Consolidated Income Statements *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars except per share amounts)	NOTE	THREE MONTHS ENDED 30-JUN 2008	THREE MONTHS ENDED 31-MAR 2008	THREE MONTHS ENDED 30-JUN 2007	SIX MONTHS ENDED 30-JUN 2008	SIX MONTHS ENDED 30-JUN 2007
Revenue		**4,826**	5,284	3,021	**10,110**	6,852
Cost of sales						
Production and distribution expenses		**(457)**	(276)	(261)	**(733)**	(525)
Depletion expense		**(776)**	(1,406)	(630)	**(2,182)**	(1,545)
Impairment of exploration and evaluation assets	*2*	**(9,520)**	–	–	**(9,520)**	–
		(5,927)	3,602	2,130	**(2,325)**	4,782
Administrative expenses		**(3,918)**	(3,095)	(2,704)	**(7,013)**	(4,952)
Net financing income/(charges)		**135**	(237)	50	**(102)**	76
(Loss)/profit before taxation		**(9,710)**	270	(524)	**(9,440)**	(94)
Taxation	*1*	**(498)**	(413)	(84)	**(911)**	(386)
Loss after taxation		**(10,208)**	(143)	(608)	**(10,351)**	(480)
(Loss) per share						
Basic *(US$)*		**(0.34)**	–	(0.02)	**(0.35)**	(0.02)
Diliuted *(US$)*		**(0.33)**	–	(0.02)	**(0.33)**	(0.02)

See accompanying notes to the interim consolidated financial statements.

Consolidated Balance Sheets *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars)	NOTE	30-JUN 2008	31-MAR 2008	31-DEC 2007
ASSETS				
Current assets				
Cash and cash equivalents		**11,924**	12,521	16,515
Trade and other receivables		**7,227**	7,297	8,236
		19,151	19,818	24,751
Exploration and evaluation assets	*2*	–	7,300	6,881
Property, plant and equipment	*3*	**61,589**	60,752	61,157
		61,589	68,052	68,038
		80,740	87,870	92,789
LIABILITIES				
Current liabilities				
Trade and other payables		**13,057**	11,521	17,452
Non current liabilities				
Deferred income taxes	*1*	**4,116**	3,618	3,205
Deferred additional profits tax		**743**	678	588
SHAREHOLDERS' EQUITY				
Capital stock	*4*	**66,537**	66,537	66,538
Capital reserve		**2,655**	1,676	1,023
Accumulated (loss)/income		**(6,368)**	3,840	3,983
		62,824	72,053	71,544
		80,740	87,870	92,789

Contractual obligations and committed capital investment (Note 7)
See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Cash Flows *(unaudited)*

ORCA EXPLORATION GROUP INC.

(thousands of US dollars)	THREE MONTHS ENDED 30-JUN 2008	31-MAR 2008	30-JUN 2007	SIX MONTHS ENDED 30-JUN 2008	30-JUN 2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss after taxation	**(10,208)**	(143)	(608)	**(10,351)**	(480)
Adjustment for					
Depletion and depreciation	**794**	1,422	661	**2,216**	1,602
Impairment of exploration and evaluation assets	**9,520**	–	–	**9,520**	–
Stock-based compensation	**978**	654	799	**1,632**	740
Deferred income taxes	**498**	413	343	**911**	465
Deferred additional profits tax	**65**	90	56	**155**	114
Interest income	**(28)**	(45)	(256)	**(73)**	(273)
	1,619	2,391	995	**4,010**	2,168
Decrease/(increase) in trade and other receivables	**70**	939	782	**1,009**	(656)
(Increase) in inventory	**–**	–	(2,847)	**–**	(2,847)
Increase/(decrease) in trade and other payables	**2,877**	(2,494)	1,937	**383**	3,007
Net cash flows from operating activities	**4,566**	836	867	**5,402**	1,672
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures	**(2,220)**	(419)	(765)	**(2,639)**	(765)
Property, plant and equipment expenditures	**(1,631)**	(1,017)	(14,224)	**(2,648)**	(25,301)
Interest income	**28**	45	256	**73**	273
(Decrease)/increase in trade and other payables	**(1,340)**	(3,437)	6,613	**(4,777)**	10,901
Net cash used in investing activities	**(5,163)**	(4,828)	(8,120)	**(9,991)**	(14,892)
CASH FLOWS FROM FINANCING ACTIVITIES					
Normal course issuer bid	**–**	(2)	–	**(2)**	–
Proceeds from exercise of options	**–**	–	118	**–**	143
Net cash flow (used in)/from financing activities	**–**	(2)	118	**(2)**	143
Decrease in cash and cash equivalents	**(597)**	(3,994)	(7,135)	**(4,591)**	(13,077)
Cash and cash equivalents at the beginning of the period	**12,521**	16,515	14,736	**16,515**	20,678
Cash and cash equivalents at the end of the period	**11,924**	12,521	7,601	**11,924**	7,601

See accompanying notes to the interim consolidated financial statements.

