



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

TSX-V: ORC.A, ORC.B

FOR IMMEDIATE RELEASE

29 May 2014

Orca Exploration announces Q1 2014 results

TORTOLA, British Virgin Islands 29 May 2014: Orca Exploration Group Inc. ("Orca" or "the Company") announces its results for the quarter ended 31 March 2014.

- Orca operated its Tanzania Songo Songo gas field in the first quarter of 2014 near its productive capacity delivering Additional Gas sales volumes averaging 57.4 MMcfd, a decrease of 7% over the same period in 2013 (Q1 2013: 61.6 MMcfd) and a decrease of 4% over Q4 2013 (60.1 MMcfd). Overall production of Protected Gas and Additional Gas was down 2% over Q1 2013 at 94 MMcfd (Q1 2013: 96 MMcfd). Current average production is approximately 94 MMcfd with current volumes down to approximately 82 MMcfd due to seasonally high hydro usage by TANESCO.
- The situation with respect to the outstanding accounts receivable from TANESCO remains urgent. 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 will need additional funding for its ongoing operations by the end of the 2014 fiscal year.
- Working capital was US\$19.1 million at 31 March 2014, down 65% over Q1 2013 (US\$54.8 million), a result of reclassifying US\$59.3 million (prior to discount) of TANESCO debt as a long-term receivable. As at 31 March 2014, TANESCO owed the Company US\$68.6 million of which US\$63.9 million was in arrears.
- TANESCO currently owes the Company US\$60.9 million, of which US\$57.6 million is in arrears. During the quarter, the Company served notice to TANESCO and is actively pursuing 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.
- TANESCO has made some effort to arrest the growth of arrears. The Tanzania Ministry of Energy and Minerals ("MEM"), which oversees TANESCO, directed the state utility to seek to establish a regular basis of payments to its creditors given the increased cash flow from higher power tariffs which came into effect in January 2014. TANESCO has stated an intention to pay TZsh 3 billion (US\$1.8 million) weekly. Management is currently negotiating a formalized arrangement with TANESCO to repay the arrears and ensure payment for ongoing gas deliveries remains current.
- Q1 earnings were US\$1.6 million or US\$0.04 per share diluted, down 47% from the prior year period (Q1 2013: US\$2.9 million or US\$0.08 per share) and compared with a loss of US\$3.9 million or US\$0.11 per share in Q4 2013, again reflecting the cost of carrying the TANESCO receivable and provisioning a further US\$2.6 million (Q4 2013: US\$2.2 million) against doubtful debts, primarily Songas.
- Average gas prices were up 2% in Q1 to US\$4.55/mcf over the prior year period (Q1 2013: US\$4.45/mcf), Industrial gas prices were up 4% in Q1 to US\$8.11/mcf (Q1 2013: US\$7.78/mcf) and down 3% from Q4 2013 (US\$8.38/mcf) from changes in the sales mix. Average Power sector gas prices decreased 1% over the prior year period to US\$3.52/mcf (Q1 2013: US\$3.55/mcf) and down 4% compared to the Q4 2013 price of US\$3.68/mcf, a result of a reduced take at higher marginal prices.
- Gross revenue for the quarter was US\$23.9 million, down 3% from the prior year period (Q1 2013: US\$24.6 million), with the Company's share of revenue down 5% from US\$12.7 million to US\$12.1 million. Cost Pool recoveries

contributing to operating revenue remained low at US\$2.3 million (Q1 2013: US\$3.6 million) due to minimal capital spending during the quarter.

