

# IMPORTANT NOTICE

*The Depository Trust Company*



## REVISION

**#:** 7123-10  
**Date:** 09/17/10  
**To:** All Participants  
**Category:** Dividends  
**From:** Supervisor, Stock Dividend Department  
**Attention:** Dividend Managers, Cashiers, and Reorganization Managers  
**Subject:** Rights: Orca Exploration. CUSIP: **G6769T107 & G6769T115** R/D: 09/02/10  
Rights CUSIP: G6769T123  
Rate: One Right for each common share held  
Expires: 10/05/10 no later than 4:00 P.M. Toronto time

\*\*\*\*\*WARNING TIME CRITICAL\*\*\*\*\*

Orca Exploration Group Inc is offering transferable Rights to holders as of close of business 09/02/10 (the Record Date.) Each holder of It's Class A and Class B is entitled to one Right for each Share held. The Rights expire on 10/05/10 at 4:00 P.M. Toronto time.

The eligible jurisdictions for this Rights Offering are the provinces of Canada except the province of Quebec. This offering is not being offered to share holders in the United States. Ineligible holders Right will be sold on a best effort basis by the subscription agent on behalf their participants and their beneficial holders. The Rights from Class A and Class B can only subscribe to receive Class B shares.

Rights returned to the Subscription Agent as undeliverable will not be sold by the Subscription Agent and no proceeds of sale will be credited to such holders.

DTC will not be releasing Rights. **Participants with eligible Shareholders wishing to have the Rights released to them must send written instructions to the attention of Lynel Hobson or Morris Richards, of DTC's Stock Dividend Section, via fax at 813-470-1097, no later than 5:00 P.M. New York time on 09/23/10.** Participants must contact Lynel Hobson at 813-470-1572 or Morris Richards at 813-470-1568 to confirm receipt of the instructions. The address stated in the instructions must be in an eligible jurisdiction. **Instructions must include an indemnity clause and medallion stamp.**

Non-Confidential

DTCC is now offering enhanced access to all important notices via a new, Web-based subscription service. The new notification system leverages RSS Newsfeeds, providing significant benefits including real-time updates and customizable delivery. To learn more and to set up your own DTCC RSS alerts, visit [http://www.dtcc.com/subscription\\_form.php](http://www.dtcc.com/subscription_form.php).

To remove your name from the former system of email notifications, send a message to [unsubscribe@dtcc.com](mailto:unsubscribe@dtcc.com).

**7123-10**

The instructions will be processed only after acceptance by the Subscription Agent.  
**Participants are responsible for receiving their Rights from the Subscription Agent.**

**THE DIVIDEND POSITION AND ALLOCATION HISTORY (DPAL) OPTION, ACCESSED VIA THE PTS DIVIDEND ANNOUNCEMENTS INQUIRY FUNCTION (DIVA), SHOULD BE USED TO CONFIRM YOUR RECORD DATE POSITION HISTORY.**

**IT IS IMPORTANT THAT PARTICIPANTS REFER TO THE DTC REORGANIZATION INQUIRY FOR PARTICIPANTS (RIPS), FUNCTION CODE 52, FOR INFORMATION REGARDING THE SUBSCRIPTION PRIVILEGE AND ANY EXTENSIONS TO THE EXPIRATION DATE.**

If participants have any questions regarding this Important Notice, they may contact DTC's Customer Help Center at 888-382-2721.

If participants have a question regarding this Rights Offering, please contact CIBC Mellon corporate actions 800-387-0825 or 416-643-5500.

***Important Legal Information:*** *The Depository Trust Company ("DTC") does not represent or warrant the accuracy, adequacy, timeliness, completeness or fitness for any particular purpose of the information contained in this communication, which is based in part on information obtained from third parties and not independently verified by DTC and which is provided as is. The information contained in this communication is not intended to be a substitute for obtaining tax advice from an appropriate professional advisor. In providing this communication, DTC shall not be liable for (1) any loss resulting directly or indirectly from mistakes, errors, omissions, interruptions, delays or defects in such communication, unless caused directly by gross negligence or willful misconduct on the part of DTC, and (2) any special, consequential, exemplary, incidental or punitive damages. To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that: (a) any discussion of federal tax issues contained or referred to herein is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code; and (b) as a matter of policy, DTC does not provide tax, legal or accounting advice and accordingly, you should consult your own tax, legal and accounting advisor before engaging in any transaction.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The offering of these securities is made in all provinces and territories of Canada, other than Quebec, and in such other jurisdictions outside of Canada and the United States where it is not unlawful to do so and where shareholders of Orca Exploration Group Inc. are resident excluding any jurisdiction that does not provide a rights offering prospectus exemption substantially similar to the exemption provided in Canada or that otherwise requires obtaining any approvals of a regulatory authority in such jurisdictions or the filing of any documents by Orca Exploration Group Inc. in such jurisdiction in connection with this rights offering. These securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold in the United States and this rights offering circular does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States of America. This offering is not, and under no circumstances is it to be construed as, an offering of any securities for sale in, or to any resident of any other jurisdiction or a solicitation therein of any offer to buy any securities of Orca Exploration Group Inc.*

*Orca Exploration Group Inc. is incorporated under the laws of a foreign jurisdiction or resides outside of Canada. Although Orca Exploration Group Inc. has appointed Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta T2P 3N9 as its agent for service of process in all the provinces and territories of Canada, it may not be possible for investors to enforce judgments obtained in Canadian against Orca Exploration Group Inc.*

**PLEASE READ THIS MATERIAL CAREFULLY AS YOU ARE REQUIRED TO MAKE A DECISION PRIOR TO 4:00 P.M. (TORONTO TIME) ON OCTOBER 5, 2010.**

**Rights Offering**

**August 19, 2010**



**ORCA EXPLORATION GROUP INC.  
PO Box 3152  
Road Town  
Tortola, British Virgin Islands**

**OFFER OF RIGHTS TO SUBSCRIBE FOR CLASS "B" SUBORDINATE VOTING SHARES**

**To: The Holders of Class "A" Common Voting Shares and Class "B" Subordinate Voting Shares of Orca Exploration Group Inc.**

Orca Exploration Group Inc. ("**Orca**" or the "**Corporation**") is issuing to holders of the outstanding Class "A" Common Shares ("**Class "A" Shares**") and Class "B" Subordinate Voting Shares ("**Class "B" Shares**" and collectively with the Class "A" Shares, referred to as the "**Shares**") of the Corporation of record at the close of business on September 2, 2010 (the "**Record Date**") rights ("**Rights**") evidenced by transferable rights certificates ("**Rights Certificates**") to subscribe for Class "B" Shares in the capital of the Corporation, before 4:00 p.m. (Toronto Time) (the "**Expiry Time**") on October 5, 2010 (the "**Expiry Date**") on the terms set forth herein (the "**Rights Offering**"). Each holder of Shares as of the Record Date will receive one Right for each Share held. The holders of Rights will be entitled to acquire one Class "B" Share for every six Rights held upon payment of the subscription price of \$3.90 per share (the "**Subscription Price**") (the "**Basic Subscription Privilege**"). Fractional Class "B" Shares will not be issued under the Rights Offering. If the total number of Rights held by one (1) beneficial holder is not evenly divisible by six (6), the number of Class "B" Shares that the beneficial holder is entitled to purchase will be rounded up to the nearest whole number such that no fractional Class "B" Shares will be issued. See "Details of the Rights and the Class "B" Shares – Step-Up Privilege". Holders of Rights may exercise such Rights or sell such Rights on the TSX Venture Exchange Inc. (the "**TSXV**"). Unexercised Rights will expire at the Expiry Time. See "Details of the Rights and the Class "B" Shares." **The Rights Offering is not subject to any minimum subscription level.**

**The Rights and the Class "B" Shares issuable upon exercise of the Rights will be listed on the TSXV. The Rights will be listed for trading on the TSXV until 12:00 noon (Calgary Time) on the Expiry Date, at which time they will be halted from trading.**

**The following information is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this Rights Offering Circular.**

<b>TOTAL NUMBER OF RIGHTS:</b>	One (1) Right for each Share held. Based on the number of Class "A" Shares and Class "B" Shares outstanding as of the date of this Rights Offering Circular, maximum of 29,734,123 Rights will be issued under the Rights Offering.
<b>RECORD DATE:</b>	Close of business on September 2, 2010.
<b>TIME AND DATE OF EXPIRY OF RIGHTS:</b>	4:00 p.m. (Toronto Time) on October 5, 2010.
<b>SUBSCRIPTION PRICE:</b>	\$3.90 per Class "B" Share.
<b>BASIC SUBSCRIPTION PRIVILEGE:</b>	Subject to the terms hereof, each holder of record of Shares at the close of business on the Record Date is entitled to receive one Right for each Share held. Six Rights will entitle the holder to subscribe for one Class "B" Share at the Subscription Price. See "Details of the Rights and the Class "B" Shares - Basic Subscription Privilege".
<b>MAXIMUM NUMBER OF CLASS "B" SHARES ISSUABLE:</b>	Based on the number of Class "A" Shares and Class "B" Shares outstanding as of the date hereof, a maximum of 4,955,687 Class "B" Shares will be issued upon exercise of the Rights, representing 17% of the issued and outstanding Shares on the date hereof.
<b>MAXIMUM GROSS PROCEEDS:</b>	\$19,327,179, assuming the exercise of all Rights under the Offering
<b>ESTIMATED EXPENSES:</b>	\$600,000
<b>STAND-BY COMMITMENT:</b>	Haywood Securities Inc. and GMP Securities L.P. have agreed to, on a reasonable best efforts basis, subscribe for and purchase at the Subscription Price, all of the Class "B" Shares not otherwise purchased on the exercise of Rights pursuant to the Basic Subscription Privilege and the Additional Subscription Privilege.
<b>ADDITIONAL SUBSCRIPTION PRIVILEGE:</b>	Each holder of a Rights Certificate who exercises all of the Rights evidenced by such certificate may subscribe for additional Class "B" Shares, if any, available as a result of Class "B" Shares offered hereunder that have not been subscribed and paid for at the Expiry Time. See "Details of the Rights and the Class "B" Shares - Additional Subscription Privilege".
<b>MINIMUM AMOUNT OF PROCEEDS:</b>	There is no minimum subscription level.

**LISTING:**

The Rights and the Class "B" Shares issuable upon exercise of the Rights will be listed on the TSXV. The Rights will be listed for trading on the TSXV until 12:00 noon (Calgary Time) on the Expiry Date, at which time they will be halted from trading.

**SUBSCRIPTION AGENT:**

CIBC Mellon Trust Company. See "Subscription Agent and Transfer Agent" for contact information.

