CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME/(LOSS) (unaudited)

		THREE MONTHS ENDED		NINE MONTHS ENDED	
(Figures in US$'000 except per share amounts)	NOTE	**30 Sep 2012**	30 Sep 2011	**30 Sep 2012**	30 Sep 2011
REVENUE		**22,425**	10,457	**56,545**	28,393
Cost of sales					
Production and distribution expenses		**(1,497)**	(1,800)	**(4,624)**	(4,009)
Depletion expense		**(2,324)**	(2,647)	**(6,279)**	(5,957)
		18,604	6,010	**45,642**	18,427
General and administrative expenses		**(4,391)**	(4,399)	**(12,322)**	(10,736)
Exploration asset impairment	3	**(7,496)**	–	**(7,496)**	–
Net finance costs		**(407)**	(322)	**(689)**	(1,031)
Profit before taxation		**6,310**	1,289	**25,135**	6,660
Taxation	2	**(5,044)**	(1,343)	**(12,310)**	(3,941)
Profit/(loss) after taxation and comprehensive income		**1,266**	(54)	**12,825**	2,719
EARNINGS/(LOSS) PER SHARE					
Basic *(US$)*		**0.04**	(0.00)	**0.37**	0.08
Diluted *(US$)*		**0.04**	(0.00)	**0.36**	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 Sep 2012	31 Dec 2011
ASSETS			
Current assets			
Cash and cash equivalents		**23,289**	34,680
Trade and other receivables		**62,285**	40,348
Taxation receivable		**15,078**	5,880
Prepayments		**499**	302
		101,151	81,210
Non-current assets			
Exploration and evaluation assets	3	**5,451**	2,921
Property, plant and equipment	4	**103,383**	67,713
		108,834	70,634
Total assets		**209,985**	151,844
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		**50,753**	22,801
Bank loan	7	**5,800**	–
Taxation payable		**6,867**	2,403
		63,420	25,204
Non-current liabilities			
Deferred income taxes	2	**19,285**	15,194
Deferred additional profits tax	2	**7,076**	4,787
		26,361	19,981
Total liabilities		**89,781**	45,185
EQUITY			
Capital stock	6	**84,610**	84,610
Contributed surplus		**6,988**	6,268
Accumulated income		**28,606**	15,781
		120,204	106,659
Total equity and liabilities		**209,985**	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 9)

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

W H Smith

Director

Director

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (unaudited)

		THREE MONTHS ENDED		NINE MONTHS ENDED	
(Figures in US$'000)	NOTE	**30 Sep 2012**	30 Sep 2011	**30 Sep 2012**	30 Sep 2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit after taxation		**1,266**	(54)	**12,825**	2,719
Adjustment for:					
Depletion and depreciation	*4*	**2,393**	2,741	**6,549**	6,142
Exploration assets impairment	*3*	**7,496**	–	**7,496**	–
Stock-based compensation		**80**	493	**701**	403
Deferred income taxes		**2,019**	718	**4,091**	1,406
Deferred additional profits tax		**900**	1,158	**2,289**	1,946
Interest income		**(2)**	(1)	**(4)**	(5)
Unrealised foreign exchange loss		**227**	268	**303**	951
		14,379	5,323	**34,250**	13,561
(Increase) in trade and other receivables		**(11,086)**	(8,802)	**(22,577)**	(14,120)
(Increase)/decrease in taxation receivable		**(2,293)**	559	**(9,198)**	(57)
(Increase)/decrease in prepayments		**342**	278	**(197)**	(102)
Increase in trade and other payables		**7,653**	779	**14,688**	4,582
Increase in taxation payable		**93**	(594)	**4,464**	(684)
Net cash flows from operating activities		**9,088**	(2,457)	**21,430**	3,181
CASH FLOWS USED IN INVESTING ACTIVITIES					
Exploration and evaluation expenditures		**(5,469)**	(1,016)	**(10,026)**	(1,554)
Property, plant and equipment expenditures		**(9,564)**	(2,909)	**(42,219)**	(5,320)
Interest received		**2**	1	**4**	5
Proceeds from sale of vehicle		**–**	–	**–**	5
Increase in trade and other payables		**3,413**	152	**13,817**	1,012
Net cash used in investing activities		**(11,618)**	(3,772)	**(38,424)**	(5,852)
CASH FLOWS FROM FINANCING ACTIVITIES					
Bank loan proceeds		**5,800**	–	**5,800**	–
Net cash from financing activities		**5,800**	–	**5,800**	–
Increase in cash and cash equivalents		**3,270**	(6,229)	**(11,194)**	(2,671)
Cash and cash equivalents at the beginning of the period		**20,194**	48,993	**34,680**	45,519
Effect of change in foreign exchange		**(175)**	(132)	**(197)**	(216)
Cash and cash equivalents at the end of the period		**23,289**	42,632	**23,289**	42,632

