



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

TSX-V: ORC.A, ORC.B

FOR IMMEDIATE RELEASE

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Orca Exploration announces Q2 2014 results

TORTOLA, British Virgin Islands 27 August 2014: Orca Exploration Group Inc. ("Orca" or "the Company") announces its results for the quarter and six months ended 30 June 2014.

Highlights

- The highest seasonal rainfall in several years allowed TANESCO to increase the use of hydro power in Tanzania and reduced nominations for the Company's Songo Songo gas production during the second quarter of 2014. Total field production averaged 84.2 million standard cubic feet per day ("MMcfd") down 11% from the prior year period, and down 10% from 93.9 MMcfd in Q1 2014. Additional Gas sales volumes averaged 50.0 MMcfd, a decrease of 14% over the same period in 2013 (Q2 2013: 58.4 MMcfd) and a decrease of 13% over Q1 2014 (57.4 MMcfd).
- The situation with respect to the outstanding accounts receivable from TANESCO began to stabilise with regular weekly payments which commenced during the quarter. The Company will continue to draw attention to the going concern issue until discernable progress has been made in reducing arrears. In the event that the Company does not collect from TANESCO the balance of the receivables and TANESCO continues to be unable to pay the Company for subsequent gas deliveries, the Company may be unable to undertake the level of capital expenditure required to increase well deliverability to the expansion target of 190 MMcfd.
- Working capital was US\$37.2 million at 30 June 2014, up 95% from 31 March 2014 (US\$19.1 million) and up 34% over 31 December 2013 (US\$27.8 million), a result of cash received from TANESCO against the long-term portion of the receivable. As at 30 June 2014, TANESCO owed the Company US\$63.8 million of which US\$53.4 million was in arrears.
- TANESCO currently owes the Company US\$50.4 million, of which US\$45.2 million is in arrears. The Company continues to review legal and contractual options available to collect the arrears and arrest the increase in TANESCO receivables, including but not limited to the suspension of gas deliveries to TANESCO.
- Q2 income was US\$6.5 million or US\$0.18 per share diluted, as opposed to a loss in the prior year period (Q2 2013: US\$6.6 million loss or US\$0.19 per share) and compared with income of US\$1.6 million or US\$0.04 per share in Q1 2014, with increased net revenues offsetting the cost of carrying the TANESCO receivable.
- Average gas prices were up 7% in Q2 to US\$4.94/mcf over the prior year period (Q2 2013: US\$4.62/mcf). Industrial gas prices were up 8% in Q2 to US\$9.27/mcf (Q2 2013: US\$8.60/mcf) and up 14% from Q1 2014 (US\$8.11/mcf) from changes in the sales mix. Average Power sector gas prices increased 1% over the prior year period to US\$3.65/mcf (Q2 2013: US\$3.63/mcf) and were up 4% compared to the Q1 2014 price of US\$3.52/mcf. The increase over Q1 2014 was the result of a greater proportion of sales volumes being priced at the higher excess gas price, as volumes in excess of 36 MMcfd are sold at a 150% premium to the base price.
- Gross revenue was US\$21.0 million, up 1% from the prior year period (Q2 2013: US\$20.7 million), with the Company's share of revenue up 13% to US\$13.3 million from US\$11.8 million in the prior year period. The recovery of prior years' downstream costs together with an adjustment for agreed non-recoverable costs resulted in the

recognition of a further US\$3.0 million increase in the Company share of revenue during the quarter. There was no capital spending during the quarter.

