

## Consolidated Income Statements *(unaudited)*

	NOTE	THREE MONTHS ENDED		NINE MONTHS ENDED	
		30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(thousands of US dollars except per share amounts)</i>					
<b>Revenue</b>		<b>7,536</b>	7,301	<b>17,480</b>	17,411
<b>Cost of sales</b>					
Production and distribution expenses		<b>(997)</b>	(391)	<b>(1,898)</b>	(1,124)
Depletion expense		<b>(1,199)</b>	(1,554)	<b>(2,861)</b>	(3,736)
Impairment of exploration and evaluation assets	2	-	-	-	(9,520)
		<b>5,340</b>	5,356	<b>12,721</b>	3,031
Administrative expenses		<b>(2,647)</b>	(3,821)	<b>(8,633)</b>	(10,834)
Net financing income/(charges)		<b>(11)</b>	74	<b>(5)</b>	(28)
<b>Profit/(loss) before taxation</b>		<b>2,682</b>	1,609	<b>4,083</b>	(7,831)
Taxation	1	<b>(1,133)</b>	(793)	<b>(2,323)</b>	(1,704)
<b>Profit/(loss) after taxation</b>		<b>1,549</b>	816	<b>1,760</b>	(9,535)
<b>Profit/(loss) per share</b>					
Basic and diluted <i>(US\$)</i>		<b>0.05</b>	0.03	<b>0.06</b>	(0.32)

See accompanying notes to the interim consolidated financial statements.

## Consolidated Balance Sheets *(unaudited)*

<i>(thousands of US dollars)</i>	NOTE	30-Sep 2009	31-Dec 2008
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		9,703	10,586
Trade and other receivables		11,098	13,196
		<b>20,801</b>	23,782
Exploration and evaluation assets	2	757	648
Property, plant and equipment	3	63,395	60,818
		<b>64,152</b>	61,466
		<b>84,953</b>	85,248
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		8,654	14,055
<b>Non current liabilities</b>			
Deferred income taxes	1	7,833	5,510
Deferred additional profits tax		1,307	971
		<b>17,794</b>	20,536
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	4	66,329	66,537
Capital reserve		4,610	3,715
Accumulated (loss)		(3,780)	(5,540)
		<b>67,159</b>	64,712
		<b>84,953</b>	85,248

Contractual obligations and committed capital investment (Note 7)

Post balance sheet event (Note 8)

See accompanying notes to the interim consolidated financial statements.

## Consolidated Statements of Cash Flows (unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>(thousands of US dollars)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Profit/(loss) after taxation</b>	<b>1,549</b>	816	<b>1,760</b>	(9,535)
Adjustment for:				
Depletion and depreciation	<b>1,230</b>	1,566	<b>2,947</b>	3,782
Impairment of exploration and evaluation assets	-	-	-	9,520
Stock-based compensation	<b>188</b>	502	<b>898</b>	2,134
Deferred income taxes	<b>1,133</b>	793	<b>2,323</b>	1,704
Deferred additional profits tax	<b>156</b>	107	<b>336</b>	262
Interest income	<b>(9)</b>	(11)	<b>(36)</b>	(84)
	<b>4,247</b>	3,773	<b>8,228</b>	7,783
(Increase)/decrease in trade and other receivables	<b>(2,061)</b>	(3,116)	<b>2,098</b>	(2,106)
(Decrease)/increase in trade and other payables	<b>(227)</b>	(294)	<b>(4,735)</b>	88
<b>Net cash flows from operating activities</b>	<b>1,959</b>	363	<b>5,591</b>	5,765
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Exploration and evaluation expenditures	<b>(3)</b>	(412)	<b>(109)</b>	(3,051)
Property, plant and equipment expenditures	<b>(1,990)</b>	(761)	<b>(5,524)</b>	(3,409)
Interest income	<b>9</b>	11	<b>36</b>	84
Increase/(decrease) in trade and other payables	<b>711</b>	53	<b>(666)</b>	(4,724)
<b>Net cash used in investing activities</b>	<b>(1,273)</b>	(1,109)	<b>(6,263)</b>	(11,100)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Normal course issuer bid	<b>(55)</b>	-	<b>(211)</b>	(2)
<b>Net cash flow used in financing activities</b>	<b>(55)</b>	-	<b>(211)</b>	(2)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>631</b>	(746)	<b>(883)</b>	(5,337)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>9,072</b>	11,924	<b>10,586</b>	16,515
<b>Cash and cash equivalents at the end of the period</b>	<b>9,703</b>	11,178	<b>9,703</b>	11,178

