ORCA EXPLORATION GROUP INC.

2012 Q1 Interim Report

ORCA EXPLORATION GROUP INC.

is an international public company engaged in hydrocarbon exploration, development and supply of gas in Tanzania and oil appraisal and gas exploration in Italy. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

3P Possible reserves are those additional reserves that are less certain to be recovered than probable resources. There is a 10 percent probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

FINANCIAL AND OPERATING HIGHLIGHTS

	THREE MONTHS ENDED OR AS AT		
Year ended/As at 31 December	**2011**	2010	Change
Financial *(US$000 except where otherwise stated)*			
Revenue	**17,207**	9,640	78%
Profit before taxation	**10,154**	4,030	152%
Operating netback *(US$/mcf)*	**2.55**	2.16	18%
Cash and cash equivalents	**30,635**	47,776	(36%)
Working capital	**47,063**	55,759	(16%)
Shareholders' equity	**113,051**	100,573	12%
Earnings per share – basic *(US$)*	**0.19**	0.07	171%
Earnings per share – diluted *(US$)*	**0.18**	0.07	157%
Funds flow from operating activities	**9,888**	4,947	100%
Funds per share from operating activities – basic *(US$)*	**0.28**	0.14	100%
Funds per share from operating activities – diluted *(US$)*	**0.28**	0.14	100%
Net cash flows from operating activities	**6,653**	3,496	90%
Net cash flows per share from operating activities – basic *(US$)*	**0.19**	0.10	90%
Net cash flows per share from operating activities – diluted *(US$)*	**0.19**	0.10	90%
Outstanding Shares *('000)*			
Class A shares	**1,751**	1,751	0%
Class B shares	**32,743**	32,939	(1%)
Options	**2,257**	2,557	(12%)
Operating			
Additional Gas sold *(MMcf)* – industrial	**835**	550	52%
Additional Gas sold *(MMcf)* – power	**3,973**	2,794	42%
Additional Gas sold *(MMcfd)* – industrial	**9.2**	6.1	51%
Additional Gas sold *(MMcfd)* – power	**43.7**	31.0	41%
Average price per mcf *(US$)* – industrial	**9.63**	9.42	2%
Average price per mcf *(US$)* – power	**2.72**	2.62	4%

Glossary

mcf	Thousands of standard cubic feet
MMcf	Millions of standard cubic feet
Bcf	Billions of standard cubic feet
Tcf	Trillions of standard cubic feet
MMcfd	Millions of standard cubic feet per day
MMbtu	Millions of British thermal units
HHV	High heat value
LHV	Low heat value
1P	Proven reserves
2P	Proven and probable reserves
3P	Proven, probable and possible reserves
Kwh	Kilowatt hour
MW	Megawatt
US$	US dollars
CDN$	Canadian dollars
bar	Fifteen pounds pressure per square inch

HIGHLIGHTS

- Increased sales of Additional Gas by 45% to 4.8 Bcf or 52.9 MMcfd (Q1 2011: 3.3 Bcf or 37.1 MMcfd). This resulted in operating revenue of US$17.2 million (Q1 2011: US$9.6 million).
- Increased funds from operations before working capital changes by 100% to US$9.9 million (Q1 2011: US$4.9 million).
- Working capital decreased by 16% in the last quarter to US$47.1 million (US$56.0 million as at 31 December 2011) as a consequence of significant capital expenditure on drilling operations.
- Continued drilling the SS-11 development well on Songo Songo Island, which has now been completed. A total of 352 meters of total gas reservoir was encountered and extensive new reservoir data was acquired during the drilling of the well. This will be evaluated during Q2 2012. The well will be connected to the gas processing plant later in the year.
- Deferred the drilling of a second development well, SS-12, pending the normalisation of TANESCO's payments arrears for gas.
- At the end of May, as operator, the Company will conduct corrosion logging on the offshore well SS-9 and has been independently advised that production can continue until these results have been analysed. The result will determine whether or not SS-9 can be kept on production until SS-11 is connected to the gas processing facilities later in the year.
- Continued to work on logistics to secure a jack up rig for the drilling of the exploration prospect, Songo Songo West, in Q4 2012. The rig is expected to be mobilised to Mozambique by another operator in Q3 2012.
- Commenced discussions with the Government Negotiation Team (GNT) to resolve the issues raised in 2011 by the Parliamentary Committee for Energy and Minerals in respect of the Company's Production Sharing Agreement.
- Continued to plan for the drilling of the La Tosca well in the Longastrino exploration block in the Po Valley, northern Italy (operated by Northern Petroleum Plc). Under the terms of the farm in agreement, Orca will earn between 70% and 75% of the block in return for financing the drilling and the testing of the well up to predefined caps. The well is expected to be spud in July 2012.

CHAIRMAN & CEO'S LETTER TO THE SHAREHOLDERS

2012 is a pivotal year for the Orca Exploration Group. Continuing global economic uncertainties and their impact on capital markets requires that we focus even more carefully on the business that shapes the Company. At the same time we are acutely aware of the critical role Orca plays within Tanzania to develop the country's natural gas resources and make them available to the country's power and industrial sectors to the ultimate benefit of all Tanzanians. To play its part in meeting that challenge Orca is moving forward to increase gas production from Songo Songo Island and is working closely with the Government of Tanzania and other Songo Songo stakeholders.

Orca has already taken the first steps in the US$130 million expansion program it announced last November. The drilling of the first development well SS-11 has now been completed on Songo Songo Island and negotiations are proceeding to have a jack-up rig available for the drilling of the Songo Songo West exploratory well later this year. The drilling of Orca's farm-in well in Italy is scheduled to begin in Q3 2012.

FINANCIAL RESULTS

Revenue grew by 78% to US$17.2 million in Q1 2012 (Q1 2011: US$9.6 million). The revenue increase was aided by strong Additional Gas sales of 4,808 MMcf or 52.9 MMcfd (Q1 2011: 3,344 MMcf and 37.1 MMcfd) and the fact that cost recovery was maximised following the first phase of our capital expenditure programme. Funds from operations before working capital changes increased by 100% to US$9.9 million. With significant expenditure on drilling programmes available working capital decreased from US$56.0 million at 31 December 2011 to US$47.1 million at 31 March 2012.

Orca continues to experience significant cash flow challenges due to delays in payments owed by TANESCO. The state electric utility currently owes the Company US$22.9 million. To help alleviate the funding gap caused by the delays in TANESCO payments, the Company is in the process of finalising a short-term US$10 million bank facility in Tanzania. Further funding will be required if TANESCO continues to be significantly in arrears with its payments.

TANZANIA OPERATIONS

In Q1 2012 Orca pushed ahead with the drilling of the SS-11 development well. The well was drilled at an angle of 40 degrees entering the top Neocomian reservoir in its highest position in the Songo Songo field. A total of 352 meters of total gas reservoir was encountered and extensive new reservoir data was acquired during the drilling of the well. SS-11 is expected to be an excellent producer and will be brought on production later this year. The intention was to drill a further development well SS-12 from the same drilling location. However, this well has been deferred as it was considered imprudent to drill a further well whilst there was still considerable uncertainty over the timing of the receipts from TANESCO.

To increase infrastructure capacity to deliver gas to Dar es Salaam, the Company assisted the Tanzanian Petroleum Development Corporation ("TDPC") in Q1 2012 with the design of a pipeline and expanded infrastructure facilities that the Government has announced its intention to construct by the end of 2013. Initially this expansion is expected to increase the Songo Songo infrastructure capacity to 200 MMcfd. Orca's production is currently restricted by infrastructure limits to a maximum of 102 MMcfd. In the short term, production could be further restricted in the event that the SS-9 well is taken off production following a current corrosion assessment of the well. If that happens there may be a period where Orca can only deliver 80 MMcfd until the new SS-11 well is connected later in 2012.

The Company is continuing its plans to drill the Songo Songo West exploration well in Q4 2012. During Q1 2012, the Company purchased long lead items and conducted seismic surveys to pinpoint the best drilling location. A suitable jack up rig will be operating in Mozambique in Q3 2012 and Orca is negotiating to contract the rig once it has completed the work programme there.

