CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (unaudited)

		THREE MONTHS ENDED		SIX MONTHS ENDED	
(Figures in US$'000 except per share amounts)	NOTE	**30 June 2012**	30 June 2011	**30 June 2011**	30 June 2011
REVENUE		**16,915**	8,296	**34,121**	17,936
Cost of sales					
Production and distribution expenses		**(1,813)**	(1,183)	**(3,127)**	(2,209)
Depletion expense		**(2,017)**	(1,728)	**(3,955)**	(3,310)
		13,085	5,385	**27,039**	12,417
General and administrative expenses		**(4,362)**	(3,487)	**(8,026)**	(6,337)
Net finance costs		**(51)**	(557)	**(188)**	(709)
Profit before taxation		**8,672**	1,341	**18,825**	5,371
Taxation	*2*	**(3,505)**	(958)	**(7,266)**	(2,598)
Profit after taxation and comprehensive income		**5,167**	383	**11,559**	2,773
EARNINGS PER SHARE					
Basic *(US$)*		**0.15**	0.01	**0.34**	0.08
Diluted *(US$)*		**0.15**	0.01	**0.33**	0.08

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (unaudited)

(Figures in US$'000)	NOTE	AS AT **30 June 2012**	31 Dec 2011
ASSETS			
Current assets			
Cash and cash equivalents		**20,194**	34,680
Trade and other receivables		**51,807**	40,348
Taxation receivable		**12,785**	5,880
Prepayments		**842**	302
		85,628	81,210
Non-current assets			
Exploration and evaluation assets	*3*	**7,478**	2,921
Property, plant and equipment	*4*	**96,213**	67,713
		103,691	70,634
Total assets		**189,319**	151,844
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**40,165**	22,801
Taxation payable		**6,774**	2,403
		46,939	25,204
Non-current liabilities			
Deferred income taxes	*2*	**17,266**	15,194
Deferred additional profits tax		**6,176**	4,787
		23,442	19,981
Total liabilities		**70,381**	45,185
EQUITY			
Capital stock	*6*	**84,610**	84,610
Contributed surplus		**6,988**	6,268
Accumulated income		**27,340**	15,781
		118,938	106,659
Total equity and liabilities		**189,319**	151,844

See accompanying notes to the condensed consolidated interim financial statements.

Future operations (Noted 1 (d))

Contractual obligations and committed capital investment and contingencies (Note 8)

Post Balance Sheet Event (see Note 9)

The condensed consolidated interim financial statements were approved by the Board of Directors on 28 August 2012.

Director

Director

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (unaudited)

(Figures in US$'000)	NOTE	THREE MONTHS ENDED **30 June 2012**	THREE MONTHS ENDED 30 June 2011	SIX MONTHS ENDED **30 June 2012**	SIX MONTHS ENDED 30 June 2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit after taxation		**5,167**	383	**11,559**	2,773
Adjustment for:					
Depletion and depreciation	*4*	**2,136**	1,776	**4,156**	3,406
Gain on disposal of vehicle		**–**	–	**–**	(5)
Stock-based compensation		**615**	(163)	**621**	(90)
Deferred income taxes		**1,350**	150	**2,072**	688
Deferred additional profits tax		**717**	595	**1,389**	788
Interest income		**(1)**	(1)	**(2)**	(4)
Unrealised foreign exchange loss		**(2)**	552	**76**	683
		9,982	3,292	**19,871**	8,239
(Increase) in trade and other receivables		**(9,373)**	(4,431)	**(11,491)**	(5,318)
(Increase)/decrease in taxation receivable		**(3,077)**	846	**(6,905)**	(616)
(Increase) in prepayments		**(500)**	(408)	**(540)**	(380)
Increase in trade and other payables		**6,503**	4,035	**7,036**	3,803
Increase/(decrease) in taxation payable		**2,154**	(1,192)	**4,371**	(90)
Net cash flows from operating activities		**5,689**	2,142	**12,342**	5,638
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**(2,978)**	(314)	**(4,557)**	(538)
Property, plant and equipment expenditures		**(15,486)**	(1,279)	**(32,656)**	(2,411)
Interest received		**1**	1	**2**	4
Proceeds from sale of vehicle		**–**	–	**–**	5
Increase in trade and other payables		**2,332**	754	**10,405**	860
Net cash used in investing activities		**(16,131)**	(838)	**(26,806)**	(2,080)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Net cash flow used in financing activities		**–**	–	**–**	–
Increase in cash and cash equivalents		**(10,442)**	1,304	**(14,464)**	3,558
Cash and cash equivalents at the beginning of the period		**30,634**	47,776	**34,680**	45,519
Effect of change in foreign exchange		**2**	(87)	**(22)**	(84)
Cash and cash equivalents at the end of the period		**20,194**	48,993	**20,194**	48,993

See accompanying notes to the condensed consolidated interim financial statements.