See accompanying notes to the interim consolidated financial statements.

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

<i>(thousands of US dollars)</i>	Capital stock	Capital reserve	Accumulated Income/(loss)	Total
<b>Balance as at 1 January 2008</b>	66,538	1,023	3,983	71,544
Stock-based compensation	-	2,134	-	2,134
Normal course issuer bid	(1)	-	-	(1)
Loss for the period	-	-	(9,535)	(9,535)
<b>Balance as at 30 September 2008</b>	<b>66,537</b>	<b>3,157</b>	<b>(5,552)</b>	<b>64,142</b>

<i>(thousands of US dollars)</i>	Capital stock	Capital reserve	Accumulated Income/(loss)	Total
<b>Note</b>	4			
<b>Balance as at 1 January 2009</b>	66,537	3,715	(5,540)	64,712
Stock-based compensation	-	898	-	898
Normal course issuer bid	(208)	(3)	-	(211)
Profit for the period	-	-	1,760	1,760
<b>Balance as at 30 September 2009</b>	<b>66,329</b>	<b>4,610</b>	<b>(3,780)</b>	<b>67,159</b>

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 audited consolidated financial statements at 31 December 2008. The interim consolidated financial statements for the nine months ended 30 September 2009 should be read in conjunction with the audited consolidated financial statements and related notes for the year ended 31 December 2008.

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 summarized 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		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Current tax	-	-	-	-
Deferred tax	1,133	793	2,323	1,704
	1,133	793	2,323	1,704

Tax Rate Reconciliation	THREE MONTHS ENDED		NINE MONTHS ENDED	
	30-Sep 2009	30-Sep 2008	30-Sep 2009	30-Sep 2008
<i>Figures in US\$ '000</i>				
Profit/(loss) before taxation	2,682	1,609	4,083	(7,831)
Provision for income tax calculated at the statutory rate of 30%	805	483	1,225	(2,349)
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	217	299	701	763
Stock based compensation	86	(12)	380	346
Other expenses / (income)	4	(5)	(43)	(18)
Impairment of exploration and evaluation assets	-	-	-	2,856
Permanent differences	21	28	60	106
	1,133	793	2,323	1,704

As at 30 September 2009 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 30 September 2009. The deferred income tax liability includes the following temporary differences:

<i>Figures in US'000</i>	As at 30-Sep 2009	As at 31-Dec 2008
Differences between tax base and carrying value of property, plant and equipment	8,859	6,338
Provision for stock option bonuses	-	(2)
Income tax recoverable	180	221
Other liabilities	(107)	(196)
Additional profits tax	(389)	(291)
Tax losses	(710)	(560)
	<b>7,833</b>	5,510

## 2 EXPLORATION AND EVALUATION ASSETS

*Figures in US'000*

	Tanzania
<b>Costs</b>	
As at 1 January 2009	648
Additions	109
<b>As at 30 September 2009</b>	<b>757</b>
<b>Depletion/Depreciation</b>	
As at 1 January 2009	-
<b>As at 30 September 2009</b>	<b>-</b>
<b>Net Book Values</b>	
<b>As at 30 September 2009</b>	<b>757</b>
As at 31 December 2008	648

### Tanzania

The exploration and evaluation asset relates to initial evaluation of the Songo Songo West prospect which is pending the determination of proven and probable reserves. There were no general administrative costs capitalized in the quarter (Q3 2008: US\$ nil).