- Funds flow from operating activities was up 26% to US\$13.3 million or US\$0.37 per share diluted (Q2 2013: US\$10.5 million or US\$0.30 per share) and up 87% from Q1 2014 (US\$7.1 million or US\$0.20 per share), a result of higher net revenues.
- As at 30 June 2014, the Company had US\$38.7 million in cash (31 December 2013: US\$32.6 million) and no debt, more than double the cash balances of the prior year period. The Company currently has US\$60.2 million in cash and no debt.
- During the quarter, Company continued to advance its efforts to resolve the US\$34 million Cost Pool dispute with TPDC. An international auditing firm appointed by the Tanzania Controller Auditor General (CAG) to review the costs under dispute has completed its work and reported back to TPDC. The Company has reviewed the work and agreed US\$1.0 million in disputed costs as non-recoverable and has further agreed with TPDC to appoint a third party expert to provide a non-binding opinion on the fairness of the remaining costs under dispute.
- Discussions with TPDC and Ministry of Energy and Minerals on commercial terms for future incremental gas sales have ground to a halt with no engagement from either party since the end of Q1 2014. Commercial terms remain a key condition to the Company's commitment to Songo Songo development. The Company has recently served notice that in the absence of an agreement in the near future, the Company intends to pursue its rights under the PSA to develop other markets for Songo Songo gas.
- Despite the stalled efforts to reach agreement on commercial terms, the Company continues planning the full development of Songo Songo to reach 190 MMcfd deliverability by mid-2015, and advanced engineering on the workovers of wells SS-5 and SS-9, which are currently suspended. The Company continues to work with the International Finance Corporation of the World Bank Group to finance the development programme. Completion of the full development programme remains contingent upon (i) satisfactory resolution of TANESCO arrears; (ii) acceptable commercial terms; and (iii) payment guarantees for future gas deliveries to TANESCO.
- The Tanzania National Natural Gas Infrastructure Project ("NNGIP") made significant progress, as reported by TPDC during 2013, with the pipeline currently 80% complete and gas processing facilities 37% complete. Expected onstream date remains mid-2015.
- In response to speculation regarding a potential sale of the Company or a significant transaction, in mid-July Orca issued a press release advising that the Company was in discussions with a number of third parties which have made unsolicited approaches to the Company relating to the sale of the Company, a significant asset disposal, strategic investment or other transaction involving the Company. As at the date hereof, the Company has nothing to report.

Financial and Operating Highlights

THREE MONTHS ENDED/AS AT

Three months ended/As at	30 June 2014	30 June 2013	Percentage Change	31 March 2014	Percentage Change
Financial (US\$000 except where otherwise stated)					
Revenue	19,074	11,996	59	13,698	39
Profit/(Loss) before tax	10,387	(8,509)	n/m	3,246	220
Operating netback (US\$/mcf)	3.03	2.10	44	2.03	49
Cash	38,694	18,752	106	31,058	25
Working capital ⁽¹⁾	37,226	22,527	65	19,060	95
Shareholders' equity	128,528	122,068	5	121,851	5
Total comprehensive income/(loss)	6,703	(6,817)	n/m	1,573	326
per share - basic (US\$)	0.19	(0.19)	n/m	0.05	280
per share - diluted (US\$)	0.18	(0.19)	n/m	0.04	350
Funds flow from operating activities ⁽²⁾	13,266	10,546	26	7,104	87
per share from operating activities - basic (US\$)	0.38	0.30	27	0.20	90
per share from operating activities - diluted (US\$)	0.37	0.30	23	0.20	85
Cash flows from operating activities	7,255	8,268	(12)	660	1,025
per share - basic (US\$)	0.21	0.23	(9)	0.02	950
per share - diluted (US\$)	0.20	0.23	(9)	0.02	900
Outstanding Shares ('000)					
Class A shares	1,751	1,751	-	1,751	-
Class B shares	33,072	32,892	5	33,072	-
Options	1,742	1,922	(9)	1,742	-
Operating					
Additional Gas sold (MMcf) - Industrial	1,046	1,067	(2)	1,164	(10)
Additional Gas sold (MMcf) - Power	3,503	4,250	(18)	4,008	(13)
Additional Gas sold (MMcfd) - Industrial	11.5	11.7	(2)	12.9	(11)
Additional Gas sold (MMcfd) - Power	38.5	46.7	(18)	44.5	(13)
Additional Gas sold (MMcfd)	50.0	58.4	(14)	57.4	(13)
Average price per mcf (US\$) - Industrial	9.27	8.60	8	8.11	14
Average price per mcf (US\$) - Power	3.65	3.63	1	3.52	4

1. Working capital as at 30 June 2014 includes a TANESCO short-term receivable of US\$10.1 million (31 December 2013: US\$9.6 million). Given the payment pattern, the TANESCO receivables in excess of 60 days which total US\$53.7 million (31 December 2013: US\$47.0 million) have been classified as long-term receivables and discounted by US\$17.1 million. Total long and short-term TANESCO receivables as at 30 June 2014 were US\$63.8 million prior to discounting. Subsequent to the quarter end, TANESCO paid US\$18.6 million, and as at 27 August 2014 the TANESCO balance was US\$50.4 million of which arrears total US\$45.2 million.