Drilling Songo Songo West is dependent on TANESCO clearing its arrears and resuming regular payments as well as completion of a reserve-based lending facility that is currently under discussion. This financing is also dependent on a satisfactory outcome of discussions with the Government Negotiation Team ('GNT') on various issues in Orca's Production Sharing Agreement ("PSA") including, but not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream operations. The Company has presented a package proposal to the GNT that aims to resolve all the outstanding issues and is expecting to receive a counterproposal. While changes to the PSA could have material adverse impacts, the Company reserves its right to defend its position if no satisfactory agreement is reached. The drilling of Songo Songo West could be delayed if no good faith satisfactory resolution is negotiated and TANESCO continues to delay payments.

ITALIAN OPERATIONS

In Italy we are moving forward with a land-based exploration programme. The drilling of the La Tosca farm-in well is scheduled to spud in July 2012. Northern Petroleum, as operator, will drill the well in the Longastrino Block in the Po Valley region of northern Italy. Orca will pay 100% of the costs of the La Tosca 1 well up to €4.3 million (US$5.4 million) and 70% thereafter for the drilling phase, together with back-in costs of €0.6 million (US$0.7 million) to earn a 70% interest in the block. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million (US$1.6 million) and 75% thereafter. There are a number of other prospects on the Longastrino block that will be evaluated following the completion of the drilling of the La Tosca well.

BOARD AND MANAGEMENT CHANGES

At the Annual General Meeting in June, the Company will be seeking the appointment of two new board members. Mr. William (Bill) Smith was secretary of the Board at Pan-Ocean Energy Corporation Limited ("PanOcean"). Mr. Robert Wynne was the Chief Financial Officer at PanOcean. Currently serving Board members, Lord Howard of Lympne, Robert (Bob) Wigley, John Patterson, Beer van Straten and Robin Gaeta, are stepping down with our sincere thanks and will assume new advisory roles.

Two new executive appointments have also been made. Beer van Straten has been named Chief Operating Officer replacing Dale Rollins who resigned in March 2012. He is responsible for the Company's field operations including the current large scale development and exploration drilling programme in Tanzania. Robert Wynne is assuming the role of Chief Financial Officer following the resignation of Nigel Friend who has been a valued member of Orca's management team for the past seven years.

NEXT STEPS

Orca's commitment to fully meet all its obligations and contribute to Tanzania's energy self-sufficiency is clearly on the record. In that spirit, the Company is engaged with the Government of Tanzania in a joint review of all performance and financial concerns. We are doing this with transparency and full cooperation.

Orca is proud of its contributions to Tanzania's self-sufficiency and to the businesses and people of Tanzania. We are equally proud of the value that the Company is building for its shareholders. None of this would be possible without the high quality performance of our employees, management and advisors. Looking ahead we will continue to work on strategic growth initiatives, maintaining strong partnerships, controlling costs, creating value and continuing to build sustainable relationships wherever we operate.

W. David Lyons
Chairman & CEO

May 29, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

FORWARD LOOKING STATEMENTS

THIS MD&A OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 31 MARCH 2012 SHOULD BE READ IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON 29 MAY 2012.

CERTAIN STATEMENTS IN THIS MD&A INCLUDING (I) STATEMENTS THAT MAY CONTAIN WORDS SUCH AS "ANTICIPATE", "COULD", "EXPECT", "SEEK", "MAY", "INTEND", "WILL", "BELIEVE", "SHOULD", "PROJECT", "FORECAST", "PLAN" AND SIMILAR EXPRESSIONS, INCLUDING THE NEGATIVES THEREOF, (II) STATEMENTS THAT ARE BASED ON CURRENT EXPECTATIONS AND ESTIMATES ABOUT THE MARKETS IN WHICH ORCA EXPLORATION OPERATES AND (III) STATEMENTS OF BELIEF, INTENTIONS AND EXPECTATIONS ABOUT DEVELOPMENTS, RESULTS AND EVENTS THAT WILL OR MAY OCCUR IN THE FUTURE, CONSTITUTE "FORWARD-LOOKING STATEMENTS" AND ARE BASED ON CERTAIN ASSUMPTIONS AND ANALYSIS MADE BY ORCA EXPLORATION. FORWARD-LOOKING STATEMENTS IN THIS MD&A INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS WITH RESPECT TO FUTURE CAPITAL EXPENDITURES, INCLUDING THE AMOUNT, NATURE AND TIMING THEREOF, NATURAL GAS PRICES AND DEMAND.

SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO IMPORTANT RISKS AND UNCERTAINTIES, WHICH ARE DIFFICULT TO PREDICT AND THAT MAY AFFECT ORCA EXPLORATION'S OPERATIONS, INCLUDING, BUT NOT LIMITED TO: THE IMPACT OF GENERAL WORLD ECONOMIC CONDITIONS AND SPECIFCALLY IN TANZANIA, ITALY AND CANADA; INDUSTRY CONDITIONS, INCLUDING THE ADOPTION OF NEW ENVIRONMENTAL, SAFETY AND OTHER LAWS AND REGULATIONS AND CHANGES IN HOW THEY ARE INTERPRETED AND ENFORCED; SANCTITY OF CONTRACT; VOLATILITY OF OIL AND NATURAL GAS PRICES; OIL AND NATURAL GAS PRODUCT SUPPLY AND DEMAND, RIG AVAILABILITY; RISKS INHERENT IN ORCA EXPLORATION'S ABILITY TO GENERATE SUFFICIENT CASH FLOW FROM OPERATIONS, THIRD PARTY FINANCE OR ASSETS SALES TO MEET ITS CURRENT AND FUTURE OBLIGATIONS; INCREASED COMPETITION; THE FLUCTUATION IN FOREIGN EXCHANGE OR INTEREST RATES; STOCK MARKET VOLATILITY; COST POOL AUDITS AND OTHER FACTORS, MANY OF WHICH ARE BEYOND THE CONTROL OF ORCA EXPLORATION.

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

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE USING A NUMBER OF NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) MEASURES. THESE NON-GAAP MEASURES ARE NOT STANDARDISED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES.

- **FUNDS FLOW FROM OPERATING ACTIVITIES** IS A TERM THAT REPRESENTS CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS.

- **OPERATING NETBACKS** REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS PROCESSING AND TRANSPORTATION TARIFFS, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY.
- **FUNDS PER SHARE FROM OPERATING ACTIVITIES** IS CALCUALATED ON THE BASIS OF THE FUNDS FLOW FROM OPERATIONS AND THE WEIGHTED AVERAGE NUMBER OF SHARES.
- **NET CASH FLOWS PER SHARE FROM OPERATING ACTIVITIES** IS CALCULATED AS CASH FLOW FROM OPERATIONS OVER THE WEIGHTED AVERAGE NUMBER OF SHARES.

ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION GROUP INC. IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT *www.sedar.com*.

Background

Tanzania

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

The gas in the Songo Songo field is divided between Protected Gas and Additional Gas. The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 2024) to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the gas to be delivered to Dar es Salaam, namely a gas processing plant on Songo Songo Island, 232 kilometers of pipeline to Dar es Salaam and a 16 kilometer spur to the Wazo Hill Cement Plant.

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

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

Italy

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

Principal terms of the Tanzanian PSA and related agreements

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

Obligations and restrictions

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

(b) The PSA covers the two licenses in which the Songo Songo field is located ("Discovery Blocks"). The Proven Section is essentially the area covered by the Songo Songo field within the Discovery Blocks.

(c) No sales of Additional Gas may be made from the Discovery Blocks if in Orca Exploration's reasonable judgment such sales would jeopardise the supply of Protected Gas. Any Additional Gas contracts entered into are subject to interruption. Songas has the right to request that the Company and TPDC obtain security reasonably acceptable to Songas prior to making any sales of Additional Gas from the Discovery Block to secure the Company's and TPDC's obligations in respect of Insufficiency (see (d) below).

(d) "Insufficiency" occurs if there is insufficient gas from the Discovery Blocks to supply the Protected Gas requirements or is so expensive to develop that its cost exceeds the market price of alternative fuels at Ubungo.