Statement of Changes in Shareholders' Equity *(unaudited)*

(thousands of US dollars)	CAPITAL STOCK	CAPITAL RESERVE	ACCUMULATED INCOME/(LOSS)	TOTAL
Note	*4*			
Balance as at 1 January 2007	34,469	1,182	2,238	**37,889**
Shares issued	1,605	(945)	–	**660**
Options exercised	143	–	–	**143**
Stock-based compensation	–	80	–	**80**
Loss for the period	–	–	(480)	**(480)**
Balance as at 30 June 2007	36,217	317	1,758	**38,292**

(thousands of US dollars)	CAPITAL STOCK	CAPITAL RESERVE	ACCUMULATED INCOME/(LOSS)	TOTAL
Note	*4*			
Balance as at 1 January 2008	66,538	1,023	3,983	**71,544**
Stock-based compensation	–	1,632	–	**1,632**
Normal course issuer bid	(1)	–	–	**(1)**
Loss for the period	–	–	(10,351)	**(10,351)**
Balance as at 30 June 2008	**66,537**	**2,655**	**(6,368)**	**62,824**

See accompanying notes to the interim consolidated financial statements.

Notes to the Consolidated Financial Statements *(unaudited)*

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 2007. The interim consolidated financial statements for the three and six months ended 30 June 2008 should be read in conjunction with the audited financial statements and related notes for the year ended 31 December 2007.

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

STATEMENT OF COMPLIANCE

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

These principles may differ in certain respects from those in Canada. These differences are summarised in note 5.

[1] TAXATION

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

The tax charge is as follows:

	THREE MONTHS ENDED			SIX MONTHS ENDED	
Figures in US$'000	30-JUN 2008	31-MAR 2008	30-JUNE 2007	30-JUN 2008	30-JUN 2007
Current tax	–	–	(259)	–	(79)
Deferred tax	**498**	413	343	**911**	465
	498	413	84	**911**	386

TAX RATE RECONCILIATION

	THREE MONTHS ENDED			SIX MONTHS ENDED	
Figures in US$'000	30-JUN 2008	31-MAR 2008	30-JUNE 2007	30-JUN 2008	30-JUN 2007
(Loss)/profit before taxation	**(9,710)**	270	(524)	**(9,440)**	(94)
Provision for income tax calculated at the statutory rate of 30%	**(2,913)**	81	(157)	**(2,832)**	(28)
Add/(deduct) the tax effect of non-deductable income tax items					
Administrative and operating expenses	**3,160**	160	123	**3,320**	266
Stock based compensation	**213**	145	200	**358**	219
Other income	**(13)**	–	(19)	**(13)**	(48)
Permanent differences	**51**	27	(63)	**78**	(23)
	498	413	84	**911**	386

As at 30 June 2008 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 30 June 2008. The deferred income tax liability includes the following temporary differences:

	AS AT		
Figures in US$'000	30-JUN 2008	31-MAR 2008	31-DEC 2007
Differences between tax base and carrying value of property, plant and equipment	**4,913**	4,116	3,542
Provision for stock option bonuses	**(2)**	(169)	(360)
Income tax recoverable	**178**	181	230
Other liabilities	**(77)**	(75)	(31)
Additional profit tax	**(222)**	(203)	(176)
Tax losses	**(674)**	(232)	–
	4,116	3,618	3,205

[2] EXPLORATION AND EVALUATION ASSETS

Figures in US$'000	UGANDA
Costs	
As at 1 January 2008	**6,881**
Additions - Q1	**419**
Additions - Q2	**2,220**
As at 30 June 2008	**9,520**
Depletion/Depreciation	
As at 1 January 2008	–
Impairment	**(9,520)**
As at 30 June 2008	**(9,520)**
Net Book Values	
As at 30 June 2008	–
As at 31 December 2007	**(6,881)**

General administrative expenses of US$0.4 million have been capitalized in the quarter.

Subsequent to quarter end, the Company announced that it will not exercise its option to secure a 50 % working interest in Exploration Area 5 in Uganda. As at 30 June 2008, the Company had incurred a total of US$9.5 million in respect of the Ugandan programme. This amount has been written off in full in these Q2 2008 financial statements.

[3] PROPERTY, PLANT AND EQUIPMENT

(Figures in US'000)	TANZANIA	LEASEHOLD IMPROVEMENTS	COMPUTER EQUIPMENT	VEHICLES	FIXTURES & FITTINGS	TOTAL
Costs						
As at 1 January 2008	68,362	156	164	139	41	68,862
Additions - Q1	1,017	–	–	–	–	1,017
Additions - Q2	1,631	–	–	–	–	1,631
Disposals	–	–	–	(21)	–	(21)
As at 30 June 2008	**71,010**	**156**	**164**	**118**	**41**	**71,489**
Depletion/Depreciation						
As at 1 January 2008	7,356	156	84	68	41	7,705
Charge for the period - Q1	1,406	–	7	9	–	1,422
Charge for the period - Q2	776	–	9	9	–	794
Depreciation on disposals	–	–	–	(21)	–	(21)
As at 30 June 2008	**9,538**	**156**	**100**	**65**	**41**	**9,900**
Net Book Values						
As at 30 June 2008	**61,472**	**–**	**64**	**53**	**–**	**61,589**
As at 31 December 2007	61,006	–	80	71	–	61,157

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.