The Rights expire at the Expiry Time. A Rights Certificate evidencing the total number of Rights to which a holder of Shares is entitled has been sent with this rights offering circular to each holder of Shares of record as of the Record Date with an address of record in any of the provinces and territories of Canada, other than Quebec, or in such other jurisdictions outside of Canada and the United States where it is not unlawful to do so (collectively, the "**Qualifying Jurisdictions**") provided that residents of such jurisdictions provide evidence satisfactory to the Corporation that it is not unlawful for them to participate in the Rights Offering.

To subscribe for Class "B" Shares, a completed Rights Certificate and payment in full of the Subscription Price must be received by CIBC Mellon Trust Company (the "**Subscription Agent**") prior to the Expiry Time. Rights not exercised prior to the Expiry Time will be void and of no value. See "Details of the Rights and the Class "B" Shares - Basic Subscription Privilege".

A holder of Rights who subscribes for all of the Class "B" Shares to which the holder is entitled to subscribe for under the Basic Subscription Privilege (as defined below) is entitled to subscribe for additional Class "B" Shares (the "**Additional Class "B" Shares**") at a price of \$3.90 per Class "B" Share pursuant to the Additional Subscription Privilege (as defined below) described in this rights offering circular. See "Details of the Rights and the Class "B" Shares - Additional Subscription Privilege".

The Rights issued hereunder are only qualified for distribution in the Qualifying Jurisdictions. Accordingly, Rights Certificates will not be sent to holders of Shares with addresses of record in any jurisdiction other than the Qualifying Jurisdictions. Rights which these holders of Shares would otherwise be entitled to receive will be held by the Subscription Agent who will, prior to the Expiry Time, attempt to sell such Rights on the open market, on a best efforts basis, and the net proceeds thereof, if any, will be forwarded to such holder of Shares. See "Details of the Rights and the Class "B" Shares - Ineligible Shareholders".

The head office of the Corporation is located at Barclays House, 5th floor, P.O. Box 80139, Dar es Salaam, Tanzania and its registered office is located at P.O. Box 3152, Road Town, Tortola, the Territory of the British Virgin Islands.

## FORWARD-LOOKING STATEMENTS

This Rights Offering Circular contains certain forward-looking statements and forward-looking information which are based on the Corporation's current internal expectations, estimates, projections, assumptions and beliefs, including, among other things, assumptions with respect to production, future capital expenditures and cash flow. Readers are cautioned that assumptions used in the preparation of such information may prove to be incorrect. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "plan", "should", "believe" and similar expressions are intended to identify forward-looking statements and forward-looking information. Statements regarding reserves and resources are deemed to be forward looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources can be profitably produced in the future. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward- looking statements or information. The Corporation believes that the expectations reflected in those forward-looking statements and information are reasonable but no assurance can be given that these expectations, or the assumptions underlying these expectations, will prove to be correct and such forward-looking statements and information included in this Rights Offering Circular should not be unduly relied upon. Such forward-looking statements and information speak only as of the date of this Rights Offering Circular and the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, except as required by applicable laws.

In particular, this Rights Offering Circular contains forward-looking statements which include, but are not limited to, statements and information pertaining to the quality of and future net revenues from the Corporation's reserves; commodity prices, foreign currency exchange rates and interest rates; capital expenditure programs and other expenditures; expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions and development; schedules and timing of certain projects and the Corporation's strategy for growth; number of Rights to be issued pursuant to the Offering; the timing of and other procedural matters associated with the Rights Offering; the successful completion of the Rights Offering and the use of proceeds therefrom; the Corporation's business strategy and outlook for its business segments; the Corporation's future operating and financial results; and treatment under governmental and other regulatory regimes and tax, environmental and other laws.

All such forward-looking information and statements regarding the timing of and other procedural matters associated with the Rights Offering and the successful completion of the Rights Offering is based upon the terms of the Rights Offering Circular and assumes that the maximum 4,955,687 Class "B" Shares will be issued pursuant to the Rights Offering.

All such forward-looking information and statements regarding the Corporation's business and the use of proceeds from the Rights Offering are based on certain assumptions and analyses made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Corporation believes are appropriate in the circumstances, including, but are not limited to, the ability of Orca to add production and reserves at a consistent rate; commodity prices will not deteriorate significantly; the ability of Orca to obtain financing on acceptable terms; the ability of Orca to obtain equipment in a timely manner to carry out exploration, development and exploitation activities; funds flow from operations; production numbers; the number of Rights to be exercised pursuant to the Offering; future capital expenditures; debt levels; expenses; and cash flows.

These statements are, however, subject to known and unknown risks and uncertainties and other factors. As a result, actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking information and statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information and statements will transpire or occur, or if any of them do so, what benefits will be derived therefrom.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of both known and unknown risks, including the risk factors set forth under "*Risk Factors*" in this Rights Offering Circular and those set forth below: risks associated with the exploration for and development of oil and natural gas reserves; operational risks and liabilities that are not covered by insurance;

volatility in market prices for oil and natural gas; the ability of the Corporation to fund its substantial capital requirements and operations; risks associated with ensuring title to the Corporation's properties; changes in environmental or other legislation applicable to the Corporation's operations, and the Corporation's ability to comply with current and future environmental and other laws; uncertainties associated with estimating reserves; the Corporation's success at acquisition, exploitation and development of reserves; the Corporation's reliance on key operational and management personnel; the ability of the Corporation to obtain and maintain all of its required permits and licenses; competition for, among other things, capital, drilling equipment, acquisitions of reserves, undeveloped lands and skilled personnel; changes in general economic, market and business conditions in Canada, North America and worldwide; and actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.

**These factors should not be construed as exhaustive. Except as required under applicable securities laws, the Corporation undertakes no obligation to update or revise any forward-looking statements.**

#### **CURRENCY**

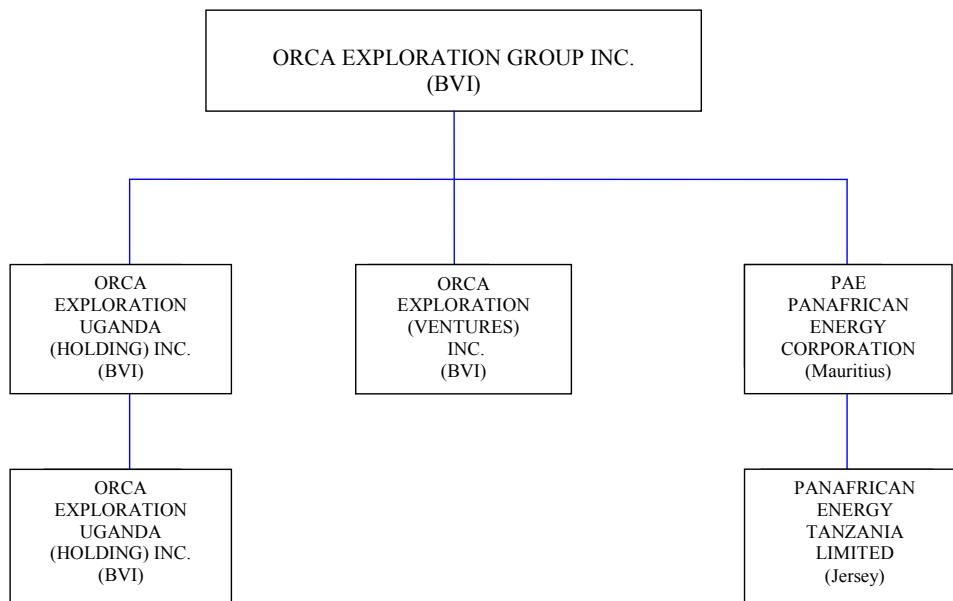
Unless otherwise indicated, all references herein are to Canadian dollars.

## BUSINESS OF THE CORPORATION

### Corporate History

Orca is an international public company engaged in hydrocarbon exploration, development and marketing. The Corporation's operations are directed from offices in Dar es Salaam, Tanzania. Orca was incorporated pursuant to a memorandum and articles of association pursuant to the laws of the British Virgin Islands on April 28, 2004 and its Class "A" Shares and Class "B" Shares are publicly listed and traded on the TSXV under the trading symbols "ORC.A" and "ORC.B", respectively. Orca was originally incorporated as "EastCoast Energy Corporation" and on November 14, 2006 the shareholders of Orca approved a name change to "Orca Exploration Group Inc.". On February 2, 2007, the name change was registered with the Registrar of Corporate Affairs pursuant to the BVI Business Companies Act, 2004.

As at December 31, 2009, the Corporation had five wholly owned subsidiaries, PanAfrican Energy Tanzania Limited, PAE PanAfrican Energy Corporation, Orca Exploration (Ventures) Inc., Orca Exploration Uganda (Holding) Inc. and Orca Exploration Uganda Inc.



Orca's head office is located at Barclays House, 5th floor, P.O. Box 80139, Dar es Salaam, and its registered office is located at 1400, 350- 7th Avenue S.W., Calgary, Alberta T2P 3N9. Orca is presently a reporting issuer in each of the Provinces of Alberta, British Columbia and New Brunswick.

### Business of Orca Exploration Group Inc.

#### Corporate Profile

Orca is an international public company engaged in hydrocarbon exploration, development and marketing. Orca's principal focus is on:

1. The exploration, production, development and marketing of natural gas in Tanzania to meet increasing demand from the power and industrial sectors.

2. The appraising of the Elsa permit and eleven other exploration blocks offshore Italy.
3. The acquisition of one further oil exploration opportunity.
4. Infrastructure development in East Africa through EastCoast Transmission and Marketing.

### ***Tanzania***

Orca'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 to 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 million cubic feet per day ("**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 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 has the right to produce and market all gas in the Songo Songo field in excess of the Protected Gas requirements ("**Additional Gas**").

Orca is currently selling Additional Gas to 31 industrial customers. The largest industrial customer is the Wazo Hill cement plant that is owned by HeidelbergCement. Orca has a 53 kilometer low pressure pipeline system and four pressure reduction stations to distribute the gas. The Corporation has connected the majority of the material industrial customers in Dar es Salaam.

The Corporation also sells Additional Gas to three power plants, namely the 42 MW sixth turbine at Ubungo owned and operated by Songas, the 102 MW TANESCO owned plant at Ubungo and a 45 MW TANESCO owned plant at Tegeta. These plants currently have a maximum consumption of approximately 37 MMcfd. In addition, TANESCO is currently tendering for an additional 100 MW plant that is due to be operational in the next 18 months.

The Tanzanian Power Sector Masterplan indicates that generation capacity will need to increase by approximately 100 MWs per annum (the equivalent of 20 MMcfd) in order to meet the forecast demand for electricity. Based on this assumption, it is forecast that the power sector will consume the majority of the uncontracted gas reserves in the Songo Songo field provided gas pricing terms can be agreed.

In Q4 2009, the Corporation commenced the sale of compressed natural gas to hotels in Dar es Salaam and it expects to gradually expand this activity in the coming years.