Where there have been third party sales of Additional Gas by Orca Exploration and TPDC from the Discovery Blocks prior to the occurrence of the Insufficiency, Orca Exploration and TPDC shall be jointly liable for the Insufficiency and shall satisfy its related liability by either replacing the Indemnified Volume (as defined in (e) below) at the Protected Gas price with natural gas from other sources; or by paying money damages equal to the difference between: (a) the market price for a quantity of alternative fuel that is appropriate for the five gas turbine electricity generators at Ubungo without significant modification together with the costs of any modification; and (b) the sum of the price for such volume of Protected Gas (at US$0.55/Mmbtu) and the amount of transportation revenues previously credited by Songas to the electricity utility, TANESCO, for the gas volumes.

(e) The "Indemnified Volume" means the lesser of the total volume of Additional Gas sales supplied from the Discovery Blocks prior to an Insufficiency and the Insufficiency Volume. "Insufficiency Volume" means the volume of natural gas determined by multiplying the average of the annual Protected Gas volumes for the three years prior to the Insufficiency by 110% and multiplied by the number of remaining years (initial term of 20 years) of the power purchase agreement entered into between Songas and TANESCO in relation to the five gas turbine electricity generators at Ubungo from the date of the Insufficiency.

Access and development of infrastructure

(f) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas. Ndovu Resources Limited which has a small gas field on Songo Songo Island has indicated that it wishes to tie its production into the gas processing plant. It is considered unlikely that this will occur during 2012.

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

Revenue sharing terms and taxation

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

The Company pays and recovers costs of exploring, developing and operating the Additional Gas with two exceptions: (i) TPDC may recover reasonable market and market research costs as defined under the PSA (US$1.5 million to the end of 31 March 2012 for marketing costs that have been incurred by TPDC since start up); and (ii) TPDC has the right to elect to participate in the drilling of at least one well for Additional Gas in the Discovery Blocks for which there is a development program as detailed in the Additional Gas plans as submitted to the Ministry of Energy and Minerals (MEM) ("Additional Gas Plan") subject to TPDC being able to elect to participate in a development program only once and TPDC having to pay a proportion of the costs of such development program by committing to pay between 5% and 20% of the total costs ("Specified Proportion"). If TPDC does not notify the Company within 90 days of notice from the Company that the MEM has approved the Additional Gas Plan, then TPDC is deemed not to have elected. If TPDC elects to participate, then it will be entitled to a rateable proportion of the Cost Gas and their profit share percentage increases by the Specified Proportion for that development program.

TPDC has indicated that they wish to exercise their right to 'back in' to the field development. The implications and workings of the 'back in' are currently being discussed with the Government Negotiation Team ("GNT") and there may be the need for reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification as at 31 December 2011, it has been assumed that they will 'back in' for 20% for all future new wells and other developments and this is reflected in the Company's net reserve position.

(h) On 27 February 2009, the energy regulator, Energy and Water Utility Regulatory Authority ("EWURA"), issued an order that saw the introduction of a flat rate tariff of US$0.59/mcf from 1 January 2010. The Company's long term gas price to the power sector as set out in the initialled ARGA and the Portfolio Gas Sales Agreement is based on the price of gas at the wellhead. As a consequence, the Company is not impacted by the changes to the tariff paid to Songas or other operators in respect of sales to the power sector.

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

(i) The cost of maintaining the wells and flowlines is split between the Protected Gas and Additional Gas users in proportion to the volume of their respective sales. The cost of operating the gas processing plant and the pipeline to Dar es Salaam is covered through the payment of the pipeline tariff.

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

The Company receives a higher share of the net revenues after cost recovery, the higher the cumulative production or the average daily sales, whichever is higher. The Profit Gas share is a minimum of 25% and a maximum of 55%.

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

For Additional Gas produced outside of the Proven Section, the Company's Profit Gas share is 55%.

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

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

(k) Additional Profits Tax is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no Additional Profits Tax is payable until the Company recovers its costs out of Additional Gas revenues plus an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum Additional Profits Tax rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus PPI return. The PSA is, therefore, structured to encourage the Company to develop the market and the gas fields in the knowledge that the profit share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before Additional Profits Tax becomes payable. Additional Profits Tax can have a significant negative impact on the project economics if only limited capital expenditure is incurred.

Operatorship

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

(m) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, Orca Exploration, or insurance coverage, then Orca Exploration is liable to a performance and operation guarantee of US$2.5 million when (i) the loss is caused by the gross negligence or wilful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Consolidation

The companies that are being consolidated are:

Company	Incorporated
Orca Exploration Group Inc.	British Virgin Islands
Orca Exploration Italy Inc.	British Virgin Islands
Orca Exploration Italy Onshore Inc.	British Virgin Islands
PAE PanAfrican Energy Corporation	Mauritius
PanAfrican Energy Tanzania Limited	Jersey
Orca Exploration UK Services Limited	United Kingdom

RESULTS FOR THE QUARTER ENDED 31ST MARCH 2012

Operating Volumes

The sales volumes for the quarter were 4,808 MMcf or 52.9 MMcfd. This represents an increase of 44% over Q1 2011.

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

	THREE MONTHS ENDED	
Operating Volumes	**31 Mar 2012**	31 Mar 2011
Gross sales volume *(MMcf)*:		
Industrial sector	**835**	550
Power sector	**3,973**	2,794
Total volumes	**4,808**	3,344
Gross daily sales volume *(MMcfd)*:		
Industrial sector	**9.2**	6.1
Power sector	**43.7**	31.0
Total daily sales volume	**52.9**	37.1

Industrial sector

Industrial sales volumes of 835 MMcf (9.2 MMcfd) were recorded in Q1 2012. This represents an increase of 52% over the 550 MMcf (6.1 MMcfd) recorded in Q1 2011. The increase is primarily due to increased sales to Kioo Glass as a result of supplying Additional Gas for their power generation and Wazo Hill.

Power sector

Power sector sales volumes of 3,973 MMcf (43.7 MMcfd) were recorded in Q1 2012. This represents an increase of 42% over the 2,794 MMcf (31.0 MMcfd) recorded in Q1 2011. The increase is due to rerating of the Songas gas processing plant allowing the Company to meet increased demand, including that of the Symbion power plant re-commissioned in July 2011.

Commodity Prices

	THREE MONTHS ENDED	
US$/mcf	**31 Mar 2012**	31 Mar 2011
Average sales price		
Industrial sector	**9.63**	9.42
Power sector	**2.72**	2.62
Weighted average price	**3.92**	3.74

Industrial sector

The average sales price achieved for Q1 2012 was US$9.63/mcf compared to US$9.42/mcf in Q1 2011. The increase in sales price is a consequence of the fluctuation in the world energy prices. The price of gas for the industrial sector (with the exception of the gas supplied to the Wazo Hill cement plant) continued to be set at a discount to the price of Heavy Fuel Oil ("HFO") in Dar es Salaam. The supply of gas to Wazo Hill has a fixed pricing structure that was set by reference to their alternative fuel supply which is imported coal.

Power sector

The average sales price to the power sector was US$2.72/mcf for the quarter compared to US$2.62/mcf in Q1 2011. The increase in the sales price over Q1 2011 is due to the annual inflationary increase in respect of the supply of Additional Gas to the power sector and the terms of the Portfolio Gas Sales Agreement that sees higher prices for volumes consumed above the maximum daily quantities specified in the contract.

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. Once the cost pool has been recovered TPDC will again be able to recover its past marketing costs (US$0.1 million accrued in Q1 2012 out of an estimated US$1.05 million outstanding) in accordance with the terms of the PSA. TPDC marketing costs are treated as a reduction to Orca Exploration's Cost Gas entitlement.

The Additional Gas sales volumes were in excess of 50 MMcfd for the first quarter of 2012 and between 30 and 40 MMcfd in Q1 2011. Consequently, the revenue less cost recovery share of revenue ("Profit Gas") was 55% in Q1 2012 and 35% in Q1 2011.

From January 2011, a significant proportion of the gas production was from the SS-10 well, which has been deemed to have been "backed into" by TPDC. As a result TPDC's profit share increased by 20% for the production attributable to SS-10. The implications and workings of the 'back in' which have not been finalised are currently being discussed with the Government Negotiation Team.

