

EastCoast Energy Corporation (ECE.B-V, \$6.80)

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Investment Brief – EastCoast has already established a material natural gas resource in Tanzania, and is potentially only 18 months away from contracting all its natural gas reserves for a period that would extend to 2026. A steady cash-flow stream and minimal capital commitments provide the opportunity for a steady return to shareholders. Upside potential from both exploration and development drilling could result in additional reserves for the Company.

Rating **SECTOR OUTPERFORM**
Target Price **\$8.50**
Risk **SPECULATIVE**

Current Price \$6.80
 Return 25%
 52-Week High / Low \$6.80 / \$2.70
 Shares O/S 23.4M (basic) / 25.3M (F/D)
 Market Capitalization \$159 million
 Enterprise Value \$157 million
 Daily Volume 34,280
 President Peter Clutterbuck
 Company Web Site www.eastcoast-energy.com

Strong Q2 – More Importantly, Expected Demand Growth Is Unfolding

Q2 CFPS doubles to \$0.06 on stronger pricing and higher production

Both industrial and power natural gas prices increased on the quarter, as well as sales to both client groups, supporting growth in CFPS. Q1 power sales were down from Q4 owing to maintenance at one of the facilities, which is now back on line.

First two of planned thermal generating facilities are now on order

New 40 MW and 100 MW facilities are on order and expected to be on line by the end of 2006 and H2/07 respectively. EastCoast now expects that it could have power-related demand of 61 mmcf/day (at 100% load factor; 43 mmcf/day at 70%) by the end of 2007.

Ordering of facilities adds to confidence level of timeline

Timing risk was one of our larger concerns regarding EastCoast's growth plans. Now that orders are in place for a significant portion of the planned growth, our confidence level has increased. EastCoast expects to contract all its available natural gas within the next 18 months.

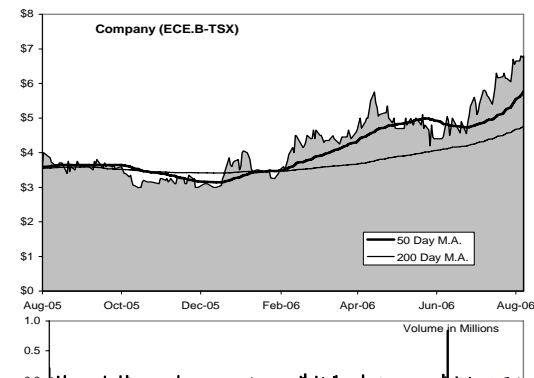
Valuation – Our target price of \$8.50 reflects a price to 2008 CFPS ratio of 4.6 times. More importantly, our target price is based on the expectation of a sustainable dividend stream of approximately \$1.00 per share starting in 2009 and continuing through 2026. Using a 10% discount rate, this dividend stream has a present value of \$8.38 million. We rate EastCoast as SECTOR OUTPERFORM.

Catalysts – Each commitment by Tanesco, the Tanzanian utility, to add to the thermal generating infrastructure as planned adds to our confidence level in the ability of the Company to contract its natural gas reserves. Future drilling, expected to commence in early 2007, has the potential to materially add to the Company's reserves.

Note: All amounts in US\$ unless otherwise noted.

	2006F	2007F	2008F	'07/06	08/07
Gas mmcf/day	12.4	31.2	61.6	151%	98%
% Gas	100%	100%	100%	0%	0%
Cash Flow	5,707	24,708	44,353	333%	80%
CFPS - diluted	\$ 0.23	\$ 0.92	\$ 1.65	307%	80%
CFPS CDS - diluted	\$ 0.25	\$ 1.02	\$ 1.83	302%	80%
EPS - diluted	\$ 0.12	\$ 0.72	\$ 1.35	493%	88%
Capital Expenditures	15,985	32,200	7,000	101%	-78%
Net Debt (W/kg Cap)	- 1,977	5,453	- 31,925	-376%	-685%
Company Avg \$/mcf	\$ 3.90	\$ 2.89	\$ 2.97	-26%	3%
Valuation Parameters					
Price/CFPS diluted	27.1	6.7	3.7	-75%	-44%
Price/EPS diluted	50.7	8.6	4.5	-83%	-47%
Target Price/CFPS dil'd	33.9	8.3	4.6	-75%	-44%
EV/boe/day	\$ 75,485	\$ 30,109	\$ 15,236	-60%	-49%
Target EV/boe/day	\$ 104,016	\$ 41,490	\$ 20,996	-60%	-49%

Price Performance



Source: Bloomberg

Industry & Company Profile

Oil and Gas – EastCoast is a natural gas producer with operations focused in Tanzania, East Africa. EastCoast has been particularly effective in establishing a market for its material natural gas reserves base.

