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TSX-V: ORC.A, ORC.B

## FOR IMMEDIATE RELEASE

28 August 2012

### Orca Exploration announces its results for the quarter ended 30 June 2012

TORTOLA, British Virgin Islands. Orca Exploration Group Inc ("Orca Exploration" or the "Company") announces its results for the quarter ended 30 June 2012.

## Highlights

- Additional Gas sales continued at system capacity up 4% over Q1 to 54.9 MMcfd being an increase of 37% over the prior year (Q2 2011: 40.2 MMcfd). This resulted in operating revenue of US\$16.9 million (Q2 2011: US\$8.3 million).
- Funds from operations before working capital changes unchanged over Q1 at US\$9.9 million (US\$0.28 per share diluted), being triple the prior year (Q2 2011: US\$3.3 million or US\$0.09 per share diluted).
- Working capital decreased by 16% in Q2 from Q1 to US\$38.7 million (US\$56.0 million as at 31 December 2011) as a consequence of significant capital expenditure on drilling operations.
- Accounts Receivable continue to increase due to delayed payments for gas deliveries to the state utility, TANESCO however constructive discussions are ongoing with recently appointed senior management and proposals for scheduled payments are being actively discussed.
- Completed drilling the SS-11 development well on Songo Songo Island and flowline connected – expected to be commissioned by September.
- Deferred the drilling of the exploration well SSW pending normalisation of the utility's payment arrears and resolution of Songo Songo Production Sharing Agreement ("PSA") issues raised by the government of Tanzania.
- In May, a new Minister was appointed to the Tanzania Ministry of Energy and Mines ("MEM") who has since taken a leadership role in resolving TANESCO payments and issues raised by the GNT. In July, government dissolved the Parliamentary Committee for Energy and Minerals and the TANESCO senior management were dismissed. Constructive discussions are ongoing with government officials.
- Reached an agreement in principle on a number of major points with the Government Negotiation Team ("GNT") to resolve the issues raised in 2011 by the Parliamentary Committee for Energy and Minerals in respect of the Company's PSA. The GNT having completed its mandate has been dissolved and the responsibility for finalisation, documentation and implementation has moved back to MEM.
- With a rapidly deteriorating hydro power supply in country, following a communication from TPDC on 25 August 2012, on 27 August 2012, the Ministry of Energy and Minerals issued an order to the Company to redirect all gas volumes (including from Industrial Gas buyers) to TANESCO until 31 December 2012 to aid in emergency power generation. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order.

- Drilling of the La Tosca well (Orca 70% to 75% earned interest) in the Longastrino exploration block in the Po Valley, northern Italy (operated by Northern Petroleum Plc) commenced 7<sup>th</sup> August; operations are expected to be complete by the beginning of September.

## Financial and Operating Highlights

	Three months ended or as at			Six months ended or as at		
	30-Jun 2012	30-Jun 2011	Change	30-Jun 2012	30-Jun 2011	Change
<b>Financial (US\$'000 except where otherwise stated)</b>						
Revenue	<b>16,915</b>	8,296	104%	<b>34,121</b>	17,936	90%
Profit before taxation	<b>8,672</b>	1,341	547%	<b>18,825</b>	5,371	250%
Operating netback ( <i>US\$/mcf</i> )	<b>2.56</b>	1.80	42%	<b>2.54</b>	1.98	(28%)
Cash and cash equivalents	<b>20,194</b>	48,993	(59%)	<b>20,194</b>	48,993	(59%)
Working capital	<b>38,689</b>	57,070	(32%)	<b>38,689</b>	57,070	(32%)
Shareholders' equity	<b>118,938</b>	100,956	18%	<b>118,938</b>	100,956	18%
Earnings per share - basic ( <i>US\$</i> )	<b>0.15</b>	0.01	100%	<b>0.34</b>	0.08	379%
Earnings per share - diluted ( <i>US\$</i> )	<b>0.15</b>	0.01	1272%	<b>0.33</b>	0.08	366%
Funds flow from operating activities	<b>9,982</b>	3,292	201%	<b>19,871</b>	8,239	141%
Funds per share from operating activities - basic ( <i>US\$</i> )	<b>0.29</b>	0.09	203%	<b>0.57</b>	0.24	142%
Funds per share from operating activities - diluted ( <i>US\$</i> )	<b>0.28</b>	0.09	206%	<b>0.56</b>	0.23	143%
Net cash flows from operating activities	<b>5,689</b>	2,142	166%	<b>12,342</b>	5,638	119%
Net cash flows per share from operating activities - basic ( <i>US\$</i> )	<b>0.16</b>	0.06	166%	<b>0.36</b>	0.16	120%
Net cash flows per share from operating activities - diluted ( <i>US\$</i> )	<b>0.16</b>	0.06	169%	<b>0.35</b>	0.16	121%
<b>Outstanding Shares ('000)</b>						
Class A shares	<b>1,751</b>	<b>1,751</b>	0%	<b>1,751</b>	1,751	0%
Class B shares	<b>32,743</b>	<b>32,939</b>	0%	<b>32,743</b>	32,939	(1%)
Options	<b>2,172</b>	<b>2,557</b>	(15%)	<b>2,172</b>	2,557	(15%)
Additional Gas sold ( <i>MMcfd</i> ) - industrial	<b>829</b>	688	21%	<b>1,664</b>	1,237	35%
Additional Gas sold ( <i>MMcfd</i> ) - power	<b>4,172</b>	2,965	41%	<b>8,145</b>	5,759	41%
Additional Gas sold ( <i>MMcfd</i> ) - industrial	<b>9.1</b>	7.6	20%	<b>9.1</b>	6.8	35%
Additional Gas sold ( <i>MMcfd</i> ) - power	<b>45.8</b>	32.6	40%	<b>44.8</b>	31.8	41%
Additional Gas sold ( <i>MMcfd</i> ) - total	<b>54.9</b>	40.2	37%	<b>53.9</b>	38.6	40%
Average price per mcf ( <i>US\$</i> ) - industrial	<b>10.14</b>	10.28	(1%)	<b>9.88</b>	9.90	0%
Average price per mcf ( <i>US\$</i> ) - power	<b>2.80</b>	2.64	5%	<b>2.76</b>	2.63	5%