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

(US'000)	CAPITAL STOCK	CONTRIBUTED SURPLUS	ACCUMULATED (LOSS)/INCOME	TOTAL
Balance as at 1 January 2011	85,100	5,288	7,795	98,183
Total comprehensive income for the period	–	–	2,773	2,773
Balance as at 30 June 2011	**85,100**	**5,288**	**10,568**	**100,956**

(US'000)	CAPITAL STOCK	CONTRIBUTED SURPLUS	ACCUMULATED INCOME	TOTAL
Note	*6*			
Balance as at 1 January 2012	84,610	6,268	15,781	106,659
Total comprehensive income for the period	–	720	11,559	12,279
Balance as at 30 June 2012	**84,610**	**6,988**	**27,340**	**118,938**

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 and six months ended 30 June 2012 comprise the Company and all its wholly owned subsidiaries (collectively, the "Company").

1 BASIS OF PREPARATION

(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 as issued by the IASB. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2011 annual report. These condensed consolidated interim financial statements were approved by the Board of Directors on 27 August 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 $21.0 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$28.2 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 owes the Company US$7.7 million.

Recently the Tanzanian government, through the Ministry of Energy and Mines ("MEM"), replaced the senior management of TANESCO and have been actively working to restore the state utility to viability. The Company has been cooperating with MEM and is currently in discussions with TANESCO's new management regarding their plans to pay for gas that has been and will continue to be supplied. The state utility has recently proposed a payment schedule which is being actively discussed by the parties. However, concerns remain over TANESCO's financial position, particularly in the short-term, as they will have to fund emergency oil fired generation to compensate for the loss of hydroelectric capacity until the rains resume. To help alleviate the funding gap caused by the delays in TANESCO payments, the Company is in the process of closing a US$10 million bank facility in Tanzania. The Company has also deferred a substantial part of its 2012 work programme, including the drilling of a further production well (SS-12) and an exploration well (SSW).

In the event that TANESCO is unable to make sufficient regular payments, 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, however management is actively pursuing additional sources of capital as a contingency.

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. During the six months ended June 30 the company has paid US$0.5 million. The amount paid is recovered in full from TPDC by adjusting their share of profit gas.

The tax charge is as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Current tax	**2,155**	808	**5,194**	1,910
Deferred tax	**1,350**	150	**2,072**	688
	3,505	958	**7,266**	2,598

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		SIX MONTHS ENDED	
Figures in US$'000	**30 June 2012**	30 June 2011	**30 June 2012**	30 June 2011
Profit before taxation	**8,672**	1,341	**18,825**	5,371
Provision for income tax calculated at the statutory rate of 30%	**2,601**	402	**5,647**	1,611
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**701**	577	**1,306**	968
Stock- based compensation	**185**	(49)	**187**	(27)
Financing charge	**–**	(16)	**29**	(16)
Permanent differences	**18**	44	**97**	62
	3,505	1,640	**7,266**	2,598

As at 30 June 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 30 June 2012. The deferred income tax liability includes the following temporary differences:

	AS AT	
Figures in US$'000	**30 June 2012**	31 Dec 2011
Differences between tax base and carrying value of property, plant and equipment	**15,209**	14,409
Income tax recoverable	**4,014**	2,416
Other liabilities		
Employee bonuses	**(40)**	(145)
TPDC Additional Profit Gas	**(64)**	(50)
Additional profits tax	**(1,853)**	(1,436)
	17,266	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	1,598	2,959	4,557
As at 30 June 2012	**2,509**	**4,969**	**7,478**
NET BOOK VALUES			
As at 30 June 2012	2,509	4,969	7,478
As at 31 December 2011	911	2,010	2,921

TANZANIA

The exploration and evaluation expenditure in Q2, US$2.7 million, relates to an offshore site survey conducted in preparation for the drilling of the Songo Songo West prospect to evaluate the field, which is pending determination of proven and probable reserves.

ITALY

Capital costs incurred during the three and six month periods ended June 30, 2012, US$0.3 million and US$1.3 million respectively, 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	32,549	–	36	–	71	32,656
As at 30 June 2012	**128,563**	**320**	**737**	**249**	**405**	**130,274**
DEPLETION/DEPRECIATION						
As at 1 January 2012	28,833	271	520	196	85	29,905
Charge for period	3,955	14	79	25	83	4,156
As at 30 June 2012	**32,788**	**285**	**599**	**221**	**168**	**34,061**
NET BOOK VALUES						
As at 30 June 2012	**95,775**	**35**	**138**	**28**	**237**	**96,213**
As at 31 December 2011	67,181	49	181	53	249	67,713

The increase in assets in Tanzania is primarily due to the drilling of a new production well SS-11, Q2 US$15.2 million, six months ended 30 June US$31.7 million. In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$95.2 million (Q2 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.