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 INCOME	TOTAL
Balance as at 1 January 2011	85,100	5,288	7,795	98,183
Stock based compensation	–	661	–	661
Total comprehensive income for the period	–	–	2,719	2,719
Balance as at 30 September 2011	**85,100**	**5,949**	**10,514**	**101,563**

(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
Stock based compensation	–	720	–	720
Total comprehensive income for the period	–	–	12,825	12,825
Balance as at 30 September 2012	**84,610**	**6,988**	**28,606**	**120,204**

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 nine months ended 30 September 2012 comprise accounts of 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 29 November 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 Limited ("Songas") and TANESCO. Songas' financial security is heavily reliant on the payment of capacity and energy charges by TANESCO. The state utility is dependent on the Government of Tanzania for some of its funding. Prior to 2012, despite having a history of delayed payments, TANESCO had settled in full the outstanding balance subsequent to each quarter end.

At 30 September 2012, TANESCO owed the Company US$31.2 million (including arrears of US$26.7 million) compared to US$24.2 million (including arrears of US$20.2 million) as at 31 December 2011. During the third quarter changes took place within TANESCO management which have led to constructive dialogue with the Company. TANESCO's new management has assured the Company of its intention to pay. Subsequent to the end of Q3, the Company has received US$9.5 million and, as of the date of this report, the arrears total US$21.7 million. During the year, and as of the date of this report, the Company has received US$37.4 million from TANESCO, in settlement of the 31 December 2011 arrears and that for the first quarter of 2012.

At the end of Q3 Songas owed the Company US$17.8 million, whilst the Company owed Songas US$14.8 million; there is no legal right to offset these amounts.

During Q3, to help alleviate the funding gap caused by the delays in TANESCO payments the Company put in place a US$10 million facility with a bank in Tanzania. As at 30 September 2012 the Company had drawn down US$6.0 million of this facility, incurring financing charges of US$0.2 million.

Any significant additional capital expenditure in Tanzania remains dependent on TANESCO payments being brought up to date, the satisfactory conclusion of the issues associated with the Government Negotiating Team ("GNT"), progress on infrastructure expansion and the subsequent raising of finance. Significant additional capital expenditure will be required to enable the Songo Songo field to produce 200 MMcfd in line with the anticipated infrastructure expansion. 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 the Tanzania Petroleum Development Corporation ("TPDC"), the Company is liable to pay income tax at the corporate rate of 30% on profits generated in Tanzania. During the nine months ended 30 September 2012 the Company has paid US$1.4 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		NINE MONTHS ENDED	
Figures in US$'000	**30 Sep 2012**	30 Sep 2011	**30 Sep 2012**	30 Sep 2011
Current tax	**3,026**	625	**8,221**	2,535
Deferred tax	**2,018**	718	**4,089**	1,406
	5,044	1,343	**12,310**	3,941

