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## FOR IMMEDIATE RELEASE

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### Orca Exploration announces its annual results for the year ended 31 December 2009

TORTOLA, British Virgin Islands. Orca Exploration Group Inc (“Orca Exploration” or the “Company”) announces its results for the year ended 31 December 2009.

## Highlights

- Increased sales of Additional Gas by 20% to 10.4 Bcf or 28.5 MMcfd (2008: 8.7 Bcf or 23.7 MMcfd). This boosted revenue to US\$25.3 million.
- Increased funds from operations before working capital changes by 30% to US\$12.7 million (2008: US\$9.8 million).
- Increased working capital by 73% to US\$16.8 million (2008: US\$9.7 million).
- Increased profit before taxation to US\$6.9 million (2008: loss of US\$7.1 million).
- Commenced sales to a new US\$100 million kiln at the Wazo Hill cement plant in Dar es Salaam.
- Commenced sales to the new Tegeta 45MW power plant at Dar es Salaam in the last quarter of 2009. This plant has a maximum consumption of 9 MMcfd.
- Connected ten new industrial customers to the low pressure distribution network in Dar es Salaam.
- Commenced the sale of compressed natural gas (“CNG”) for use by vehicles and hotels. This is the first project of its kind in East Africa.
- Designed a 144 MMcfd permanent expansion upgrade to the existing infrastructure system that processes and transports the gas to Dar es Salaam. The target is for this to be operational by the end of 2012.
- The Company’s recoverable gross proven and probable reserves on a life of licence basis were assessed by the independent reserve evaluator, McDaniel and Associates Consultants Ltd (“McDaniel”), at 490.2 Bcf (2008: 491.4 Bcf). This represents an increase on original reserves after allowance for 2009 production.
- Commenced work to identify a jack up rig for the drilling of Songo Songo West in 2011. McDaniel evaluated this prospect and assessed it to contain unrisksed mean resources of 551 Bcf.
- Re-activated the new venture team to identify two new high impact oil opportunities in proven hydrocarbon basins in West Africa, the Middle East and southern Europe. Several projects are under active review.

## Financial and Operating Highlights

<b>Years ended / As at 31 December</b>	<b>2009</b>	<b>2008</b>	<b>Change</b>
<b>Financial (US\$ except where otherwise stated)</b>			
Revenue	25,317	23,782	6%
Profit/(loss) before taxation	6,882	(7,056)	n/a
Operating netback ( <i>US\$/mcf</i> )	2.21	2.60	(15%)
Cash and cash equivalents	14,543	10,586	37%
Working capital	16,835	9,727	73%
Shareholders' equity	68,860	64,712	6%
Profit/(loss) per share - basic and diluted ( <i>US\$</i> )	0.11	(0.32)	n/a
Funds from operations before working capital changes	12,674	9,751	30%
Funds per share from operations before working capital changes - basic ( <i>US\$</i> )	0.43	0.33	30%
Funds per share from operations before working capital changes - diluted ( <i>US\$</i> )	0.41	0.31	32%
Net cash flows from operating activities	12,284	5,185	137%
Net cash flows per share from operating activities - basic ( <i>US\$</i> )	0.42	0.18	133%
Net cash flows per share from operating activities - diluted ( <i>US\$</i> )	0.40	0.17	135%
<b>Outstanding Shares ('000)</b>			
Class A shares	1,751	1,751	0%
Class B shares	27,743	27,863	0%
Options	2,797	2,814	(1%)
<b>Operating</b>			
Additional Gas sold ( <i>MMcf</i> ) - industrial	2,096	1,475	42%
Additional Gas sold ( <i>MMcf</i> ) - power	8,326	7,185	16%
Additional Gas sold ( <i>MMcfd</i> ) - industrial	5.7	4.0	42%
Additional Gas sold ( <i>MMcfd</i> ) - power	22.8	19.7	16%
Average price per mcf ( <i>US\$</i> ) - industrial	8.36	11.98	(30%)
Average price per mcf ( <i>US\$</i> ) - power	2.40	2.37	1%
<b>Additional Gas, Company Gross Recoverable Reserves to end of licence (Bcf)</b>			
Proved	385	389	(1%)
Probable	105	102	3%
Proved plus probable	490	491	0%
<b>Present Value, discounted at 10% (US\$ million)</b>			
Proved	248	258	(4%)
Proved plus probable	291	299	(3%)

# Chairman's and CEO's Letter to Shareholders

During 2009 Orca Exploration strengthened its financial position generating US\$12.7 million of funds flow before working capital changes, finishing the year with cash resources of US\$14.5 million and no debt.

