a 29% decrease in the supply of Additional Gas to the Ubungo Power Plant from 609 mmscf to 431 mmscf as a consequence of the improved utilisation rates of the 561 MWs of hydro generation following the higher than average rain fall in January.

Commodity Prices

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

	THREE MONTHS ENDED		
US$/mcf	31-Mar 2007	31-Dec 2006	31-Mar 2006
Average sales price			
Industrial sector	**7.70**	7.64	7.63
Power sector	**2.19**	1.95	1.79
Weighted average price	**3.19**	3.36	3.26

Industrial sector

The price of gas for the industrial sector is at a discount to the price of Heavy Fuel Oil ("HFO") in Dar es Salaam. This resulted in average gas prices of US$7.70/mcf (Q4 2006: US$7.64/mcf) during the first quarter of 2007. The gas price achieved for the industrial sector will fluctuate with world oil prices and the discount agreed with the customers. The monthly range of Additional Gas price sold to industrial customers in Dar es Salaam during the three months ended 31 March 2007 was US$7.47/mcf to US$8.08/mcf.

Power sector

The Interim Agreement for the sale of Additional Gas to the Ubungo Power Plant provided for different gas prices, depending on the average availability of the six turbines, from a minimum of US$0.67/mmbtu (US$0.62/mcf) to the maximum of US$2.32/mmbtu (US$2.14/mcf). All the turbines were available during the quarter and the Company achieved a maximum price of US$2.32/mmbtu (US$2.14/mcf). Additional Gas supply to the Aggreko and Dowans emergency power units were at the fixed price of US$2.41/mmbtu (US$2.22/mcf).

Consumers currently pay approximately 7.5 cents/kwh for their electricity. This tariff is the lowest in East Africa and, significantly lower than the current prices in western economies. This will limit the price that gas can be sold to the power sector.

The Company is still in negotiations with TANESCO, the Ministry of Energy ("MEM") and EWURA, the energy utility regulator, over the long term price to be applied to gas sold to power sector. In December 2006, the Company and TPDC lodged an application ("Application") with EWURA for the supply of gas to the power sector. The price of the gas was divided between the wellhead, distribution and marketing prices. In Q1 2007 EWURA notified the Company that whilst the regulator had jurisdiction over the downstream distribution and marketing prices, there was some uncertainty as to whether this also applied to the wellhead price. As a result the Company withdrew the Application and is currently negotiating the price with TANESCO under the guidance of MEM.

It is expected that the long term contracts for the existing and new power contracts will be signed in the next four months.

The prices to the power sector are forecast to average US$2.14 to US$2.22/mcf during 2007 rising annually in accordance with a pre-agreed formula.

Operating Revenue

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

Orca Exploration is able to recover all costs incurred on the exploration, development and operations of the project out of 75% of the Net Revenues ("Cost Gas"). Any costs not recovered in any period are carried forward to be recovered out of future revenues. During the quarter and throughout 2006 revenue less cost recovery was allocated 75% to TPDC and 25% to Orca Exploration ("Profit Gas").

Orca Exploration had recoverable costs throughout the quarter and for the 2006 year and accordingly was allocated 81.25% of the Net Revenues as follows:

	THREE MONTHS ENDED		
(US$'000)	31-Mar 2007	31-Dec 2006	31-Mar 2006
Industrial sector	**2,315**	3,042	1,755
Power sector	**2,974**	2,347	1,220
Gross sales revenue	**5,289**	5,389	2,975
Gross tariff for processing plant and pipeline infrastructure	**(840)**	(834)	(471)
Gross revenue after tariff	**4,449**	4,555	2,504
Analysed as to:			
Company Cost Gas	**3,353**	3,415	1,877
Company Profit Gas	**279**	286	157
Company operating revenue *(see Note 1 below)*	**3,632**	3,701	2,034
TPDC Profit Gas	**817**	854	470
	4,449	4,555	2,504

The Company's total revenues reported for the quarter amounted to US$3,831,000 after adjusting the Company's operating revenue of US$3,632,000 by:

i) US$257,000 for income tax. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable. To account for this, revenues are grossed up for the current income tax.

ii) US$58,000 for the deferred effect of Additional Profit Tax. This charge is deducted from revenue as a royalty.

Transportation Tariff

Under the terms of the project agreements, the tariff paid for transporting the gas is calculated as 17.5% of the price of gas at the Songas main pipeline in Dar es Salaam ("Songas Outlet Price") for the first 65 mmscf/d of pipeline capacity.

In calculating the Songas Outlet Price for the industrial customers, an amount of US$1.11/mcf (Q4 2006: US$1.13/mcf) ("Ringmain Tariff") has been deducted from the achieved industrial sales price of US$7.70/mcf (Q4 2006: US$7.64/mcf) to reflect the gas price that would be achievable at the Songas main pipeline. The Ringmain tariff represents the amount that would be required to compensate a third party distributor of the gas for constructing the connections from the Songas main pipeline to the industrial customers. No deduction has been made for sales to the power sector since the gas is not transported through the Company's own infrastructure.

It is envisaged that Songas will finance the construction of a third and a fourth gas processing train to enable there to be sufficient infrastructure capacity to meet the peak gas demand of gas fired generation that TANESCO will install in Dar es Salaam by 31 December 2007.

The tariff associated with the expansion of the pipeline and the gas processing plant is yet to be agreed and will be subject to approval by EWURA. However, the Company has assumed it will be no more than approximately 17.5% of the Songas Outlet Price.

Production and Distribution Expenses

The cost of maintaining the ring main distribution pipeline and pressure reduction station (security, insurance and personnel) is forecast to be approximately US$0.4 million per annum in its current form.

