



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

**TSX-V: ORC.A, ORC.B**

## **FOR IMMEDIATE RELEASE**

**29 April 2011**

### **Orca Exploration announces its annual results for the year ended 31 December 2010**

TORTOLA, British Virgin Islands. Orca Exploration Group Inc (“Orca Exploration” or the “Company”) announces its results for the year ended 31 December 2010.

### **Highlights**

- Increased sales of Additional Gas by 29% to 13.4 Bcf or 36.9 MMcfd (2009: 10.4 Bcf or 28.5 MMcfd). This resulted in operating revenue of US\$38.8 million.
- Increased funds from operations before working capital changes by 69% to US\$20.8 million (2009: US\$12.3 million).
- Increased working capital by 211% to US\$52.4 million (2009: US\$16.8 million).
- Increased profit before taxation by 140% to US\$16.5 million (2009: US\$6.9 million).
- Successfully raised gross proceeds of Cdn\$19.3 million by means of a 1 for 6 rights issue that was fully subscribed.
- Suspended production from the SS-5 well following the discovery of tubing corrosion in Q4 2010, reduced the flow rates from the other wells and expedited the tie-in of the SS-10 well to maintain deliverability of gas.
- Signed a farm in agreement with Petroceltic International plc for a 15% working interest in the B.R268.RG Permit offshore Italy.
- Signed a contract with a subsidiary of Northern Petroleum Plc to farm into between 70% and 75% of their Longastrino exploration block in the Po Valley, northern Italy.
- Announced the establishment of a new infrastructure division, EastCoast Transmission and Marketing to develop a gas pipeline network in East Africa.
- Managed the technical evaluations that enabled Lloyds Register to approve the re-rating of the two gas turbines at Songo Songo Island to 110 MMcfd from 90 MMcfd.
- Assisted Songas with the design of its expansion project that will increase the overall infrastructure capacity to 140 MMcfd. The expansion project is scheduled to be operational by Q1 2013.
- Reorganised the Orca Board with the appointment of three experienced non – executive directors namely the Right Honourable Michael Howard QC, Bob Wigley and Beer Van Straten.

## Financial and Operating Highlights

<b>YEAR ENDED/ AS AT 31 DECEMBER</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
<b>Financial (US\$000 except where otherwise stated)</b>			
Revenue	<b>38,808</b>	25,317	53%
Profit before taxation	<b>16,512</b>	6,882	140%
Operating netback ( <i>US\$/mcf</i> )	<b>2.29</b>	2.21	4%
Cash and cash equivalents	<b>45,519</b>	14,543	213%
Working capital	<b>52,364</b>	16,835	211%
Shareholders' equity	<b>98,183</b>	68,860	43%
Earnings per share - basic ( <i>US\$</i> )	<b>0.33</b>	0.11	200%
Earnings per share - diluted ( <i>US\$</i> )	<b>0.31</b>	0.11	182%
Funds flow from operating activities	<b>20,836</b>	12,332	69%
Funds per share from operating activities - basic ( <i>US\$</i> )	<b>0.68</b>	0.42	62%
Funds per share from operating activities - diluted ( <i>US\$</i> )	<b>0.65</b>	0.40	63%
Net cash flows from operating activities	<b>15,534</b>	12,007	29%
Net cash flows per share from operating activities - basic ( <i>US\$</i> )	<b>0.50</b>	0.41	22%
Net cash flows per share from operating activities - diluted ( <i>US\$</i> )	<b>0.49</b>	0.39	26%
<b>Outstanding Shares ('000)</b>			
Class A shares	<b>1,751</b>	1,751	0%
Class B shares	<b>32,939</b>	27,743	19%
Options	<b>2,557</b>	2,797	(9%)
<b>Operating</b>			
Additional Gas sold ( <i>MMcf</i> ) - industrial	<b>2,504</b>	2,096	19%
Additional Gas sold ( <i>MMcf</i> ) - power	<b>10,940</b>	8,326	31%
Additional Gas sold ( <i>MMcfd</i> ) - industrial	<b>6.9</b>	5.7	19%
Additional Gas sold ( <i>MMcfd</i> ) - power	<b>30.0</b>	22.8	31%
Average price per mcf ( <i>US\$</i> ) - industrial	<b>8.76</b>	8.36	5%
Average price per mcf ( <i>US\$</i> ) - power	<b>2.60</b>	2.40	8%
<b>Additional Gas Gross Recoverable Reserves to end of licence (bcf)</b>			
Proved	<b>369</b>	385	(4%)
Probable	<b>82</b>	105	(22%)
Proved plus probable	<b>451</b>	490	(8%)
Proved plus probable plus possible	<b>822</b>	829	(1%)
<b>Present Value, discounted at 10% (US\$ million)</b>			
Proved	<b>236</b>	248	(5%)
Proved plus probable	<b>278</b>	291	(5%)
Proved plus probable plus possible	<b>395</b>	381	4%