The price of gas to the industrial customers is primarily linked to their replacement fuels which is either heavy fuel oil or in the case of the cement plant, imported coal. The price of gas to the power sector is fixed with an inflationary increase. For the year ended December 31, 2009, the average price was US\$8.36/Mcf for the industrial sector and US\$2.40/Mcf for the power sector.

In accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities, the independent petroleum engineers, McDaniel & Associates Consultants Ltd ("**McDaniel**") assessed Orca's natural gas reserves as at December 31, 2009 to be as follows:

<u>Songo Songo</u>	<u>2009</u>	<u>2009</u>
<b>Additional Gas reserves to October 2026 (Bcf)</b>	<b>Gross (1)</b>	<b>Net (2)</b>
<b>Independent reserves evaluation</b>		
Proved producing	300.7	169.2
Proved undeveloped	84.2	72.6

<u>Songo Songo</u>	<u>2009</u>	<u>2009</u>
<u>Additional Gas reserves to October 2026 (Bcf)</u>	<u>Gross (1)</u>	<u>Net (2)</u>
Total proved (1P)	384.9	241.8
Probable	105.3	65.2
Total proved and probable (2P)	490.2	307.0

- (1) *Gross equals the gross reserves that are available for the Corporation after estimating the effect of the TPDC back in. McDaniel assumed that TPDC will exercise its right to 'back in' to the field development by contributing 20% of the costs of the future wells, including SS-10 and a proportion of the infrastructure and operating costs in return for a 20% increase in the profit share for the production emanating from these wells. The implications and workings of the 'back in' are currently being discussed with TPDC and may lead to future modifications in the way the Gross reserves are calculated.*
- (2) *Net equals the economic allocation of the Gross reserves to the Corporation as determined in accordance with the Production Sharing Agreement.*
- (3) *The crude oil and natural gas reserves estimates presented have been based on the definitions and guidelines prepared by the Standing Committee on Reserves Definitions of the CIM (Petroleum Society) as presented in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook"). Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: (i) analysis of drilling, geological, geophysical and engineering data; (ii) the use of established technology; and (iii) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.*
- (4) *Reserves are classified according to the degree of certainty associated with the estimates: (i) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves; and (ii) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Other criteria that must also be met for the categorization of reserves are provided in Section 5.5.4 of the COGE Handbook. The qualitative certainty levels referred to in the definitions above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented).*
- (5) *Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories: (i) developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing; (ii) developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty; (iii) developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown; and (iv) undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned. Orca does not have any developed non-producing reserves.*
- (6) *Further information concerning Orca's reserves estimates, including the pricing assumptions used in preparing such estimates and the report prepared by McDaniel, are contained in Orca's Statement of Reserves Data and Other Oil and Gas Information in the forms of NI 51-101F1, NI 51-101F2 and NI 51-101F3 for the year ended December 31, 2009, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).*

Management has assessed that the Songo Songo field should be able to deliver a plateau of approximately 160 MMcfd of Additional and Protected Gas with the addition of two new development wells. This compares with a current average consumption rates of approximately 80 MMcfd – 90 MMcfd. The existing capacity of the infrastructure system that processes and transports the Protected and Additional Gas to Dar es Salaam is 90 MMcfd. Accordingly, there is currently limited spare capacity in the system. The owners of the infrastructure system, Songas Limited, have indicated that they are interested in financing an infrastructure expansion to approximately 140 MMcfd (primarily consisting of new gas processing and field and pipeline compression) provided it can reach satisfactory economic and other terms with the regulator, EWURA. Orca is working closely with Songas and EWURA to ensure this expansion proceeds.

Orca is intending to drill its offshore exploration prospect 2 kilometers west of the existing Songo Songo field in 2011. The prospect is known as Songo Songo West and has been independently assessed by McDaniel to have unrisks Best Estimate resources of 450 billion cubic feet ("Bcf") and a one in two chance of success. "**Best Estimate**" is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the Best Estimate. If probabilistic methods are used, there should be a 50% probability (P50) that the quantities actually recovered will equal or exceed the Best Estimate. The P90 and P10 unrisks resources for this prospect were assessed by McDaniel to be 179 Bcf and 1,146 Bcf respectively.

## Italy



In May 2010, the Corporation signed an agreement with Petroceltic International Plc ("**Petroceltic**") to farm in on its Central Adriatic.R268.RG Permit offshore Italy.

The farm-in commits Orca 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, Orca will fund all future costs relating to the well and the permit in proportion to its participating interest. Orca 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.

The Elsa field was discovered in 1992 by AGIP with the drilling of the Elsa-1 well which encountered an oil column of 65 meters in the Lower Cretaceous Maiolica Formation at a depth of approximately 4,500 meters. The low risk Elsa-2 appraisal well has the primary objective of confirming the commercial production potential of the reservoir when flow tested. Positive results from Elsa-2 will be followed by a 3D seismic survey over the field.

In addition to interest earned in the drilling of Elsa-2, Orca's farm-in agreement with Petroceltic provides an opportunity for Orca to participate on a ground floor basis in an additional 11 Petroceltic held exploration blocks in the Central Adriatic in which Orca could also earn a 15% working interest. Several commercial oil discoveries are in close proximity to the Elsa permit including the Rospo Mare and Ombrina Mare fields on the platform and the Miglianico field on the platform margin. A further acquisition of seismic is planned to evaluate more fully the potential of these exploration permits.

The Italian tax structure for oil and gas companies is one of the most favourable in the world. There is no specific oil and gas tax regime and fundamentally all oil activities are taxed in similar ways to other business activities in Italy. Key highlights of the Italian fiscal regime are as follows:

- (a) The corporation tax rate is 34% for energy companies; and
- (b) The royalty on oil production is 4% with a provision that no royalties are paid on the first 300,000 barrels of oil production per year per field. Losses incurred in the first three years of business are carried forward indefinitely until they are utilised. However losses incurred after that date have a limited life of five years. There are restrictions on interest deductions in Italy. Interest expenses that are up to or equal in amount to interest income is deductible. Any excess over that amount is only deductible to the extent that it is 30% or less of "gross operating income".

### ***New Ventures***

The Corporation is focussed on acquiring one further prospect to sit alongside the cash-generating asset in Tanzania and the appraisal and exploration concessions in Italy. The criteria for this new opportunity is that it must be in a proven hydrocarbon basin, have significant upside and can be drilled within 24 months. In Q1 2010, the Corporation signed a production sharing contract for an exploration licence which is pending ratification.

### **Recent Developments**

#### ***Italian farm in***

As discussed above, in May 2010, the Corporation signed an agreement with Petroceltic International Plc to farm in on its Central Adriatic.R268.RG Permit offshore Italy.

On June 30, 2010, the Italian Minister of Environment announced at a conference in Rome that an outline proposed decree to amend the Italian Environmental Code had been adopted by the Council of Ministers that will inter alia prohibit drilling in the Italian seas within 5 miles of the coastline and within 12 miles around the perimeter of protected marine parks. The Elsa structure straddles the 5 mile restriction.

This restriction has recently been passed into law, but the specific terms of the legislation are still being evaluated. Petroceltic has applied to suspend the current timing requirement that the Elsa-2 well was to be spud prior to October 31, 2010. The permit will remain suspended until such time as the Ministry of Environment issues a decree of environmental compatibility for the drilling program. Orca is working on the basis that the legislative issues will be resolved and that a portion of the net proceeds from the Rights Offering will be used towards drilling activities in Italy during the latter half of 2011. See "*Use of Proceeds*". Orca is not liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

#### ***Production Sharing Contract***

In Q1 2010, the Corporation signed a production sharing contract in a new jurisdiction that is still pending ratification.

### *Creation of New Infrastructure Division*

On July 13, 2010 Orca announced the creation of EastCoast Transmission and Marketing as the new infrastructure division of the Corporation. Orca is currently in discussion with potential pipeline expansion partners and is keen to have a significant East Africa finance component as part of the infrastructure project.

EastCoast Transmission will initially focus on expanding the onshore natural gas pipeline system transporting Songo Songo gas to Dar es Salaam. This will require the twinning of the existing 207 kilometer pipeline from Somanga Funga, where the marine pipeline from the Songo Songo gas field connects to the mainland, to the pipeline's current terminus at Dar es Salaam. Orca has undertaken some preliminary engineering studies for this section. Ultimately it is envisioned that the pipeline could be extended along the coast – north to Mombasa and south to Mtwara near the border with Mozambique near the Mnazi Bay gas discovery.

Currently the installed infrastructure configuration that transports the Songo Songo gas to Dar es Salaam is at capacity at 90 MMcfd. To address capacity constraints, the pipeline owner, Songas Limited, is planning to expand the existing system and increase the throughput to a peak of 140 MMcfd by January 2013. The infrastructure expansion that Orca's new division is planning would be required shortly afterwards.

Orca's expanding cash flows from its operations in Tanzania and the anticipated funds received from this Right Offering will help to finance the infrastructure project. This initiative will speed the monetization of existing reserves in the Songo Songo field and the potential resources in Songo Songo West. Pierre Raillard, Orca's in-country manager in Tanzania, will be responsible for implementing the project as Vice President of East Coast Transmission and Marketing.

### **DETAILS OF THE RIGHTS AND THE CLASS "B" SHARES**

#### **Basic Subscription Privilege**

A Rights Certificate evidencing the number of Rights to which a holder of Shares is entitled is being mailed with a copy of this rights offering circular to each holder of Shares as at the Record Date resident in a Qualifying Jurisdiction. Each holder of Shares as of the Record Date will receive one Right for each Share held and six Rights plus the Subscription Price will entitle the holder thereof to subscribe for one Class "B" Share at a price of \$3.90 per Class "B" Share (the "**Basic Subscription Privilege**"). Fractional Class "B" Shares will not be issued under the Rights Offering. See "Details of the Rights and Class "B" Shares – Step-Up Privilege". Holders of Rights may exercise such Rights or sell such Rights on the TSXV. Unexercised Rights will expire at the Expiry Time. Subscriptions will not be accepted from beneficial shareholders who are resident in any jurisdiction other than the Qualifying Jurisdictions ("**Ineligible Shareholders**"), subject to certain exceptions described below. See "Details of the Rights and the Class "B" Shares - Ineligible Shareholders".

A Right does not entitle the holder thereof to any rights whatsoever as a securityholder of the Corporation other than the right to subscribe for and purchase Class "B" Shares on the terms and conditions of the Rights described herein. The subscription for Class "B" Shares upon the exercise of Rights is voluntary. Holders of Rights should consult their own advisers with respect to this Rights Offering.