The well maintenance costs are allocated between Protected and Additional Gas based on the proportion of their respective sales during the quarter. The total costs for the maintenance for the quarter was US$176,000 (Q4 2006: US$190,000) and US$65,000 (Q4 2006: US$59,000) was allocated for the Additional Gas.

Other operating costs include an apportionment of the annual PSA licence costs and some costs associated with the evaluation of the reserves.

These costs are summarised in the table below:

	THREE MONTHS ENDED		
(US$'000)	31-Mar 2007	31-Dec 2006	31-Mar 2006
Ring main distribution pipeline	**116**	80	70
Share of well maintenance	**65**	59	45
Other field and operating costs	**83**	81	50
Production and distribution expenses	**264**	220	165
Depletion	**915**	886	324

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		
Amounts in US$/mcf)	31-Mar 2007	31-Dec 2006	31-Mar 2006
Gas price – industrial	**7.70**	7.64	7.63
Gas price – power	**2.19**	1.95	1.79
Weighted average price for gas	**3.19**	**3.36**	**3.26**
Tariff (after allowance for the Ringmain Tariff)	**(0.49)**	(0.52)	(0.52)
TPDC Profit Gas	**(0.51)**	(0.53)	(0.51)
Net selling price	**2.19**	**2.31**	**2.23**
Well maintenance and other operating costs	**(0.09)**	(0.09)	(0.10)
Ringmain distribution pipeline costs	**(0.07)**	(0.05)	(0.08)
Operating netback	**2.03**	**2.17**	**2.05**

Operating netback decreased by 6% to US$2.03/mcf in Q1 2007 against US$2.17/mcf in Q4 2006 primarily as a result of the lower average gas price for the Additional Gas sales emanating from the higher volumes of power sales as a proportion of total sales. The netback is expected to record a slight improvement in Q2 as a result of increasing volumes of industrial sales.

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

Administrative Expenses

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

	THREE MONTHS ENDED		
(Figures in US$'000)	31-Mar 2007	31-Dec 2006	31-Mar 2006
Employee costs	**430**	364	333
Stock based compensation	**215**	234	96
Consultants	**630**	265	228
Travel & accommodation	**107**	143	72
Communications	**27**	55	21
Office	**131**	189	110
Insurance	**36**	38	36
Auditing & taxation	**24**	27	51
Depreciation	**26**	20	27
Marketing costs including legal fees	**519**	647	184
Reporting, regulatory and corporate finance	**86**	11	118
Directors' fees	**17**	30	17
Total general and administrative expenses	**2,248**	**2,023**	**1,293**

Included in the above are costs associated with business development outside of Tanzania. These are summarised below:

	THREE MONTHS ENDED		
(Figures in US$'000)	31-Mar 2007	31-Dec 2006	31-Mar 2006
Business development	**422**	160	–

G&A averaged approximately US$0.75 million per month (Q4 2006: US$0.67 million). G&A per mcf increased to US$1.38/mcf (Q4 2006: US$1.26/mcf). Whilst a large proportion of G&A is relatively fixed in nature and therefore declines on an mcf basis as volumes increase, significant costs are being incurred in the negotiation of the power contracts. This has led to the G&A costs being relatively high per mcf. It is expected that these will fall as volumes increase and long term power contracts are signed.

The total general and administrative expenses have increased 11% compared to the previous quarter. The main variances are summarised below:

Stock based compensation

During 2006, the Company implemented a bonus scheme that incorporates some stock appreciation rights for senior management staff that are still employed by the Company as at 31 December 2007. The value of these stock appreciation rights are calculated using the Black-Scholes option pricing model and have a maximum pay out of Cdn$1.2 million. US$150,000 has been expensed in both Q1 2007 and Q4 of 2006, with no charge having been incurred in Q1 2006.

On 2 January 2007, the Company issued 300,000 stock appreciation rights to a consultant at an exercise price of Cdn$8.70 per right. The consultant is facilitating the search for new venture opportunities for the Company. These stock appreciation rights have a 5 year term and vest in three equal annual installments starting on 2 January 2008 with no ceiling to valuation. US$65,000 has been expensed in Q1 2007 in relation to these.

On 14 January 2007 the Company issued 300,000 stock options with an exercise price of Cdn$8.00 per option to a newly appointed officer, at the same time the officer was also awarded 300,000 stock appreciation rights with no valuation ceiling at an exercise price of Cdn$8.00 per option. Both types of option have a five year term and vest in three equal annual installments starting on 14 January 2008. During the quarter a total of US$59,000 has been expensed with regards to the stock appreciation rights and US$53,000 has been expensed in relation to the stock options.

The stock options which were granted on 1 September 2004 were fully vested on 1 September 2006. The charge in Q4 2006 relates to the 200,000 stock options granted in September 2006. These options have been forfeited and as such all the charges incurred in 2006 have been credited to the income statement in the first quarter of 2007 to the value of US$112,000.

The fair value of both the stock appreciation rights and stock options, have been calculated using the Black-Scholes option pricing model.

Consultancy costs

The increase in the cost of consultants is primarily the result of the increasing focus on acquiring two oil opportunities by the end of 2007. Two new consultants were contracted to concentrate exclusively on new ventures. A further three consultants were contracted in Q2 2007 to help support this area.

Marketing costs including legal fees

These costs include marketing costs, legal, corporate promotion and cost of training Government officials in accordance with the terms of the PSA. During Q4 2006 and Q1 2007, higher costs were experienced in negotiating power contracts with Songas, TANESCO and the regulatory authority, EWURA.