The Company's cash generative natural gas production and marketing operations in Tanzania continue to provide Orca with a solid financial and operating foundation. During 2010 the Tanzanian operations are forecast to generate between US\$15 million and US\$20 million.

Orca is well positioned to expand its reserve base and to seek additional growth through the future acquisition and drilling of new oil exploration prospects in Africa, the Middle East or southern Europe. The Company is also planning the drilling in 2011 of a low risk, high potential exploration prospect adjacent to the Orca operated Songo Songo natural gas field.

Exploration acquisition targets are currently under close review. They must meet carefully selected strategic growth criteria – a proven hydrocarbon basin, the ability to draw on a knowledge base about the region, significant upside potential and the ability to drill within two years. The preference is for oil interests that can be commercialised rapidly with low upfront capital expenditure.

Orca has emerged from the financial turmoil of the past year in a strong operating, marketing and financial position. General and administrative expenses have been reduced and opportunities for growth in the market for Tanzanian natural gas continue to increase.

The outlook for Orca Exploration is positive. After some consolidation in 2010 as the Company grows its asset base, 2011 is expected to be a significant year with the potential that relatively low risk exploration wells will be drilled.

## 2010 Tanzanian targets

During 2010, the Company will work to build larger natural gas markets in Tanzania to maximise the utilisation of existing proven and probable reserves. Because significantly increased natural gas sales are now dependent on expanded natural gas processing and throughput from the Songo Songo field, work on resolving these issues will be a priority in 2010.

The principal targets for 2010 are to:

- Increase the gas processing and transportation capacity to 105 MMcfd on a temporary basis by working with the infrastructure owners, Songas Limited, to ensure this is achievable;
- Assist Songas in planning a permanent expansion of the infrastructure system to 144 MMcfd so that the infrastructure development can commence in Q2 2011 (with the intention that the extra capacity will be operational by the end of 2012);
- Finalise long term power contracts that will underwrite the requirement for the infrastructure development; and
- Prepare for the drilling of a high impact exploration prospect in 2011 with the view to connecting this to the gas processing facilities on Songo Songo Island in 2012 if successful.

## A plan to increase Songo Songo reserves

As at 31 December 2009, the independent reserve evaluator, McDaniel and Associates Consultants Ltd. ("McDaniel") assessed that the Company's gross proven (1P) and proven and probable (2P) Songo Songo Additional Gas reserves to the end of the licence period to be 384.9 (2008: 389.4 Bcf) and 490.2 (2008: 491.4 Bcf) respectively. This represents a marginal decrease over 2008 due to produced volumes, but is an increase on original reserves. Since the field was brought on production in 2004, there has been a 125% increase in the 1P and a 92% increase in the 2P Company gross Additional Gas reserves to

the end of the license period. The Company continues to collect pressure data to be used in future reserve evaluations.

Based on the current reserves and anticipated field deliverability profiles, Orca intends to develop gas markets that will utilise approximately 100 to 120 MMcfd of Additional Gas (140 – 160 MMcfd including Protected Gas) on an average annual basis. To meet these sales levels, there is the need to drill two new development wells in the field.

Orca anticipates that reserves can be further increased by the drilling of the Songo Songo West exploration prospect. McDaniel evaluated this prospect and assessed it to contain unrisksed mean resources of 551 Bcf and an upside case in excess of 1 Tcf. This prospect will be drilled in 2011.

### **Increasing gas deliverability**

In Q1 2009, Songas approved the re-rating of the Songo Songo gas processing plant from 70 MMcfd to 90 MMcfd, after the Company, as operator, successfully completed the installation of two new Joule-Thompson valves, associated pipework and process modifications.

The importance of the re-rating was demonstrated in the last two quarters of 2009, when production was typically 70-80 MMcfd, peaking at over 85 MMcfd. Capacity constraints are expected to become more acute in 2010 as demand for gas increases in Dar es Salaam. In 2009, the Company continued its outstanding record of operational excellence, with over 5 years of continuous gas production without any unplanned downtime.

During 2009, the Company proposed a new long term infrastructure expansion project (the “Expansion Project”) based on Songas financing two new gas processing trains and pipeline compression to increase the throughput capacity to 144 MMcfd (compared to the existing 90 MMcfd). This could be further enhanced in future years by the installation of a twin onshore pipeline that would increase the capacity to 200 MMcfd. Songas has accepted the initial design and feasibility work undertaken by Orca and is working with the energy regulator EWURA on financial terms. The target for notice to proceed to be given to the engineering contractor is Q1 2011. This would enable the Expansion Project to be operational by the end of 2012.