- Funds flow from operating activities was down 20% to US\$7.1 million or US\$0.20 per share diluted (Q1 2013: US\$8.9 million or US\$0.25 per share), a result of lower net revenues.
- As at 31 March 2014, the Company had US\$31.1 million in cash (31 December 2013: US\$32.6 million) and no debt, more than double the cash balances of the prior year. Notwithstanding the stronger cash position, the continued TANESCO and Songas non-payment still threatens the Company's viability and the Company has maintained a going concern note in its Q1 2014 Interim Consolidated Financial Statements. The Company currently has US\$40 million in cash and no debt.
- During the quarter, Company ended negotiations on potential amendments to the Songo Songo Production Sharing Agreement (the "PSA") and on Government Negotiating Team issues having obtained a full retraction by the Tanzania Petroleum Development Corporation ("TPDC") of the alleged over-recovery of US\$21 million in Cost Pools and TPDC having confirmed that the matter was now closed. The claim was the cornerstone of Parliament's 2011 resolution advising the Government that the Company should repay the monies and that the PSA be terminated. The Company continues to use the dispute resolution mechanisms in its agreements to address any and all pertinent issues going forward.
- Establishing commercial terms for future incremental gas sales remains a key condition to the Company's commitment to Songo Songo development – again there were no substantive developments in negotiations during the quarter. 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 continued planning the full development of Songo Songo to reach 190 MMcfd deliverability by mid-2015, and commenced detailed engineering work on potential workovers of two of the more prolific producing wells currently suspended, SS-5 and SS-9. The Company continues to work with the International Finance Corporation of the World Bank Group to finance the development programme. All development work remains contingent upon (i) satisfactory resolution of TANESCO arrears; (ii) acceptable commercial terms for future gas sales to TPDC; and (iii) payment guarantees for future gas deliveries to TPDC.
- The Tanzania National Natural Gas Infrastructure Project ("NNGIP") made significant progress, as reported by TPDC during 2013, with the pipeline currently 72% complete and gas processing facilities 58% complete. Expected onstream date remains mid-2015.

Financial and Operating Highlights

THREE MONTHS ENDED/AS AT

Three months ended/As at	31-Mar-2014	31-Mar- 2013	Percentage Change	31-Dec-2013	Percentage Change
Financial (US\$000 except where otherwise stated)					
Revenue	13,698	13,197	4	14,866	(8)
Profit/(Loss) before tax	3,246	4,660	(30)	(3,749)	n/m
Operating netback (US\$/mcf)	2.03	2.15	(6)	2.29	(11)
Cash	31,058	13,421	131	32,588	(5)
Working capital ⁽¹⁾	19,060	54,757	(65)	27,756	(31)
Shareholders' equity	121,851	128,885	(5)	120,252	1
Total comprehensive income/(loss)	1,573	2,950	(47)	(3,918)	n/m
per share - basic (US\$)	0.05	0.08	(38)	(0.11)	n/m
per share - diluted (US\$)	0.04	0.08	(50)	(0.11)	n/m
Funds flow from operating activities ⁽²⁾	7,104	8,904	(20)	8,744	(19)
per share from operating activities - basic (US\$)	0.20	0.25	(20)	0.26	(23)
per share from operating activities - diluted (US\$)	0.20	0.25	(20)	0.26	(27)
Net cash flows from operating activities	660	(5,748)	n/m	5,566	(88)
per share - basic (US\$)	0.02	(0.17)	n/m	0.16	(88)
per share - diluted (US\$)	0.02	(0.16)	n/m	0.16	(88)
Outstanding Shares ('000)					
Class A shares	1,751	1,751	-	1,751	-
Class B shares	33,072	32,892	1	33,072	-
Options	1,742	1,922	(9)	1,742	-
Operating					
Additional Gas sold (MMcf) - Industrial	1,164	1,176	(1)	1,143	2
Additional Gas sold (MMcf) - Power	4,008	4,363	(8)	4,385	(9)
Additional Gas sold (MMcfd) - Industrial	12.9	13.1	(2)	12.4	4
Additional Gas sold (MMcfd) - Power	44.5	48.5	(8)	47.7	(7)
Additional Gas sold (MMcfd) - Total	57.4	61.6	(7)	60.1	(4)
Average price per mcf (US\$) - Industrial	8.11	7.78	4	8.38	(3)
Average price per mcf (US\$) - Power	3.52	3.55	(1)	3.68	(4)

1. Working capital as at 31 March 2014 includes a TANESCO receivable of US\$9.3million (31 December 2013: US\$9.6 million). Given the payment pattern, the TANESCO receivables in excess of 60 days which total US\$59.3 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 31 March 2013 were US\$68.6 million prior to discounting. Subsequent to the quarter end, TANESCO paid US\$10.9 million, and as at 29 May 2014 the TANESCO balance was US\$60.9 million of which arrears total US\$57.6 million.

2. See MD&A – Non-GAAP Measures.

Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited)

ORCA EXPLORATION GROUP INC.

