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TSX-V: ORC.A, ORC.B

## **FOR IMMEDIATE RELEASE**

**29 November 2011**

### **Orca Exploration announces its results for the quarter ended 30 September 2011**

TORTOLA, British Virgin Islands. Orca Exploration Group Inc (“Orca Exploration” or the “Company”) announces its results for the quarter ended 30 September 2011.

## **Highlights**

- Increased sales of Additional Gas by 40% to 5,161 MMcf or 56.1 MMcfd (Q3 2010: 3,688 MMcf or 40.1 MMcfd).
- Increased working capital during the quarter to US\$58.4 million (US\$57.1 million at 30 June 2011).
- Mobilised land rig (Sakson PR5) to drill a new deviated well on Songo Songo Island and undertake remedial work on SS-10 to increase deliverability to 160 MMcfd.
- Presented a report to the Government of Tanzania that details how production from the existing Songo Songo gas field can be increased to 200 MMcfd in parallel with the Government’s proposed investment in gas processing and pipeline infrastructure.
- Continued to source a jack-up rig for the drilling of the highly prospective Songo Songo West exploration well.
- Established a presence in Italy for the forthcoming drilling of the La Tosca well.

## Financial and Operating Highlights

	Three months ended or as at			Nine months ended or as at		
	30-Sep 2011	30-Sep 2010	Change	30-Sep 2011	30-Sep 2010	Change
<b>Financial (US\$ except where otherwise stated)</b>						
Revenue	<b>10,457</b>	10,975	(5%)	<b>28,393</b>	28,251	1%
Profit before taxation	<b>1,289</b>	5,584	(77%)	<b>6,660</b>	12,949	(49%)
Operating netback ( <i>US\$/mcf</i> )	<b>1.78</b>	2.32	(23%)	<b>1.88</b>	2.30	(18%)
Cash and cash equivalents	<b>42,632</b>	22,179	92%	<b>42,632</b>	22,179	92%
Working capital	<b>58,369</b>	30,093	94%	<b>58,369</b>	30,093	94%
Shareholders' equity	<b>101,563</b>	77,827	30%	<b>101,563</b>	77,827	30%
Earnings per share - basic ( <i>US\$</i> )	<b>0.00</b>	0.12	(100%)	<b>0.08</b>	0.27	(70%)
Earnings per share - diluted ( <i>US\$</i> )	<b>0.00</b>	0.12	(100%)	<b>0.08</b>	0.27	(74%)
Funds flow from operating activities <sup>(i)</sup>	<b>5,323</b>	6,288	(15%)	<b>13,562</b>	15,829	(14%)
Funds per share from operating activities - basic ( <i>US\$</i> )	<b>0.15</b>	0.21	(29%)	<b>0.39</b>	0.54	(28%)
Funds per share from operating activities - diluted ( <i>US\$</i> )	<b>0.15</b>	0.20	(25%)	<b>0.38</b>	0.52	(27%)
Net cash flows from operating activities	<b>(2,457)</b>	4,568	-	<b>3,181</b>	9,758	(67%)
Net cash flows per share from operating activities - basic ( <i>US\$</i> )	<b>(0.07)</b>	0.15	-	<b>0.09</b>	0.33	(73%)
Net cash flows per share from operating activities - diluted ( <i>US\$</i> )	<b>(0.07)</b>	0.15	-	<b>0.09</b>	0.32	(72%)
<b>Outstanding Shares ('000)</b>						
Class A shares	<b>1,751</b>	1,751	0%	<b>1,751</b>	1,751	0%
Class B shares	<b>32,939</b>	27,983	18%	<b>32,939</b>	27,983	18%
Options	<b>2,807</b>	2,557	10%	<b>2,807</b>	2,557	10%
Additional Gas sold ( <i>MMcf</i> ) - industrial	<b>719</b>	770	(7%)	<b>1,957</b>	1,817	8%
Additional Gas sold ( <i>MMcf</i> ) - power	<b>4,442</b>	2,918	52%	<b>10,201</b>	8,014	27%
Additional Gas sold ( <i>MMcfd</i> ) - industrial	<b>7.8</b>	8.4	(7%)	<b>7.2</b>	6.7	7%
Additional Gas sold ( <i>MMcfd</i> ) - power	<b>48.3</b>	31.7	52%	<b>37.4</b>	29.4	27%
Average price per mcf ( <i>US\$</i> ) - industrial	<b>10.47</b>	8.01	29%	<b>10.10</b>	8.80	14%
Average price per mcf ( <i>US\$</i> ) - power	<b>2.76</b>	2.63	(1%)	<b>2.69</b>	2.59	2%