## Chairman & CEO Letter to the Shareholders

Orca Exploration Group's 2010 story is simple but powerful.

- Our plans for asset growth have been materially advanced. We continue to focus on exploration targets with significant reserves potential and will move on these in 2011.
- We are working with other stakeholders to increase Songo Songo's gas production and meet Tanzania's urgent need for increased power generation.
- Our new infrastructure division, EastCoast Transmission and Marketing, allows Orca to lead where we have production and gas transmission experience and knowledge.
- Orca ended 2010 debt free, with cash of US\$45.5 million.

There are a number of potential developments in 2011:

- Orca is committed to drill the La Tosca gas exploration prospect in the Po Valley Basin in Italy in Q4 2011. The permit is surrounded by several large natural gas fields and the adjacent production infrastructure has available capacity.
- To increase deliverability from the Songo Songo field following the shut in of SS-5 in Q4 2010 as a result of tubing corrosion, Orca plans, subject to TPDC approval and rig availability, to drill a new development well in 2011 and to enhance the SS-10 well.
- There has been a significant increase in activity in East Africa following gas discoveries offshore Tanzania by British Gas/Ophir and the announcement that Statoil and Exxon Mobil intend to drill further prospects in 2011. Orca is positioned to play a significant role in meeting Tanzania's gas demand prior to the commercialization of these new gas reserves.
- Sales of Additional Gas to the Tanzania power sector, which increased by 31% during 2010, are expected to continue to increase in 2011 and are only constrained by the need to expand production and transmission of gas from Songo Songo.
- To meet the need for an immediate expansion of throughput from the Songo Songo field, Orca is negotiating with Songas to run the Songo Songo gas processing plant at up to 110 MMcfd until Q1 2013 when the Songas Expansion Project is expected to be operational.

## FINANCIAL RESULTS

Orca achieved excellent financial results during 2010. Revenue grew by 53% from US\$25.3 million in 2009 to US\$38.8 million in 2010. Funds from operations before working capital changes increased by 69% to US\$20.8 million and the level of working capital grew from US\$16.8 million to US\$52.4 million. The Company finished the year with cash of US\$45.5 million with no debt, having raised US\$18.5 million by the completion of a successful rights issue in October 2010.

The Company's cost pool in Tanzania was substantially recovered in 2010 as a result of strong sales revenue and relatively low capital expenditure levels. This will result in a reduction in the percentage of net revenue attributable to the Company prior to any significant expenditure on drilling in 2011. Orca will also see a reduction in the net revenue allocated to the Company now that a significant proportion of production is coming from the deemed TPDC backed-in well (SS-10).

## **OPERATIONS RESULTS**

The Company is the largest producer of gas in Tanzania and the only operator who is selling gas in Dar es Salaam. The Company has an excellent gas reservoir at Songo Songo that could deliver in excess of 60 MMcfd in addition to the average 2010 production of 76 MMcfd.

To meet increased demand, the Company took steps during 2010 to facilitate the development of the required infrastructure in Tanzania and to progress other growth strategies.

- Orca coordinated the technical evaluations that led to Lloyds Register certifying that the gas processing plant could be re-rated from 90 MMcfd to 110 MMcfd.
- Agreed to share the costs with Songas (up to a cap of US\$2.4 million) to develop a long-term expansion project with Songas (“Songas Expansion Project”) that will see the infrastructure capacity increased to 140 MMcfd by Q1 2013 through the addition of new gas processing trains and pipeline compression.
- Established a team to plan for the construction of a new 207 kilometer onshore pipeline to Dar es Salaam that will initially increase infrastructure capacity to in excess of 200 MMcfd.
- Farmed into an oil appraisal well and a gas exploration prospect in Italy.