#### **Step-Up Privilege**

Fractional Class "B" Shares will not be issued. In lieu thereof, each registered holder of a Rights Certificate mailed upon the original issue which evidences a number of Rights not evenly divisible, will be entitled to round up his subscription to the next highest whole number of Class "B" Shares. This step-up privilege will be void and of no effect if the Rights Certificate is divided or combined or if any of the Rights evidenced by the Rights Certificate are sold, transferred or assigned by the holder to whom such Rights were originally issued. However, a bank, trust company, securities dealer or broker which holds Shares as of the Record Date for more than one beneficial owner may, upon providing evidence satisfactory to the Subscription Agent, exercise the Rights evidenced by its Rights Certificate or exchange its Rights Certificate on the same basis as though each of the beneficial owners were shareholders of record as of the Record Date.

### **Additional Subscription Privilege**

A holder of a Rights Certificate who subscribes, pursuant to the Basic Subscription Privilege, for all of the Class "B" Shares to which a Rights Certificate entitles such holder may subscribe for additional Class "B" Shares at the Subscription Price (the "**Additional Subscription Privilege**"). The Class "B" Shares available for such purpose shall be those Class "B" Shares offered hereunder that have not been subscribed and paid for at the Expiry Time (the "**Additional Class "B" Shares**"). Where there are a sufficient number of Additional Class "B" Shares to satisfy all additional subscriptions under the Additional Subscription Privilege, each holder who has validly subscribed for Additional Class "B" Shares will be allotted the number of Additional Class "B" Shares for which such holder has subscribed. If there is an insufficient number of Class "B" Shares available to satisfy the subscriptions for Additional Class "B" Shares, each holder who has validly subscribed for Additional Class "B" Shares will be allocated Additional Class "B" Shares in the manner described under "How to Exercise the Rights - To Subscribe for Additional Class "B" Shares - Form 2".

### **Rights Expiry Time**

The Rights Offering and the Rights evidenced by the Rights Certificates will expire at the Expiry Time. The Expiry Time is 4:00 p.m. (Toronto Time) on the Expiry Date, 33 days from the Record Date. Orca reserves the right to extend the period of this Rights Offering, subject to obtaining any required regulatory approvals, if Orca determines that the timely exercise of the Rights may have been prejudiced due to disruption in postal service. **Rights not exercised by the Rights Expiry Time will be void and without value.**

### **Ineligible Shareholders**

The Rights issued hereunder are only qualified for distribution in the Qualifying Jurisdictions and in certain offshore jurisdictions and the Rights may not be exercised by or on behalf of Ineligible Shareholders.

Accordingly, Rights Certificates will not be sent to holders of record of Shares with addresses of record in any jurisdiction other than the Qualifying Jurisdictions. The Subscription Agent shall be entitled to rely on the address of record as maintained by the Corporation for the purposes of determining jurisdiction of residency of any shareholder who may be considered an Ineligible Shareholder, unless the holder has provided written notice to the contrary to the Corporation with respect to his, her or its jurisdiction of residency.

This Offering is not being made in the United States nor in Quebec or other jurisdictions outside the Qualifying Jurisdictions, and under no circumstances is the Rights Offering to be construed as an offering of any securities for sale in or to a resident of the United States, Quebec or any jurisdiction outside the Qualifying Jurisdictions or a solicitation therein of an offer to buy any securities of the Corporation. The securities of the Corporation, including the Rights and the Class "B" Shares issuable on the exercise of the Rights and the Rights Certificates, are not registered under the *Securities Act of 1933*, as amended, of the United States of America. Accordingly, other than as set forth below in "U.S. Shareholders and Quebec Shareholders", the Rights may not be exercised in the United States, Quebec or any other jurisdiction outside the Qualifying Jurisdictions, or by or on behalf of an Ineligible Shareholder or any jurisdiction other than the Qualifying Jurisdictions.

#### ***U.S. Shareholders and Quebec Shareholders***

Except as disclosed below, Rights Certificates may not be held directly by, and subscriptions for Class "B" Shares will not be accepted from or on behalf of Ineligible Shareholders (U.S. Shareholders or Quebec Shareholders). Rights Certificates will not be delivered to such Ineligible Shareholders. Instead, the Corporation will notify such Ineligible Shareholders that the Rights Certificates to which they are entitled will be issued to and held by the Subscription Agent, which will hold the same and the Rights evidenced thereby as agent for the benefit of all Ineligible Shareholders. Instructions as to the sale, transfer or exercise of such Rights Certificates will not be accepted from such Ineligible Shareholders. The Subscription Agent will attempt to sell the Rights evidenced by such Rights Certificates on behalf of all such Ineligible Shareholders, as set forth below under "Sale by Subscription Agent".

A registered U.S. Shareholder or Quebec Shareholder who holds Shares on behalf of a holder who is eligible to participate in this Rights Offering, must notify the Subscription Agent, in writing, on or before September 24, 2010, the 7th day prior to the Expiry Time, that the beneficial holder on whose behalf such Shares are held is a resident of a Qualifying Jurisdiction and wishes to participate in the Rights Offering. In that case, the registered holder of Shares giving such notification must provide evidence, satisfactory to the Subscription Agent and the Corporation, as to the eligibility of the beneficial holder of such Rights and that the exercise of the Rights would not violate the laws of the jurisdiction in which the registered holder is located. Otherwise, the Subscription Agent will sell the Rights held on behalf of such beneficial holder on a best-efforts basis as set forth below under "Sale by Subscription Agent".

A U.S. Shareholder will only be entitled to participate in the Rights Offering if not less than 7 days prior to the Expiry Time such U.S. Shareholder provides, at his, her or its own expense, evidence acceptable to Orca that such U.S. Shareholder may otherwise receive Rights and subscribe for Class "B" Shares without imposing any requirement on Orca to comply with any legal requirements in the jurisdiction in which such U.S. Shareholder is resident other than those being complied with in connection with the offering of Rights in the Qualifying Jurisdiction or if management of Orca, in its own discretion, agrees to meet such legal requirements of the jurisdiction in which the U.S. Shareholder is resident.

### *Offshore Shareholders*

Any shareholder who is resident in or otherwise subject to the laws of a jurisdiction outside Canada and the United States who wishes to exercise the Rights represented by their Rights Certificate will be required to make the certification (included in the packages mailed to those offshore shareholders) that such offshore shareholder's applicable offshore jurisdiction provides a rights offering prospectus exemption substantially similar to the exemption provided in Canada or does not otherwise require obtaining any approvals of a regulatory authority in the offshore jurisdiction or the filing of any documents by Orca in such offshore jurisdiction in connection with the Rights Offering (the "**Offshore Exemption Confirmation**"). **Offshore shareholders should consult their own legal counsel in their applicable offshore jurisdiction in connection with any Offshore Exemption Confirmation.**

### *Sale by Subscription Agent*

Ineligible Shareholders will be sent a letter advising them that their Rights Certificates will be issued to and held by the Subscription Agent (as defined herein), who will hold such Rights as agent for the benefit of all Ineligible Shareholders. Sales of Rights held by Ineligible Shareholders shall only be conducted through the Subscription Agent and shall not be permitted to be conducted through a broker or any other agent selected by the Ineligible Shareholder. The Subscription Agent will, prior to the Expiry Time, attempt to sell such Rights on the open market, on a best efforts basis **at such price or prices at any time or times it determines in its absolute discretion.** The Subscription Agent's ability to sell such Rights, and the price obtained therefor, will be dependent on market conditions. The Subscription Agent shall not be subject to any liability for failure to sell any Rights of Ineligible Shareholders at a particular price, or at all. The net proceeds, if any, received by the Subscription Agent from the sale of such Rights will be divided among the Ineligible Shareholders pro rata according to the number of Class "B" Shares held by them on the Record Date. The Subscription Agent will mail cheques thereof in an amount equal to the proceeds of such sale (net of reasonable expenses and any amount withheld in respect of Canadian taxes) to Ineligible Shareholders at their addresses appearing on the records of the Corporation on the Record Date as soon as possible after the Expiry Time, provided that the Subscription Agent will not be required to make any such payment to any Ineligible Shareholder in the event that the amount owing to such holder is less than \$10.00. Such amount will be used by the Corporation to offset a portion of the remuneration of the Subscription Agent for its services.

No charge will be made for the sale of Rights hereunder by the Subscription Agent except for a proportionate share of any brokerage commissions incurred by the Subscription Agent and the costs of or incurred by the Subscription Agent in connection with the sale of Rights. Ineligible Shareholders will not be entitled to instruct the Subscription Agent in respect to the price or the time at which the rights are to be sold. The Subscription Agent will endeavour to effect the sale of Rights on the open market and any proceeds received by the Subscription Agent with respect to the sale of Rights net of brokerage fees and costs incurred and, if applicable, of Canadian tax required to be withheld, will be divided on a pro rata basis among such Ineligible Shareholders and delivered by mailing cheques (in

Canadian funds) of the Subscription Agent therefor as soon as practicable to such Ineligible Shareholders as their addresses recorded on the books of the Corporation. There is a risk that the proceeds received from the sale of the Rights will not exceed the brokerage commission, if any, incurred by the Subscription Agent, and charges of the Subscription Agent in respect of the sale of such Rights. In that event, no proceeds will be credited to the Ineligible Shareholders.

A registered holder of Shares whose address appears on the records of the Corporation as other than in the Qualifying Jurisdictions, but who holds Rights on behalf of a holder who is eligible to participate in the Rights Offering, must notify the Subscription Agent, in writing, on or before the 7<sup>th</sup> day prior to the Expiry Time that the beneficial holder, on behalf of whom such Shares are held, wishes to participate in the Rights Offering. In such a case, the registered holder of Shares giving notification must provide evidence, satisfactory to the Subscription Agent and the Corporation, as to the eligibility of the beneficial holder. Otherwise, the Subscription Agent will sell the Rights held on such beneficial holder's behalf as described above. Accordingly, the Subscription Agent will not commence to attempt to sell Rights of Ineligible Shareholders until after the 7<sup>th</sup> day prior to the Expiry Time.

Neither the Corporation nor the Subscription Agent will accept subscriptions from any holder of Rights who is, or who the Corporation or the Subscription Agent has reason to believe is, a resident of a jurisdiction in which the issue of Class "B" Shares pursuant to the exercise of Rights would be in violation of applicable securities laws.

### **Delivery of Rights by Intermediaries**

Rights delivered to brokers, dealers or other intermediaries may not be delivered by such intermediaries to beneficial owners of Shares unless they are resident in Qualifying Jurisdictions or are in a jurisdiction where this Rights Offering is lawful. Intermediaries receiving Rights which would otherwise be deliverable to non-residents of a Qualifying Jurisdiction should attempt to sell such Rights for the accounts of such Ineligible Shareholders and should deliver any proceeds of sale to such Ineligible Shareholders.

### **Closing**

The issuance of Class "B" Shares pursuant to the exercise of the Basic Subscription Privilege and the Additional Subscription Privilege is expected to occur on or about October 8, 2010 (the "**Closing Date**").