Orca Exploration had recoverable costs throughout the quarter and accordingly was allocated 88.16% (Q1 2011: 78.37%) of the Net Revenues as follows:

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Gross sales revenue	**18,837**	12,512
Gross tariff for processing plant and pipeline infrastructure	**(3,485)**	(1,973)
Gross revenue after tariff	**15,352**	10,539
Analysed as to:		
Company Cost Gas	**11,514**	7,358
Company Profit Gas	**2,021**	901
Company operating revenue	**13,535**	8,259
TPDC share of revenue	**1,817**	2,280
	15,352	10,539

The Company's revenue reported for the quarter amounted to US$17,207 after adjusting the Company's operating revenue of US$13,535 by:

- US$4,343 for current income tax. The Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's share of Profit Gas when the tax is payable. To account for this, revenue is adjusted to reflect the current income tax charge.
- US$672 for the deferred effect of Additional Profits Tax. This tax is considered a royalty and is netted against revenue.

The substantial increase in revenue compared to Q1 2011 is the result of rerating the Songas gas plant to enable increased throughput. Revenue per the income statement may be reconciled to the operating revenue as follows:

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Industrial sector	**8,037**	5,180
Power sector	**10,800**	7,332
Gross sales revenue	**18,837**	12,512
Processing and transportation tariff	**(3,485)**	(1,973)
TPDC share of revenue	**(1,817)**	(2,280)
Company operating revenue	**13,535**	8,259
Additional Profits Tax	**(672)**	(193)
Current income tax adjustment	**4,343**	1,574
Revenue	**17,207**	9,640

Processing and Transportation Tariff

The Company currently pays a flat rate regulated gas processing and transportation tariff of US$0.59/mcf to Songas. Under the terms of the gas contracts with the power sector, the Company will pass on any increase or decrease in the EWURA approved charges. This protocol insulates Orca Exploration from any increases in the gas processing and pipeline infrastructure costs.

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of this agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the regulated tariff of US$0.59/mcf payable to Songas. The charge for the additional tariff was US$0.6 million for the first quarter of 2012.

Production and distribution expenses

The well maintenance costs are allocated between Protected and Additional Gas based on the proportion of their respective sales during the quarter. The total costs for the maintenance for the quarter was US$250 (Q1 2011: US$176) and US$107 (Q1 2011: US$99) was allocated for the Additional Gas.

Other field and operating costs include an apportionment of the annual PSA licence costs, regulatory fees and some costs associated with the evaluation of the reserves and the cost of personnel that are not recoverable from Songas.

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

TPDC and MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is currently being discussed with the Government Negotiation Team and may lead to future modifications to the accounts.

These costs are summarized in the table below:

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Share of well maintenance	**107**	99
Other field and operating costs	**370**	328
	477	427
Distribution costs	**839**	599
Production and distribution expenses	**1,316**	1,026

Operating netbacks

The operating netback per mcf before general and administrative costs, overheads, income tax and Additional Profits Tax may be analysed as follows:

	THREE MONTHS ENDED	
Amounts in US$/mcf	**31 Mar 2012**	31 Mar 2011
Gas price – industrial	**9.63**	9.42
Gas price – power	**2.72**	2.62
Weighted average price for gas	**3.92**	3.74
Tariff	**(0.72)**	(0.59)
TPDC share of revenue	**(0.38)**	(0.68)
Net selling price	**2.82**	2.47
Well maintenance and other operating costs	**(0.10)**	(0.13)
Distribution costs	**(0.17)**	(0.18)
Operating netback	**2.55**	2.16

The operating netback for the quarter was US$2.55/mcf (Q1 2011: US$2.16/mcf).

The increase in the net operating netback from US$3.74/mcf to US$3.92/mcf in Q1 2012 is a consequence of the increase in both the gas price achieved in both the industrial and power markets.

TPDC's share of revenue is lower compared to Q1 2011 as a result of deliveries exceeding 50 MMcfd which entitles the company to a 55% share of revenues (Q1 2011: 35%).

The operating netbacks are currently benefiting from cost recovery of 75% of the Net Revenues, after the deduction of TPDC share of marketing costs, which are US$ 0.4 million lower than in Q1 2011.

Administrative Expenses

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

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Employee costs	**1,447**	704
Consultancy	**532**	557
Travel & accommodation	**96**	168
Communications	**25**	20
Office	**676**	343
Insurance	**111**	136
Auditing & taxation	**64**	61
Depreciation	**81**	43
Reporting, regulatory and corporate finance	**386**	218
	3,418	2,250
Marketing and legal costs	**209**	362
New ventures	**31**	165
Stock based compensation	**6**	73
General and administrative expenses	**3,664**	2,850

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

G&A averaged approximately US$1.2 million per month for Q1 2012 compared to US$0.96 million in Q1 2011. G&A per mcf decreased to US$0.74/mcf (Q1 2011: US$0.85/mcf).

The main variances to Q1 2011 are summarized below:

Employee costs

The increase in employment costs is a consequence of hiring additional staff, the establishment of Orca UK Services and the strengthening of management in anticipation of the extensive development programme in Tanzania.

Consultancy costs

These have decreased as a consequence of management changes and the transition of some consultancy contracts to staffing contracts.

Office costs

The increase results primarily from the establishment of an Orca UK Services office and additional space required for the expanded Tanzanian operations.

Reporting, regulatory and corporate finance

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

Marketing costs and legal fees

The decrease in marketing and legal fees compared to Q1 2011 is a consequence of finalising the Portfolio Gas Agreement which was signed at the end of Q2 2011.

Stock based compensation

A total of 2,257,400 stock options were outstanding at the end of Q1 2012 compared to 2,557,400 at the end of Q1 2011. Of these options 1,422,400 were issued in 2004 and were fully expensed by the end of 2007. A total of 1,135,000 were issued during 2007 and were fully expensed by the end of 2010. 300,000 expired and 500,000 were forfeited during the quarter. A total of 500,000 stock options were issued during 2011 and were valued using the Black-Scholes option pricing model, these options fully vested on the date of grant and were fully expensed during 2011.

A total of 330,000 stock appreciation rights were in issue at the end of Q1 2012, compared to 930,000 at the end of Q1 2011, a total of 600,000 stock appreciation rights having expired during the quarter. Of the remaining 330,000 stock appreciation rights 225,000 were issued in June 2010 to the new non-executive directors with an exercise price of Cdn$4.20 per share. These rights have a five year term and vest in five equal instalments, the first fifth vesting on the anniversary of the grant date. As stock appreciation rights are settled in cash they are re-valued at each reporting date using the Black-Scholes option pricing model. As at 31 March 2012 the following assumptions were used; stock volatility 54% to 75%, a risk free interest rate between 1.50% and 2.50% and a closing stock price of Cdn$3.27. A charge of US$0.01 million was recorded in Q1 2012 compared to a charge of US$0.1 million in Q1 2011 in respect of these stock appreciation rights.

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

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Stock based compensation – stock appreciation rights	**6**	73
	6	73

Net Finance Costs

The loss on foreign exchange experienced in the quarter is a result of the strengthening of the US Dollars against the Tanzanian Shilling. Despite the gas sales price being denominated in US Dollars, the invoices are submitted in Tanzanian Shillings. Therefore, there is an exchange exposure between the time that the invoices are submitted and the date that the payment is received. The small gain in foreign exchange is a result of the strengthening US Dollar against the British pound sterling which has resulted in gains following the payment of trade payables.

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

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Finance income		
Interest income	**1**	3
Foreign exchange gain	**37**	23
	38	26
Finance costs		
Foreign exchange loss	**(173)**	(178)
	(173)	(178)
Net finance costs	**(135)**	(152)

Taxation

Income Tax

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

As at 31 March 2012, 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$15.9 million which includes an additional deferred future income tax charge of US$0.7 million for the quarter. This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index, an Additional Profits Tax ("APT") is payable.

The Company provides for Deferred APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA license. The effective APT rate of 31.73% is then applied to Profit Gas of US$2.0 million in Q1 2012 (Q1 2011: US$0.9 million). Accordingly, US$0.7 million (2010: US$0.2 million) has been netted off revenue for the current quarter.

Management does not anticipate that any APT will be payable in 2012, as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward as inflated by 25% plus the PPI percentage change and the forecast expenditures for 2012. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

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

Depletion and Depreciation

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2011, the proven reserves as evaluated by the independent reservoir engineers McDaniel & Associates Consultants Ltd ("McDaniel") were 469.1 Bcf after TPDC 'back in' on a life of license basis. This leads to an average depletion charge of US$0.40/mcf for the year (2010: US$0.47/mcf).