[4] CAPITAL STOCK

Number of shares (thousands)	AUTHORISED	ISSUED	VALUATION AT PAR VALUE
CLASS A			
As at 31 December 2007 and 30 June 2008	**50,000**	**1,751**	**983**
CLASS B			
As at 31 December 2007	50,000	27,863	65,555
Normal course issuer bid	–	–	(1)
As at 30 June 2008	**50,000**	**27,863**	**65,554**
Total Class A and Class B as at 30 June 2008	**100,000**	**29,614**	**66,537**

All of the issued capital stock is fully paid. In April 2007, 200,000 Class B shares were awarded to a newly appointed officer. These shares are held in escrow and vest to the officer in three equal instalments starting 7 April 2007. At the time the shares were awarded they had a market value of Cdn$ 1.7 million.

Stock options

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

The table below details the outstanding share options and the movements for the six months ended 30 June 2008:

Number of options (thousands)	NUMBER OF OPTIONS	EXERCISE PRICE (CDN$)
Outstanding as at 31 December 2007 and 30 June 2008	**2,847**	**1.00 to 13.55**

The weighted average remaining life and weighted average exercise price of options at 30 June 2008 were as follows:

EXERCISE PRICE	NUMBER OUTSTANDING AS AT 30 JUNE 2008	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER EXERCISABLE AS AT 30 JUNE 2008	WEIGHTED AVERAGE EXERCISE PRICE
(Cdn$)				*(Cdn$)*
1.00	1,662	6.40	**1,662**	1.00
8.70 to 13.55	1,185	3.92	**320**	11.57

Stock Appreciation Rights

Number of stock appreciation rights (thousands)	RIGHTS	EXERCISE PRICE (CDN$)
Outstanding as at 1 January 2008	**1,090**	**4.00 to 13.55**
Exercised (i)	(227)	4.00
Granted (ii)	105	11.00
Outstanding as at 30 June 2008	**968**	**4.00 to 13.55**

(i) A total of 227,500 stock appreciation rights were exercised in Q1 2008. The appreciation on these rights were capped at Cdn$3.00 per right with an exercise price of Cdn$4.00.

(ii) A total of 105,000 stock appreciation rights were issued in February 2008 with an exercise price of Cdn$11.00. These stock appreciation rights have a maximum liability of Cdn$3.00 per right.

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 4.0 %, stock volatility 51 % with a level of forfeitures between 0 % and 33 %.

As at 30 June 2008 a total liability of US$1.33 million had been recognized in relation to the stock appreciation rights and is recorded in trade and other payables.

[5] RECONCILIATION TO CANADIAN GAAP

The consolidated financial statements have been prepared in accordance with IFRS, which differ in some respects from Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). 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

There were 968,000 stock appreciation rights outstanding as at 30 June 2008 (see note 4). 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 quoted 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:

	30-JUN 2008		31-DEC 2007	
Figures in US$'000	IFRS	CDN	IFRS	CDN
Current assets	**19,151**	**19,151**	24,751	24,751
Exploration and evaluation assets	–	–	6,881	
Property, plant and equipment	**61,589**	**63,100**	61,157	69,500
	80,740	**82,251**	92,789	94,251
Current liabilities	**13,057**	**12,106**	17,452	17,187
Non current liabilities	**4,859**	**6,594**	3,793	5,541
Capital stock	**66,537**	**66,537**	66,538	66,538
Reserves	**(3,713)**	**(2,986)**	5,006	4,985
	80,740	**82,251**	92,789	94,251
(Loss)/profit before taxation	**(10,208)**	**(9,521)**	3,775	3,886

[6] RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. The Company has made a provision of US$50,000 for legal services provided during the quarter. The transactions with this related party were made at the exchange amount.

[7] CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

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 (17.4 Bcf as at 30 June 2008). 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 year 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 in the long term 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.

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 reimbursement for the SS-10 capital expenditure, pending the finalisation of the terms of the 'back in'.

Operating leases

The Company has entered into a five year rental agreement that expires on 30 November 2012 at a cost of approximately US$102,000 per annum for the use of offices in Dar es Salaam.

Corporate Information

Board of Directors

W. DAVID LYONS
Non-Executive Chairman
St. Helier
Jersey

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 ROSS
Non-Executive Director
Calgary
Canada

JAMES SMITH
Vice President Exploration
Hurst
United Kingdom

Officers

PIERRE RAILLARD
Vice President Operations

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

ORCA EXPLORATION (VENTURES) INC.
ORCA EXPLORATION UGANDA (HOLDING) INC.
ORCA EXPLORATION UGANDA INC
P.O. Box 3152
Road Town
Tortola
British Virgin Islands

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
TRUST COMPANY
Toronto, Montreal
and Calgary
Canada