### **Delivery of Class "B" Share Certificates**

Certificates for the Class "B" Shares subscribed for in accordance with this Rights Offering, will be mailed to the address of the Subscriber as stated on the Rights Certificate, unless otherwise directed, as soon as practicable following the Closing Date.

### **Determinations as to Validity of Subscription**

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription or request for transfer will be determined by Orca, in its sole discretion, whose determination shall be final and binding. All subscriptions are irrevocable. Orca reserves the absolute right to reject any subscription if such subscription is not in proper form or if the acceptance thereof or the issuance of Class "B" Shares pursuant thereto could be deemed unlawful. The Corporation also reserves the right to waive any defect with regard to any particular subscription. Neither the Corporation nor the Subscription Agent will be under any duty to give any notification of any defect or irregularity in such subscriptions nor shall either of them incur any liability for failure to give such notification.

### **Class "B" Shares**

The Corporation is authorized to issue 50,000,000 Class "B" Shares, of which, as at the date hereof and prior to the closing of the Rights Offering, 27,982,928 Class "B" Shares are issued and outstanding as fully paid and non-assessable. Assuming all of the Rights are exercised and no other issuances of Class "B" Shares, the Corporation will have approximately 32,938,615 Class "B" Shares issued and outstanding.

Holders of Class "B" Shares are entitled to receive notice of and to attend all meetings of the shareholders of the Corporation and are entitled to one vote for each Class "B" Share held. Subject to the rights of any shares ranking in priority to the Class "B" Shares, the holders of Class "B" Shares are entitled to receive dividends if, as and when declared by the directors of the Corporation provided that the holders of the Class "B" Shares are entitled to receive dividends ratably with the holders of Class "A" Shares. Holders of Class "B" Shares are entitled to share, ratably with holders of Class "B" Shares and Class "A" Shares, in the property of the Corporation on the liquidation, dissolution or winding-up of the Corporation. The terms of the conditions of the Class "B" Shares contain coattail provisions that allow the Class "B" shares to be converted into Class "A" Shares in the event of certain takeover transactions.

#### **REGISTRATION AND DELIVERY OF CERTIFICATES EVIDENCING CLASS "B" SHARES**

Certificates evidencing Class "B" Shares acquired through the exercise of Rights, including Class "B" Shares obtained through the exercise of the Additional Subscription Privilege, will be dated as of the Expiry Time and will be registered in the name of the person to whom the Rights Certificate was issued or such holder's transferee, if any, as indicated on the Rights Certificate. Certificates evidencing such Class "B" Shares will be mailed to the address specified on the Rights Certificate as soon as practicable after the Expiry Time to such persons who have exercised their Rights. A Rights Certificate, by itself, does not confer on the holder of such Rights Certificate, the rights of a holder of Shares.

#### **SUBSCRIPTION AGENT AND TRANSFER AGENT**

The Subscription Agent has been appointed as the subscription agent to receive subscriptions and payments from holders of Rights and to perform the services relating to the exercise and transfer of the Rights and provide details of such arrangements. Subscriptions and payments from holders of Rights under the Rights Offering can be sent by mail or courier to the office of the Subscription Agent (the "**Subscription Office**") at:

By Mail, Hand or by Courier:

CIBC Mellon Trust Company  
P.O. Box 1036  
Adelaide Street Postal Station  
Toronto, Ontario M5C 2K4  
Attention: Corporate Restructures  
Phone (416) 643-5500  
Toll Free: 1-800-387-0825

By Hand or by Courier:

CIBC Mellon Trust Company  
199 Bay Street  
Commerce Court West  
Securities Level  
Toronto, Ontario M5L 1G9  
Email: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

The Corporation will pay the fees and expenses of the Subscription Agent in respect of such services. The registrar and transfer agent for the Class "B" Shares is CIBC Mellon Trust Company at its offices in Calgary, Alberta.

## HOW TO EXERCISE THE RIGHTS

### General

By completing the appropriate form on the Rights Certificate in accordance with the instructions outlined below and on the Rights Certificate, a holder may:

- (a) subscribe for Class "B" Shares under the Basic Subscription Privilege (Form 1);
- (b) subscribe for Additional Class "B" Shares under the Additional Subscription Privilege (Form 2);
- (c) sell or transfer Rights (Form 3); and/or
- (d) divide or combine a Rights Certificate (Form 4).

### Unexercised Rights

A holder of a Rights Certificate who completes Form 1 so as to exercise some, but not all, of the Rights evidenced by such Rights Certificate will be deemed to have elected not to exercise the balance of the Rights, and may not participate in the Additional Subscription Privilege unless the holder elects to divide the Rights Certificate by completing Form 4. See "How to Exercise the Rights - To Divide or Combine a Rights Certificate – Form 4" below.

### Signatures

When one or more of the forms on the Rights Certificate is signed by the original holder, the signature must correspond exactly with the name of the holder shown on the face of the Rights Certificate. If a form is signed by a trustee, executor, administrator or officer of a Corporation or any person acting in a fiduciary or representative capacity, the Rights Certificate must be accompanied by evidence of authority to so sign satisfactory to the Subscription Agent.

If the Rights Certificate is transferred (see "To Sell or Transfer Rights - Form 3", below) the signature of the transferor must be guaranteed by a Canadian chartered bank or eligible guarantor institution with membership in an approved signature medallion program.

If a Rights Certificate is issued to or transferred to two or more persons who hold the Rights evidenced thereby jointly, the signatures of all such joint holders shall be required on the appropriate forms in order to exercise the Basic Subscription Privilege and, if applicable, the Additional Subscription Privilege, or to sell or transfer Rights.

### To Subscribe for Class "B" Shares - Form 1

Six Rights and the Subscription Price are required to subscribe for one Class "B" Share under the Basic Subscription Privilege. The holder of a Rights Certificate may subscribe for all or any lesser number of Class "B" Shares to which the Rights Certificate entitles such holder by completing and executing Form 1 on the face of the Rights Certificate and delivering the Rights Certificate so completed and executed together with the Subscription Price for such Class "B" Shares to the Subscription Agent at the Subscription Office. The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order payable to the order of "CIBC Mellon Trust Company." All payments, together with Form 1 duly completed on the Rights Certificate, must be received by the Subscription Agent at the Subscription Office before the Expiry Time. The method of delivery of a subscription is at each holder's discretion and risk. Delivery to the Subscription Agent will only be effective when the subscription is actually received by the Subscription Agent at the Subscription Office. If mail is used for delivery of a subscription, sufficient time must be allowed to avoid late delivery, and registered mail is suggested. Subscriptions may not be revoked after delivery to the Subscription Agent.

Completion of Form 1 constitutes a representation that the holder of a Rights Certificate is not an Ineligible Shareholder or the agent of any such person.

**Subscribers whose Rights are held by a registered dealer should contact such dealer in ample time to ensure that the completed Rights Certificates and the related payments are received by the Subscription Agent before the Expiry Time.** Any holder of Shares or transferee of a Rights Certificate who has any questions concerning the terms of this Rights Offering should contact their investment dealer, stockbroker, bank manager or other professional advisor.

### **To Subscribe for Additional Class "B" Shares - Form 2**

A holder of a Rights Certificate who subscribes, pursuant to the Basic Subscription Privilege, for all of the Class "B" Shares to which a Rights Certificate entitles such holder may subscribe for Additional Class "B" Shares at the Subscription Price by completing and executing Form 2 on the face of the Rights Certificate and delivering the Rights Certificate so completed and executed together with the Subscription Price for such Additional Class "B" Shares to the Subscription Agent. If there should be an insufficient number of Class "B" Shares available to satisfy the subscriptions for Additional Class "B" Shares, the number of Class "B" Shares, if any, available to a subscriber for Additional Class "B" Shares will be equal to the lesser of:

- (a) the number of Class "B" Shares which the subscriber has subscribed for under the Additional Subscription Privilege; and
- (b) the number (disregarding fractions) determined by the formula  $x(y/z)$ :
  - (i) where x is aggregate number of Additional Class "B" Shares that may be acquired upon exercise of the Rights issued that were not exercised under the Basic Subscription Privilege;
  - (ii) where y is the number of rights previously exercised by such holder under the Basic Subscription Privilege and
  - (iii) where z is the aggregate number of rights previously exercised under the Basic Subscription Privilege by all participants that have subscribed for Additional Class "B" Shares under the Additional Subscription Privilege.

If any holder of Rights has subscribed for fewer Additional Class "B" Shares than such holder's pro rata allotment of Additional Class "B" Shares, the excess Additional Class "B" Shares will be allocated in the manner set out in (b) above among the holders who were allotted fewer Additional Class "B" Shares than they subscribed for.

To subscribe for Additional Class "B" Shares pursuant to the Additional Subscription Privilege, a holder of Rights must complete and execute a Form 2, as well as a Form 1, on the face of the Rights Certificate and deliver the Rights Certificate so completed and executed together with the Subscription Price for such Additional Class "B" Shares to the Subscription Agent at the Subscription Office. The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order payable to the order of "CIBC Mellon Trust Company." All payments, together with Form 1 and 2 duly completed on the Rights Certificate, must be received by the Subscription Agent at the Subscription Office before the Expiry Time. Subscribers for Additional Class "B" Shares will be notified as soon as practicable after the Expiry Time of the number of Additional Class "B" Shares, if any, allotted to them. Any excess subscription monies will be returned by mail without interest thereof as soon as practicable.

### **To Sell or Transfer Rights - Form 3**

The Rights will be listed on the TSXV until 12:00 noon (Calgary Time) on the Expiry Time.

Rights Certificates are in registered form. A holder of Rights may, rather than exercising such holder's Rights to subscribe for Class "B" Shares, sell or transfer such Rights personally or through the usual investment channels (such as stock brokers or investment dealers qualified to do business in the particular Qualifying Jurisdiction) by completing and executing Form 3 on the face of the Rights Certificate and delivering the Rights Certificate so completed and executed to a purchaser (the "**Transferee**"). The Transferee may exercise all of the Rights of the

transferring holder without obtaining a new Rights Certificate. If a Rights Certificate is transferred in blank, the Corporation and the Subscription Agent may thereafter treat the bearer as the absolute owner of such Rights Certificate for all purposes and neither the Corporation nor the Subscription Agent shall be affected by any notice to the contrary. Payment of any service charge, commission or other fee payable in connection with the trading of Rights will be the responsibility of the holders of the Rights.