Revisions, Date of Record

Rating – Unchanged. Initiated Coverage August 2, 2006
 Target – Unchanged. Initiated Coverage August 2, 2006
 Forecast – Updated for Q2/06 actual results, August 28, 2006

Risk Profile

Moderate - High
 Forecast Risk High
 Financial Risk Moderate
 Valuation Risk Moderate
 Political Risk Moderate

Please see pages 9 to 12 for rating structure, important disclosures, risk profile parameters, disclaimers, and notes.

EastCoast Energy Corporation							ECE-B-V	
Rating: SECTOR OUTPERFORM			Implied Gain: 25.0%		One-Year Target Price:		\$8.50	
Current Price (C\$)	\$6.80			Market Capitalization	C\$M	159.1		
Shares O/S (million)	23.4	Dilution		Current Net Debt (Cash)	C\$M	(2.7)		
Shares O/S - F/D (million)	25.3	8.1%		Enterprise Value	C\$M	156.5		
Book Value (US\$M)	17.7			EV / BV in C\$		8.0		
EastCoast - Operating and Financial Forecast (US\$ unless noted)								
	2005A	2006F	2007F	2008F	2009F	2010F	'07/'06	'10/'06
Production								
Natural Gas - mmcf/day								
Industrial	2.1	3.7	5.6	8.8	11.8	18.0	50%	383%
Power	4.6	8.7	25.6	52.8	54.1	54.1	194%	520%
	6.7	12.4	31.2	61.6	65.9	72.1	151%	479%
Total - boe/day	1,118	2,073	5,196	10,268	10,977	12,010	151%	479%
% Change		85%	151%	98%	7%	9%		
Financial (US\$000's)								
Revenue	5,759	12,344	33,211	53,880	43,407	50,479	169%	309%
Operating Expense	495	746	942	1,039	1,060	1,074	26%	44%
Net Operating Revenue	5,264	11,597	32,269	52,841	42,347	49,405	178%	326%
Earnings (Loss)	388	3,052	19,279	36,306	25,666	20,180	532%	561%
Cash Flow	2,081	5,707	24,708	44,353	34,238	29,549	333%	418%
EPS - Basic	\$ 0.02	\$ 0.13	\$ 0.76	\$ 1.43	\$ 1.01	\$ 0.80	491%	519%
- Diluted	\$ 0.02	\$ 0.12	\$ 0.72	\$ 1.35	\$ 0.95	\$ 0.75	493%	521%
CFPS - Basic	\$ 0.09	\$ 0.24	\$ 0.97	\$ 1.75	\$ 1.35	\$ 1.16	305%	384%
- Diluted	\$ 0.08	\$ 0.23	\$ 0.92	\$ 1.65	\$ 1.27	\$ 1.10	307%	386%
% Change		174%	307%	80%	-23%	-14%		
CFPS - Basic C\$	\$ 0.11	\$ 0.27	\$ 1.08	\$ 1.94	\$ 1.50	\$ 1.29	301%	379%
- Diluted C\$	\$ 0.10	\$ 0.25	\$ 1.02	\$ 1.83	\$ 1.41	\$ 1.22	302%	381%
US/CD FX	0.8255	0.8900	0.9000	0.9000	0.9000	0.9000		