## **Chairman & CEO's Letter to Shareholders**

In the third quarter 2011 (Q3 2011), Orca Exploration Group increased sales of Additional Gas by 40% to 5,161 MMcfd (compared with 3,688 MMcfd in Q3 2010). This was achieved by operating at a peak infrastructure capacity of 102 MMcfd through most of the period to maximise delivery of natural gas to Tanzania's gas-fired power generation hub at Dar es Salaam.

Tanzania continues to experience severe power shortages that have made rolling blackouts and restrictions in the supply of power to residential, commercial and industrial customers an ongoing fact of life. To accelerate the drive to create solutions, the Government of Tanzania (GoT) has announced plans to expand the capacity of the infrastructure that processes and transports gas from Songo Songo Island to Dar es Salaam. In the first phase it is understood that the GoT will construct a new gas processing facility on Songo Songo Island and lay an oversized pipeline system from the island to Dar es Salaam.

### **Tanzania to expand natural gas infrastructure**

In October, the Government of Tanzania announced that it had agreed to financial terms with the Chinese Exim Bank for a US\$1 billion loan and would be constructing a new 140 MMcfd gas processing plant on Songo Songo Island, a 36" onshore pipeline and a 24" offshore line to run parallel to the existing system. Orca welcomes this news and looks forward to the commencement of the infrastructure construction.

In the last year, there have been several commercial gas discoveries offshore Tanzania. These new gas reserves now make it strategically appropriate to produce the Songo Songo field at a higher daily rate with the knowledge that new gas production will be available as the Songo Songo field declines. This is a significant development that will help to remove the infrastructure constraints that have historically held up the production of the Songo Songo gas reserves.

The GoT has secured preferential financing from the Chinese Exim Bank to fund these infrastructure developments and is planning to oversize the facilities to cater for increased production from the Songo Songo field and the future commercialisation of the other commercial discoveries in country.

### **Orca expanding Songo Songo production capacity**

At the request of the GoT, the Company has submitted a plan demonstrating how Orca can deliver 200 MMcfd from the main Songo Songo field in parallel with the Government's plan to expand infrastructure and downstream gas-fired generating capacity. It is understood that the GoT's planned infrastructure expansion will be designed so that Songo Songo production could potentially be increased to 300 MMcfd if Songo Songo West is a commercial discovery at the 2P resource level estimate.

The first part of Orca's expansion plan is currently being implemented with the drilling of a new onshore deviated well (SS-A). The Sakson PR5 rig has been mobilised from Syria and it is currently being rigged up on Songo Songo Island. The SS-A well is due to spud in December and is expected to add 60 MMcfd of deliverability.

### **Current production costs conform to PSA terms**

On 18 November 2011 the Parliament of Tanzania received a report from a special Parliamentary Committee that accused Orca's subsidiary PanAfrican Energy Limited ("PanAfrican") of certain irregularities and recommended that PanAfrican be removed from the Songo Songo Production Sharing Agreement ("PSA"). It is understood that the critical issue was whether or not PanAfrican had conformed to the terms of the PSA with respect to the allocation of costs. The Company contends that the costs being disputed were appropriately incurred and allocated by PanAfrican on the Songo Songo project. Orca strongly rejects the findings of the Parliamentary Committee and intends to firmly defend its rights and agreements in accordance with Tanzanian law.

### **Sustainable production increases being achieved**

Orca's recorded gas sales of 56 MMcfd in the third quarter were achieved primarily because the capacity of the infrastructure was increased to approximately 102 MMcfd in mid June. This followed the signing of a Re-rating Agreement with the owners of the infrastructure, Songas Limited and the electricity utility, TANESCO.