It is envisaged that Songas may allow a short term increase in the infrastructure capacity to 105 MMcfd once commitments to the Expansion Project are in place and gas demand requires it. Lloyds Register inspected the gas heat exchangers on the gas processing plant in Q1 2009 and indicated a willingness to certify the plant to operate at 110 MMcfd. The limiting component would then be the high pressure pipeline that has an estimated deliverability of 105 MMcfd.

### **Expanding downstream distribution capability**

The most significant downstream developments in 2009 were the construction of a new pressure reduction station at the Wazo Hill cement plant, the connection of the new Tegeta 45 MW power plant and the completion of the initial phase of the compressed natural gas (CNG) project for vehicles. The total cost of these activities in 2009 was US\$3.6 million.

With the addition of Tegeta there are now three large power stations connected to and consuming Additional Gas supplied by Orca. The industrial market also continues to expand. 35 industrial customers have now been connected, of which 27 were consuming the Company’s gas at the end of 2009.

The commencement of CNG supply by truck to hotels in Dar es Salaam was a significant step in demonstrating the viability of transporting natural gas to customers that are not located on the existing low pressure pipeline network. These CNG projects are the first in East Africa.

### **Additional Gas sales growth**

During 2009, the Company increased Additional Gas sales volumes by 20% to an average of 28.5 MMcfd. Sales to the newly commissioned Tegeta 45 MW power plant in Q4 2009

and the new US\$100 million cement kiln at Wazo Hill in Q2 2009 were major factors in this upward trend. During Q4 2009 sales volumes increased to 33.8 MMcfd.

Based on the existing industrial contracts and the 189 MWs of permanent gas fired generation that is currently in place, it is forecast that demand will increase to an average of 35 – 40 MMcfd for 2010. Tanzania Portland Cement Company (“TPCC”) the owner of the Wazo Hill cement plant is forecast to increase its consumption to 4.0 MMcfd beginning in Q2 2010 when production of cement recommences from one of its kilns that was refurbished in 2009.

There are still a number of growth opportunities that the Company would like to pursue in 2010 (auto power generation by industrial customers and CNG sales). However infrastructure capacity will limit growth until there is a further short term re-rating to 105 MMcfd.

During 2011, it is forecast that there will be a step change in power plant demand. TANESCO is preparing for another 100 MWs to come on stream and this is likely to consume the majority of any spare infrastructure capacity even if the short term re-rating is approved.

It is not expected that any further gas fired generation will be tendered in Tanzania until the notice to proceed has been given for the construction of the Expansion Project.

## **Financial results**

Orca Exploration’s 2009 revenues increased 6% to US\$25.3 million compared to 2008. Funds from operations before working capital changes increased 30% to US\$12.7 million. The Company’s sales revenues were shielded from low oil price risks due to fixed gas price contracts, and floors tied to oil pricing.

Cash flows benefitted from a 22% reduction in general and administrative costs to US\$11.5 million. The majority of these costs involve the operation of the Songo Songo gas wells and gas processing operations rather than corporate overheads.

During 2009, the Company continued to receive the maximum amount of Cost Gas. In the second half of 2010, cash flows may be sufficiently strong enough to see a reduction in the Cost Gas and a higher Profit Gas contribution.

## **Management changes**

Orca wants to express its appreciation to Peter Clutterbuck for his leadership as CEO since the Company came into existence in 2004. He stepped down in late March 2010 to assume the role of Deputy Chairman. Mr. Clutterbuck has played a key role in advancing Orca’s growth and development over its first six years and on behalf of the Board of Directors and our shareholders we thank him for his many contributions.

## **Positive outlook**

Orca Exploration enters 2010 in a strong financial, operating and expansion position, as a result of revenue growth, and tight financial discipline. The Company is expected to continue to increase its cash generation from the Tanzanian assets in 2010 and is excited about its potential to grow substantially through exploration drilling in Tanzania and other drilling programs involving acquisitions now under active review. The Company is well placed to add assets due to its strong financial base, and the utilisation of a management team that has the full range of expertise needed to manage oil and gas exploration and production at the highest standards.

Orca appreciates the confidence and support of its loyal shareholders. Management remains very optimistic about your Company’s prospects in Tanzania and other countries. It will work hard to seek additional growth, expand Orca’s reserve base, and build more value for the Company.