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

2012 has become a pivotal year for both Orca Exploration Group and the power sector in Tanzania. For Orca there have been solid accomplishments but also very serious challenges. For Tanzania energy self-sufficiency and power security are in sight but getting there as quickly as the economy demands will still take a concerted effort by all stakeholders.

Orca's financial and operations performance continued strong over the quarter. During Q2 2012 Orca continued to produce natural gas at maximum capacity, delivering Additional Gas sales volumes of 54.9 MMcfd (52.9 MMcfd Q1 2012). Funds from operations before working capital changes were unchanged over Q1 at \$9.9 million (\$0.28 per share), triple Q2 2011 (\$3.3 million or \$0.09 per share). The Company's Accounts Receivable has increased due to continued delayed payments for gas deliveries to our major customer, the state utility. We are, however, in constructive discussions with the relevant authorities and proposals are being received and actively discussed.

For its part, Tanzania is vigorously addressing its power generation issues. To eliminate persistent power interruptions and shortfalls in capacity Tanzania is accelerating the pace of developing its natural gas infrastructure. At the end of the second quarter of 2012, the Government of Tanzania announced a lending agreement with the Export-Import Bank of China to fund approximately US\$1.2 billion in energy infrastructure expansion. The government announced its intention to utilize the majority of the funds to construct a new 24 inch to 36-inch pipeline to be laid between Mnazi Bay and Somanga Funga, and to twin the existing 16-inch pipeline between Somanga Funga (the onshore tie-in to Songo Songo) and Dar es Salaam with a new 36-inch pipeline. This infrastructure expansion will provide Orca with much needed process and pipeline capacity expansion at Songo Songo.

In the near term, power supply has become an acute issue for Tanzania. Very recently, the government was apprised of rapidly falling hydro power generation resulting from critically low levels of water in the country's reservoirs. Seeking to avert a serious power shortage, on 27 August 2012, the Ministry of Energy and Minerals issued an order to the Company to redirect all gas volumes (including from Industrial Gas buyers) to TANESCO until 31 December 2012 to aid in emergency power generation. The Company is in active discussions with TPDC, MEM and other affected parties to assess the implications of complying with this order. As the situation unfolds the Company will issue further details.

### **Advancing Cooperation and Collaboration**

Orca still has much to accomplish in Tanzania – both for the people and businesses of Tanzania and for our own shareholders. But first we need to overcome the uncertainties which hang over our company.

Despite continued strong funds flow, Orca's net cash position has deteriorated with the continued delays in payments from its largest gas buyer, the state electric utility TANESCO. As at the date of this report Orca is owed US\$28.2 million for the Additional Gas sold to the state utility. The Ministry of Mines and Energy ("MEM") has been taking steps to restore the viability of TANESCO and, in the wake of allegations over corruption and abuse of power within the utility, a new Managing Director has been appointed and an auditor appointed. Orca is actively working with MEM and the new TANESCO management to normalise payments. Based on some recent proposals advanced by TANESCO and being discussed, Orca management is cautiously optimistic that arrears can be brought current in a reasonable time frame, at which time Orca plans to resume its capital programme. To finance day-to-day activities while the payments are being brought current, the Company is closing a short-term US\$10 million bank facility in Tanzania. Further external funding will be required if TANESCO continues to be significantly in arrears with its payments and management is actively pursuing additional sources of funding as a contingency.