This level of sales is expected to continue in Q4 2011, though the volumes may be marginally impacted by increased hydro generation capacity over the short rainy season which has just started.

To provide longer term sustainable gas production increases, Orca is planning a number of actions over the next 18 months:

- Drilling of a new onshore deviated well (SS-A) and remedial work on SS-10 using the Sakson PR5 rig to increase deliverability to approximately 150 – 160 MMcfd by the end of Q1 2012;
- Drilling of the high potential Songo Songo West (SSW) exploration prospect;
- Drilling of a new onshore deviated well and/or workovers of existing wells to ensure that there is at least 200 MMcfd of field deliverability once the infrastructure is expanded.

The pace of this program will be dependent on the resolution of matters raised by the Parliamentary Committee, together with the growth of infrastructure capacity.

### **Long term power sector demand**

Frequent blackouts and power rationing continues in Tanzania following drought induced reductions in the country's hydro generation capacity. To address this shortfall, the GoT has contracted for 50 MWs of emergency oil fired generation from Aggreko with 37 MWs of its facilities to run on jet fuel. It is understood that a further 60 MWs of diesel generation will be installed in Dodoma during 2012.

Currently there is 301 MWs (or approximately 66 MMcfd at peak load) of generation capacity in country that can potentially consume Orca's Additional Gas. Power capacity will increase by a further 105 MWs over the next three to six months as Jacobsen Elektro commissions its plant at Dar es Salaam (increasing demand for Additional Gas by 22 MMcfd). There are several other gas fired power plants at the planning stage that will crystallise when there is sufficient infrastructure capacity in place.

The Government's announced intention is to have 2,780 MW of power in place by 2015. This will more than double the current installed capacity of 1,117 MW over the next three years. When the current planned infrastructure expansion is complete, Orca is well positioned to play a significant role in developing the country's natural gas resources to the mutual benefit of Tanzanians and the Company's investors.

### **Songo Songo wells update**

Orca currently has the capacity to deliver 113 MMcfd from the five producing Songo Songo gas wells. In Q3 2011, a corrosion log was run in SS-9 to assess when this well will need to be taken out of production. This log indicated that there had not been a significant deterioration in the tubing and that SS-9 could probably be produced until 31 May 2012, subject to the running of an additional log in March 2012.

To add new production Orca will commence drilling a new high producing onshore deviated well, SS-A, during December 2011. When SS-9 is shut in and replaced by SS-A, there will then be a predominance of onshore wells feeding into the gas processing facilities. As a consequence the produced gas will be hotter and will need to be cooled to meet the required system specifications. To address this Orca has ordered a gas cooling facility which will be installed in April 2012 along with the new flowlines at a cost of US\$8 million. Any delay with the installation of these new facilities will impact the Company's production when SS-9 has to be suspended.

### **Italy Update**

The La Tosca gas exploration well in the Po Valley Basin will be drilled in Q1 2012 at an estimated cost of US\$8 million as the first step in delineating the prospectivity of the Longastrino block. In the event of a discovery, it is anticipated that 3D seismic will be acquired over several potential leads in the block. Additional drilling will be conducted if the seismic interpretation is positive.

Following the recent political changes in Italy, the Company is more optimistic that the Italian government will issue a decree of environmental compatibility and allow further offshore drilling to re-commence in the Central Adriatic. Orca's farm in on the drilling of the Elsa-2 well is an excellent opportunity to participate in an appraisal project where there is a known 65 meter oil column that was drilled in 1992. This prospect is particularly attractive at the current oil price. The Company has no obligation to pay any costs until a rig contract has been signed and there is no time limit in the farm in agreement with Petroceltic plc. In addition, the farm in provides

the Company with significant upside through the ability to participate in the exploration of 11 adjacent blocks at a 15% working interest.

## Projects financing

Funds flow from operating activities declined to US\$5.3 million (Q3 2010: US\$6.3 million) primarily due to the depletion of the cost recovery pool and the payment of past marketing costs to Tanzania Petroleum Development Corporation (TDPC) in accordance with the terms of the Production Sharing Agreement.