The signature on Form 3 of any transferring Rights holder must be guaranteed by an Eligible Institution or otherwise to the satisfaction of the Subscription Agent. An "Eligible Institution" means a Canadian Schedule I chartered bank, a member of the Securities Transfer Agents Medallion Program (STAMP), a member of the Stock Exchanges Medallion Program (SEMP) or a member of the New York Stock Exchange, Inc. Medallion Signature Program (MSP). Members of these programs are usually members of recognized stock exchanges in Canada and the United States, members of the Investment Industry Regulatory Organization of Canada, members of the National Association of Securities Dealers or banks and trust companies in the United States. The signature of the Transferee on any one or more of the forms on the Rights Certificate must correspond exactly with the name of the Transferee shown on Form 3.

#### **To Divide or Combine a Rights Certificate - Form 4**

A Rights Certificate may be divided or combined by completing and executing Form 4 on the face of the Rights Certificate and delivering the Rights Certificate so completed and executed to the Subscription Agent at the Subscription Office. The Subscription Agent will then issue new Rights Certificates in any denominations (totalling the same number of Rights as are evidenced by the Rights Certificate being divided or combined) as are requested by the holder, but no Rights Certificate representing fewer than ten Rights will be issued. Rights Certificates must be surrendered for division or combination with sufficient time to permit the new Rights Certificates to be issued to and used by the holder.

A bank, trust company, investment dealer or broker holding Class "B" Shares on the Record Date for more than one beneficial owner may, upon providing satisfactory evidence to the Subscription Agent of the ownership of those Class "B" Shares, divide and transfer the Rights Certificate issued to it, by duly completing and executing Form 4 on the face of the Rights Certificate on the same basis as if the beneficial owners were registered on the Record Date.

#### **Payment of Subscription Price**

The Subscription Price for all the Class "B" Shares subscribed for, including those subscribed for under the Rights Offering, must be paid in Canadian funds by certified cheque, bank draft or money order payable to the order of "CIBC Mellon Trust Company". Shareholders holding their Shares through an intermediary, such as a broker, should contact their broker and make arrangements to put the broker in funds for the subscription and give appropriate instructions.

#### **Expiry of Rights**

The Rights will expire at the Expiry Time. Rights not exercised prior to the Expiry Time will be void and of no value.

### **SHARES HELD THROUGH THE CANADIAN DEPOSITARY FOR SECURITIES LIMITED**

For shareholders ("**Beneficial Holders**") whose Shares are held through a participant of the CDS Clearing and Depository Services Inc. ("**CDS**"), Rights Certificates will be issued in registered form to CDS and will be deposited with CDS. The Corporation expects that each Beneficial Holder will receive a confirmation of the number of Rights issued to it from its CDS participant in accordance with the practices and procedures of that CDS participant. CDS will be responsible for establishing and maintaining book-entry accounts for its participants holding Rights.

A Beneficial Holder may subscribe for Class "B" Shares by instructing the CDS participant holding its Rights to exercise all or a specified number of such Rights and forwarding the Subscription Price for each Class "B" Share subscribed for in accordance with the terms of the Offering to the CDS participant which holds the subscriber's Rights.

The Subscription Price is payable by direct debit from the Beneficial Holder's brokerage account or by electronic funds transfer or other payment mechanism satisfactory to the CDS participant. The entire Subscription Price for Class "B" Shares subscribed for must be paid at the time of subscription and must be received by the Subscription Agent prior to the Expiry Time. Accordingly, if you are subscribing through a CDS participant, you must deliver your payment (by method described above) and instructions to the CDS participant sufficiently in advance of the Expiry Time to allow the CDS participant to properly exercise the Rights on your behalf.

CDS participants that hold Rights for more than one Beneficial Holder may, upon providing evidence satisfactory to Orca and the Subscription Agent, exercise Rights on behalf of its accounts on the same basis as if the Beneficial Holders were holders of Shares.

Orca and the Subscription Agent shall have no liability for (i) the records maintained by CDS or CDS participants relating to the Rights or the book-entry accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such Rights, (iii) any advice or representation made or given by CDS or CDS participants with respect to the rules and regulations of CDS; (iv) any action to be taken by CDS or CDS participants; or (v) any failure by CDS participants to take any action or any matter relating to the Rights or the exercise thereof.

The ability of a person having an interest in Rights held through a CDS participant to pledge such interest or otherwise take action with respect to such interest (other than through a CDS participant) may be limited due to the lack of a physical Rights Certificate.

Beneficial Holders whose Shares are held through a CDS participant must arrange purchases or transfers of Rights and the exercise of Rights to purchase Class "B" Shares through CDS participants. Orca anticipates that each such purchaser of a Right or Class "B" Shares will receive a customer confirmation of purchase from the CDS participant from whom such Right or Class "B" Share is purchased in accordance with the practices and procedures of such CDS participant.

**Except as otherwise specifically provided herein (see "Ineligible Shareholders"), payment of the Subscription Price will constitute a representation to Orca, the Subscription Agent and to any CDS participant that the subscriber is not a U.S. person (as defined in Regulation S under the United States Securities Act of 1933, as amended) or the agent of any U.S. person and is not purchasing the Class "B" Shares for the account or benefit of, or for the resale to, any U.S. Person.**

**If mail is used for delivery of subscription funds, for the protection of the subscriber, certified mail return receipt requested, should be used and sufficient time should be allowed to avoid the risk of late delivery.**

**Subscriptions for Class "B" Shares made in connection with this Rights Offering either directly or through a CDS participant will be irrevocable and subscribers will be unable to withdraw their subscriptions for Class "B" Shares once submitted.**

#### **INTENTION OF INSIDERS TO EXERCISE RIGHTS**

To the knowledge of the directors and senior officers of the Corporation, directors, senior officers and other insiders of the Corporation will receive an aggregate of approximately 6,734,284 Rights pursuant to the Rights Offering. After reasonable inquiries about the intentions of such insiders to exercise their Rights, the Corporation estimates that approximately 6,734,284 Rights are intended to be exercised, directly or indirectly, such that insiders will receive an aggregate of 1,122,380 Class "B" Shares pursuant to the Rights Offering. Insiders may also acquire Class "B" Shares pursuant to the Additional Subscription Privilege, if available.

## STANDBY COMMITMENT

Under a standby purchase agreement (the "**Standby Agreement**") dated as of June 18, 2010 between Orca and Haywood Securities Inc. and GMP Securities L.P. (collectively, the "**Stand-by Purchasers**"), the Stand-by Purchasers agreed to use their reasonable best efforts to take up and pay for, at the Subscription Price, all of the Class "B" Shares not otherwise purchased on the exercise of Rights pursuant to the Basic Subscription Privilege and the Additional Subscription Privilege. The maximum number of Class "B" Shares that the Stand-by Purchasers may acquire under the Standby Agreement is 4,955,687 being the aggregate number of Class "B" Shares issuable under the Rights Offering. See "*Managing and Soliciting Dealers*".

## MANAGING AND SOLICITING DEALERS

Pursuant to the terms of a rights offering solicitation agreement dated June 18, 2010 (the "**Solicitation Agreement**") between the Corporation and Haywood Securities Inc (the "**Manager**"), the Manager has agreed to act as soliciting dealer for the purpose of soliciting the exercise of Rights in the Qualifying Jurisdictions. The Corporation will pay the Manager a flat fee of \$50,000 and reimburse all reasonable costs and expenses incurred in connection with the services provided by it under the Solicitation Agreement.

In addition, the Manager and GMP Securities L.P. have agreed to act as advisors to Orca in respect of the Rights Offering and Orca will pay each of the Manager and GMP Securities L.P. a fee of \$100,000 for such advisory services and will be reimbursed for all reasonable out-of-pocket expenses.

## OWNERSHIP OF SECURITIES OF THE CORPORATION

To the knowledge of the directors and senior officers of the Corporation, based on the number of issued and outstanding Shares as of the date of this Rights Offering Circular and without giving effect to the Rights Offering, the only persons or companies who beneficially owns, or controls or directs, directly or indirectly, Shares of the Corporation carrying more than 10% of the voting rights attached to the Share of the Corporation are as follows:

Name	Number of Class "A" Shares and Class "B" Shares Owned Directly or Indirectly	Percentage of Outstanding Class "A" and Class "B" Shares (unaudited)
W. David Lyons	1,742,775 Class "A" 4,433,940 Class "B"	99.5% 15.8%
<b>Total undiluted equity shareholding</b>	Class "A" and Class "B"	20.8%
<b>Total diluted equity shareholding</b>	Class "A" and Class "B"	22.1%
<b>Total undiluted voting rights</b>		62.4%
<b>Total diluted voting shares</b>		61.2%

After exercise of all of the Rights issued pursuant to the Rights Offering (on the basis described herein), W. David Lyons will hold, directly or indirectly, 5,463,393 Class "B" Shares or 18.8% of the outstanding Class "B" Shares assuming no person other than W. David Lyons and insiders acquires Class "B" Shares under the Rights Offering.

## CHANGES OF OWNERSHIP

To the knowledge of the directors and officers of Orca, there have been no issuances or transfers of securities of the Corporation that have materially affected the control of Orca since December 31, 2009.

## USE OF PROCEEDS

The approximate net proceeds to be derived by the Corporation from the subscription by the holders of Shares, upon the exercise of the Rights, if all the Rights are exercised and all Class "B" Shares issuable pursuant thereto are paid for, is estimated to be approximately \$18.7 million after deduction of the estimated expenses of the Offering of \$600,000.

As at May 31 2010, the Corporation had cash in hand of US\$18.0 million and no external debt. The proceeds of the Rights Offering when combined with the existing cash reserves and the cash that will be generated during the next 12 months, will be predominantly used as follows:

<u>Nature of expenditure</u>	<u>Timing</u>	<u>Net to Orca US\$ million</u>
Drilling of Elsa-2 appraisal well, payment of back costs and other costs	Q3/Q4 2011	13
Drilling of Songo Songo West exploration well	Q3/Q4 2011	<u>25 – 30</u>
TOTAL		<u>38 – 43</u>

### Italy

The operator, Petroceltic, was due to spud the Elsa-2 appraisal well in Q4 2010. On June 30, 2010, the Italian Minister of Environment announced at a conference in Rome that an outline proposed decree to amend the Italian Environmental Code had been adopted by the Council of Ministers that will inter alia prohibit drilling in the Italian seas within 5 miles of the coastline and within 12 miles around the perimeter of protected marine parks.

This restriction has recently been passed into law, but the specific terms of the legislation are still being evaluated. Petroceltic has applied to suspend the current timing requirement that the Elsa-2 well was to be spud prior to October 31, 2010. The permit will remain suspended until such time as the Ministry of Environment issues a decree of environmental compatibility for the drilling program. Orca is working on the basis that the legislative issues will be resolved and that a portion of the net proceeds from the Rights Offering will be used towards drilling activities in Italy during the latter half of 2011.

The well is forecast to cost US\$41 million and Orca will fund 30% of the costs up to a maximum of US\$11.5 million to earn a 15% working interest in the permit and 15% thereafter. Orca has also agreed to pay Petroceltic 15% of the back costs in relation to the well up to a maximum of US\$0.5 million.