TAX RATE RECONCILIATION

	THREE MONTHS ENDED		NINE MONTHS ENDED	
Figures in US$'000	**30 Sep 2012**	30 Sep 2011	**30 Sep 2012**	30 Sep 2011
Profit before taxation	**6,310**	1,289	**25,136**	6,660
Provision for income tax calculated at the statutory rate of 30%	**1,893**	387	**7,541**	1,998
Add/(deduct) the tax effect of non-deductible income tax items:				
Administrative and operating expenses	**610**	591	**1,892**	1,559
Stock- based compensation	**24**	148	**209**	1,121
Financing charge	**–**	23	**29**	7
Exploration assets impairment	**2,248**	–	**2,248**	–
Permanent differences	**269**	194	**391**	256
	5,044	1,343	**12,310**	3,941

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

	AS AT	
Figures in US$'000	**30 Sep 2012**	31 Dec 2011
Differences between tax base and carrying value of property, plant and equipment	**15,961**	14,409
Income tax recoverable	**5,580**	2,416
Other liabilities		
Employee bonuses	**(60)**	(145)
TPDC Additional Profit Gas	**(73)**	(50)
Additional profits tax	**(2,123)**	(1,436)
	19,285	15,194

Additional Profits Tax

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

The Company provides for APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA license. The effective APT rate of 31.8% (Q3 2011 20%) is then applied to Profit Gas of US$2.6 million in Q3 2012 (Q3 2011: US$6.1 million). Accordingly, US$0.9 million (Q3 2011: US$1.2 million) has been netted off revenue for the quarter ended 30 September 2012. The total adjustment for the nine months to 30 September was US$2.3 million and US$1.9 million for 2012 and 2011 respectively.

3 Exploration and evaluation assets

Figures in US'000	Italy	Tanzania	Total
COSTS			
As at 1 January 2012	911	2,010	2,921
Additions	6,585	3,441	10,026
Impairment	(7,496)	–	(7,496)
As at 30 September 2012	**–**	**5,451**	**5,451**
NET BOOK VALUES			
As at 30 September 2012	–	5,451	5,451
As at 31 December 2011	911	2,010	2,921

TANZANIA

The exploration and evaluation additions of US$3.4 million for the nine months to 30 September, 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

Pursuant to the terms of the Company's Longastrino Block farm-in in the Po Valley Basin the Company spent US$6.6 million during 2012 related to the drilling of the La Tosca exploration well. The well was unsuccessful and the related accumulated costs of US$7.5 million were impaired in the period ended 30 September 2012.

The La Tosca well was plugged and abandoned having reached total depth; the gas shows encountered and data obtained during drilling having not warranted completion and testing of the well. Orca has earned a 70% working interest in the block and, subject to government approval, the operatorship of the block. The Company intends to review the technical and drilling data to determine whether to continue exploration on the block.

4 Property, plant and equipment

Figures in US$'000	Natural gas properties	Leasehold improvements	Computer equipment	Vehicles	Fixtures & Fittings	Total
COSTS						
As at 1 January 2012	96,014	320	701	249	334	97,618
Additions	42,112	–	36	–	71	42,219
As at 30 September 2012	**138,126**	**320**	**737**	**249**	**405**	**139,837**
DEPLETION/DEPRECIATION						
As at 1 January 2012	28,833	271	520	196	85	29,905
Depletion and depreciation for the period	6,279	20	121	35	94	6,549
As at 30 September 2012	**35,112**	**291**	**641**	**231**	**179**	**36,454**
NET BOOK VALUES						
As at 30 September 2012	**103,014**	**29**	**96**	**18**	**226**	**103,383**
As at 31 December 2011	67,181	49	181	53	249	67,713

The increase in natural gas properties is primarily due to the drilling of a new production well SS-11 in Tanzania and the tie-in of the well to the processing plant - Q3 US$9.7 million and nine months ended 30 September 2012 US$41.4 million. The total cost of the SS-11 well which came on stream 3 October, including its connection to the gas processing plant, was US$45 million.