Non-Natural Gas Properties are depreciated as follows:

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

Carrying Amount of Assets

Capitalised costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalised costs are unlikely to be recovered in the future, they are written off and charged to earnings.

Funds Generated by Operations

Funds flow from operating activities were US$9.9 million for the quarter ended 31 March 2012 (Q1 2011: US$4.9 million).

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Profit after taxation	**6,392**	2,390
Adjustments [(i)]	**3,496**	2,557
Funds flow from operating activities	**9,888**	4,947
Working capital adjustments [(i)]	**3,235**	(1,451)
Net cash flows from operating activities	**6,653**	3,496
Net cash flows used in investing activities	**(10,675)**	(1,242)
Net (decrease)/increase in cash and cash equivalents	**(4,022)**	2,257

(i) *Please refer to consolidated statement of cash flows for breakdown*

The US$4.0 million decrease in cash and cash equivalents is a result of the US$9.9 million of funds from operations before working capital changes during the quarter being offset by US$18.7 million of capital expenditure incurred together with an overall net cash increase of US$4.9 million in working capital.

Capital Expenditure

Gross capital expenditures amounted to US$18.7 million during the quarter (Q1 2011: US$1.4 million).

The capital expenditure may be analysed as follows:

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Geological and geophysical and well drilling	**18,418**	899
Pipelines and infrastructure	**219**	362
Power development	**91**	4
Other equipment	**20**	91
	18,748	1,356

Geological and geophysical and well drilling

US$16.5 million related to drilling of SS-11, US$1.3 million to the La Tosca well and the balance of US$0.6 million of expenditure was spent on geological and geophysical studies and pre-cooling studies.

Pipelines and infrastructure

The total of US$0.2 million of expenditure was incurred on the development of the compressed natural gas ("CNG") distribution facilities and the connection of customers to the low pressure distribution network in Dar es Salaam.

Working Capital

Working capital as at 31 March 2012 was US$47.1 million compared with US$56.0 million as at 31 December 2011 and may be analyzed as follows:

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Cash and cash equivalents	**30,635**	34,680
Trade and other receivables	**42,435**	40,348
Taxation receivable	**9,708**	5,880
Prepayments	**342**	302
	83,120	81,210
Trade and other payables	**31,436**	22,801
Taxation payable	**4,620**	2,403
Working capital	**47,064**	**56,006**

During the quarter the level of working capital decreased by 16% over Q4 2011.

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

Of the total trade and other receivables at 31 March 2012, US$35.7 million was represented by trade receivables (Q4 2011: US$35.7 million), US$6.7 million other receivables (Q4 2011: US$4.7 million) and US$9.7 million taxation (Q4 2011: US$6.5 million). The increase in other receivables is in relation to the increase in funds receivable from Songas for the operatorship of the gas processing plant and associated projects. The increase in taxation is a consequence of the level of current taxation paid in the year, whereby any tax payable is recoverable from TPDC in accordance with the production sharing agreement.

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 December 2011, US$7.8 million (2010: US$4.2 million) was due from industrial customers, the majority of which has subsequently been received. The balance of US$28.0 million (2010: US$7.7 million) is made up of amounts due from the two power customers, TANESCO and Songas.

As at 31 March 2012, the Company has US$31.4 million of financial liabilities with regards to trade and other payables of which US$20.7 million is due within one to three months, US$6.7 million is due within three to six months, and US$4.0 million is due within six to twelve months. The Company has a current taxation liability of US$4.6 million payable within three months.

Future Operations

The Company generates in excess of 50% of its operating revenue from sales to the power sector companies, Songas and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is dependent on the Government of Tanzania for some of its funding. Despite having a history of delayed payments, TANESCO has previously settled in full the outstanding balance subsequent to each quarter end. As at 31 December 2011, TANESCO owed the Company US$24.2 million of which $11.1 million was collected subsequent to year end. As of the date of this report, the Company has not received payments from TANESCO with respect to any 2012 production and at the date of this report is owed US$22.9 million. As at 31 December 2011 Songas owed the company US$3.7 million of which US$0.8 million was collected subsequently. Songas have not made any payments in respect of 2012 and at the date of this report Songas owe the Company US$5.3 million. There is a concern that TANESCO's financial position may be deteriorating as it funds the emergency oil fired generation at a time of declining receipts for electricity from parastatal bodies. The Company has been assured by the Ministry of Energy that TANESCO will pay the outstanding invoices as soon as TANESCO has signed a new financing facility, and that this process is nearing completion. In the event that Company does not collect from TANESCO the outstanding receivables at year end and TANESCO continues to be unable to pay the Company for subsequent 2012 gas deliveries, the Company will need additional funding for its ongoing operations and to continue its committed exploration and development program in 2012. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms, which raises a substantial doubt over the Company's ability to continue financing its operations as currently planned.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT AND CONTINGENCIES

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 (70.0 Bcf as at 31 March 2012). The Company does not anticipate a shortfall arising during the licence period.

Operating leases

The Company has two office rental agreements in Dar es Salaam, expiring on 30 November 2012 and 31 October 2013 at an annual rental of US$122,000 and US$110,000 per annum respectively.

Capital Commitments

Italy

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

Petroceltic were due to spud the Elsa-2 well prior to 31 October 2010, but the Italian government passed a decree, following the blowout of the Macondo well in the U.S., that prevented the drilling in the Italian seas within five nautical miles of the coastline and within 12 nautical miles around the perimeter of protected Marine Parks. In view of this, Petroceltic suspended the permit until such time as the Ministry of Environment issues a decree of environmental compatibility for the drilling program. The project in currently on hold and Orca is not liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed. It is currently anticipated that the Elsa-2 well will be drilled in 2013.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million (US$5.4 million) and 70% of the costs thereafter. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million (US$1.6 million) and 75% thereafter. The La Tosca exploration well is expected to be drilled by the end of Q3 2012 at an estimated further cost to the Company of US$7 million.

There are no further capital commitments in Italy.

Songo Songo deliverability

In Q4 2010 the Company reduced the deliverability from its Songo Songo wells following receipt of results of a corrosion logging survey. Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie in of the new onshore well SS-10. As of today, the Company can produce approximately 113 MMcfd though this is currently restricted by the infrastructure capacity to a maximum of 102 MMcfd.

The original corrosion model forecast that the offshore well, SS-9 (currently producing in the region of 30 MMcfd), would have to be taken out of production at the end of Q1 2012. In October 2011 a new corrosion logging programme was undertaken to confirm its condition and it was determined that the well could stay on production until 31 May 2012. As operator, the Company is in the process of logging the well to assess whether SS-9 can continue on production and has been independently advised that the well can be produced until these results have been analysed. However, the ultimate decision has to be taken by the owner of the well, Songas Limited.

The Company is currently completing a new onshore deviated well (SS-11) which is expected to be connected to the gas processing plant later in the year. In the event that SS-9 is taken off production there may be a period where the Company can only deliver approximately 80 MMcfd until SS-11 is connected to the gas processing plant.

Songo Songo commitments

The total cost of the SS-11 well including its connection to the gas processing plant is estimated at US$45 million and US$27 million was incurred on this prior to 31 March 2012. The Company has also committed to purchasing long lead items for Songo Songo West exploration well, the SS-10 enhancement and one further well at a post Q1 2012 cost of US$10 million.

Additional capital expenditure in Tanzania is dependent on the payments from TANESCO being brought up to date and the satisfactory conclusion of the GNT, satisfactory progress on infrastructure expansion and the subsequent raising of finance. The capital expenditure is required to enable the Songo Songo field to be able to produce 200 MMcfd in line with the anticipated infrastructure expansion.

Funding

The pace and extent of the Company's 2012 work programme will be dependent on the availability of sufficient capital. In Q1 2012, Orca pushed ahead with the drilling of the SS-11 development well as part of the process of increasing production from the field to 200 MMcfd from its current infrastructure constrained capacity of 102 MMcfd. The intention was to drill a further development well SS-12 from the same drilling location. However, this well has been deferred as it was considered imprudent to drill a further well whilst there was still uncertainty over the timing of the receipts from the Company's principal customer, TANESCO (see below).