These costs will continue to grow until the longer term contracts for the power sector are signed. In addition, the Company started to increase its focus on non power sales in Q1 2007, and in particular the compressed natural gas market.

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 grossing up the Company's revenue for the current income tax.

As at 31 March 2007, 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$1,351,000 which represents an additional charge of US$122,000 in the quarter. This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC.

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 PSA licence. The effective APT rate has been calculated to be 20%. Accordingly, US$58,000 (Q4 2006: US$60,000) has been netted off revenue for the quarter ended 31 March 2007.

As at 31 March 2007, the Company had US$21.4 million (Q4 2006: US$14.6 million) of costs that are recoverable out of 75% of the future Net Revenues. The costs associated with the remedial work on SS-9 are not recoverable as TPDC has stated that the work should have been rectified by a predecessor company of Orca Exploration at the time of the 1997 work programme. As at 31 March 2007, US$2.4 million was not able to be recovered in this respect.

Management does not anticipate that any APT will be payable in 2007, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the percentage change in the United States Industrial Goods Producer Price Index and the forecast expenditures for 2007. 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 programme.

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

Depletion and Depreciation

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2006, the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd. ("McDaniel") were 265.8 bcf before TPDC 'back in' (2005: 240.6 bcf) on a life of licence basis. This leads to a depletion charge of US$0.55/mcf in Q1 2007.

Non-Natural Gas Properties are depreciated as follows:

Leasehold improvements	Over remaining life of the lease
Computer equipment	3 years
Vehicles	3 years
Fixtures and fittings	3 years

Carrying Value of Assets

Capitalised costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalised costs are unlikely to be recovered in the future, they are written off and charged to earnings. There was no write down required at 31 March 2007.

Funds Generated by Operations

(Figures in US$'000)	THREE MONTHS ENDED 31-Mar 2007	31-Dec 2006	31-Mar 2006
Profit after taxation	**128**	1,025	83
Adjustment for non cash items	**1,062**	1,412	588
Funds from operations before working capital changes	**1,190**	2,437	671
Working capital adjustments	**(370)**	(1,513)	242
Net cash flows from operating activities	**820**	924	913
Net cash flows used in investing activities	**(6,787)**	(2,930)	(744)
Net cash flows from financing activities	**25**	18,104	87
Net (decrease)/increase in cash and cash equivalents	**(5,942)**	16,098	256

The US$5.9 million decrease in cash and cash equivalents during the quarter is mainly attributable to the high level of capital expenditure during the quarter of US$11.1 million and the associated US$4.3 million increase in creditors. The increase of US$16.1 million in Q4 2006 was due to the net receipt of US$18.1 million from a rights issue.

Capital Expenditures

Gross capital expenditures amounted to US$11.1 million during the quarter (Q4 2006: US$3.4 million). The capital expenditure may be analysed as follows:

(Figures in US$'000)	THREE MONTHS ENDED 31-Mar 2007	31-Dec 2006	31-Mar 2006
Geological and geophysical and well drilling	**10,657**	2,747	514
Pipelines and infrastructure	**279**	131	305
Power development	**109**	531	–
Other equipment	**32**	–	32
	11,077	**3,409**	**851**

During the quarter, the Company spent US$2.4 million on the completion of remedial work on SS-9 to remove over 5,000 feet of wireline and two pressure gauges that were left downhole during the 1997 well tests. As a result, the well now has a maximum deliverability of 50 mmscf/d, an increase of 30 mmscf/d.

A total of US$7.8 million was incurred in the quarter on the development well, SS-10. The well was spudded on 28 April 2007 and is expected to be completed by the end of June 2007. It is anticipated that the completion of SS-10 will increase the gas deliverability by 50 mmscf/d. It will also ensure security of supply in the event of the failure of any single well.

Work commenced on the 8-kilometer pipeline extension to the distribution system and the construction of an additional pressure reduction system. This will improve the security of supply, enable the Company to hook up 3-4 new customers and increase deliverability to its existing customer base. The Company is expecting to incur a total of US$2.2 million for this expansion work and, as at 31 March 2007, had already incurred a total of US$0.4 million of which US$0.2 million was incurred in the quarter. It is anticipated that the extension will be completed by early Q3 2007.

The installation work for the supply of Additional Gas to the 118 MWs of gas fired generators installed by Dowans Tanzania Limited was completed during the quarter., The first 20 MWs of these units commenced operations on 24 January 2007, 60 MWs is forecast to be operational in Q3 2007 and 40 MWs in Q4 2007.

During the quarter, the Company completed the pipeline installation to a new customer, YUASA Batteries Limited at a cost of US$0.1 million. The customer started gas consumption on 23 March 2007.

Working Capital

Working capital as at 31 March 2007 was US$10.6 million (31 December 2006: US$20.4 million) and may be analysed as follows:

(Figures in US$'000)	31-Mar 2007	31-Dec 2006	31-Mar 2006
Cash and cash equivalents	**14,736**	20,678	3,454
Trade and other receivables	**5,713**	4,275	2,044
	20,449	24,953	5,498
Trade and other payables	**9,879**	4,523	3,380
Working capital	**10,570**	20,430	2,118

The overall working capital has reduced by 48% since Q4 2006. This is mainly as a result of the high level of capital expenditure and the associated increase in trade and other payables.

The significant increase in working capital in Q4 2006 was due to a net receipt of US$18.1 million from a rights issue on 29 December 2006.