In determining the depletion charge, it is estimated by the independent reserve engineers that future development costs of US$79.3 million (Q3 2011: US$113.0 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 September 2012			30 September 2011		
Figures in US$'000	Tanzania	Italy	Total	Tanzania	Italy	Total
External Revenue	22,425	–	22,425	10,457	–	10,457
Segment Income/(Loss)	8,762	(7,496)	1,266	(54)	–	(54)
Total Assets	209,985	–	209,985	135,707	–	135,707
Total Liabilities	89,781	–	89,781	34,144	–	34,144
Capital additions	10,046	4,987	15,033	3,123	802	3,925
Depletion & depreciation	2,393	–	2,393	2,741	–	2,741
Exploration assets impairment	–	(7,496)	(7,496)	–	–	–

	NINE MONTHS ENDED OR AS AT			NINE MONTHS ENDED OR AS AT		
	30 September 2012			30 September 2011		
Figures in US$'000	Tanzania	Italy	Total	Tanzania	Italy	Total
External Revenue	56,545	–	56,545	28,393	–	28,393
Segment Income/(Loss)	20,321	(7,496)	12,825	2,719	–	2,719
Total Assets	209,985	–	209,985	135,707	–	135,707
Total Liabilities	89,781	–	89,781	34,144	–	34,144
Capital additions	45,660	6,585	52,245	6,072	802	6,874
Depletion & depreciation	6,549	–	6,549	6,147	–	6,147
Exploration assets impairment	–	(7,496)	(7,496)	–	–	–

6 Capital stock

Authorized and Issued Share Capital

Thousands of shares (thousands)	Authorised	Issued	Amount *US$'000*
CLASS A			
As at 1 January 2012 and 30 September 2012	**50,000**	**1,751**	**$ 983**
CLASS B			
As at 1 January 2012 and 30 September 2012	**100,000**	**32,743**	**$ 83,627**
FIRST PREFERENCE			
As at 30 September 2012	**100,000**	**–**	**–**
Total Class A, Class B and First Preference shares As at 30 September 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 September 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	(535)	8.00 to 13.55
Forfeited	(750)	4.75 to 13.55
Outstanding as at 30 September 2012	2,172	1.00 to 12.00

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

Exercise Price *(CDN$)*	Number outstanding as at 30 Sep 2012 *('000)*	Weighted Average Remaining Contractual Life *(years)*	Number Exercisable as at 30 Sep 2012 *('000)*	Weighted Average Exercise Price *(CDN$)*
1.00	1,422	1.92	1,422	1.00
3.18	400	5.25	–	3.18
3.60	250	4.01	250	3.60
12.00	100	0.10	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 (i)/(ii)	405	4.20 to 13.55
Issued (iii)	100	2.70
Expired	(90)	13.55
Outstanding as at 30 September 2012	415	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.*

(iii) *A total of 100,000 stock appreciation rights have a term of five years. These rights were granted in August 2012 and will vest over a period of three years. 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 statement of financial position. 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 53% to 70%, 0% dividend yield 0% forfeiture and a closing stock price of CDN$2.80 per share.

As at 30 September 2012, a total accrued liability of US$0.2 million (Q3 2011: US$0.4 million) has been recognised in relation to the stock appreciation rights. The liability having increased by US$0.1 million during the period as a result in an overall increase in the valuation of the stock appreciation rights, a reduction of US$0.2 million having been recorded in Q3 2011.

Shareholders' Equity and Outstanding Share Data

	AS AT	
Number of shares ('000)	**30 Sep 2012**	31 Dec 2011
SHARES OUTSTANDING		
Class A shares	**1,751**	1,751
Class B shares	**32,743**	32,747
Class A and Class B shares outstanding	**34,494**	34,498
WEIGHTED AVERAGE		
Class A and Class B shares	**34,494**	34,656
CONVERTIBLE SECURITIES		
Stock options	**927**	1,176
Weighted average diluted Class A and Class B shares	**35,421**	35,832

7 Bank loan

In September 2012, the Company closed a US$10 million 18-month bridge loan facility with a Tanzania bank to finance the Company's working capital requirements in Tanzania. The facility is secured by an assignment of accounts receivable and a fixed and floating charge on the assets of the Company. As at 30 September 2012 the Company has drawn down US$6.0 million under the facility and paid US$0.2 million in financing fees. Principal amounts drawn under the facility are repayable in 12 equal monthly instalments commencing in March 2013. Interest is payable monthly at three-month US LIBOR plus 8%. An additional interest rate of 2% will be applied for any period in which the TANESCO receivable is greater than 240-days.