The Company currently has not received payments from TANESCO with respect to any 2012 production and at the date of this report is owed US$22.9 million. There is a concern that TANESCO's financial position may be deteriorating as it funds the emergency oil fired generation at a time of declining receipts for electricity from parastatal bodies. The Company has been assured by the Ministry of Energy that TANESCO will pay the outstanding invoices as soon as TANESCO has signed a new financing facility, and that this process is nearing completion. In the event that Company does not collect from TANESCO the outstanding receivables at year end and TANESCO continues to be unable to pay the Company for subsequent 2012 gas deliveries, the Company will need additional funding for its ongoing operations. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms.

To alleviate the funding gap caused by the delays in TANESCO payments, the Company is seeking a US$10 million bank facility in Tanzania. Further funding may be required if TANESCO continues to extend its payment terms.

Contingencies

Re-rating Agreement

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas Limited to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Under the terms of this agreement, the Company agreed to indemnify Songas Limited for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The indemnity will remain in force until such time as the plant is de-rated.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. It is considered unlikely that this will occur during 2012.

Government Negotiation Team

In February 2012, the Government announced that it was setting up a Government Negotiation Team ('GNT') to discuss a number of issues in relation to the Company's Production Sharing Agreement ('PSA') with the Tanzania Petroleum Development Corporation that was signed in October 2001.

The scope of the GNT is to discuss a number of points that were raised by the Parliamentary Committee for Energy and Minerals into the workings of the PSA. This includes, but is not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream operations. Orca will discuss these matters in good faith with the GNT. The Company has presented a package proposal to the GNT that aims to resolve all the outstanding issues. However, it reserves its rights to defend its position should no satisfactory agreement be reached.

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development. The implications and workings of the 'back in' are being discussed with the GNT as part of a package proposal. There may be the need for additional reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% for all future new drilling activities and other developments and this is reflected in the Company's net reserve position.

Unbundling

TPDC and Ministry of Energy and Mines ("MEM") have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is being discussed with the GNT as part of a package proposal.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q2 2011. This resulted in a reduction in the percentage of net revenue attributable to the Company. The level of cost gas will increase during 2012 as a result of significant expenditure on the drilling activities. TPDC is still in the process of auditing the historic cost recovery pool and is currently disputing US$34 million of costs that have been allocated to the cost pool for the period 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. To the extent that it is not possible to satisfactorily resolve the differences with the GNT, the Company will utilise the extensive dispute mechanisms outlined in the PSA which includes international arbitration.

Shareholders' Equity and Outstanding Share Data

	THREE MONTHS ENDED	
Number of shares ('000)	**31 Mar 2012**	31 Mar 2011
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**32,743**	32,747
	34,494	34,498
Convertible securities		
Stock options	**2,257**	3,057
Diluted Class A and Class B shares	**36,751**	37,555
Weighted average		
Class A and Class B shares	**34,494**	34,656
Convertible securities		
Stock options	**972**	1,176
Weighted average diluted Class A and Class B shares	**35,466**	35,832

No stock options were issued or exercised during the quarter.

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

As at 29 May 2012, there were a total of 1,751,195 Class A shares and 32,742,515 Class B shares outstanding.

SUMMARY QUARTERLY RESULTS

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

(Figures in US$'000 except where otherwise stated)	**2012**	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenue	**17,207**	17,500	10,457	8,296	9,640	10,557	10,975	9,017
Profit/(loss) after taxation	**6,392**	5,267	(54)	383	2,390	1,885	3,579	2,608
Operating netback *(US$/mcf)*	**2.55**	2.41	1.78	1.80	2.16	2.28	2.32	2.37
Working capital	**47,063**	56,006	58,369	57,070	55,759	52,364	30,093	24,941
Shareholders' equity	**113,051**	106,659	101,563	100,956	100,573	98,183	77,827	73,942
Profit/(loss) per share – basic *(US$)*	**0.19**	0.15	0.00	0.01	0.07	0.05	0.12	0.09
Profit/(loss) per share – diluted *(US$)*	**0.18**	0.15	0.00	0.01	0.07	0.05	0.12	0.08
Capital expenditures								
Geological and geophysical and well drilling	**18,418**	10,989	3,463	1,124	899	607	502	320
Pipeline and infrastructure	**219**	11	421	364	362	383	692	492
Power development	**91**	22	–	11	4	–	6	–
Other equipment	**20**	239	41	94	91	45	23	77
Operating								
Additional Gas sold – industrial *(MMcf)*	**835**	786	719	688	550	687	770	562
Additional Gas sold – power *(MMcf)*	**3,973**	4,521	4,442	2,965	2,794	2,926	2,918	2,440
Average price per mcf – industrial *(US$)*	**9.63**	9.94	10.47	10.28	9.42	8.67	8.01	9.45
Average price per mcf – power *(US$)*	**2.72**	2.97	2.76	2.64	2.62	2.63	2.63	2.56

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(thousands of US dollars except per share amounts)	NOTE	THREE MONTHS ENDED **31 Mar 2012**	 31 Mar 2011
REVENUE		**17,207**	9,640
Cost of sales			
Production and distribution expenses		**(1,316)**	(1,026)
Depletion expense		**(1,938)**	(1,582)
		13,953	7,032
General and administrative expenses		**(3,664)**	(2,850)
Finance income		**38**	–
Finance costs		**(173)**	(152)
Profit before taxation		**10,154**	4,030
Taxation	*2*	**(3,762)**	(1,640)
Profit after taxation and comprehensive income		**6,392**	2,390
EARNINGS PER SHARE			
Basic *(US$)*		**0.19**	0.07
Diluted *(US$)*		**0.18**	0.07

See accompanying notes to the condensed consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

(thousands of US dollars)	NOTE	AS AT **31 Mar 2012**	 31 Dec 2011
ASSETS			
Current assets			
Cash and cash equivalents		**30,635**	34,680
Trade and other receivables		**42,435**	40,348
Taxation receivable		**9,708**	5,880
Prepayments		**342**	302
		83,120	81,210
Non-current assets			
Exploration and evaluation assets	*3*	**4,500**	2,921
Property, plant and equipment	*4*	**82,863**	67,713
		87,363	70,634
Total assets		**170,483**	151,844
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**31,437**	22,801
Taxation payable		**4,620**	2,403
		36,057	25,204
Non-current liabilities			
Deferred income taxes	*2*	**15,916**	15,194
Deferred additional profits tax		**5,459**	4,787
		21,375	19,981
Total liabilities		**57,432**	45,185
Equity			
Capital stock	*6*	**84,610**	84,610
Contributed surplus		**6,268**	6,268
Accumulated income		**22,173**	15,781
		113,051	106,659
Total equity and liabilities		**170,483**	151,844

See accompanying notes to the condensed consolidated interim financial statements.
Future operations (Note 1 (d))
Contractual obligations and committed capital investment and contingencies (Note 7)

The condensed consolidated interim financial statements were approved by the Board of Directors on 29 May 2012.

Director Director

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

		THREE MONTHS ENDED	
(thousands of US dollars)	NOTE	**31 Mar 2012**	31 Mar 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after taxation		**6,392**	2,390
Adjustment for:			
Depletion and depreciation	*4*	**2,019**	1,630
Stock-based compensation		**6**	73
Deferred income taxes		**722**	538
Deferred additional profits tax		**672**	193
Gain on disposal of vehicle		**–**	(5)
Interest income		**(1)**	(3)
Unrealised foreign exchange loss		**78**	131
(Increase) in trade and other receivables		**(2,118)**	(887)
(Increase) in taxation receivable		**(3,828)**	(1,462)
Decrease/(increase) in prepayments		**(40)**	28
(Decrease)/increase in trade and other payables		**534**	(232)
Increase in taxation payable		**2,217**	1,102
Net cash flows from operating activities		**6,653**	3,496
CASH FLOWS USED IN INVESTING ACTIVITIES			
Exploration and evaluation expenditures		**(1,578)**	(224)
Property, plant and equipment expenditures		**(17,170)**	(1,132)
Proceeds from sale of vehicle		**–**	3
Interest received		**1**	5
Increase in trade and other payables		**8,072**	106
Net cash used in investing activities		**(10,675)**	(1,242)
(Decrease)/increase in cash and cash equivalents		**(4,022)**	2,254
Cash and cash equivalents at the beginning of the period		**34,680**	45,519
Effect of change in foreign exchange		**(23)**	3
Cash and cash equivalents at the end of the period		**30,635**	47,776

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(thousands of US dollars)	CAPITAL STOCK	CONTRIBUTED SURPLUS	ACCUMULATED INCOME	TOTAL
Balance as at 1 January 2011	**85,100**	**5,288**	**7,795**	**98,183**
Stock-based compensation	–	–	–	–
Total comprehensive income for the period	–	–	2,390	2,390
Balance as at 31 March 2011	**85,100**	**5,288**	**10,185**	**100,573**

(thousands of US dollars)	CAPITAL STOCK	CONTRIBUTED SURPLUS	ACCUMULATED INCOME/(LOSS)	TOTAL
Note	*6*			
Balance as at 1 January 2012	84,610	6,268	15,781	106,659
Stock-based compensation	–	–	–	–
Total comprehensive income for the period	–	–	6,392	6,392
Balance as at 31 March 2012	**84,610**	**6,268**	**22,173**	**113,051**

See accompanying notes to the condensed consolidated interim financial statements.