Sensitivity - CFPS US\$								
Industrial Price \$0.25/mcf	\$ 0.017	\$ 0.031	\$ 0.025	\$ 0.029	\$ 0.032	\$ 0.032	77%	83%
Power Price \$0.25/mcf	\$ 0.029	\$ 0.109	\$ 0.143	\$ 0.081	\$ 0.055	\$ 0.055	269%	87%
Additional Gas - Industrial 1.0 mmcf/d	\$ 0.089	\$ 0.105	\$ 0.085	\$ 0.053	\$ 0.040	\$ 0.040	17%	-55%
Additional Gas - Power 1.0 mmcf/d	\$ 0.027	\$ 0.045	\$ 0.024	\$ 0.024	\$ 0.025	\$ 0.025	63%	-9%
Industrial Price \$0.25/mcf	7.3%	3.2%	1.4%	2.2%	2.7%	2.7%		
Power Price \$0.25/mcf	12.3%	11.2%	8.2%	6.0%	4.7%	4.7%		
Additional Gas - Industrial 1.0 mmcf/d	37.2%	10.8%	4.9%	3.9%	3.4%	3.4%		
Additional Gas - Power 1.0 mmcf/d	11.4%	4.6%	1.4%	1.8%	2.1%	2.1%		
Capex	5,648	15,985	32,200	7,000	2,000	2,000	101%	-87%
Net Debt (Cash)	(2,211)	(1,977)	5,453	(31,925)	(33,581)	(59,508)	-376%	2910%
Common Shares O/S (000s)	23,264	25,364	25,364	25,364	25,364	25,364	0%	0%
Weighted Average	23,264	23,727	23,399	23,399	25,364	25,364	-1%	7%
Per Mcf (US\$)								
Gas Price								
Industrial	\$ 7.07	\$ 8.26	\$ 7.65	\$ 7.60	\$ 7.60	\$ 7.60	-7%	-8%
Power	\$ 1.66	\$ 2.04	\$ 2.15	\$ 2.20	\$ 2.20	\$ 2.20	5%	8%
Total	\$ 3.37	\$ 3.90	\$ 2.89	\$ 2.97	\$ 3.17	\$ 3.55	-26%	-9%
Revenue	\$ 2.35	\$ 2.72	\$ 2.20	\$ 2.39	\$ 1.81	\$ 1.92	-19%	-29%
Operating Expenses	\$ 0.20	\$ 0.16	\$ 0.06	\$ 0.05	\$ 0.04	\$ 0.04	-62%	-75%
Net Operating Revenue	\$ 2.15	\$ 2.56	\$ 2.15	\$ 3.15	\$ 4.15	\$ 5.15	-16%	102%
Depletion and Depreciation	\$ 0.37	\$ 0.38	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36	-5%	-5%
Earnings (Loss)	\$ 0.16	\$ 0.67	\$ 1.28	\$ 1.61	\$ 1.07	\$ 0.77	90%	14%
Cash Flow	\$ 0.85	\$ 1.26	\$ 1.63	\$ 1.97	\$ 1.42	\$ 1.12	30%	-11%
Valuation Parameters								
Current Price/CFPS Diluted Multiple	74.3	27.1	6.7	3.7	4.8	5.6	-75%	-79%
EV / DACF Multiple (Debt-Adjusted CF)		23.7	5.8	2.4	3.1	2.7	-76%	-88%
Target Price/CFPS Diluted Multiple	92.8	33.9	8.3	4.6	6.0	7.0	-75%	-79%
Price/EPS Diluted Multiple	306.0	50.7	8.6	4.5	6.4	8.2	-83%	-84%
EV / boe/day	\$139,907	\$75,485	\$30,109	\$15,236	\$14,253	\$13,027	-60%	-83%
Target EV / boe/day	\$176,829	\$104,016	\$41,490	\$20,996	\$19,641	\$17,951	-60%	-83%