	THREE MONTHS ENDED OR AS AT			THREE MONTHS ENDED OR AS AT		
	30 June 2012			30 June 2011		
Figures in US$'000	Tanzania	Italy	Total	Tanzania	Italy	Total
External Revenue	16,915	–	16,915	8,296	–	8,296
Segment Income	5,167	–	5,167	383	–	383
Total Assets	182,460	6,859	189,319	133,161	–	133,161
Total Liabilities	63,682	6,699	70,381	32,205	–	32,205
Capital additions	18,169	296	18,465	1,593	–	1,593
Depletion & depreciation	2,136	–	2,136	1,776	–	1,776

	SIX MONTHS ENDED OR AS AT			SIX MONTHS ENDED OR AS AT		
	30 June 2012			30 June 2011		
Figures in US$'000	Tanzania	Italy	Total	Tanzania	Italy	Total
External Revenue	34,121	–	34,121	17,936	–	17,936
Segment Income	11,559	–	11,559	2,773	–	2,773
Total Assets	182,460	6,859	189,319	133,161	–	133,161
Total Liabilities	63,682	6,699	70,381	32,205	–	32,205
Capital additions	35,615	1,598	37,213	2,949	–	2,949
Depletion & depreciation	4,156	–	4,156	3,406	–	3,406

6 Capital stock

Authorized and Issued Share Capital

Thousands of shares (thousands)	Authorised	Issued	Amount *US$'000*
CLASS A			
As at 1 January 2012 and 30 June 2012	**50,000**	**1,751**	**$ 983**
CLASS B			
As at 1 January 2012 and 30 June 2012	**100,000**	**32,743**	**$ 83,627**
FIRST PREFERENCE			
As at 30 June 2012	**100,000**	**–**	**–**
Total Class A, Class B and First Preference shares 30 June 2012	**250,000**	**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 period ended 30 June 2012:

STOCK OPTIONS

Thousands of options or Cdn$	Options	Exercise Price *(Cdn$)*
Outstanding as at 1 January 2012	3,057	1.00 to 13.55
Issued	400	3.18
Expired	(585)	8.00 to 13.55
Forfeited	(750)	4.75 to 13.55
Outstanding as at 30 June 2012	2,172	1.00 to 12.00

The weighted average remaining life and weighted average exercise price of options at 30 June 2012 were as follows:

Exercise Price *(Cdn$)*	Number outstanding as at 30 June 2012 *('000)*	Weighted Average Remaining Contractual Life *(years)*	Number Exercisable as at 30 June 2012 *('000)*	Weighted Average Exercise Price *(Cdn$)*
1.00	1,422	2.17	1,422	1.00
3.18	400	4.79	–	3.18
3.60	250	4.26	250	3.60
12	100	0.35	100	11.36
	2,172		1,772	

STOCK APPRECIATION RIGHTS

Thousands of stock appreciation rights or Cdn$	Options	Exercise Price
Outstanding as at 1 January 2012 and 30 June 2012 (i)/(ii)	405	4.20 to 13.55
Expired	(90)	13.55
Outstanding as at 30 June 2012 (i)/(ii)	315	4.20 to 13.55

(i) *A total of 300,000 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 15,000 stock appreciation rights have a term of five years. All of these options vested over a period of three years and are now fully vested. There is no maximum liability associated with these rights*

The Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in the balance sheet. In the valuation of these stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.50%, stock volatility of 51% to 69%, 0% dividend yield 0% forfeiture and a closing stock price of Cdn$2.11 per share.

As at 30 June 2012, a total accrued liability of US$0.1 million (Q2 2011: US$0.4 million) has been recognised in relation to the stock appreciation rights. The liability having been reduced by US$0.1 million during the period as a result in an overall decline in the valuation of the stock appreciation rights, a reduction of US$0.2 million having been recorded in Q2 2011.

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**30 June 2012**	30 Dec 2011
SHARES OUTSTANDING		
Class A shares	**1,751**	1,751
Class B shares	**32,743**	32,743
Weighted average Class A and Class B shares	**34,494**	34,494
WEIGHTED AVERAGE		
Class A and Class B shares	**34,494**	36,751
CONVERTIBLE SECURITIES		
Stock options	**948**	972
Weighted average diluted Class A and Class B shares	**35,442**	35,466

7 Related party transactions

One of the non executive Directors is a partner at a law firm. During the quarter, the Company incurred US$161 (Q2 2011: US$38) to this firm for legal services provided, resulting in a total expenditure of US$196 for the six months ended 30 June 2012 (2011: US$75). The transactions with this related party were made at the exchange amount and as at 30 June 2012 US$196 is payable.