General Information

Orca Exploration Group Inc ("Orca Exploration " or the "Company") was incorporated on 28 April 2004 under the laws of the British Virgin Islands. The Company is a participant in a gas-to-electricity project in Tanzania and has gas and oil exploration interests in Italy. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2012 comprise the Company and all its wholly owned subsidiaries (collectively, the "Company").

1 BASIS OF PREPARATION

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

The same accounting policies have been applied in the preparation of these condensed consolidated interim financial statements as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2011.

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011.

(a) Statement of Compliance

These condensed consolidated interim financial statements of the Company, have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for the full annual financial statements prepared in accordance with International Financial Reporting Standards. Selected explanatory note are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year-ended 31 December 2011.

These condensed consolidated interim financial statements were approved by the Board of Directors on 29 May 2012.

(b) Judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011.

(c) Significant accounting policies

The same accounting policies have been applied in the preparation of these condensed consolidated interim financial statements as those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2011.

(d) Future operations

The Company generates in excess of 50% of its operating revenue from sales to the power sector companies, Songas and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. TANESCO is dependent on the Government of Tanzania for some of its funding. Despite having a history of delayed payments, TANESCO has previously settled in full the outstanding balance subsequent to each quarter end. As at 31 December 2011, TANESCO owed the Company US$24.2 million of which $11.1 million was collected subsequent to year end. As of the date of this report, the Company has not received payments from TANESCO with respect to any 2012 production and at the date of this report is owed US$22.9 million. As at 31 December 2011 Songas owed the company US$3.7 million of which US$0.8 million was collected subsequently. Songas have not made any payments in respect of 2012 and at the date of this report Songas owe the Company US$5.3 million. There is a concern that TANESCO's financial position may be deteriorating as it funds the emergency oil fired generation at a time of declining receipts for electricity from parastatal bodies. The Company has been assured by the Ministry of Energy and Mines that TANESCO will pay the outstanding invoices as soon as TANESCO has signed a new financing facility, and that this process is nearing completion. In the event that Company does not collect from TANESCO the outstanding receivables at year end and TANESCO continues to be unable to pay the Company for subsequent 2012 gas deliveries, the Company will need additional funding for its ongoing operations and to continue its committed exploration and development program in 2012. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms, which raises a substantial doubt over the Company's ability to continue financing its operations as currently planned.

2 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	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Current tax	**3,040**	1,102
Deferred tax	**722**	538
	3,762	1,640

A provisional tax payment of US$516 has been made in relation to the 2012 liability, there was no corresponding payment in 2011.

Tax Rate Reconciliation

	THREE MONTHS ENDED	
Figures in US$'000	**31 Mar 2012**	31 Mar 2011
Profit before taxation	**10,154**	4,030
Provision for income tax calculated at the statutory rate of 30%	**3,046**	1,209
Add/(deduct) the tax effect of non-deductible income tax items:		
Administrative and operating expenses	**605**	391
Financing charge	**29**	–
Stock- based compensation	–	22
Permanent differences	**82**	18
	3,762	1,640

As at 31 March 2012 there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Accordingly a deferred tax liability has been recognized for the quarter ended 31 March 2012. The deferred income tax liability includes the following temporary differences:

	AS AT	
Figures in US$'000	**31 Mar 2012**	31 Dec 2011
Differences between tax base and carrying value of property, plant and equipment	**14,540**	14,409
Income tax recoverable	**3,091**	2,416
Other liabilities		
Employee bonuses	**(21)**	(145)
TPDC Additional Profit Gas	**(56)**	(50)
Additional profits tax	**(1,638)**	(1,436)
	15,916	15,194

3 Exploration and evaluation assets

Figures in US'000	Italy	Tanzania	Total
COSTS			
As at 1 January 2012	911	2,010	2,921
Additions	1,302	276	1,578
As at 31 March 2012	**2,213**	**2,286**	**4,499**
NET BOOK VALUES			
As at 31 March 2012	**2,213**	**2,286**	**4,499**
As at 31 December 2011	911	2,010	2,921

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.

ITALY

Capital costs incurred in Q1 2012 relate to the purchase of long lead items for the drilling of the La Tosca well pursuant to the terms of the Company's Longastrino Block farm-in in the Po Valley Basin.

4 Property, plant and equipment

Figures in US$'000	Tanzania	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
Costs						
As at 1 January 2012	96,014	320	701	249	334	97,618
Additions	17,149	–	15	–	6	17,170
Disposals						
As at 31 March 2012	**113,163**	**320**	**716**	**249**	**340**	**114,788**
As at 1 January 2012	28,833	271	520	196	85	29,905
Charge for period	1,938	7	39	15	20	2,019
As at 31 March 2012	**30,771**	**278**	**559**	**211**	**105**	**31,924**
Net Book Values						
As at 31 March 2012	**82,391**	**42**	**157**	**38**	**235**	**82,864**
As at 31 December 2011	67,181	49	181	53	249	67,713

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$127.8 million (Q1 2011: US$115.6 million) will be required to bring the total proved reserves to production.

5 Segment Information

The Company has one reportable segment which is international exploration, development and production of petroleum and natural gas. The Company currently has producing assets in Tanzania and exploration interests in Italy.

Figures in US$'000	External revenue	Segment income	Total assets	Total liabilities	Capital additions	Depletion & depreciation
31 March 2012						
Tanzania	17,207	6,392	168,270	55,941	17,446	2,019
Italy	–	–	2,213	1,490	1,302	–
	17,207	**6,392**	**170,483**	**57,431**	**18,748**	**2,019**
31 March 2011						
Tanzania	9,640	2,390	128,626	28,053	1,132	1,630
Italy	–	–	–	–	–	–
	9,640	**2,390**	**128,626**	**28,053**	**1,132**	**1,630**

6 Capital stock

Authorized and Issued Share Capital

Thousands of shares (thousands)	Authorised	Issued	Amount
Class A			
As at 1 January 2012 and 31 March 2012	**50,000**	**1,751**	**983**
Class B			
As at 1 January 2012 and 31 March 2012	**100,000**	**32,743**	**83,627**
Total Class A and Class B as at 1 January 2012 and 31 March 2012	**150,000**	**34,494**	**84,610**

All of the issued capital stock is fully paid.

Stock options

The table below details the outstanding share options and the movements for the three months ended 31 March 2012:

Stock Options

Thousands of options or Cdn$	Options	Exercise Price *(Cdn$)*
Outstanding as at 1 January 2012 and 31 March 2012	3,057	1.00 to 13.55
Expired	(300)	8.00
Forfeited	(500)	13.55 to 11.81
Outstanding as at 31 March 2012	2,257	1.00 to 13.55

The weighted average remaining life and weighted average exercise price of options at 31 March 2012 were as follows:

Exercise Price *(Cdn$)*	Number outstanding as at 31 March 2012 *('000)*	Weighted Average Remaining Contractual Life *(years)*	Number Exercisable as at 31 March 2012 *('000)*	Weighted Average Exercise Price *(Cdn$)*
1.00	1,422	2.42	1,422	1.00
3.60	250	4.67	250	3.60
4.75	250	0.17	250	4.75
10.00 to 13.55	335	0.25	335	11.50
	2,257		2,257	

Stock Appreciation Rights

Thousands of stock appreciation rights or Cdn$	Options	Exercise Price
Outstanding as at 1 January 2012 and 31 March 2012 (i)/(ii)	930	4.20 to 13.55
Expired	(600)	8.00 to 8.70
Outstanding as at 31 March 2012 (i)/(ii)	330	4.20 to 13.55

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

(ii) *A total of 75,000 stock appreciation rights have a term of five years. All of these options vested over a period of three years and are now fully vested. There is no maximum liability associated with these rights.*

The Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in trade and other payables. In the valuation of these stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50% to 2.50%, stock volatility of 54% to 75%, 0% dividend yield, 0% forfeiture and a closing stock price of Cdn$3.27 per share.