Orca is continuing to work closely with our partners and the government to remove the financial risks that impair the Company's growth. At the same time we are very mindful of the fact that these challenges must not interfere with the production of natural gas from Songo Songo which fuels roughly 70% of the electricity in Dar es Salaam. This is a significant responsibility and we take it very seriously.

We are working hard every day to resolve uncertainties, to clear the way to growth and contribute to energy self-sufficiency in Tanzania. During the quarter, Orca continued good faith negotiations with the Government Negotiation Team ("GNT") on various issues in Orca's Production Sharing Agreement ("PSA") including, but not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and Orca's management of the upstream operations. To date, we have reached an agreement in principle on a number of major points with the GNT to resolve the issues. The GNT, having completed its mandate, has been dissolved and the responsibility for finalisation, documentation and implementation has

moved back to MEM. Orca believes that the new leadership in MEM has the vision and the commitment for a successful completion of this process, with a common view of implementation by the end of 2012.

## **FINANCIAL RESULTS**

The Company continued to produce at maximum capacity during Q2 2012, delivering Additional Gas sales volumes of 54.9 MMcfd (52.9 MMcfd Q1 2012). Funds from operations before working capital changes was unchanged over Q1 at \$9.9 million (\$0.28 per share), triple that of Q2 2011 (\$3.3 million or \$0.09 per share), largely as a result of a 37% increase in Additional Gas sales over Q1 2011 combined with the Company continuing in a cost recovery mode in turn a result of capital spending. Average Power Gas sales prices were up 3% over Q1 to \$2.80/Mcf from \$2.72/Mcf. Stronger liquids fuels prices contributed to a 5% increase in Industrial Gas sales prices of \$10.14/Mcf over \$9.63/Mcf in Q1. Working capital at the end of the quarter was \$38.7 million, with cash of \$20.2 million, down 18% and 33% respectively over Q1 primarily the result of drilling SS-11 and the continued delay in TANESCO payments.

## **TANZANIA OPERATIONS**

Orca has been able to establish significant additional deliverability from Songo Songo with the completion of the SS-11 development well. The Company has recently tied in the well and estimates that the well will be available for production by September 2012. While the well is expected to be highly productive, it is expected to be initially infrastructure constrained to a maximum of approximately 40 MMcfd. The total cost of SS-11 is estimated at US\$38 million, higher than originally estimated. The increased cost is primarily due to additional rig and associated services time incurred with cementing operations and the fact that the rig was mobilized from Syria specifically for this one well.

The Company intends to return to the SS-11 location at a future date to drill the SS-12 well when additional deliverability is required. By that time Orca expects that the payment issues with TANESCO and the finalisation of negotiations with the GNT on other issues will have been successfully concluded.

Corrosion testing completed on SS-9 during the quarter confirmed that the well continued to be able to be safely produced for another nine months, subject to successful integrity pressure tests. The test did not show any material increase in corrosion levels in the production tubing at critical locations. The plan is to shut in SS-9, currently producing 30 MMcfd, when SS-11 is brought onstream. With the new well onstream, SS-9 will remain available to provide spare capacity and redundancy allowing more thorough testing of all production wells during the remainder of the year.

The timing for the drilling of Songo Songo West has also been stretched out by the as yet unresolved issues. In Q1 2012 the Company reported that it was planning to drill the Songo Songo West ("SSW") exploration well in Q4 and was negotiating to secure a jack-up rig. However by the end of the second quarter the Company had taken the decision to defer the drilling of Songo Songo West until the TANESCO and GNT issues were resolved. The reserve-backed lending facility, required to fund the SSW drilling, is also expected to be completed when these issues are resolved.

## **ITALIAN OPERATIONS**

In the Longastrino Block in the Po Valley region of northern Italy the La Tosca farm-in well was spud by Northern Petroleum, as operator, on 7<sup>th</sup> August 2012. Operations are expected to be complete by the beginning of September.

Subsequent to the quarter, the Elsa offshore Italy opportunity cleared an important regulatory hurdle. Legislative Decree 83/2012 (the "Decree"), published on 26 June 2012 was approved by both houses of the Italian Parliament with no substantial modifications. On 12 August 2012, the Decree became law following publication in the Italian Official Journal. The new law modifies restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. Petroceltic plc, the operator of the permit has stated that the new legislation removes the existing uncertainty concerning exploration, development and production activities in Italian waters.