# Consolidated Statement of Comprehensive Income

ORCA EXPLORATION GROUP INC.

YEARS ENDED 31 DECEMBER <i>(thousands of US dollars except per share amounts)</i>	2009	2008
<b>Revenue</b>	<b>25,317</b>	23,782
<b>Cost of sales</b>		
Production and distribution expenses	(2,807)	(1,477)
Depletion expense	(3,830)	(4,716)
Impairment of exploration and evaluation assets	(180)	(9,520)
	<b>18,500</b>	8,069
General and administrative expenses	(11,465)	(14,686)
Net financing charges	(153)	(439)
<b>Profit/(loss) before taxation</b>	<b>6,882</b>	(7,056)
Taxation	(3,558)	(2,467)
<b>Profit/(loss) and comprehensive income/(loss) for the year</b>	<b>3,324</b>	(9,523)
<b>Earnings per share</b>		
Basic and diluted (US\$)	<b>0.11</b>	(0.32)

# Consolidated Statement of Financial Position

ORCA EXPLORATION GROUP INC.

AS AT 31 DECEMBER ( <i>thousands of US dollars</i> )	2009	2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	14,543	10,586
Trade and other receivables	9,181	13,196
	<b>23,724</b>	23,782
<b>Non-current assets</b>		
Exploration and evaluation assets	760	648
Property, plant and equipment	61,793	60,818
	<b>62,553</b>	61,466
	<b>86,277</b>	85,248
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	6,889	14,055
<b>Non-current liabilities</b>		
Deferred income taxes	9,068	5,510
Deferred additional profits tax	1,460	971
	<b>17,417</b>	20,536
<b>Equity attributable to owners of parent</b>		
Capital stock	66,267	66,537
Other components of equity	4,809	3,715
Accumulated loss	(2,216)	(5,540)
	<b>68,860</b>	64,712
	<b>86,277</b>	85,248

# Consolidated Statements of Cash Flows

ORCA EXPLORATION GROUP INC.

YEARS ENDED 31 DECEMBER (thousands of US dollars)	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) after taxation	3,324	(9,523)
Adjustment for:		
Depletion and depreciation	4,045	4,792
Impairment of exploration and evaluation assets	180	9,520
Stock-based compensation	1,122	2,419
Deferred income taxes	3,558	2,305
Deferred additional profits tax	489	383
Interest income	(44)	(145)
	<b>12,674</b>	<b>9,751</b>
Decrease/(increase) in trade and other receivables	4,015	(4,960)
(Decrease)/increase in trade and other payables	(4,405)	394
<b>Net cash flows from operating activities</b>	<b>12,284</b>	<b>5,185</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Exploration and evaluation expenditures	(292)	(3,014)
Property, plant and equipment expenditures	(5,020)	(4,453)
Interest income	44	145
Decrease in trade and other payables	(2,761)	(3,791)
<b>Net cash used in investing activities</b>	<b>(8,029)</b>	<b>(11,113)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Normal course issuer bid	(298)	(1)
<b>Net cash flow used in financing activities</b>	<b>(298)</b>	<b>(1)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>3,957</b>	<b>(5,929)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>10,586</b>	<b>16,515</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>14,543</b>	<b>10,586</b>

# Statement of Changes in Shareholders' Equity

ORCA EXPLORATION GROUP INC.

<i>(thousands of US dollars)</i>	Capital stock	Other components of equity	Accumulated Income/ (loss)	Total
Balance as at 1 January 2008	66,538	1,023	3,983	71,544
Stock-based compensation	-	2,692	-	2,692
Normal course issuer bid	(1)	-	-	(1)
Total comprehensive loss for the year	-	-	(9,523)	(9,523)
<b>Balance as at 31 December 2008</b>	<b>66,537</b>	<b>3,715</b>	<b>(5,540)</b>	<b>64,712</b>
Stock-based compensation	-	1,122	-	1,122
Normal course issuer bid	(270)	(28)	-	(298)
Total comprehensive income for the year	-	-	3,324	3,324
<b>Balance as at 31 December 2009</b>	<b>66,267</b>	<b>4,809</b>	<b>(2,216)</b>	<b>68,860</b>

### **Forward Looking Statements**

*This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca Exploration's control, including the impact of general economic conditions in the areas in which Orca Exploration operates, civil unrest, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. In addition there are risks and uncertainties associated with oil and gas operations, therefore Orca Exploration's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that Orca Exploration will derive therefrom.*

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