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

Of the total trade and other receivables at 31 March 2007, US$3.8 million was represented by trade receivables (Q4 2006: US$3.5 million), US$1.1 million prepayments (Q4 2006: US$0.6 million), other receivables US$0.5 million (Q4 2006: $0.1 million) and taxes US$0.3 million (Q4 2006: US$ nil).

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 31 March 2007, US$2.0 million (Q4 2006: US$2.0 million) was due from the industrial customers of which 68% is due from 4 customers. A significant part of this amount has been subsequently received. The balance of US$1.8 million includes an amount of US$1.1 million (Q4 2006: US$0.7 million) due from Songas for the supply of Additional Gas to the Ubungo Power Plant and US$0.7 million (Q4 2006: US$0.8 million) from TANESCO for the supply of Additional Gas to the 48 MW Aggreko units.

The contracts with Songas and TANESCO accounted for 57% (Q4 2006: 44%) of the Company's operating revenue in Q1 2007. Songas' financial security is, in turn, heavily reliant on the payment of capacity and energy charges by the electricity utility, TANESCO. Despite the improvement in hydrology, TANESCO is still experiencing financial difficulties. As a result, TANESCO is dependent on the Government of Tanzania for some of its funding. Whilst some payments have been delayed, the Company has subsequently received 83% of all amounts due.

The significant increase in current liabilities is a result of the increased capital expenditure. As at 31 March 2007, US$5.1 million of the total trade creditors of US$7.4 million relate to capital expenditure, compared to US$0.8 million of the total trade creditors of US$1.7 million at 31 December 2006.

Management forecasts that the Company will be able to meet its 2007 capital expenditure programme through the use of proceeds from the rights issue received on 29 December 2006 and self-generated cash flows. In addition, the Company has no bank borrowings and there is scope for utilising debt funding once the longer term contracts for the supply of gas to the power sector are in place.

Contractual Obligations and Committed Capital Investment

Capital Investment

During 2006 the Company committed to drilling a development well, SS-10 and to undertake some remedial work on the offshore well, SS-9. The remedial work on SS-9 was successfully completed Q1 2007. The development well SS-10 was spudded on 28 April 2007. A total of US$10.2 million has been incurred on these projects during the first quarter of 2007 and approximately US$7.0 million is expected to be incurred to complete SS-10 in Q2 2007.

The Company has committed to the installation of an additional pressure reduction station and the laying of 8 kilometers of new low pressure pipeline in the first half of 2007. This work is required to increase security of supply and to meet forecast increases in demand from both existing and new industrial customers. The work is estimated to cost US$2.2 million. By the end of the first quarter of 2007, a total of US$0.4 million had already been spent of the committed capital.

Shortfall Gas

Under the terms of the contracts with Kioo Ltd., Tanzania Breweries Ltd. and Karibu Textile Mills Ltd., the Company is liable to pay penalties in the event that there is a shortfall in the Additional Gas supply in excess of 5% of the contracted quantity. The penalties equate to the difference between the price of gas and an alternative feedstock multiplied by the notional daily quantities. The maximum penalty for shortfall gas is a total of US$1.1 million for these three contracts and the remedy is payable as a credit against future monthly invoices.

Protected Gas

Under the terms of the PSA, in the event that there is a shortfall 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 (9.0 bcf as at 31 March 2007). The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect. However, Songas has the right to request reasonable security on all Additional Gas sales.

Songas has written to Orca Exploration confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo Power Plant, for the supply of up to 15 mmscf/d for additional power generation and up to 10 mmscf/d for the industrial sector, for a period of five years. As the current emergency power generation operating in the country could take demand above 15 mmscf/d for power generation, Songas has confirmed that the Company may sell 17 mmscf/d for power generation over the next two years without the need for security.

The Company is looking to agree a security mechanism with Songas that provides clear guidance as to how Songas will operate their rights to security. It is anticipated that, under certain circumstances, the Company and TPDC may have to allocate a proportion of the Additional Gas revenues to an escrow account, in the event of a forecast Protected Gas insufficiency. It is forecast that the principal terms of a security mechanism will be finalised by the end of Q2 2007.

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future wells including SS-10 in return for a 20% increase in the profit share percentage for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements do not take account of any re-imbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Office

The Company has a five year rental agreement that expires on 30 November 2007 for the use of the offices in Dar es Salaam at a cost of approximately US$102,000 per annum.

Management expects to fund its committed capital investments in 2007 from the proceeds of the rights issue received on 29 December 2006 and cash generated from operations.

Off Balance Sheet Arrangements

As at 31 March 2007, the Company had no off-balance sheet arrangements.

Transactions with Related Parties

One of the non-executive Directors is a partner at a law firm. The Company has made a provision of US$25,000 for services provided on legal services during the quarter. The transactions with this related party were made at the exchange amount.

Shareholders' Equity and Outstanding Share Data

Number of shares ('000)	As at 31-Mar 2007	As at 31-Dec 2006
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**25,053**	25,023
	26,804	26,774
Convertible securities		
Options	**2,092**	2,022
Fully diluted Class A and Class B shares	**28,896**	28,796
Weighted average		
Class A and Class B shares	**26,799**	23,395
Convertible securities		
Options	**1,579**	1,514
Weighted average diluted Class A and Class B shares	**28,378**	24,909

Shares outstanding

In January 2007, the Company initiated a normal course issuer bid to purchase up to 1,085,379 Class B shares between 31 January 2007 and 31 December 2007, subject to a maximum usage of US$2.2 million of funds. As at 31 March 2007 no shares had been repurchased under the issuer bid.