### 3 PROPERTY, PLANT AND EQUIPMENT

<i>Figures in US'000</i>	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
<b>Costs</b>						
As at 1 January 2009	72,732	185	207	122	52	73,298
Additions	5,159	35	225	65	40	5,524
Disposal	-	-	-	(20)	-	(20)
<b>As at 30 September 2009</b>	<b>77,891</b>	<b>220</b>	<b>432</b>	<b>167</b>	<b>92</b>	<b>78,802</b>
<b>Depletion/Depreciation</b>						
As at 1 January 2009	12,072	156	126	85	41	12,480
Charge for period	2,861	6	49	27	3	2,946
Depreciation on disposal	-	-	-	(19)	-	(19)
<b>As at 30 September 2009</b>	<b>14,933</b>	<b>162</b>	<b>175</b>	<b>93</b>	<b>44</b>	<b>15,407</b>
<b>Net Book Values</b>						
<b>As at 30 September 2009</b>	<b>62,958</b>	<b>58</b>	<b>257</b>	<b>74</b>	<b>48</b>	<b>63,395</b>
As at 31 December 2008	60,660	29	81	37	11	60,818

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US\$86.1 million (Q3 2008: US\$123.8 million) will be required to bring the total proved reserves to production. There were no capitalized general administrative costs during the quarter (Q3 2008: US\$ nil).

### 4 CAPITAL STOCK

<i>Number of shares (thousands)</i>	Authorized	Issued	Par value
<b>CLASS A</b>			
<b>As at 31 December 2008 and 30 September 2009</b>	50,000	1,751	983
<b>CLASS B</b>			
As at 31 December 2008	50,000	27,863	65,554
Normal course issuer bid	-	(93)	(208)
<b>As at 30 September 2009</b>	<b>50,000</b>	<b>27,770</b>	<b>65,346</b>
<b>Total Class A and Class B as at 30 September 2009</b>	<b>100,000</b>	<b>29,521</b>	<b>66,329</b>

All of the issued capital stock is fully paid. In February 2009, a total of 75,000 shares were repurchased at Cdn\$2.60 under the normal course issuer bid, with a further 18,000 shares repurchased during the quarter at an average price of Cdn\$3.40.

## 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 IFRS 2, 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 nine months ended 30 September 2009:

<i>Thousands of options or Cdn\$</i>	<b>Options</b>	<b>Exercise Price</b>
Outstanding as at 31 December 2008	2,814	1.00 to 13.55
Forfeited	(17)	12.00
Outstanding as at 30 September 2009	2,797	1.00 to 13.55

The weighted average remaining life and weighted average exercise price of options at 30 September 2009 were as follows:

<b>Exercise Price (Cdn\$)</b>	<b>Number Outstanding as at 30 September 2009</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Number Exercisable as at 30 September 2009</b>	<b>Weighted Average Exercise Price (Cdn\$)</b>
1.00	1,662	4.92	1,662	1.00
8.00 - 13.55	1,135	2.61	698	11.36

## Stock Appreciation Rights

<i>Thousands of stock appreciation rights or Cdn\$</i>	<b>Options</b>	<b>Exercise Price</b>
Outstanding as at 31 December 2008 and 30 September 2009	810	5.30 to 13.55

- (i) A total of 705,000 stock appreciation rights have a term of five years and vest in three equal instalments, the first third vesting on the anniversary of the grant date. There is no maximum liability associated with these rights.
- (ii) A total of 105,000 capped 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 IFRS 2, 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 2.05%, stock volatility 122% with a level of forfeitures between 0% and 33%.

As at 30 September 2009, a total liability of US\$0.5 million had been recorded in trade and other payables in respect of the outstanding stock appreciation rights.