As at 31 March 2012, a total accrued liability of US$0.2 million has been recognised in relation to the stock appreciation rights. A total charge of US$0.01 million has been recorded during the period, (Q1 2011: US$0.1 million).

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**31 Mar 2012**	31 Mar 2011
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**32,743**	32,747
	34,494	34,498
Convertible securities		
Stock options	**2,257**	3,057
Diluted Class A and Class B shares	**36,751**	37,555
Weighted average		
Class A and Class B shares	**34,494**	34,656
Convertible securities		
Stock options	**972**	1,176
Weighted average diluted Class A and Class B shares	**35,466**	35,832

7 Contractual obligations and committed capital investments and contingencies

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 (70.0 Bcf as at 31 March 2012). The Company does not anticipate a shortfall arising during the licence period.

Operating leases

The Company has two office rental agreements in Dar es Salaam, expiring on 30 November 2012 and 31 October 2013 at an annual rental of US$122,000 and US$110,000 per annum respectively.

CAPITAL COMMITMENTS

Italy

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

Petroceltic were due to spud the Elsa-2 well prior to 31 October 2010, but the Italian government passed a decree, following the blowout of the Macondo well in the U.S., that prevented the drilling in the Italian seas within 5 nautical miles of the coastline and within 12 nautical miles around the perimeter of protected Marine Parks. In view of this, Petroceltic suspended the permit until such time as the Ministry of Environment issues a decree of environmental compatibility for the drilling program. The project in currently on hold and Orca is not liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed. It is currently anticipated that the Elsa-2 well will be drilled in 2013.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million (US$5.4 million) and 70% of the costs thereafter. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million (US$1.6 million) and 75% thereafter. The La Tosca exploration well is expected to be drilled by the end of Q3 2012 at an estimated total cost to the Company of US$7 million.

There are no further capital commitments in Italy.

Songo Songo deliverability

In Q4 2010 the Company reduced the deliverability from its Songo Songo wells following receipt of results of a corrosion logging survey. Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie in of the new onshore well SS10. As of today, the Company can produce approximately 113 MMcfd though this is currently restricted by the infrastructure capacity to a maximum of 102 MMcfd.

The original corrosion model forecast that the offshore well, SS-9 (currently producing in the region of 30 MMcfd), would have to be taken out of production at the end of Q1 2012. In October 2011 a new corrosion logging programme was undertaken to confirm its condition and it was determined that the well could stay on production until 31 May 2012. As operator, the Company is in the process of logging the well to assess whether SS-9 can continue on production and has been independently advised that the well can be produced until these results have been analysed. However, the ultimate decision has to be taken by the owner of the well, Songas Limited.

The Company is currently completing a new onshore deviated well (SS-11) which is expected to be connected to the gas processing plant later in the year. In the event that SS-9 is taken off production there may be a period where the Company can only deliver approximately 80 MMcfd until SS-11 is connected to the gas processing plant.

Songo Songo commitments

The total cost of the SS-11 well including its connection to the gas processing plant is estimated at US$45 million and US$27 million was incurred on this prior to 31 March 2012. The Company has also committed to purchasing long lead items for Songo Songo West exploration well, the SS-10 enhancement and one further well at a post Q1 2012 cost of US$10 million.

Additional capital expenditure in Tanzania is dependent on the payments from TANESCO being brought up to date and the satisfactory conclusion of the GNT, satisfactory progress on infrastructure expansion and the subsequent raising of finance. The capital expenditure is required to enable the Songo Songo field to be able to produce 200 MMcfd in line with the anticipated infrastructure expansion.

Funding

The pace and extent of the Company's 2012 work programme will be dependent on the availability of sufficient capital. In Q1 2012, Orca pushed ahead with the drilling of the SS-11 development well as part of the process of increasing production from the field to 200 MMcfd from its current infrastructure constrained capacity of 102 MMcfd. The intention was to drill a further development well SS-12 from the same drilling location. However, this well has been deferred as it was considered imprudent to drill a further well whilst there was still uncertainty over the timing of the receipts from the Company's principal customer, TANESCO (see below).

The Company currently has not received payments from TANESCO with respect to any 2012 production and at the date of this report is owed US$22.9 million. There is a concern that TANESCO's financial position may be deteriorating as it funds the emergency oil fired generation at a time of declining receipts for electricity from parastatal bodies. The Company has been assured by the Ministry of Energy that TANESCO will pay the outstanding invoices as soon as TANESCO has signed a new financing facility, and that this process is nearing completion. In the event that Company does not collect from TANESCO the outstanding receivables at year end and TANESCO continues to be unable to pay the Company for subsequent 2012 gas deliveries, the Company will need additional funding for its ongoing operations. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms.

To help alleviate the funding gap caused by the delays in TANESCO payments, the Company is seeking a US$10 million bank facility in Tanzania. Further funding may be required if TANESCO continues to extend its payment terms.

CONTINGENCIES

Re-rating Agreement

During Q2 2011, the Company signed a Re-rating Agreement with TANESCO and Songas Limited to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Under the terms of this agreement, the Company agreed to indemnify Songas Limited for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The indemnity will remain in force until such time as the plant is de-rated.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and the Ministry of Energy and Mines, has indicated that they wish to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from their Kiliwani North field. It is considered unlikely that this will occur during 2012.

Government Negotiation Team

In February 2012, the Government announced that it was setting up a Government Negotiation Team ('GNT') to discuss a number of issues in relation to the Company's Production Sharing Agreement ('PSA') with the Tanzania Petroleum Development Corporation that was signed in October 2001.

The scope of the GNT is to discuss a number of points that were raised by the Parliamentary Committee for Energy and Minerals into the workings of the PSA. This includes, but is not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream operations. Orca will discuss these matters in good faith with the GNT. The Company has presented a package proposal to the GNT that aims to resolve all the outstanding issues. However, it reserves its rights to defend its position should no satisfactory agreement be reached.

Back in

TPDC has indicated that they wish to exercise their right to 'back in' to the field development. The implications and workings of the 'back in' are being discussed with the GNT as part of a package proposal. There may be the need for additional reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification, it has been assumed that they will 'back in' for 20% for all future new drilling activities and other developments and this is reflected in the Company's net reserve position.

Unbundling

TPDC and Ministry of Energy and Mines have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this is being discussed with the GNT as part of a package proposal.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q2 2011. This resulted in a reduction in the percentage of net revenue attributable to the Company. The level of cost gas will increase during 2012 as a result of significant expenditure on the drilling activities. TPDC is still in the process of auditing the historic cost recovery pool and is currently disputing US$34 million of costs that have been allocated to the cost pool for the period 2002 through to 2009. The Company contends that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. To the extent that it is not possible to satisfactorily resolve the differences with the GNT, the Company will utilise the extensive dispute mechanisms outlined in the PSA which includes international arbitration.

CORPORATE INFORMATION

Board of Directors

W. David Lyons
Chairman and
Chief Executive Officer
Winchester
United Kingdom

Lord Howard of
Lympne
Non-Executive Director
London
United Kingdom

Robert Wigley
Non-Executive Director
Waterlooville, Hampshire
United Kingdom

John Patterson
Non-Executive Director
Nanoose Bay
Canada

David Ross
Non-Executive
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Calgary
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Beer van Straten
Executive Director
Molkerum
Netherlands

Robin Gaeta
Non-Executive Director
Wassenaar
Netherlands

Officers

W. David Lyons
Chairman and
Chief Executive Officer
Winchester
United Kingdom

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