On 14 January 2007, the Company issued 300,000 options to a newly appointed officer at a price of Cdn$8.00 per option. These options have a term of 5 years and vest in three equal annual installments starting on 14 January 2008.

In April 2007, 200,000 Class B shares were awarded to a newly appointed officer. These shares are currently held in escrow. They vest to the officer in three equal annual installments starting 7 April 2007. At the time the shares were awarded they had a market value of Cdn$1.7 million.

As at the 30 May 2007 there were a total of 1,751,195 Class A shares and 25,383,128 Class B shares outstanding.

Disclosure Controls and Procedures

Disclosure controls and procedures are defined Under Multilateral Instrument 52-109 – Certification of Disclosure Controls in Issuers' Annual and Interim Filings ("MI 52-109") as "...controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure." The Company has conducted a review and evaluation of its disclosure controls and procedures, with the conclusion that as at 31 March 2007 the Company has an effective system of disclosure controls and procedures as defined under MI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be and are present:

(a) the Company is dependent upon its advisors and consultants (principally its legal counsels) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and

(b) an active Board of Directors and management with open lines of communication.

The Company has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. In many circumstances, the various regulatory requirements are relatively new, subject to interpretation, and complex. The Company is not of a sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore the Company must rely upon its advisors/consultants to assist it and as such they form part of the disclosure controls and procedures.

Proper disclosure necessitates that one not only be aware of the pertinent disclosure requirements, but one is also sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While the Company believes it has adequate disclosure controls and procedures in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company intends to take whatever steps necessary to minimize the consequences thereof.

Internal Controls Over Financial Reporting

Internal controls over financial reporting are defined in the Multilateral Instrument 52-109 as "… a process designed by, or under the supervision of, the issuer's chief executive officers and chief financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company has conducted a review and evaluation of its internal controls over financial reporting, with the conclusion that as at 31 March 2007 the Company's system of internal controls over financial reporting, as defined under MI 52-109, is sufficiently designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. During the review of the design of the Company's control system over financial reporting it was noted that, due to the limited number of staff at Orca Exploration, it is not feasible to achieve complete segregation of incompatible duties. The limited number of staff may also result in identifying weaknesses in accounting for complex and or/non routine transactions due to a lack of technical resources within the Company. While management of Orca Exploration has put in place certain procedures to mitigate the risk of material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

Summary Quarterly Results

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

	2007	2006				2005		
(Figures in US$'000 except where otherwise stated)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
FINANCIAL								
Revenue	**3,831**	4,722	3,835	3,198	2,073	2,741	2,156	512
Profit/(loss) after taxation	**128**	1,025	809	660	83	396	785	(275)
Operating netback (US$/mcf)	**2.03**	2.17	2.88	2.71	2.05	2.51	1.68	3.86
Working capital	**10,570**	20,430	3,298	2,448	2,118	2,211	3,559	2,789
Shareholders' equity	**37,983**	37,889	18,676	17,715	16,928	16,662	16,096	15,240
Profit/(loss) per share – basic (US$)	**–**	0.05	0.03	0.03	–	0.02	0.03	(0.01)
Profit/(loss) per share – diluted (US$)	**–**	0.04	0.03	0.03	–	0.02	0.03	(0.01)
CAPITAL EXPENDITURES								
Geological and geophysical and well drilling	**10,657**	2,747	473	726	514	2,000	148	520
Pipeline and infrastructure	**279**	131	234	305	305	868	110	902
Power development	**109**	531	42	–	–	34	224	531
Other equipment	**32**	–	–	3	32	(1)	3	5
OPERATING								
Additional Gas sold – industrial (mmscf)	**301**	398	491	347	230	299	261	120
Additional Gas sold – power (mmscf)	**1,356**	1,206	744	739	682	766	905	–
Average price per mcf – industrial (US$)	**7.70**	7.64	8.63	8.69	7.63	7.86	7.26	6.19
Average price per mcf – power (US$)	**2.19**	1.95	1.69	2.13	1.79	2.15	1.24	–

Controlling Shareholder

W. David Lyons, the Company's non-executive Chairman, is the sole controlling shareholder of Orca Exploration and holds approximately 99.5% of the outstanding Class A shares and approximately 17.5% of the Class B shares. Consequently, Mr. Lyons holds approximately 22.8% of the equity (24.6% fully diluted) and controls 65.3% of the total votes of Orca Exploration.

Consolidated Income Statements (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

(thousands of US dollars except per share amounts)	Note	31-Mar 2007	31-Dec 2006	31-Mar 2006
		THREE MONTHS ENDED		
Revenue		**3,831**	4,722	2,073
COST OF SALES				
Production and distribution expenses		**(264)**	(220)	(165)
Depletion expense		**(915)**	(886)	(324)
Gross profit		**2,652**	3,616	1,584
Other income		**97**	14	16
Administrative expenses		**(2,248)**	(2,023)	(1,293)
Foreign exchange losses		**(71)**	(1)	(41)
Profit before taxation		**430**	1,606	266
Taxation	*1*	**(302)**	(581)	(183)
Profit after taxation		**128**	1,025	83
Profit per share				
Basic (US$)		**–**	0.05	–
Diluted (US$)		**–**	0.04	–

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheets (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

(thousands of US dollars)	Note	As at 31-Mar 2007	As at 31-Dec 2006
ASSETS			
Current assets			
Cash and cash equivalents		**14,736**	20,678
Trade and other receivables		**5,713**	4,275
		20,449	24,953
Natural gas properties and other equipment	*2*	**29,085**	18,951
		49,534	43,904
LIABILITIES			
Current liabilities			
Trade and other payables		**9,879**	4,523
Non current liabilities			
Deferred taxes		**1,351**	1,229
Deferred Additional Profits Tax		**321**	263
SHAREHOLDERS' EQUITY			
Capital stock	*3*	**34,494**	34,469
Capital reserve		**1,123**	1,182
Accumulated income		**2,366**	2,238
		37,983	37,889
		49,534	43,904