Deliverability from the main Songo Songo producing wells had to be reduced in Q4 2010 following the receipt of corrosion logging results. As detailed below, a work programme is now in place to ensure there is adequate production capacity as the infrastructure expands.

## **RESERVES AND WELL CORROSION**

As at 31 December 2010, the independent reserve evaluator McDaniel and Associates Consultants Ltd. (“McDaniel”) assessed that the Additional Gas gross proven (1P) and proven and probable (2P) Songo Songo reserves available to Orca to the end of the licence period are 369.2 Bcf (2009: 384.9 Bcf) and 450.8 Bcf (2009: 490.2 Bcf) respectively. This decrease over 2009 is primarily the result of the need to increase production from SS-10 and drill new wells on the Songo Songo field to sustain production following the discovery of tubing corrosion in the existing producing wells. TPDC has the right to back into these wells and earn a higher profit share.

Following a corrosion logging survey in Q4 2010, Orca suspended production from SS-5, reduced flow rates from the other wells and expedited the tie-in of SS-10, the new onshore well.

The corrosion study also recommended that SS-9 be taken out of production by the end of Q1 2012, subject to re-logging of the well in September 2011 to confirm its condition. Accordingly, the Company has determined that a new high producing onshore deviated well (“SS-A”) should be drilled in 2011 to ensure adequate deliverability when SS-9 is taken off stream. In addition SS-10 will be upgraded to increase deliverability. The Company is currently looking to contract a land rig to undertake this work programme within a tight timeframe. The estimated capital cost is US\$35 million.

This may be followed by a work-over program on the offshore wells during 2012 utilizing the same jack up rig that is expected to be mobilized for the drilling of the Songo Songo West (“SSW”) exploration well. McDaniel evaluated this prospect and assessed it to contain un-risked mean resources of 552 Bcf and an upside case in excess of 1 Tcf. The development plan for SSW, and any tie into existing processing capacity, will be reviewed once the results of the well are known.

## **TANZANIA**

### **Growth in power demand**

The sales of Additional Gas to the power sector increased by 31% during 2010 to 10,940 MMcf, mainly as a result of sales to the Tegeta 45 MW power plant which was commissioned in December 2009. The total gas fired generation in Tanzania, consuming Additional Gas, is currently 189 MWs. This leaves a shortfall of approximately 260 MWs according to Government of Tanzania estimates. The impact of this shortfall has been numerous controlled power outages in the last six months. There have been limited rains in early 2011 to allow the hydro generation capacity to alleviate this shortfall.

To address this problem, TANESCO has reached an agreement with Jacobsen, the Norwegian power turbine manufacturer, for the supply of three new 35 MW turbines (with a maximum demand of approximately 22 MMcfd). The turbines are scheduled to be fully operational in Q1 2012. In addition, TANESCO is in negotiation with Dowans to re-commission its 112 MW plant (maximum demand of approximately 24 MMcfd) during 2011.

In the longer term, TANESCO is looking to convert the IPTL 100 MW power plant to gas (maximum demand of approximately 22 MMcfd). In addition TANESCO plans to add a further 240 MW combined cycle plant at Kinyerezi in Dar es Salaam (maximum demand of approximately 36 MMcfd) by the end of 2014.

### **Infrastructure expansion**

In September 2010 following technical evaluations, Lloyds Register approved the re-rating of the two gas turbines at Songo Songo Island to 110 MMcfd from 90 MMcfd. A Re-Rating Agreement is currently being negotiated with Songas and TANESCO.

The Songas Expansion Project consists of Songas financing two additional gas processing trains and installing pipeline compression. This will increase the overall infrastructure capacity to 140 MMcfd and is due to be operational by Q1 2013.

## **ITALY**

### **New onshore Italian drilling project**

In December 2010, Orca signed a contract with a subsidiary of Northern Petroleum Plc to farm-in to between 70% and 75% of their Longastrino exploration block in the Po Valley, northern Italy.

Under the terms of the farm-in, Orca will pay 100% of the costs of the La Tosca 1 well up to €4.3 million and 70% thereafter for the drilling phase of the well, together with back-in costs of €0.6 million.

The well is scheduled to be drilled in Q4 2011. If the well is tested and completed, Orca will earn an additional 5% (taking it to 75%) by paying 100% of the testing costs up to €1.3 million and 75% thereafter.