Source: EastCoast Energy and Haywood Securities

Investment Thesis

We rate EastCoast Energy Corporation (ECE.B-V) as SECTOR OUTPERFORM and have a one-year target price of \$8.50. Our target price is based on the fact that the Company is in a position to contract all its existing, material natural gas reserves over the next 18 months and generate a steady cash-flow stream that would continue through 2026. The expected annual cash flow would require minimal capital commitment, therefore putting the Company in the position of potentially paying an annual dividend of approximately \$1.00 per share.

Sales Increase in Quarter

Q2/06 production averaged 11.9 mmcf/day (1,989 boe/day), an 18% increase compared with Q1/06 and 9.1 times the Q2/05 average. Production exceeds our expectations of 10.7 mmcf/day owing to an earlier than expected return to normal operations at Ubungo. Industrial-related sales increased 49% on the quarter, to average 3.8 mmcf/day (32% of the total). The industrial sales increase is attributable to the addition of new customers and a return to normal operations for textile customers, which are seasonally low in the first quarter. Power sales were up 7% on the quarter, to average 8.1 mmcf/day (68% of the total) following a return to normal operations at Ubungo, which were down owing to faulty transformers in the first quarter.

Natural gas prices also rose in the quarter, averaging \$4.23 per mcf, an increase of 30% from Q1/06. Industrial prices averaged \$8.69 per mcf, up 14% on the quarter, and power prices \$2.13, a 19% increase. Power sales first commenced in Q3/05 and resulted in a decrease in the average corporate gas price achieved.

CFPS was \$0.06 (diluted \$0.05) in Q2/06, taking the year-to-date amount to \$0.09. An increase in production and natural gas prices more than offset increases in administration expenses and income taxes. EastCoast is in negotiations with the tax authorities regarding whether certain capital costs can be written off immediately (per the terms of the Production Sharing Agreement) or over a period of time (per the tax act). Until the matter is settled, the Company has elected the more conservative approach (over time), resulting in an increase in the current income tax expense of \$0.2 million quarter over quarter. (Note that EastCoast's reported CFPS is net after the change in working capital of \$0.03 for Q2/06. We have presented the more traditional calculation using Cash Flow from Operations in calculating CFPS.)

Capital expenditures totalled \$1.0 million in Q2/06, taking the year-to-date total to \$1.9 million. Geological and geophysical costs represent 70% of the total.

Net working capital at June 30, 2006, was \$2.4 million, up from \$2.1 million at March 31, 2006, and \$2.2 million at December 31, 2005. Included in this balance is \$2.8 million of cash.

EastCoast Energy Corporation - Quarterly Summary (ECE.B-V)

(US\$000's except per unit amounts)									
Quarterly Summary									
	Q2/05	Q3/05	Q4/05	Q1/06	Q2/06	% Chg vs. Q2/05	6 Mo 06	6 Mo 05	% Chg 6 Mo
Oil and Gas Revenue	512	2,156	2,741	2,073	3,198	524.6%	5,271	862	511%
Cash Flow	-140	1,255	1,366	671	1,333	-1052.1%	2,003	-540	-471%
% Chg - Prev Qtr	-65%	-996%	9%	-51%	99%				
% Chg - Prev Yr			n/a	n/a	n/a				
CFPS									
Basic \$/sh	\$ (0.01)	\$ 0.05	\$ 0.06	\$ 0.03	\$ 0.06	-1047.6%	\$ 0.09	\$ (0.02)	n/a
Diluted \$/sh	\$ (0.01)	\$ 0.05	\$ 0.05	\$ 0.03	\$ 0.05	-1068.4%	\$ 0.08	\$ (0.02)	n/a
% Chg - Prev Qtr	n/a	n/a	9%	-50%	97%				
% Chg - Prev Yr			n/a	n/a	n/a				
Note: EastCoast's reported CFPS uses Cash Flow from Operations plus change in Working Capital. Our calculation uses only Cash Flow from Operations, which results in variances from the reported amounts									
Net Earnings (Loss)	-267	785	396	83	660	-347.2%	743	-793	n/a
EPS									
Basic \$/sh	\$ (0.01)	\$ 0.03	\$ 0.02	\$ 0.00	\$ 0.03	-400.0%	\$ 0.03	\$ (0.03)	n/a
Diluted \$/sh	\$ (0.01)	\$ 0.03	\$ 0.02	\$ 0.00	\$ 0.03	-400.0%	\$ 0.03	\$ (0.03)	n/a
% Chg - Prev Qtr	n/a	n/a	-33%	n/a	n/a				
% Chg - Prev Yr			n/a	n/a	n/a				
Capital Expenditures	1,958	485	2,902	851	1,034	-47.2%	1,885	2,261	-17%
Net Debt (Working Capital)	-2,789	-3,559	-2,211	-2,118	-2,448	-12.2%	-2,448	-2,789	-12%
Net Debt/Cash Flow (Annualized)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Production									
Natural Gas - mmcf/day									
Industrial	1.3	2.8	3.3	2.6	3.8	189.9%	3.2	1.2	166%
Power	0.0	9.8	8.3	7.6	8.1	n/a	7.9	0.0	n/a
Total	1.3	12.7	11.6	10.1	11.9	807.4%	11.0	1.2	822%
Total - boe/day	219	2,113	1,932	1,689	1,989	807.4%	1,840	199	
Q/Q % Change	22%	864%	-9%	-13%	18%	-19.7%			
% Gas	100%	100%	100%	100%	100%	0.0%	100%	100%	0%
Commodity Prices - net of hedges									
Gas US\$/mcf									
Industrial	\$ 6.19	\$ 7.26	\$ 7.86	\$ 7.63	\$ 8.69	40.4%	\$ 8.27	\$ 5.76	44%
Power	n/a	n/a	\$ 2.15	\$ 1.79	\$ 2.13	n/a	\$ 1.97	n/a	n/a
Total	\$ 6.19	\$ 2.58	\$ 3.76	\$ 3.26	\$ 4.23	-31.7%	\$ 3.79	\$ 5.76	-34%
% Chg - Prev Qtr	18%	-58%	46%	-13%	30%				
% Chg - Prev Yr			-29%	-38%	-32%				