The low risk Elsa-2 appraisal well has the primary objective of confirming the commercial production potential of the reservoir when flow tested. Positive results from Elsa-2 will be followed by a 3D seismic survey over the field. The unrisks P50 net present value at a 10% discount rate ("**NPV10**") for the Elsa block for the 15% interest is in excess of US\$70 million.

An estimated US\$13 million is forecast to be required to drill and evaluate the Elsa-2 well including back costs.

In the event that drilling is materially delayed, Orca will utilise the funds for another oil exploration opportunity or in developing pipeline infrastructure in Tanzania. Both of these are discussed under "Recent Developments" above. It should be noted that Orca is not liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

## **Tanzania**

Orca is planning to drill the Songo Songo West exploration prospect in the latter half of 2011. The prospect has been independently assessed by McDaniel & Associates Consultants Ltd to have unrisked P50 resources of 450 Bcf and a 1-2 chance of success. The unrisked P50 NPV10 for the Songo Songo West exploration prospect is assessed by management to be in excess of US\$140 million. The downside risk is limited as the costs are recoverable out of sales revenue from the main Songo Songo field.

The prospect lies in 30 meters of water and will be drilled vertically using a jack up rig. The estimated cost of the well is US\$25 million - US\$30 million depending on whether the Corporation has to sole source the rig.

## **RISK FACTORS**

The purchase of securities hereunder involves a number of risks. In addition to the risks set forth elsewhere in this rights offering circular, prospective investors should consider the following risks factors associated with a purchase of such securities.

### **Orca Exploration Group Inc.**

There are numerous factors which may affect the success of Orca's business which are beyond Orca's control including local, national and international economic and political conditions. Orca's business will involve a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The operations of Orca in East Africa and Italy, will expose Orca to risks which may not exist for domestic operations such as political and currency risks.

The Corporation is at a relatively early stage of development and accordingly there are numerous uncertainties in estimating gas reserves and in projecting future production, costs and expenses and the results, timing and costs of exploration and development projects, as well as the timing and costs associated with the realisation of markets for natural gas production.

### **Operating Hazards and Uninsured Risks**

The business of Orca is subject to all of the operating risks normally associated with the exploration for, and the production, storage, transportation and marketing of oil and gas. These risks include blowouts, explosions, fire, gaseous leaks, migration of harmful substances and oil spills, any of which could cause personal injury, result in damage to, or destruction of, oil and gas wells or formations or production facilities and other property, equipment and the environment, as well as interrupt operations. In addition, all of Orca's operations will be subject to the risks normally incident to drilling of natural gas wells and the operation and development of gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, equipment failures and other accidents, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution and other environmental risks. Drilling conducted by Orca overseas will involve increased drilling risks of high pressures and mechanical difficulties, including stuck pipe, collapsed casing and separated cable. The impact that any of these risks may have upon Orca is increased due to the fact that Orca currently only has one producing property. Orca will maintain insurance against some, but not all, potential risks; however, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant unfavourable event not fully covered by insurance could have a material adverse effect on Orca's financial condition, results of operations and cash flows. Furthermore, Orca cannot predict whether insurance will continue to be available at a reasonable cost or at all.

## **Foreign Operations**

All of Orca's operations and related assets will be located in countries outside North America, some of which may be considered to be politically and/or economically unstable. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations, such as, the risks of war, actions by terrorist or insurgent groups, expropriation, nationalization, renegotiation or nullification of existing contracts, taxation policies, foreign exchange restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favour or require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, if a dispute arises with foreign operations, Orca may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the jurisdiction of England or Canada.

In the foreign countries in which Orca will conduct business, the state generally retains ownership of the minerals and consequently retains control of (and in many cases, participates in) the exploration and production of hydrocarbon reserves. Accordingly, these operations may be materially affected by host governments through royalty payments, export taxes and regulations, surcharges, value added taxes, production bonuses and other charges.

All of Orca's proved natural gas reserves are located in Tanzania, and, consequently these assets will be subject to regulation and control by the government of Tanzania and certain of its national and parastatal organizations. Orca and its predecessors have operated in Tanzania for a number of years. However, there can be no assurance that decisions of the present or future administrations, the implementation of governmental regulations and/or the interpretation or re-interpretation of existing agreements in Tanzania will not materially adversely affect the operations and future cash flows of Orca.

## **Capital Markets**

As a result of the weakened global economic situation, the Corporation, along with all other oil and gas entities, will have restricted access to capital and increased borrowing costs. Although the Corporation's business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of funds generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and the Corporation's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Based on current funds available and expected funds generated from operations, the Corporation believes it has sufficient funds available to fund its projected capital expenditures. However, if funds generated from operations are lower than expected or capital costs for these projects exceed current estimates, or if the Corporation incurs major unanticipated expenses related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development or production on the Corporation's properties.

## **Foreign Subsidiaries**

The Corporation currently conducts all of its operations in Tanzania through its subsidiaries. Therefore, to the extent of these holdings, the Corporation will be dependent on the cash flows of these subsidiaries to meet its obligations. The ability of its subsidiaries to make payments to the Corporation may be constrained by among other things: the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates; and the introduction of foreign exchange and/or currency controls or repatriation restrictions or the availability of hard currency to be repatriated.

## **Operational Dependence**

Other companies operate some of the assets in which the Corporation has an interest. As a result, the Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others therefore depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

## **Additional Financing**

Depending on future exploration, development, and marketing plans, Orca may require additional financing. The ability of Orca to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of Orca. There can be no assurance that Orca will be successful in its efforts to arrange additional financing on terms satisfactory to Orca. If additional financing is raised by the issuance of shares from treasury of Orca, control of Orca may change and shareholders may suffer additional dilution.

From time to time Orca may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may temporarily increase Orca's debt levels above industry standards.

## **Competition**

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

## **Industry Conditions**

The oil and gas industry is intensely competitive and Orca competes with other companies which possess greater technical and financial resources. Many of these competitors not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum, natural gas products and other products on an international basis. Oil and gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and invasion of water into producing formations. Currently, Orca's Songo Songo natural gas property is operated by Orca. There is a risk that in the future either the operatorship could change and the property operated by third parties or operations may be subject to control by national oil companies, Songas Limited ("Songas"), or other parastatal organisations and, as a result, Orca may have limited control over the nature and timing of exploration and development of such properties or the manner in which operations are conducted on such properties.

The marketability and price of natural gas which may be acquired, discovered or marketed by Orca will be affected by numerous factors beyond its control. There is currently no developed natural gas market in Tanzania and no infrastructure with which to serve potential new markets beyond that being constructed by Orca and Songas. The ability of Orca to market any natural gas from current or future reserves may depend upon its ability to develop natural gas markets in Tanzania and the surrounding region, obtain access to the necessary infrastructure to deliver sales gas volumes, including acquiring capacity on pipelines which deliver natural gas to commercial markets. Orca is also subject to market fluctuations in the prices of oil and natural gas, uncertainties related to the delivery and proximity of its reserves to pipelines and processing facilities and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and gas and many other aspects of the oil and gas business. Orca is also subject to a variety of waste disposal, pollution control and similar environmental laws.

The oil and natural gas industry is subject to varying environmental regulations in each of the jurisdictions in which Orca may operate. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently and oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. Orca may be responsible for abandonment and site restoration costs.

### **Additional Gas**

Orca will have the right, under the terms of the PSA, to market volumes of Additional Gas subject to satisfying the requirements to deliver Protected Gas to Songas.

There is a risk that Songas could interfere in Orca's ability to produce, transport and sell volumes of Additional Gas if Orca's obligations to Songas under the Gas Agreement are not met. In particular, Songas has the right to request reasonable security on all Additional Gas sales.

### **Replacement of Reserves**

Orca's natural gas reserves and production and, therefore, its cash flows and earnings are highly dependent upon Orca developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, Orca's reserves and production will decline over time as reserves are depleted. To the extent that cash flow from operations is insufficient and external sources of capital become limited or unavailable, Orca's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves will be impaired. There can be no assurance that Orca will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs.

### **Asset Concentration**

Orca's current production and proven reserves are limited to one property, the Songo Songo field. There has been limited production from the six wells in the Songo Songo field to date. There is no assurance that Orca will have sufficient deliverability through the existing wells to provide additional natural gas sales volumes, and that there may be significant capital expenditures associated with any remedial work or new drilling required to achieve deliverability. In addition, any difficulties relating to the operation or performance of the field would have a material adverse effect on Orca.

### **Environmental and Other Regulations**

Extensive national, state, and local environmental laws and regulations in foreign jurisdictions will affect nearly all of Orca's operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that Orca will not incur substantial financial obligations in connection with environmental compliance. Significant liability could be imposed on Orca for damages, cleanup costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of property purchased by Orca or non compliance with environmental laws or regulations. Such liability could have a material adverse effect on Orca. Moreover, Orca cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by Orca for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on Orca. As party to various licenses, Orca has an obligation to restore producing fields to a condition acceptable to the authorities at the end of their commercial lives.

While management believes that Orca is currently in compliance with environmental laws and regulations applicable to Orca's operations in Tanzania, no assurances can be given that Orca will be able to continue to comply with such environmental laws and regulations without incurring substantial costs.

Orca's petroleum and natural gas operations are subject to extensive governmental legislation and regulation and increased public awareness concerning environmental protection.

No provision has been recognized for future decommissioning costs which are anticipated to be immaterial as it is forecast that there will still be commercial gas reserves once Orca relinquishes the licence in 2026. Orca expects that the cost of complying with environmental legislation and regulations will increase in the future. Compliance with existing environmental legislation and regulations has not had a material effect on capital expenditures, earnings or competitive position of Orca to date. Although management believes that Orca's operations and facilities are in compliance with such laws and regulations in all material respects, future changes in these laws, regulations or interpretations thereof or the nature of its operations may require the Corporation to make significant additional capital expenditures to ensure compliance in the future.

### **Volatility of Oil and Gas Prices and Markets**

Orca's financial condition, operating results and future growth will be dependent on the prevailing prices for its natural gas production. Historically, the markets for oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes to the demand for oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of Orca. Any substantial decline in the prices of oil and natural gas could have a material adverse effect on Orca and the level of its natural gas reserves. Additionally, the economics of producing from some wells may change as a result of lower prices, which could result in a suspension of production by Orca.

No assurance can be given that oil and natural gas prices will be sustained at levels which will enable Orca to operate profitably. From time to time Orca may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

In addition, various factors, including the availability and capacity of oil and gas gathering systems and pipelines, the effect of foreign regulation of production and transportation, general economic conditions, changes in supply due to drilling by other producers and changes in demand may adversely affect Orca's ability to market its gas production. Any significant decline in the price of oil or gas would adversely affect Orca's revenues, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of Orca's gas properties and its planned level of capital expenditures.