### **Low risk offshore Italian appraisal well**

During Q2 2010, Orca signed a farm-in agreement with Petroceltic International Plc to participate in the drilling of a low risk, high potential appraisal well offshore Italy in the Adriatic. The area has significant oil exploration upside and as part of the farm-in Orca would earn the right to participate in 11 adjacent exploration blocks in the Central Adriatic.

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

## **EASTCOAST TRANSMISSION AND MARKETING**

In July 2010, Orca announced the creation of its new infrastructure division, EastCoast Transmission and Marketing (“ECTM”). Orca intends to facilitate the monetisation of the Company’s gas reserves by constructing a second 207-kilometer onshore pipeline to Dar es Salaam. The pipeline is intended to increase infrastructure capacity to 200 MMcfd by the end of 2013 when additional capacity will be needed for new power plants (IPTL and Kinyerezi).

It is anticipated that the new onshore pipeline to be developed by ECTM will be the first part of a coastal gas pipeline that could be used by the new gas operators in Tanzania to transport their gas to the main industrial hubs in East Africa including Mombasa in Kenya.

## **INCREASING BOARD AND MANAGEMENT STRENGTH**

The Board of Directors was reorganised and a majority of independent directors was elected at the Company’s Annual General Meeting in June 2010. Orca is very fortunate to have three new highly experienced directors join the Board: Lord Howard of Lympne, Robert (Bob) Wigley and Beer Van Straten. The new directors bring substantial experience in relation to the raising of capital, managing drilling campaigns and negotiations with foreign governments.

## **FINANCING**

The Company’s 2011 work programme principally includes the drilling of the new onshore deviated well, SS-A, the enhancement of SS-10, the drilling of La Tosca in the Po Valley and the purchase of long lead items for SSW. Whilst there should be sufficient funds to undertake this work programme in 2011, the Company will look to secure a financing facility and/or raise new equity to cover the 2012 exploration activity.

## **CREATING VALUE**

The Company’s strategy will be to drill up our exploration portfolio in Italy and Tanzania over the course of the next two years whilst continuing to build up our cash flow from the Songo Songo gas field. With exploration success, the Company will look to sell or farm out its interests in Italy prior to the need to finance any development.

There is significant upside potential. With the continued support of our loyal shareholders, the strength of our Board, the experience of our management team and the skills of our dedicated employees, we are committed to take Orca to the next level.

## Consolidated Statement of Comprehensive Income

### ORCA EXPLORATION GROUP INC.

<b>YEARS ENDED 31 DECEMBER</b> <i>(thousands of US dollars except per share amounts)</i>	<b>2010</b>	2009
<b>Revenue</b>	<b>38,808</b>	25,317
<b>Cost of sales</b>		
Production and distribution expenses	<b>(4,879)</b>	(2,807)
Depletion expense	<b>(4,839)</b>	(3,830)
Impairment of exploration and evaluation assets	-	(180)
	<b>29,090</b>	18,500
General and administrative expenses	<b>(11,716)</b>	(11,465)
Net financing charges	<b>(862)</b>	(153)
<b>Profit before taxation</b>	<b>16,512</b>	6,882
Taxation	<b>(6,501)</b>	(3,558)
<b>Profit after taxation and comprehensive income for the year</b>	<b>10,011</b>	3,324
<b>Earnings per share</b>		
Basic (US\$)	<b>0.33</b>	0.11
Diluted (US\$)	<b>0.31</b>	0.11

# Consolidated Statement of Financial Position

## ORCA EXPLORATION GROUP INC

<b>AS AT 31 DECEMBER</b> <i>(thousands of US dollars)</i>	<b>2010</b>	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	<b>45,519</b>	14,543
Trade and other receivables	<b>13,583</b>	8,002
Taxation receivable	<b>4,009</b>	714
Prepayments	<b>409</b>	465
	<b>63,520</b>	23,724
<b>Non-current assets</b>		
Exploration and evaluation assets	<b>942</b>	760
Property, plant and equipment	<b>59,946</b>	61,793
	<b>60,888</b>	62,553
Total assets	<b>124,408</b>	86,277
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	<b>9,156</b>	6,889
Taxation payable	<b>2,000</b>	-
	<b>11,156</b>	6,889
<b>Non-current liabilities</b>		
Deferred income taxes	<b>12,809</b>	9,068
Deferred additional profits tax	<b>2,260</b>	1,460
	<b>15,069</b>	10,528
Total liabilities	<b>26,225</b>	17,417
<b>Equity</b>		
Capital stock	<b>85,100</b>	66,267
Contributed surplus	<b>5,288</b>	4,809
Accumulated income/(loss)	<b>7,795</b>	(2,216)
	<b>98,183</b>	68,860
Total equity and liabilities	<b>124,408</b>	86,277