Condensed Consolidated Interim Statement of Comprehensive Income/(Loss) (Unaudited)

ORCA EXPLORATION GROUP INC.

<i>US\$'000 except per share amounts</i>	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Revenue	19,074	11,996	32,772	25,193
Expenses				
Production and distribution expenses	(1,386)	(620)	(2,646)	(1,414)
Depletion expense	(3,214)	(2,612)	(6,777)	(5,335)
	14,474	8,764	23,349	18,444
General and administrative expenses	(3,357)	(3,430)	(7,151)	(6,960)
Finance income	635	1,865	1,282	1,865
Finance costs	(1,365)	(15,708)	(3,847)	(17,198)
Profit/(loss) before tax	10,387	(8,509)	13,633	(3,849)
Income taxes	(3,860)	1,943	(5,520)	57
Profit/(loss) after tax	6,527	(6,566)	8,113	(3,792)
Foreign currency translation gain/(loss) from foreign operations	176	(251)	163	(75)
Total comprehensive income/(loss) for the period	6,703	(6,817)	8,276	(3,867)
Earnings per share				
Basic (US\$)	0.19	(0.19)	0.23	(0.11)
Diluted (US\$)	0.18	(0.19)	0.23	(0.11)

Condensed Consolidated Interim Statement of Financial Position (Unaudited)

ORCA EXPLORATION GROUP INC.

As at

<i>US\$'000</i>	30 June 2014	31 Dec 2013
ASSETS		
Current Assets		
Cash	38,694	32,588
Trade and other receivables	41,259	37,215
Tax receivable	14,955	14,585
Prepayments	576	281
	95,484	84,669
Non-Current Assets		
Long-term trade receivable	36,580	29,911
Exploration and evaluation assets	5,564	5,564
Property, plant and equipment	84,006	90,832
	126,150	126,307
Total Assets	221,634	210,976
EQUITY AND LIABILITIES		
Current Liabilities		
Trade and other payables	58,073	53,296
Bank loan	-	1,659
Tax payable	185	1,958
	58,258	56,913
Non-Current Liabilities		
Deferred income taxes	12,292	12,132
Deferred additional profits tax	22,556	21,679
	34,848	33,811
Total Liabilities	93,106	90,724
Equity		
Capital stock	85,428	85,428
Contributed surplus	6,482	6,482
Accumulated other comprehensive loss	(140)	(303)
Accumulated income	36,758	28,645
	128,528	120,252
Total Equity and Liabilities	221,634	210,976

Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

ORCA EXPLORATION GROUP INC.

<i>US\$'000</i>	Three months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
OPERATING ACTIVITIES				
Profit/(loss) after tax	6,527	(6,566)	8,113	(3,792)
Adjustment for:				
Depletion and depreciation	3,374	2,693	7,089	5,502
Disposal of fixtures & fittings	7	-	7	-
Provision for doubtful debt	635	7,100	3,206	7,100
Discount on long-term receivable	-	7,900	-	7,900
Stock-based compensation	85	(44)	362	(315)
Deferred income taxes	1,127	(4,381)	160	(4,967)
Deferred additional profits tax	1,156	3,390	877	6,425
Interest expense	-	-	24	-
Unrealised loss on foreign exchange	355	454	532	1,390
Funds flow from operating activities	13,266	10,546	20,370	19,243
(Increase)/decrease in trade and other receivables	(6,236)	29,597	(6,860)	8,669
(Increase)/decrease in tax receivable	(591)	86	(370)	407
Decrease/(increase) in prepayments	136	(221)	(295)	(183)
(Decrease)/increase in trade and other payables	(4,378)	(3,138)	3,513	4,254
Decrease in tax payable	(554)	(1,623)	(1,773)	(2,892)
Decrease/(increase) in long-term receivable	5,612	(26,979)	(6,669)	(26,979)
Cash flows from operating activities	7,255	8,268	7,916	2,519
INVESTING ACTIVITIES				
Exploration and evaluation expenditures	-	-	-	(2)
Property, plant and equipment expenditures	213	(138)	(270)	(406)
Cash from/(used) in investing activities	213	(138)	(270)	(408)
FROM FINANCING ACTIVITIES				
Bank loan proceeds	-	-	-	4,000
Bank loan repayments	-	(2,455)	(1,659)	(3,239)
Interest paid	-	-	(24)	-
Cash from/(used in) financing activities	-	(2,455)	(1,683)	761
Increase in cash	7,468	5,675	5,963	2,872
Cash at the beginning of the period	31,058	13,421	32,588	16,047
Effect of change in foreign exchange on cash in hand	168	(344)	143	(167)
Cash at the end of the period	38,694	18,752	38,694	18,752