8 Contractual obligations, 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 (75.0 Bcf as at 30 June 2012). The Company did not have a shortfall during the reporting period and 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 issued a decree of environmental compatibility for the drilling program. Subsequent to the end of the quarter, Legislative Decree 83/2012 (the "Decree"), published on 26 June 2012 was approved by both houses of the Italian Parliament with no substantial modifications. On 12th August, the Decree became law following publication in the Italian Official Journal. The new law modifies restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. The well is expected to be drilled following finalisation of an environmental impact study currently expected in the second half of 2013. Orca will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

In December 2010, the Company announced a farm in to Northern Petroleum (UK) Limited's Longastrino Block in the Po Valley Basin. Under the terms of the farm in, Orca will pay 100% of the costs of the La Tosca well up to a cap of approximately €4.3 million (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. Drilling of the La Tosca exploration well commenced in August 2012 and is expected to be complete by the beginning of September 2012 at an estimated total cost to the Company of US$8 million.

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 at 30 June, 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.

On 31 May 2012, as operator, the Company completed the logging of the SS-9 well to assess the condition of the production tubing. The Company has been independently advised that the useful life of the tubing could be extended for a further 36 weeks. However, the ultimate decision had to be taken by the owner of the well, Songas Limited, who raised no objection to the continued production in the short term.

In early July the Company completed a new onshore deviated development well (SS-11) which is expected to be connected to the gas processing plant and commissioned by September 2012. The Company plans to take well SS-9 out of production at that time and reserve that well for spare capacity. The Company expects to be able to produce approximately 123 MMcfd, though this is still restricted by the infrastructure capacity to a maximum of 102 MMcfd.

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$38 million was incurred on this prior to 30 June 2012.

Additional capital expenditure in Tanzania remains dependent on TANESCO payments being brought up to date, the satisfactory conclusion of the GNT issues with the government, 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.

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. As at 30 June 2012 the Company is not aware of any damage to the facilties that would result in a change, 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 included, 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 opera¬tions. Orca has engaged in these discussions in good faith and considerable progress has been made.

PSA Negotiations

In February 2012 on the recommendation of MEM, the Government announced that it was setting up a Government Negotiation Team ("GNT") to discuss a number of issues raised in parliament in relation to the Company's Songo Songo PSA with TPDC. In Tanzania, government negotiating teams are a common mechanism to negotiate with business. The scope of the GNT was to discuss a number of points that were raised by the Parliamentary Committee for Energy into the workings of the PSA. This included, 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 opera¬tions. After making submissions to the GNT, the Company commenced discussions in April 2012 and further in July 2012. In July 2012, the government dissolved the Parliamentary Committee for Energy on the grounds of alleged widespread corruption and abuse of power. To date, an agreement in principle has been reached with on a number of major points to resolve the issues. The GNT, having completed its mandate, has been dissolved and the responsibility for finalisation, documentation and implementation has moved back to the Ministry of Energy and Mines ("MEM"). The mutual goal of the parties is to complete this process by the end of 2012.

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' have been discussed with the GNT along with other issues. The issues are not yet fully resolved however, there may be the need for additional reserve and accounting modifications once these discussions are concluded. For the purpose of the reserves certification as at 31 December 2011, it was 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 MEM have indicated that they wish Orca to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with the GNT along with other issues. The Company anticipates further negotiations will be necessary before this matter is concluded.

Cost recovery

The Company's cost pool in Tanzania was recovered early in Q2 2011 resulting in a reduction in the percentage of net revenue attributable to the Company. During 2012 the level of cost gas has increased as a result of significant expenditure on drilling. TPDC conducted an audit of the historic cost pool and in 2011 disputed approximately US$34 million of costs that had been allocated to the cost pool from 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. This matter was not resolved during discussions with the GNT to date. Whilst the Company remains confident that the final outcome will be satisfactory it is prepared to utilise the extensive dispute resolution mechanisms outlined in the PSA if necessary. This matter has had no impact on the current quarter.

Taxation

The Company has received an assessment for additional withholding tax, which together with interest penalties totals approximately US$2.0 million. The Company, supported by its professional advisors, believes the assessment to be without merit and is in the process of submitting a formal appeal.

9 POST BALANCE SHEET EVENT

Following a communication from TPDC on 25 August 2012 and in response to a rapidly developing power shortage in the country, on 27 August 2012 the Ministry of Energy and Minerals issued an instruction and order to the Company to redirect all gas volumes (including from Industrial Gas buyers in Dar es Salaam) to TANESCO to aid in emergency power generation. The order states that the re-direction of gas is effective 25 August 2012 and shall extend to 31 December 2012. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order.

CORPORATE INFORMATION

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United Kingdom

David Ross
Non-Executive Director
Calgary
Canada

William H. Smith
Non-Executive Director
Calgary, Alberta
Canada

Robert Wynne
Chief Financial Officer
Calgary, Alberta
Canada

Officers

W. David Lyons
Chairman and
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