Contractual obligations and committed capital investment (Note 6)

Post balance sheet events (Note 7)

See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

	THREE MONTHS ENDED		
(thousands of US dollars)	31-Mar 2007	31-Dec 2006	31-Mar 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after taxation	**128**	1,025	83
Adjustments for:			
Depletion and depreciation	**941**	906	351
Stock-based compensation	**(59)**	84	96
Deferred taxation	**122**	362	113
Deferred Additional Profits Tax	**58**	60	28
	1,190	2,437	671
(Increase)/decrease in trade and other receivables	**(1,438)**	(622)	818
Increase/(decrease) in trade and other payables	**1,068**	(891)	(576)
Net cash flows from operating activities	**820**	924	913
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of natural gas properties and other equipment	**(11,077)**	(3,409)	(851)
Proceeds from sale of vehicle	**2**	–	–
Increase in trade and other payables	**4,288**	479	107
Net cash used in investing activities	**(6,787)**	(2,930)	(744)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from rights issue	**–**	18,087	–
Proceeds from exercise of options	**25**	17	87
Net cash flow from financing activities	**25**	18,104	87
(Decrease)/Increase in cash and cash equivalents	**(5,942)**	16,098	256
Cash and cash equivalents at the beginning of the period	**20,678**	4,580	3,198
Cash and cash equivalents at the end of the period	**14,736**	20,678	3,454

See accompanying notes to the interim consolidated financial statements.

Statements of Changes in Shareholders' Equity (unaudited)

ORCA EXPLORATION GROUP INC. (formerly EastCoast Energy Corporation)

(thousands of US dollars)	Capital stock	Capital reserve	Accumulated (loss)/income	Total
Note	*3*			
Balance as at 31 December 2005	16,237	764	(339)	**16,662**
Rights issue net of share issue costs	18,087	–	–	**18,087**
Options exercised	145	–	–	**145**
Profit for the year	–	–	2,577	**2,577**
Stock–based compensation	–	418	–	**418**
Balance as at 31 December 2006	34,469	1,182	2,238	**37,889**
Options exercised	25	–	–	**25**
Profit for the period	–	–	128	**128**
Stock-based compensation	–	53	–	**53**
Stock-based compensation forfeiture	–	(112)	–	**(112)**
Balance as at 31 March 2007	**34,494**	**1,123**	**2,366**	**37,983**

See accompanying notes to the interim consolidated financial statements.

Notes to the Consolidated Financial Statements

Basis of preparation

The interim consolidated financial statements are measured and presented in US dollars as the main operating cash flows are linked to this currency through the commodity price.

The same accounting policies and methods of computation have been followed as the consolidated financial statements at 31 December 2006. The interim consolidated financial statements for the three months ended 31 March 2007 should be read in conjunction with the audited financial statements and related notes for the year ended 31 December 2006.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Statement of Compliance

These interim consolidated financial statements of Orca Exploration Group Inc ("Orca Exploration" or the "Company" (formerly EastCoast Energy Corporation) including comparatives, have been prepared in accordance with IAS 34 of the International Financial Reporting Standards ("IFRS") and interpretations issued by the Standing Interpretations Committee of the IASB.

These principles may differ in certain respects from those in Canada. These differences are summarised in note 4.

1 TAXATION

As at 31 March 2007, 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 recognised for the quarter ended 31 March 2007.

	THREE MONTHS ENDED		
Figures in US$'000	31 Mar 2007	31 Dec 2006	31 Mar 2006
Profit before taxation	**430**	1,606	266
Provision for income tax calculated at the statutory rate of 30%	**129**	482	80
Add/(deduct) the tax effect of non-deductible income tax items:			
Other income	**(29)**	(3)	(5)
Administrative and operating expenses	**143**	50	53
Stock based compensation	**19**	24	29
Other	**40**	28	26
	302	**581**	**183**
The tax charge may be analysed as follows:			
Current tax	**180**	219	70
Deferred tax	**122**	362	113
	302	**581**	**183**

The deferred income tax liability is based on the following timing differences:

Figures in US$'000	31 Mar 2007	31 Dec 2006	31 Mar 2006
Differences between tax base and carrying value of natural gas properties	**1,172**	992	575
Income tax grossed-up in revenue	**455**	451	76
Provision for stock appreciation rights	**(180)**	(135)	–
Additional profits tax	**(96)**	(79)	(32)
	1,351	1,229	619

2 NATURAL GAS PROPERTIES AND OTHER EQUIPMENT

Figures in US$'000	Natural gas properties	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
Costs						
As at 1 January 2007	21,701	156	63	65	41	22,026
Additions	11,045	–	28	4	–	11,077
Disposals	–	–	–	(5)	–	(5)
As at 31 March 2007	**32,746**	**156**	**91**	**64**	**41**	**33,098**
Depletion/Depreciation						
As at 1 January 2007	2,880	94	42	33	26	3,075
Charge for the period	915	13	6	5	2	941
Accumulated depreciation on disposal	–	–	–	(3)	–	(3)
As at 31 March 2007	**3,795**	**107**	**48**	**35**	**28**	**4,013**
Net Book Values						
At 31 March 2007	**28,951**	**49**	**43**	**29**	**13**	**29,085**
At 31 December 2006	18,821	62	21	32	15	18,951

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$123.8 million will be required to bring the total proved reserves to production.