# Consolidated Statement of Cash Flows

## ORCA EXPLORATION GROUP INC

YEARS ENDED 31 DECEMBER (thousands of US dollars)	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit after taxation</b>	<b>10,011</b>	3,324
Adjustment for:		
Depletion and depreciation	<b>5,046</b>	4,045
Impairment of exploration and evaluation assets	-	180
Stock-based compensation	<b>664</b>	1,401
Deferred income taxes	<b>3,741</b>	3,558
Deferred additional profits tax	<b>800</b>	489
Interest income	<b>(40)</b>	(44)
Unrealised loss/(gain) on foreign exchange	<b>614</b>	(621)
	<b>20,836</b>	12,332
(Increase)/decrease in trade and other receivables	<b>(6,166)</b>	5,023
(Increase) in taxation receivable	<b>(3,295)</b>	(714)
Decrease/(increase) in prepayments	<b>56</b>	(294)
Increase/(decrease) in trade and other payables	<b>2,103</b>	(4,340)
Increase in taxation payable	<b>2,000</b>	-
<b>Net cash flows from operating activities</b>	<b>15,534</b>	12,007
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Exploration and evaluation expenditures	<b>(182)</b>	(292)
Property, plant and equipment expenditures	<b>(3,199)</b>	(5,020)
Interest income	<b>40</b>	44
Increase/(decrease) in trade and other payables	<b>418</b>	(2,761)
<b>Net cash used in investing activities</b>	<b>(2,923)</b>	(8,029)
<b>CASH FLOWS FROM/(USED IN) IN FINANCING ACTIVITIES</b>		
Normal course issuer bid	-	(298)
Shares issued	<b>18,471</b>	-
Proceeds from exercise of options	<b>234</b>	-
<b>Net cash flow from/(used in) financing activities</b>	<b>18,705</b>	(298)
<b>Increase in cash and cash equivalents</b>	<b>31,316</b>	3,680
<b>Cash and cash equivalents at the beginning of the year</b>	<b>14,543</b>	10,586
<b>Effect of change in foreign exchange</b>	<b>(340)</b>	277
<b>Cash and cash equivalents at the end of the year</b>	<b>45,519</b>	14,543

# Statement of Changes in Shareholders' Equity

## ORCA EXPLORATION GROUP INC

<i>(thousands of US dollars)</i>	Capital stock	Contributed surplus	Accumulated Income/ (loss)	Total
Balance as at 1 January 2009	66,537	3,715	(5,540)	64,712
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>
Shares issued	18,471	-	-	18,471
Stock options exercised	362	(128)	-	234
Stock-based compensation	-	607	-	607
Total comprehensive income for the year	-	-	10,011	10,011
<b>Balance as at 31 December 2010</b>	<b>85,100</b>	<b>5,288</b>	<b>7,795</b>	<b>98,183</b>

Orca Exploration is an international public company engaged in natural gas exploration, development and supply in Tanzania oil appraisal and gas exploration in Italy and the acquisition of high potential exploration opportunities in Europe and Africa. Orca Exploration trades on the TSXV under the trading symbols ORC.B and ORC.A.

For further information please contact:

W. David Lyons, Chairman and CEO  
+44-7717-100-200  
[wilyons@orcaexploration.com](mailto:wilyons@orcaexploration.com)

Nigel A. Friend, CFO  
+255 (0)22 2138737  
[nfriend@orcaexploration.com](mailto:nfriend@orcaexploration.com)

*Neither the TSX Venture Exchange nor its Regulation Service Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.*

### **Forward Looking Statements**

*This disclosure contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca's control, including the impact of general economic conditions in the areas in which Orca 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'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 will derive therefrom. The forward-looking statements contained in this press release are made as of the date hereof and Orca undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.*