## **TOWARDS A BRIGHTER FUTURE**

The past 12 months have been trying ones for Orca's management and our shareholders. However the positive developments of the past few months give us reason to believe that a mutually satisfactory resolution of all outstanding financial and contractual issues can now be achieved, allowing Orca to move forward with confidence. Both Orca and the Government of Tanzania have re-committed to a closely cooperative relationship in moving towards our common interests.

Tanzania is in sight of energy self sufficiency and prosperity over the next decade and Orca is proud to play a role in contributing to the country's drive to achieve energy self-reliance. Orca was the first company to develop natural gas production in East Africa and remains the only significant producer of natural gas in the region. We committed capital and took risks at a time when there was no assurance of gas production from Songo Songo. Together, with our partners, we are delivering on our promises.

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

ORCA EXPLORATION GROUP INC.

	Three months ended		Six months ended	
	30-Jun 2012	30-Jun 2011	30-Jun 2012	30-Jun 2011
<b>Figures in US\$'000 except per share amounts</b>				
<b>Revenue</b>	<b>16,915</b>	8,296	<b>34,121</b>	17,936
<b>Cost of sales</b>				
Production and distribution expenses	(1,813)	(1,183)	(3,127)	(2,209)
Depletion expense	(2,017)	(1,728)	(3,955)	(3,310)
	<b>13,085</b>	5,385	<b>27,039</b>	12,417
General and administrative expenses	(4,362)	(3,487)	(8,026)	(6,337)
Net finance costs	(51)	(557)	(188)	(709)
<b>Profit before taxation</b>	<b>8,672</b>	1,341	<b>18,825</b>	5,371
Taxation	(3,505)	(958)	(7,266)	(2,598)
<b>Profit after taxation and comprehensive income</b>	<b>5,167</b>	383	<b>11,559</b>	2,773
<b>Earnings per share</b>				
Basic (US\$)	<b>0.15</b>	0.01	<b>0.34</b>	0.08
Diluted (US\$)	<b>0.15</b>	0.01	<b>0.33</b>	0.08

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

ORCA EXPLORATION GROUP INC

AS AT Figures in US\$'000	30-Jun 2012	31-Dec 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	20,194	34,680
Trade and other receivables	51,807	40,348
Taxation Receivable	12,785	5,880
Prepayments	842	302
	85,628	81,210
<b>Non- Current Assets</b>		
Exploration and evaluation assets	7,478	2,921
Property, plant and equipment	96,213	67,713
	103, 691	70,634
<b>Total Assets</b>	<b>189,319</b>	<b>151,844</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	40,165	22,801
Taxation payable	6,774	2,403
	46,939	25,204
<b>Non-Current Liabilities</b>		
Deferred income taxes	17,266	15,194
Deferred additional profits tax	6,176	4,787
	<b>23,442</b>	19,981
<b>Total Liabilities</b>	<b>70,381</b>	45,185
<b>Equity</b>		
Capital stock	84,610	84,610
Contributed surplus	6,988	6,268
Accumulated income	27,340	15,781
	118,938	106,659
<b>Total Equity and Liabilities</b>	<b>189,319</b>	<b>151,844</b>