The Company's cost pool in Tanzania was depleted early in Q2 2011. This resulted in a reduction in the percentage of net revenue attributable to the Company. This will continue until there are significant expenditures on drilling activities which will commence in Q4 2011. Over the same period Orca will also see a reduction in the net revenue allocated to the Company now that a significant proportion of current production is coming from the deemed TPDC backed-in well (SS-10).

The Company has indicated that it intends to undertake a capital work programme over the coming 18-24 months of approximately US\$130 million in parallel with an expansion of the infrastructure capacity in Tanzania and the growth in the generation capacity. Whilst this work program is underway, the pace will now be dependent on a resolution of the matters raised by the Parliamentary Committee and the timing of infrastructure expansions. In addition, there needs to be an improvement in TANESCO's payment performance which has deteriorated in the last few months.

## The task at hand

During the last two decades we have successfully worked with the Government of Tanzania to develop the Songo Songo project. It is widely recognised to be one of the most successful gas-to-electricity projects in Africa. Orca is committed to continue to play its part by increasing the field deliverability in line with the Government's announced infrastructure expansion. This will ensure over both the short term and longer term that there is adequate power to support a growing economy.

We remain optimistic and confident that the Government of Tanzania will recognise the Company's long-standing contributions as a trusted partner in building a secure, environmentally sustainable and efficient delivery system to produce and deliver natural gas to meet Tanzania's urgent power needs. We look forward to the resolution of the current dispute so that the Songo Songo project and Orca's involvement in it can once again be held out as a true Tanzania success story.

## Condensed Consolidated Interim Statement of Comprehensive Income (unaudited)

ORCA EXPLORATION GROUP INC.

	Three months ended		Nine months ended	
	30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
<b>Thousands of US dollars except per share amounts</b>				
<b>Revenue</b>	<b>10,457</b>	10,975	<b>28,393</b>	28,251
<b>Cost of sales</b>				
Production and distribution expenses	<b>(1,800)</b>	(1,298)	<b>(4,009)</b>	(3,464)
Depletion expense	<b>(2,647)</b>	(1,143)	<b>(5,957)</b>	(3,053)
	<b>6,010</b>	8,534	<b>18,427</b>	21,734
General and administrative expenses	<b>(4,399)</b>	(2,740)	<b>(10,736)</b>	(7,881)
Net finance costs	<b>(322)</b>	(210)	<b>(1,031)</b>	(904)
<b>Profit before taxation</b>	<b>1,289</b>	5,584	<b>6,660</b>	12,949
Taxation	<b>(1,343)</b>	(2,006)	<b>(3,941)</b>	(4,823)

<b>(Loss)/profit after taxation and comprehensive (loss)/income</b>	<b>(54)</b>	3,578	<b>2,719</b>	8,126
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**Earnings per share**

Basic (US\$)	<b>0.00</b>	<b>0.12</b>	<b>0.08</b>	0.27
Diluted (US\$)	<b>0.00</b>	<b>0.12</b>	<b>0.08</b>	0.27

## Condensed Consolidated Interim Statement of Financial Position (unaudited)

ORCA EXPLORATION GROUP INC

<b>AS AT</b> <i>Thousands of US dollars</i>	<b>30-Sep 2011</b>	31-Dec 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>42,632</b>	45,519
Trade and other receivables	<b>26,883</b>	13,583
Taxation Receivable	<b>4,066</b>	4,009
Prepayments	<b>511</b>	409
	<b>74,092</b>	63,520
<b>Non- Current Assets</b>		
Exploration and evaluation assets	<b>2,496</b>	942
Property, plant and equipment	<b>59,119</b>	59,946
	<b>61,615</b>	60,888
Total Assets	<b>135,707</b>	124,408
<b>EQUITY AND LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	<b>14,407</b>	9,156
Taxation payable	<b>1,316</b>	2,000
	<b>15,723</b>	11,156
<b>Non-Current Liabilities</b>		
Deferred income taxes	<b>14,215</b>	12,809
Deferred additional profits tax	<b>4,206</b>	2,260
	<b>18,421</b>	15,069
Total Liabilities	<b>34,144</b>	26,225
<b>Equity</b>		
Capital stock	<b>85,100</b>	85,100
Contributed surplus	<b>5,949</b>	5,288
Retained earnings	<b>10,514</b>	7,795
	<b>101,563</b>	98,183
Total Equity and Liabilities	<b>135,707</b>	124,408