<i>US\$'000 except per share amounts</i>	<i>NOTE</i>	Three months ended	
		31 Mar 2014	31 Mar 2013
Revenue	3,4	13,698	13,197
Cost of sales			
Production and distribution expenses		(1,260)	(794)
Depletion expense		(3,563)	(2,722)
		8,875	9,681
General and administrative expenses		(3,794)	(3,530)
Finance income	5	760	-
Finance costs	5	(2,595)	(1,491)
Profit before tax		3,246	4,660
Income taxes	6	(1,660)	(1,886)
Profit after tax		1,586	2,774
Foreign currency translation (loss)/gain from foreign operations		(13)	176
Total comprehensive income for the period		1,573	2,950
Earnings per share			
Basic (US\$)	13	0.05	0.09
Diluted (US\$)	13	0.04	0.08

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position (Unaudited)

ORCA EXPLORATION GROUP INC.

<i>US\$'000</i>	NOTE	As at	
		31-Mar 2014	31-Dec 2013
ASSETS			
Current Assets			
Cash		31,058	32,588
Trade and other receivables	8	35,346	37,215
Tax receivable	6	14,364	14,585
Prepayments		712	281
		81,480	84,669
Non-Current Assets			
Long-term trade receivable	8	42,192	29,911
Exploration and evaluation assets		5,564	5,564
Property, plant and equipment	9	87,600	90,832
		135,356	126,307
Total Assets		216,836	210,976
EQUITY AND LIABILITIES			
Current Liabilities			
Trade and other payables	10	61,681	53,296
Bank loan	11	-	1,659
Tax payable		739	1,958
		62,420	56,913
Non-Current Liabilities			
Deferred income taxes	6	11,165	12,132
Deferred additional profits tax	7	21,400	21,679
		32,565	33,811
Total Liabilities		94,985	90,724
Equity			
Capital stock	12	85,428	85,428
Contributed surplus		6,482	6,482
Accumulated other comprehensive loss		(290)	(303)
Accumulated income		30,231	28,645
		121,851	120,252
Total Equity and Liabilities		216,836	210,976

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

ORCA EXPLORATION GROUP INC.

US\$'000	NOTE	Three months ended	
		31 Mar 2014	31 Mar 2013
CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES			
Profit after tax		1,586	2,774
Adjustment for:			
Depletion and depreciation	9	3,715	2,809
Provision for doubtful debt	5	2,571	-
Stock-based compensation		277	(271)
Deferred income taxes	6	(967)	(582)
Deferred additional profits tax	4,7	(279)	3,035
Interest expense	5	24	205
Unrealised loss on foreign exchange		177	934
Funds flow from operating activities		7,104	8,904
Increase in trade and other receivables		(624)	(20,928)
Decrease in tax receivable		221	320
(Increase)/decrease in prepayments		(431)	38
Increase in trade and other payables		7,890	7,392
Increase in tax payable		(1,219)	(1,269)
Increase in long-term receivable		(12,281)	-
Net cash flows from / (used in) operating activities		660	(5,543)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Exploration and evaluation expenditures		-	(2)
Property, plant and equipment expenditures	9	(483)	(268)
Net cash used in investing activities		(483)	(270)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Bank loan proceeds	10	-	4,000
Bank loan repayments	10	(1,659)	(785)
Interest paid	5	(24)	(205)
Net cash flow from/ (used in) financing activities		(1,683)	3,010
Decrease in cash		(1,506)	(2,803)
Cash at the beginning of the period		32,588	16,047
Effect of change in foreign exchange on cash in hand		(24)	177
Cash at the end of the period		31,058	13,421

See accompanying notes to the condensed consolidated interim financial statements.

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
Note	<i>11</i>				
Balance as at 1 January 2014	85,428	6,482	(303)	28,645	120,252
Foreign currency translation adjustment on foreign operations	-	-	13	-	13
Profit after tax for the period	-	-	-	1,586	1,586
Balance as at 31 March 2014	85,428	6,482	(290)	30,231	121,851

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	-	-	176	-	176
Profit after tax for the period	-	-	-	2,774	2,774
Balance as at 31 March 2013	84,983	6,753	265	36,884	128,885

See accompanying notes to the condensed consolidated interim financial statements.

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 quarter ended 31 March 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

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 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 by year end for the Company's ongoing operations if the Company is unable to collect the TANESCO receivables; 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 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.