3 CAPITAL STOCK

Number of shares (thousands)	Authorised	Issued	Valuation at par value
CLASS A			
As at 31 December 2006 and 31 March 2007	**50,000**	**1,751**	**983**
CLASS B			
As at 31 December 2006	50,000	25,023	33,486
Stock options exercised	–	30	25
Normal course issuer bid	–	–	–
As at 31 March 2007	**50,000**	**25,053**	**33,511**
Total Class A and Class B as at 31 March 2007	**100,000**	**26,804**	**34,494**

All of the issued capital stock is fully paid. In January 2007, the Company initiated a normal course issuer bid to purchase up to 1,085,379 Class B shares between 31 January 2007 and 31 December 2007, subject to a maximum usage of US$2.2 million of funds. As at 31 March 2007 no shares had been repurchased under the issuer bid.

Stock Options

The table below details the outstanding share options and the movements for the three months ended 31 March 2007:

Thousands of options	Number of Options	Exercise Price (Cdn$)
Outstanding as at 1 January 2007	**2,022**	**1.00 to 6.80**
Granted	300	8.00
Forfeited	(200)	6.80
Exercised	(30)	1.00
Outstanding as at 31 March 2007	**2,092**	**1.00 to 8.00**

The weighted average remaining life and weighted average exercise prices of options at 31 March 2007 were as follows:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
Exercise Price (Cdn$)	Number Outstanding as at 31 March 2007	Weighted Average Remaining Contractual Life	Exercise Price (Cdn$)	Number Exercisable as at 31 March 2007	Weighted Average Exercise Price (Cdn$)
1.00	1,792	7.4	1.00	1,792	1.00
8.00	300	4.7	8.00	–	8.00

The stock option plan provides for the granting of stock options to directors, officers and employees. The exercise price of each stock option is determined as the closing market price of the common shares on the day prior to the day of grant. Each stock option granted permits the holder to purchase one common share at the stated exercise price. In accordance with IFRS2, the Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture.

On 14 January 2007, the Company issued 300,000 options to a newly appointed officer at a price of Cdn$8.00 per option. These options have a term of 5 years and vest in three equal annual instalments starting on 14 January 2008. In the valuation of these stock options the following assumptions have been made: risk free rate of interest equal to 3.75%, stock volatility 60% with a 33% level of forfeiture. A charge of US$53,000 has been recognised in the income statement for the period ended 31 March 2007.

Stock Appreciation Rights

Thousands of stock appreciation rights	Options	Price (Cdn$)
Outstanding as at 1 January 2007 (i)	400	4.00
Granted (ii)	300	8.70
Granted (ii)	300	8.00
Outstanding as at 31 March 2007	1,000	4.00 to 8.70

(i) Maximum liability of Cdn$1.2 million

(ii) No maximum liability

On 2 January 2007, the Company issued 300,000 stock appreciation rights to a consultant at an exercise price of Cdn$8.70 per right. These stock appreciation rights have a term of 5 years and vest in three equal annual installments starting on 2 January 2008. A further 300,000 stock appreciation rights were issued on the 14 January 2007 to a newly appointed officer at an exercise price of Cdn$8.00 per right. These stock appreciation rights have a term of 5 years and vest in three equal annual installments starting on 14 January 2008. There is no profit cap associated with the stock appreciation rights granted during the quarter.

In accordance with IFRS2, the Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in the balance sheet. In the valuation of these stock appreciation rights the following assumptions have been made: the risk free rate of interest equal to 3.75%, stock volatility 60% with a 33% level of forfeiture.

4 RECONCILIATION TO CANADIAN GAAP

The consolidated financial statements have been prepared in accordance with the IFRS basis of accounting, which differ in some respects from those in Canada. Any difference in accounting principles as they pertain to the accompanying Consolidated Financial Statements were immaterial except as described below:

a) Taxation

On 31 August 2004, the Company was spun off from a predecessor company pursuant to a scheme of arrangement. Under Canadian GAAP, a deferred tax liability has to be recognised for the taxable temporary differences arising from the initial recognition of an asset or liability under any scenario. IFRS does not permit the setting up of a deferred tax liability for all taxable temporary differences arising from the initial recognition of an asset or liability except in a business combination.

b) Stock-based compensation

The Company's prior year bonus scheme incorporates stock appreciation rights ("rights") that have a maximum pay out of Cdn$1.2 million. During the quarter a further 600,000 stock appreciation rights have been granted. Under IFRS as these rights are a cash-settled share-based transaction the fair value of the rights is calculated using a Black-Scholes option pricing model every reporting period. Under Canadian GAAP, the fair value is calculated using the intrinsic value method whereby the rights are valued at the market price less the rights price at each reporting period. Under both IFRS and Canadian GAAP, the fair value is expensed over the service period of the rights.

The application of Canadian GAAP would have the following effect on the balance sheet:

	31-Mar-07		31-Dec-06	
	IAS	CDN	IAS	CDN
Current assets	**20,449**	**20,449**	24,953	24,953
Natural gas properties and other equipment	**29,085**	**30,688**	18,951	20,594
	49,534	**51,137**	43,904	45,547
Current liabilities	**9,879**	**9,765**	4,523	4,523
Non-current liabilities	**1,672**	**3,434**	1,492	3,266
Capital stock	**34,494**	**34,494**	34,469	34,469
Reserves	**3,489**	**3,444**	3,420	3289
	49,534	**51,137**	43,904	45,547
Profit before taxation	**430**	**516**	4,261	4,114

In Canada, three new Canadian accounting standards with respect to comprehensive income (CICA HB 1530), financial instruments – recognition and measurement (CICA HB 3855) and hedges (CICA HB 3865) were effective January 1, 2007. The new standards require a statement of comprehensive income comprised of net income plus other comprehensive income. The Company does not have any comprehensive income to report on the adoption of the new standards.