## Condensed Consolidated Interim Statement of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC

Thousands of US dollars	NOTE	Three months ended		Nine months ended	
		30-Sep 2011	30-Sep 2010	30-Sep 2011	30-Sep 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>(Loss)/profit after taxation</b>		<b>(54)</b>	3,578	<b>2,719</b>	8,126
Adjustment for :					
Depletion and depreciation	<b>3</b>	<b>2,741</b>	1,191	<b>6,147</b>	3,210
Gain on disposal of vehicle		-	-	<b>(5)</b>	-
Stock-based compensation		<b>493</b>	43	<b>403</b>	329
Deferred income taxes		<b>718</b>	1,094	<b>1,406</b>	2,862
Deferred additional profits tax		<b>1,158</b>	205	<b>1,946</b>	565
Interest income		<b>(1)</b>	(18)	<b>(5)</b>	(21)
Unrealised foreign exchange loss/(gain)		<b>268</b>	195	<b>951</b>	758
		<b>5,323</b>	6,288	<b>13,562</b>	15,829
Increase in trade and other receivables		<b>(8,802)</b>	(1,540)	<b>(14,120)</b>	(4,451)
Decrease/(increase) in taxation receivable		<b>559</b>	(1,302)	<b>(57)</b>	(2,153)
Decrease/(increase) in prepayments		<b>278</b>	(146)	<b>(102)</b>	(773)
Increase in trade and other payables		<b>779</b>	357	<b>4,582</b>	(7)
(Decrease)/increase in taxation payable		<b>(594)</b>	911	<b>(684)</b>	1,313
<b>Net cash flows (used in)/from operating activities</b>		<b>(2,457)</b>	4,568	<b>3,181</b>	9,758
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>					
Exploration and evaluation expenditures		<b>(1,016)</b>	(146)	<b>(1,554)</b>	(149)
Property, plant and equipment expenditures		<b>(2,909)</b>	(1,077)	<b>(5,320)</b>	(2,197)
Interest received		<b>1</b>	18	<b>5</b>	21
Proceeds from sale of vehicle		-	-	<b>5</b>	-
Increase in trade and other payables		<b>152</b>	325	<b>1,012</b>	282
<b>Net cash used in investing activities</b>		<b>(3,772)</b>	(880)	<b>(5,852)</b>	(2,043)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>					
Stock options exercised		-	234	-	234
<b>Net cash flow from financing activities</b>		-	234	-	234
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(6,229)</b>	3,922	<b>(2,671)</b>	7,949
<b>Cash and cash equivalents at the beginning of the period</b>		<b>48,993</b>	18,319	<b>45,519</b>	14,543
<b>Effect of change in foreign exchange</b>		<b>(132)</b>	(62)	<b>(216)</b>	(313)
<b>Cash and cash equivalents at the end of the period</b>		<b>42,632</b>	22,179	<b>42,632</b>	22,179



# Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

(unaudited)

ORCA EXPLORATION GROUP INC

thousands of US dollars	Capital stock	Contributed surplus	Retained earnings/(deficit)	Total
<b>Balance as at 1 January 2010</b>	66,267	4,809	(2,216)	68,860
Stock-based compensation	-	607	-	607
Stock options exercised	540	(306)		234
Total comprehensive income for the period	-	-	8,126	8,126
<b>Balance as at 30 Sep 2010</b>	<b>66,807</b>	<b>5,110</b>	<b>5,910</b>	<b>77,827</b>

thousands of US dollars	Capital stock	Contributed surplus	Retained earnings	Total
<b>Note</b>	<b>4</b>			
<b>Balance as at 1 January 2011</b>	85,100	5,288	7,795	98,183
Stock-based compensation	-	661	-	661
Stock options exercised				
Total comprehensive income for the period	-	-	2,719	2,719
<b>Balance as at 30 Sep 2011</b>	<b>85,100</b>	<b>5,949</b>	<b>10,514</b>	<b>101,563</b>

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

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## 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.