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

ORCA EXPLORATION GROUP INC.

US\$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated income	Total
Balance as at 1 January 2014	85,428	6,482	(303)	28,645	120,252
Foreign currency translation adjustment on foreign operations	-	-	163	-	163
Profit after tax for the period	-	-	-	8,113	8,113
Balance as at 30 June 2014	85,428	6,482	(140)	36,758	128,528

US\$'000	Capital stock	Contributed surplus	Cumulative translation adjustment	Accumulated income	Total
Balance as at 1 January 2013	84,983	6,753	89	34,110	125,935
Foreign currency translation adjustment on foreign operations	-	-	(75)	-	(75)
Loss after tax for the period	-	-	-	(3,792)	(3,792)
Balance as at 30 June 2013	84,983	6,753	14	30,318	122,068

Orca Exploration Group Inc.

Orca Exploration Group Inc. is an international public company engaged in natural gas exploration, development and supply in Tanzania through the wholly-owned subsidiary PanAfrican Energy Tanzania Limited, as well as oil and gas appraisal in Italy. Orca trades on the TSX Venture Exchange under the trading symbols ORC.B and ORC.A.

The complete unaudited consolidated financial statements and notes and management's discussion & analysis of the Company for the three and six months ended 30 June 2014 may be found on the Company's website at www.orcaexploration.com or on the Company's profile on SEDAR at www.sedar.com.

For further information please contact:

W. David Lyons,
Chairman and Chief Executive Officer
+44-7717-100200
wdlyons@orcaexploration.com

Robert S. Wynne
Chief Financial Officer and Director
+1 (403) 399-8046
RSWynne@orcaexploration.com

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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: repayment of the TANESCO receivables; the need for additional funding for the Company's ongoing operations, including the capital expenditures required to increase well deliverability, if the Company is unable to collect the TANESCO receivables; the appointment of a third party expert to provide a non-binding opinion on the Cost Pool dispute; the actions taken and to be taken by the Company to collect the TANESCO receivables; the Company's viability and its ability to meet its obligations as they come due; status of negotiations with the TPDC regarding a sales agreement for incremental gas volumes and the Company's plans if an agreement is not reached in the near future; status of execution of a full field development plan for Songo Songo, including the anticipated gas sales volumes and the timing of delivery thereof, the funding of the development plan, and the contingencies related to the development work; the expected onstream date for the NNGIP; and the Company's strategic plans. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies. As a consequence, actual results may differ materially from those anticipated in the forward looking statements.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca's control, and many factors could cause Orca's actual results to differ materially from those expressed or implied in any forward-looking statements made by Orca, including, but not limited to: failure to receive payments from TANESCO; failure to obtain adequate funding to meet the Company's obligations as they come due; risk that the contingencies related to the development work for the full field development plan for Songo Songo are not satisfied; risk that the expected onstream date for the NNGIP is delayed; failure to obtain funding for full field development plan for Songo Songo; risk that the Company will be required to pay additional taxes and penalties; the risk that the Cost Pool dispute will not be resolved in favour of Orca; 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; 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; inability to access sufficient capital; failure to successfully negotiate agreements; and risk that the Company will not be able to fulfill its obligations. 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 that Orca will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by Orca in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors Orca believes are appropriate in the circumstances, including, but are not limited to: 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; that the Company will have adequate funding to continue operations; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of Orca to add production at a consistent rate; infrastructure capacity; commodity prices will not deteriorate significantly; the ability of Orca 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 obtain funding for full field development plan for Songo Songo; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and other matters.

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.