# Condensed Consolidated Interim Statement of Cash Flows (unaudited)

ORCA EXPLORATION GROUP INC

US\$'000	Three months ended		Six months ended	
	30-Jun 2012	30-Jun 2011	30-Jun 2012	30-Jun 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Profit after taxation</b>	<b>5,167</b>	383	<b>11,559</b>	2,773
Adjustment for :				
Depletion and depreciation	<b>2,136</b>	1,776	<b>4,156</b>	3,406
Gain on disposal of vehicle	-	-	-	(5)
Stock-based compensation	<b>615</b>	(163)	<b>621</b>	(90)
Deferred income taxes	<b>1,350</b>	150	<b>2,072</b>	688
Deferred additional profits tax	<b>717</b>	595	<b>1,389</b>	788
Interest income	<b>(1)</b>	(1)	<b>(2)</b>	(4)
Unrealised foreign exchange loss	<b>(2)</b>	552	<b>76</b>	683
	<b>9,982</b>	3,292	<b>19,871</b>	8,239
(Increase) in trade and other receivables	<b>(9,373)</b>	(4,431)	<b>(11,491)</b>	(5,318)
(Increase)/decrease in taxation receivable	<b>(3,077)</b>	846	<b>(6,905)</b>	(616)
(Increase) in prepayments	<b>(500)</b>	(408)	<b>(540)</b>	(380)
Increase in trade and other payables	<b>6,503</b>	4,035	<b>7,036</b>	3,803
Increase/(decrease) in taxation payable	<b>2,154</b>	(1,192)	<b>4,371</b>	(90)
<b>Net cash flows from operating activities</b>	<b>5,689</b>	2,142	<b>12,342</b>	5,638
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Exploration and evaluation expenditures	<b>(2,978)</b>	(314)	<b>(4,557)</b>	(538)
Property, plant and equipment expenditures	<b>(15,486)</b>	(1,279)	<b>(32,656)</b>	(2,411)
Interest received	<b>1</b>	1	<b>2</b>	4
Proceeds from sale of vehicle	-	-	-	5
Increase in trade and other payables	<b>2,332</b>	754	<b>10,405</b>	860
<b>Net cash used in investing activities</b>	<b>(16,131)</b>	(838)	<b>(26,806)</b>	(2,080)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
<b>Net cash flow used in financing activities</b>	-	-	-	-
<b>Increase in cash and cash equivalents</b>	<b>(10,442)</b>	1,304	<b>(14,464)</b>	3,558
<b>Cash and cash equivalents at the beginning of the period</b>	<b>30,634</b>	47,776	<b>34,680</b>	45,519
<b>Effect of change in foreign exchange</b>	<b>2</b>	(87)	<b>(22)</b>	(84)
<b>Cash and cash equivalents at the end of the period</b>	<b>20,194</b>	48,993	<b>20,194</b>	48,993

# Condensed Consolidated Interim Statement of Changes in Shareholders' Equity (unaudited)

ORCA EXPLORATION GROUP INC

US'000	Capital stock	Contributed surplus	Accumulated /income	Total
Balance as at 1 January 2011	85,100	5,288	7,795	98,183
Total comprehensive income for the period	-	-	2,773	2,773
<b>Balance as at 30 June 2011</b>	<b>85,100</b>	<b>5,288</b>	<b>10,568</b>	<b>100,956</b>

US\$'000	Capital stock	Contributed surplus	Accumulated income	Total
Balance as at 1 January 2012	84,610	6,268	15,781	106,659
Total comprehensive income for the period		720	11,559	12,279
<b>Balance as at 30 June 2012</b>	<b>84,610</b>	<b>6,988</b>	<b>27,340</b>	<b>118,938</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 press release contains forward-looking statements. More particularly, this press release contains statements concerning, but not limited to, ongoing discussions with TANESCO regarding delayed payments for gas delivery and expected outcome therefrom; expected timing of commissioning the SS-11 development well on Songo Songo Island; anticipated timing of bringing the SS-11 development well on Songo Songo Island on production; expected production, costs and infrastructure constraints of the SS-11 development well; terms of the order issued by the Ministry of Energy and Minerals to redirect all gas volumes to TANESCO and the status of the Company complying with such order; expected timing of completion of drilling operations on the La Tosca well; expectations that payments from TANESCO can be brought current and the anticipated timing thereof and the effect on the Company's capital program; the Company's plans to finalize a short-term bank facility; future funding requirements; the status of the Company's negotiations with the GNT in respect of the PSA and the expected timing of completion thereof; expected timing of drilling of the SS-12 well; the Company's plans with respect to the SS-9 well; expected timing of drilling of the Songo Songo West well; and the Company's strategic plans.*

*These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca Exploration's control, including, but not limited to, risk that the Company will not be able to fulfill its obligations; failure of counterparties to perform on contracts; failure to successfully negotiate contracts; 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; competition for, among other things, capital, drilling equipment and skilled personnel; failure to obtain required equipment for drilling; delays in drilling plans; failure to obtain expected results from drilling of wells; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; risks associated with negotiating with foreign governments; failure to obtain short-term bank facility; impact of changes to the PSA on the Company; impact of*

*the order issued by the Ministry of Energy and Minerals to redirect all gas volumes to TANESCO on the Company, its operations and its financial condition; and ability to access sufficient capital. 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 that Orca Exploration will derive therefrom.*

*Such forward-looking are based on certain assumptions made by Orca Exploration in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors Orca Exploration believes are appropriate in the circumstances, including, but are not limited to, infrastructure capacity; commodity prices will not deteriorate significantly; the ability of Orca Exploration to obtain equipment in a timely manner to carry out exploration, development and exploitation activities; future capital expenditures; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and future capital expenditures.*

*The forward-looking statements contained in this press release are made as of the date hereof and Orca Exploration 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.*