5 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. The Company has made a provision of US$25,000 for services provided on legal services during the quarter. The transactions with this related party were made at the exchange amount.

6 CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Capital Investment

During 2006 the Company committed to drilling a development well, SS-10 and to undertake some remedial Q1 2007. The development well SS-10 was spudded on 28 April 2007. A total of US$10.2 million has been incurred on these projects during the first quarter of 2007 and approximately US$7 million is expected to be incurred to complete SS-10 in Q2 2007.

The Company has committed to the installation of an additional pressure reduction station and the laying of 8 kilometers of new low pressure pipeline in the first half of 2007. This work is required to increase security of supply and to meet forecast increases in demand from both existing and new industrial customers. The work is estimated to cost US$2.2 million. By the end of the first quarter of 2007 a total of US$0.4 million had already been spent of the committed capital.

Shortfall Gas

Under the terms of the contracts with Kioo Ltd., Tanzania Breweries Ltd. and Karibu Textile Mills Ltd., the Company is liable to pay penalties in the event that there is a shortfall in the Additional Gas supply in excess of 5% of the contracted quantity. The penalties equate to the difference between the price of gas and an alternative feedstock multiplied by the notional daily quantities. The maximum penalty for shortfall gas is a total of US$1.1 million for these three contracts and the remedy is payable as a credit against future monthly invoices.

Protected Gas

Under the terms of the PSA, in the event that there is a shortfall 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 (9.0 bcf as at 31 March 2006). The Company is actively monitoring the reservoir and does not anticipate that a liability will occur in this respect. However, Songas has the right to request reasonable security on all Additional Gas sales.

Songas has written to the Company confirming that, subject to certain conditions, security will not be required for the supply of Additional Gas to the Ubungo Power Plant, for the supply of up to 15 mmscf/d for additional power generation and up to 10 mmscf/d for the industrial sector for a period of five years. As the current emergency power generation operating in the country could take demand above 15 mmscf/d for power generation, Songas has confirmed that the Company may sell 17 mmscf/d for power generation over the next two years without the need for security.

The Company is looking to agree a security mechanism with Songas that provides clear guidance as to how Songas will operate their rights to security. It is anticipated that, under certain circumstances, the Company and TPDC may have to allocate a proportion of the Additional Gas revenues to an escrow account, in the event of a forecast Protected Gas insufficiency. It is forecast that the principle terms of the security mechanism will be finalised by the end of Q2 2007.

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future wells including SS-10 in return for a 20% increase in the profit share for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% and this is reflected in the Company's net reserve position. However, the financial statements do not take account of any re-imbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Office

The Company has a five year rental agreement that expires on 30 November 2007 for the use of the offices in Dar es Salaam at a cost of approximately US$102,000 per annum.

Management expects to fund its committed capital investments in 2007 from the proceeds of the rights issue received on 29 December 2006 and cash generated from operations.

7 POST BALANCE SHEET EVENTS

On 7 April 2007 200,000 Class B shares were awarded to a newly appointed officer of the Company. These shares are currently held in escrow. They vest to the officer in three equal annual instalments starting 7 April 2007. At the time the shares were awarded they had a market value of Cdn$1.7 million.

Corporate Information

BOARD OF DIRECTORS

W. DAVID LYONS
Non-Executive
Chairman
Winchester
United Kingdom

PETER R. CLUTTERBUCK
President & Chief
Executive Officer
Haslemere
United Kingdom

NIGEL A. FRIEND
Chief Financial Officer
London
United Kingdom

JOHN PATTERSON
Non-Executive Director
Nanoose Bay
Canada

DAVID W. ROSS
Non-Executive Director
Calgary
Canada

JAMES SMITH
Vice President Exploration
Hurst
United Kingdom

OFFICERS

PIERRE RAILLARD
Vice President, Operations
Tanzania

DAVID W. ROSS
Company Secretary

OPERATING OFFICE

ORCA EXPLORATION GROUP INC.
Barclays House, 5th Floor
Ohio Street, P.O. Box 80139
Dar es Salaam
Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

REGISTERED OFFICE

ORCA EXPLORATION GROUP INC.
P.O. Box 3152, Road Town
Tortola
British Virgin Islands

INVESTOR RELATIONS

NIGEL A. FRIEND
Chief Financial Officer
Tel: + 255 22 2138737
nfriend@orcaexploration.com
www.orcaexploration.com

INTERNATIONAL SUBSIDIARIES

PanAfrican Energy Tanzania Limited

Barclays House, 5th Floor
Ohio Street, P.O. Box 80139
Dar es Salaam
Tanzania
Tel: + 255 22 2138737
Fax: + 255 22 2138938

PAE PanAfrican Energy Corporation

1st Floor
Cnr St George/Chazal Streets
Port Louis
Mauritius
Tel: + 230 207 8888
Fax: + 230 207 8833

ENGINEERING CONSULTANTS

McDaniel & Associates
Consultants Ltd.
Calgary
Canada

AUDITORS

KPMG LLP
Calgary
Canada

LAWYERS

Burnet, Duckworth
& Palmer LLP
Calgary
Canada

TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, Montreal
and Calgary,
Canada

EXPLORATION

www.orcaexploration.com