Source: EastCoast Energy and Haywood Securities

Sales and Field Activity Advancing on Schedule

Recent developments within Tanzania (by Tanesco) with respect to securing additional thermal electric power generation equipment totalling 245 MW, as well as advances in signing new industrial contracts by EastCoast, have added a higher degree of confidence to EastCoast's expectation that all its natural gas reserves will be contracted over the next 18 months.

EastCoast estimates that it could have power sales of 61 mmcf/day at a 100% load factor, or 43 mmcf/day at a 70% load factor, by the end of 2007.

Power sales in Q2 were 8.1 million a day, implying an increase of more than five times (at the 70% load factor).

Power Sales

TanESCO has contracted Aggreko plc to supply **40 MW of temporary power generation**, which would translate to **12 mmcf/day of natural gas demand** (note, for our modelling we have assumed a 70% load factor) and is expected to be installed by Q4/06. There is an additional 60 MW of temporary power generation equipment still under negotiation.

Wartsila has been contracted to supply 100 MW of capacity, expected in H2/07. Wartsila also provided the Independent Power Tanzania Limited (IPTL) turbines. The current plan is that once the 100 MW of 'Wartsila sourced' generation is in place, the temporary facilities will be shut down. However, should EastCoast establish a larger natural gas reserves base in the interim (see our Initiating Coverage report of [August 2, 2006](#), for complete details of this and all the planned growth), we believe there is the potential for TanESCO to retain these units, as domestic demand would certainly support their doing so.

Conversion of the IPTL 100 MW facility is still scheduled to occur in 2007. The conversion will occur over the year, with two of the ten turbines being converted at a time. The installation of 45 MW at Tegata (near Dar es Salaam), which will be financed by a grant from the Netherlands, is still expected in Q3/07.

EastCoast- Production Upside and Marketing Potential (mmcf/day)
Production

		<u>Add'l Gas</u>	<u>Prot'd Gas</u>	<u>Total</u>
Current Songo Songo Maximum Production		100.0	45.0	145.0
Workover on SS-9 (increase to 60 mmcf/day)	mid-2007	35.0		35.0
Drill SS-10 Development Well	mid-2007	35.0		35.0
		170.0	45.0	215.0
Success at Songo Songo West	2009-10	35.0		35.0
		205.0	45.0	250.0

Additional Gas - Marketing Potential Upside
Industrial

Current			3.3
Increase by YE 2006	YE 2006		2.7
			6.0
Additional Increase	through 2010		14.0
			20.0

Power

		<u>MW</u>	<u>100% Load</u>	<u>80% Load</u>
Current Demand - Ubungo			9.1	7.3
<u>Potential Increases</u>				<u>70% Load</u>
New Power Generation (leased) ⁽¹⁾	Dec 2006	100	18.8	13.2
New Tegeta Generation	July 2007	45	8.5	6.0
Convert IPTL from HFO to Natural Gas	Apr 07-Apr 08	100	25.0	17.5
New Power Generation ⁽¹⁾	Q4 2007	100	28.7	20.1
Kinyerezi Project	2010	250	47.0	32.9
		595	128.0	89.6
			137.1	96.9

Other

CNG Potential	2010		5.0	5.0
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Total Potential Demand
121.9

Note: (1) New Power Generation is currently expected to replace the leased facility. As discussed in our report, there is the potential to retain the leased facility should EastCoast be able to increase its natural gas reserves and thus support the additional demand.

Source: EastCoast Energy and Haywood Securities

Industrial Sales

Two new customers will be connected in Q3/06, taking expected industrial sales to 4.8 mmcf/day from 4.4 mmcf/day in Q2/06. An additional 1.0 mmcf/day of industrial sales are under discussion.