### **Uncertainties in Estimating Reserves and Future Net Cash Flows**

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and cash flows to be derived therefrom, including many factors beyond the control of Orca. The reserve and cash flow information contained herein represents estimates only. The reserves and estimated future net cash flow from Orca's properties have been independently evaluated by McDaniel & Associates Consultants Ltd. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, crude oil price differentials to benchmarks, future prices of oil and natural gas, operating costs, transportation costs, cost recovery provisions and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date of the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of Orca. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material.

### **Title to Properties**

Although title reviews have been done and will continue to be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of Orca which could result in a reduction of the revenue received by Orca.

## **Acquisition Risks**

Orca intends to acquire natural gas infrastructure and possibly additional oil and gas properties. Although Orca performs a review of the acquired properties that it believes is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, Orca will focus its due diligence efforts on the higher valued properties and will sample the remainder. However, even an in depth review of all properties and records may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections may not be performed on every well, and structural or environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Orca may be required to assume pre closing liabilities, including environmental liabilities, and may acquire interests in properties on an "as is" basis. There can be no assurance that Orca's acquisitions will be successful.

## **Reliance on Key Personnel**

Orca is highly dependent upon its executive officers and key personnel. The unexpected loss of the services of any of these individuals could have a detrimental effect on Orca. Orca does not maintain key man life insurance on any of its employees.

## **Risks Relating to this Rights Offering**

### ***Subscription Price not an Indication of Value***

The Subscription Price of \$3.90 represents an 11% discount to the closing price of the Class "B" Shares on June 14, 2010, the date that the Corporation announced its intention to undertake a Rights Offering. The Subscription Price was determined by the Board of Directors and does not necessarily bear any relationship to the book value of Orca's assets, past operations, cash flows, losses, financial condition or any other established criteria for value. Shareholders should not consider the Subscription Price as an indication of the Corporation's value. After the date of this Rights Offering Circular, the Class "B" Shares may trade at prices above or below the Subscription Price.

### ***Decline in the Trading Price May Occur***

The trading price of the Class "B" Shares in the future may decline below the Subscription Price. Orca can make no assurance that the Subscription Price will remain below any future trading price for the Class "B" Shares. Future prices of the Class "B" Shares may adjust positively or negatively depending on various factors including Orca's future revenues, operations, speculation in the trade or business press about Orca's operations and overall conditions affecting Orca's businesses, economic trends and the securities markets.

### ***No Revocation of Right***

Even if the price of the Class "B" Shares declines below the Subscription Price for the Class "B" Shares, resulting in a loss on subscribers' investments upon the exercise of the subscribers' Rights, subscribers may not revoke or change the exercise of Rights after they send in their subscription forms and payment. Orca may, in its discretion, extend the Expiry Time in accordance with applicable Canadian securities laws and the applicable policies of the TSXV. During any potential extension of time, the price of the Class "B" Shares may decline below the Subscription Price and result in a loss on subscribers' investments upon the exercise of the Rights. If the Expiry Time is extended after subscribers send in their subscription forms and payment, subscribers still may not revoke or change the exercise of Rights.

### ***No Interest on Subscription Funds***

If Orca cancels the Rights Offering, neither Orca nor the Subscription Agent will have any obligation with respect to the Rights, except to return, without interest, any subscription payments to subscribers.

### ***Participation in the Rights Offering is not Assured***

If Orca decides to terminate the Rights Offering, Orca will not have any obligation with respect to the Rights except to return any subscription payments, without interest.

### ***Shareholders Need to Act Promptly and Follow Subscription Instructions***

Shareholders who desire to purchase Class "B" Shares in this Rights Offering must act promptly to ensure that all required forms and payments are actually received by the Subscription Agent prior to the Expiry Time, and any permitted extension of the Expiry Time. If Shareholders fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to the exercise of Rights by the holder, the Subscription Agent may, depending on the circumstances, reject the subscription or accept it to the extent of the payment received. Neither Orca nor the Subscription Agent undertakes to attempt to correct an incomplete or incorrect subscription form or payment. Orca has the sole discretion to determine whether an exercise of Rights properly follows the subscription procedures.

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Burnet, Duckworth & Palmer LLP (counsel to the Corporation), the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder generally applicable to a shareholder of the Corporation who is issued Rights pursuant to this offering and who, for purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"), is a resident of Canada, holds the Rights and any Class "B" Shares acquired on the exercise thereof as capital property and deals at arm's length and is not affiliated with the Corporation. Generally, Rights will be considered to be capital property to a shareholder provided the shareholder does not hold the Rights or Class "B" Shares in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Shareholders who might not otherwise be considered to hold their Class "B" Shares as capital property may, in certain circumstances, be entitled to have them, and all other "Canadian securities", treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Shareholders considering making such an election should consult their own tax advisors.

This summary is not applicable to a shareholder or any person acquiring or exercising Rights that is a "financial institution", a "specified financial institution" or an interest in which is a "tax shelter investment" all within the meaning of the Tax Act.

This summary is based upon the provisions of the Tax Act and the regulations thereunder in force as of the date hereof, all specific proposals to amend the Tax Act or the regulations announced by the Minister of Finance prior to the date hereof (the "**Proposed Amendments**") and Counsel's understanding of the current published administrative and assessing policies of Canada Revenue Agency ("**CRA**").

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law or in the administrative or assessing policies of the CRA, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign (i.e. non-Canadian) tax considerations, which may differ significantly from those discussed herein. No assurance can be given that the Proposed Amendments will be enacted as currently proposed or at all.

**This summary is of a general nature and is not intended to be, nor should it be construed to be, legal or tax advice to any shareholder or persons who acquired Rights. Consequently, prospective shareholders and persons who acquire Rights should consult their own tax advisors for advice with respect to the tax consequences to them, having regard to their particular circumstances.**

### **Issue and Acquisition of Rights**

A holder of Class "B" Shares who receives Rights from the Corporation pursuant to this offering will not be required to include the value of such Rights in computing income. Rights received by such holder pursuant to this offering will have a cost of nil.

### **Sale, Disposition and Expiry of Rights**

Upon the disposition of a Right by a holder, a capital gain (or capital loss) will be realized to the extent that the proceeds of disposition thereof exceed (or are exceeded by) the aggregate of the adjusted cost base (if any) to the holder of the Right and any reasonable costs of disposition.

Upon the expiry of an unexercised Right, the holder will realize a capital loss equal to the adjusted cost base to the holder of the Right. As an unexercised Right held by a holder who has not acquired Rights other than pursuant to this offering will have an adjusted cost base of nil, the expiry of such Right will not give rise to a capital loss.

### **Acquisition and Disposition of Class "B" Shares**

The acquisition cost of each Class "B" Share acquired upon exercise of the Rights for the purposes of the Tax Act will be equal to the cost of the Right, the Subscription Price, and any reasonable costs incurred to exercise such Right. The adjusted cost base of Class "B" Shares will generally be determined by averaging the cost of all Class "B" Shares held by a shareholder whether acquired pursuant to exercise of Rights or otherwise.

Upon the disposition or deemed disposition under the Tax Act by a subscriber of Class "B" Shares, a capital gain (or a capital loss) will arise equal to the amount by which the proceeds of disposition of such shares, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to such persons immediately before the disposition. In certain circumstances, particularly applicable to a corporate subscriber, a capital loss on a Class "B" Share, realized by a subscriber may be reduced by certain dividends received or deemed to have been received on such shares by such shareholder to the extent and in the circumstances described in the Tax Act. A capital loss may be denied in some circumstances if the loss arises from a disposition to a related person or is a superficial loss.

### **Capital Gains and Losses**

Generally, one half of any capital gain (a "taxable capital gain") realized by a shareholder in a taxation year must be included in the shareholder's income for the year, and one half of any capital loss (an "allowable capital loss") realized by a shareholder in a taxation year must be deducted from taxable capital gains realized by the shareholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

Taxable capital gains realized by a shareholder who is an individual may give rise to alternative minimum tax depending on the shareholder's circumstances. A shareholder that throughout the relevant taxation year is a "Canadian controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains.

### **STATEMENT AS TO RESALE RESTRICTIONS**

Securities legislation restricts the ability of a holder to trade the Rights and the Class "B" Shares issuable upon the exercise of such Rights (the Rights and the Class "B" Shares collectively, the "**Securities**"), without certain conditions having been fulfilled or applicable prospectus requirements having been complied with. The following is a general summary of the restrictions governing the first trades in the Securities. Additional restrictions apply to "insiders" of the Corporation and holders of the Securities who are "control persons" or the equivalent or who are deemed to be part of what is commonly referred to as a "control block" in respect of the Corporation for purposes of

securities legislation. **Each holder is urged to consult his or her professional advisors to determine the exact conditions and restrictions applicable to trades of the Securities.**

Generally, in Canada, the Securities will be exempt from the prospectus requirements of securities legislation in the Canadian Qualifying Jurisdictions if:

- (a) the Corporation is and has been a "reporting issuer" in a jurisdiction of Canada for the four months immediately preceding the trade;
- (b) the trade is not a "control distribution" as defined in the applicable securities legislation;
- (c) no unusual effort is made to prepare the market or to create a demand for the Securities;
- (d) no extraordinary commission or other consideration is paid in respect of such trade; and
- (e) if the seller is an insider or officer of the Corporation, the seller has no reasonable grounds to believe that the Corporation is in default of applicable securities legislation.

If such conditions have not been met, then the Securities may not be resold except pursuant to a prospectus or prospectus exemption, which may only be available in limited circumstances.

The Corporation has been or deemed to have been a reporting issuer for more than four months in British Columbia and Alberta.

The foregoing is a summary only and is not intended to be exhaustive. Holders of Rights should consult with their advisors concerning restrictions on resale, and should not resell their Securities until they have determined that any such resale is in compliance with the requirements of applicable legislation.

Neither the Rights nor the Class "B" Shares issuable on exercise of the Rights have been or will be registered under the United States Securities Act of 1933, as amended, and they may not be offered or re-offered or sold or re-sold within the United States except pursuant to an exemption from the registration requirements of the United States Securities Act of 1933, as amended.

### **Purchasers' Statutory Rights**

Securities legislation in certain of the provinces and territories of Canada provides security holders of the offeree issuer with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular that is required to be delivered to those security holders. However, such rights must be exercised within the prescribed time limits. Security holders should refer to the applicable provisions of the securities legislation of the province or territory of residence for particulars of those rights, or consult with a lawyer.

### **ADDITIONAL INFORMATION**

Copies of certain disclosure documents relating to the Corporation filed pursuant to applicable Canadian securities legislation, may be obtained from the SEDAR website [www.sedar.com](http://www.sedar.com).

## INQUIRIES

Inquiries relating to this Rights Offering should be directed to:

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