**Shareholders' Equity and Outstanding Share Data**

<i>Number of shares ('000)</i>	<b>As at 30-September 2009</b>	<b>As at 31 December 2008</b>
<b>Shares outstanding</b>		
Class A shares	<b>1,751</b>	1,751
Class B shares	<b>27,770</b>	27,863
	<b>29,521</b>	29,614
<b>Convertible securities</b>		
Stock options	<b>2,797</b>	2,814
<b>Diluted Class A and Class B shares</b>	<b>32,318</b>	32,428
<b>Weighted average</b>		
Class A and Class B shares	<b>29,554</b>	29,614
<b>Convertible securities</b>		
Stock options	<b>1,167</b>	1,425
<b>Weighted average diluted Class A and Class B shares</b>	<b>30,721</b>	31,039

**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 recognized 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 810,000 stock appreciation rights outstanding as at 30 September 2009 (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.

**c) Exploration and evaluation assets**

Under IFRS 6 there is a requirement for separate disclosure of costs associated with exploration and evaluation assets. There is no such requirement under Canadian GAAP and the costs are aggregated within property, plant and equipment.

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

<i>Figures in US\$ '000</i>	30-Sep 2009		31-Dec 2008	
	IFRS	CDN	IFRS	CDN
Current assets	20,801	20,801	23,782	23,782
Exploration and evaluation assets	757	-	648	-
Property, plant and equipment	63,395	65,644	60,818	63,010
	84,953	86,445	85,248	86,792
Current liabilities	8,654	8,127	14,055	13,899
Non current liabilities	9,140	10,868	6,481	8,226
Capital stock	66,329	66,329	66,537	66,537
Reserves	830	1,121	(1,825)	(1,870)
	84,953	86,445	85,248	86,792
<b>Profit/(loss) before taxation</b>	<b>4,083</b>	<b>4,416</b>	<b>(7,056)</b>	<b>(7,140)</b>

## 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\$37,500 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

### Capital Investment

#### Re-rating of the Songas processing plant

Orca Exploration paid Songas US\$0.5 million on the successful completion and operation of the gas processing facilities at 90 MMcfd and is committed to paying a further US\$0.5 million on the first anniversary of the successful completion of the project. The gas processing plant was re-rated from 70 MMcfd to 90 MMcfd by Lloyds Register in January 2009. The re-rating was approved by Songas in Q1 2009.

## Contractual Obligations

### Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US\$0.55/Mmbtu) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (30.7 Bcf as at 30 September 2009).

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

### Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development by contributing 20% of the costs of the future wells including SS-10 in return for a 20% increase in the profit share percentage for the production emanating from these wells. The implications and workings of the 'back in' are still to be discussed in detail with TPDC and there may be the need for reserve modifications once these discussions are concluded. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% for all future development and this is reflected in the Company's net reserve position. 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 two five year rental agreements that expire on 30 November 2012 and 30 November 2013 respectively at a cost of approximately US\$0.2 million per annum for the use of offices in Dar es Salaam.

## 8 POST BALANCE SHEET EVENT

On 10 November 2009, the Company signed a Joint Bidding Agreement in relation to an exploration licence. In the event that the bid is successful, there will be a requirement to raise additional capital to finance the exploration work commitments.

## CORPORATE INFORMATION

Orca Exploration Group Inc.

### 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

Executive Vice President  
& Chief Financial Officer  
London  
United Kingdom

#### PIERRE RAILLARD

Vice President Operations  
Dar es Salaam  
Tanzania

#### JOHN PATTERSON

Non-Executive Director  
Nanoose Bay  
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#### DAVID ROSS

Non-Executive Director  
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Canada

#### JAMES SMITH

Vice President Exploration  
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### OPERATING OFFICE

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### AUDITORS

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Calgary  
Canada

### LAWYERS

#### BURNET, DUCKWORTH & PALMER LLP

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### TRANSFER AGENT

#### CIBC MELLON TRUST TRUST COMPANY

Toronto, Montreal  
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