8 Related party transactions

One of the non executive directors is a partner at a law firm. During the quarter, the Company incurred US$50 (Q3 2011: US$38) to this firm for legal services provided, resulting in a total expenditure of US$246 for the nine months ended 30 September 2012 (2011: US$113). The transactions with this related party were made at the exchange amount and as at 30 September 2012 US$246 was payable.

9 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, 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 (80.3 Bcf as at 30 September 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. The Company is negotiating an extension to the lease which expires in November 2012.

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 was 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. During 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.

Songo Songo commitments

Any significant additional capital expenditure in Tanzania remains dependent on TANESCO payments being brought up to date, the satisfactory conclusion of the GNT issues, progress on infrastructure expansion and the subsequent raising of finance. Significant additional capital expenditure will be required to enable the Songo Songo field 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 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 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 September 2012 the Company is not aware of any damage to the facilities that would result in a charge and the indemnity will remain in force until such time as the plant is de-rated.

The Re-rating Agreement will expire 31 December 2012. An extension of the Re-rating Agreement is currently being discussed among the Ministry of Energy and Minerals ("MEM"), TPDC and Songas.

Access to infrastructure

Ndovu Resources Limited, with support from TPDC and MEM, 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. Access has not yet been granted and it is not clear when, or if, this will occur.

Power generation

During Q3, as a result of deteriorating hydro power supplies, MEM instructed the Company to temporarily direct all gas supplies to the Power sector. Following extensive discussions agreement was reached on the volumes the Company could supply without jeopardising its ability to meet other commitments.

PSA Negotiations

In February 2012 on the recommendation of MEM, the Government announced that it was establishing a negotiating team, the 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 operations. After making submissions to the GNT, the Company commenced discussions in April 2012 and further in July 2012. In July 2012, Parliament dissolved the Parliamentary Committee for Energy and Minerals on the grounds of alleged widespread corruption and abuse of power. A Parliamentary team formed to investigate the allegations subsequently cleared Members of Parliament of any wrong doing. During the quarter, an agreement in principle was been reached on a number of major points to resolve the issues. The GNT has completed its mandate and the responsibility for finalisation, documentation and implementation has moved back to MEM. The agreement in principal contemplated completion this process by the end of 2012. As at the date of this report, a number of issues remain to be fully resolved and documented. The outcome of these negotiations could have a significant impact on the operations of the Company, which cannot be estimated at this time.

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

In connection with the GNT negotiations and the recently announced draft Natural Gas Policy, 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 the SS-11 well. 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. While 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 from the Tanzanian Revenue Authority (TRA), 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 has submitted a formal appeal to the Tax Revenue Appeal Board. A date for the hearing has not yet been set.

CORPORATE INFORMATION

Board of Directors

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

David W. Ross
Non-Executive Director
Calgary
Canada

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

Robert S. Wynne
Chief Financial Officer
Calgary, Alberta
Canada

Officers

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

Robert S. Wynne
Chief Financial Officer
Calgary, Alberta
Canada

Beer van Straten
Chief Operating Officer
Molkerum
Netherlands

Operating Office

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

Registered Office

Orca Exploration
Group Inc.
P.O. Box 3152
Road Town
Tortola
British Virgin Islands

Investor Relations

Robert S. Wynne
Chief Financial Officer
RSWynne@orcaexploration.com
www.orcaexploration.com

International Subsidiaries

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

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

Orca Exploration Group Inc.
Orca Exploration Italy Inc.
Orca Exploration Italy Onshore Inc.
P.O. Box 3152,
Road Town
Tortola
British Virgin Islands

Engineering Consultants

McDaniel & Associates
Calgary, Canada

Auditors

KPMG LLP
Calgary, Canada

Lawyers

Burnet, Duckworth
& Palmer LLP
Calgary, Canada

Transfer Agent

CIBC Mellon
Trust Company
Toronto & Montreal, Canada

ORCA

www.orcaexploration.com