EastCoast is targeting a May 2007 completion of the looping of its ringmain system, which will add to the efficiency and potential to gain new clients. Work will commence at the end of 2006 and is expected to cost \$2.5 million for the approximately 8 kilometres of new pipeline.

Field Operations – Songo Songo and Exploration

Two well operations are planned for Songo Songo over the next 12 months—a workover of SS9, expected to add 35 mmcf/day, and the drilling of a new well, also expected to add 35 mmcf/day. SS 10 will be drilled as a deviated well from Songo Songo Island at a cost of \$8.0 million, cheaper than if the well were

drilled from an offshore rig and subsequently tied back to the Songo Songo facilities.

Expected deliverability from the field will increase 48% to 215 mmcf/day (from 145 mmcf/day currently). EastCoast's share would therefore increase 70% to 170 mmcf/day from 100 mmcf/day.

EastCoast – Songo Songo Production Capability

	Flow Rate Capacity Fcst			Total Deliverab'y (mmcf/day)	Production - 2005	
	1997	2004	2005		Total (mmcf/day)	% of Cap'y
	(mmcf/day)					
SS 3	10	17	18		3.6	20%
SS 4	10	19	17		5.2	31%
SS 5	60	65	63		10.7	17%
SS 7	20	22	22		10.4	47%
SS 9	40	35	25 ⁽¹⁾		10.4	42%
	<u>140</u>	<u>158</u>	<u>145</u>	145	<u>40.3</u>	<u>28%</u>
Max. Protected Gas	45	45	45		32.6	72%
Currently Avail. 'Additional Gas'	<u>95</u>	<u>113</u>	<u>100</u>		<u>7.7</u>	<u>8%</u>
Workover on SS 9 - Increase			35 ⁽¹⁾	35		
			<u>135</u>	<u>180</u>		
Expected Increase from SS 10			35	35		
			<u>170</u>	<u>215</u>		

(1) SS-9 will produce at rates in excess of 25 mmcf/day, but the rate is currently restricted to ensure no downhole problems occur from gauges and wireline left in the hole in 1997. The well is a candidate for a workover, which the Company estimates would result in increasing the productive capability to 60 mmcf/day.

Source: EastCoast Energy and Haywood Securities

EastCoast is committed to drilling the **Songo Songo West** exploration prospect 2 kilometres west of Songo Songo, estimated to contain 600 bcf (original gas in place (OGIP), the most likely case). The Company can either use a jack-up rig and drill offshore or drill a long-reach 4-kilometre deviated well from Songo Songo Island. The availability of rigs will be a consideration for both cost and timing, although the Company is hopeful to spud the well by mid-2007.

Update to Our Forecast

We have updated our assumed natural gas pricing in our forecast given the stronger than expected power prices achieved in Q2/06 and the stronger production owing to the earlier return to normal operations at Ubungo. Our 2006 production increased to 12.4 mmcf/day from 12.1 mmcf/day, while our CFPS forecast is unchanged given smaller offsetting adjustments to several cost items, including income taxes.

Valuation

Our target price of \$8.50 reflects a price to 2008 CFPS ratio of 4.6 times. More importantly, our target price is based on the expectation of a sustainable dividend stream of approximately \$1.00 per share starting in 2009 and continuing through 2026. Using a 10% discount rate, this dividend stream has a present value of \$8.38.

Investment Profile

Risks

We rate the overall risk of EastCoast as SPECULATIVE. One of the largest risks to our forecast and the Company's operations is timing. Delays can occur for various reasons that are beyond the Company's control. Nonetheless, the Company's reserves are material and estimated by reliable third-party engineers. The asset valuation will not materially change in the event of the operational delays noted. The Company's cash flow is increasing as both power and industrial contracts are added. However, the timing of planned capital expenditures may require the Company to seek financing through either debt or equity sources. Tanzania has had a relatively stable history and does not have a noticeable level of civil unrest, unlike many other African countries. We view the political risk as moderate.

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- n/a

Rating Structure

SECTOR OUTPERFORM – Haywood's top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security.

SECTOR PERFORM – The analyst believes that the security will trade with tight correlation to its underlying sector. Furthermore, the target price (together with any anticipated distributions) is at or above the market price, and forecast risk-adjusted returns are attractive relative to alternative investments.

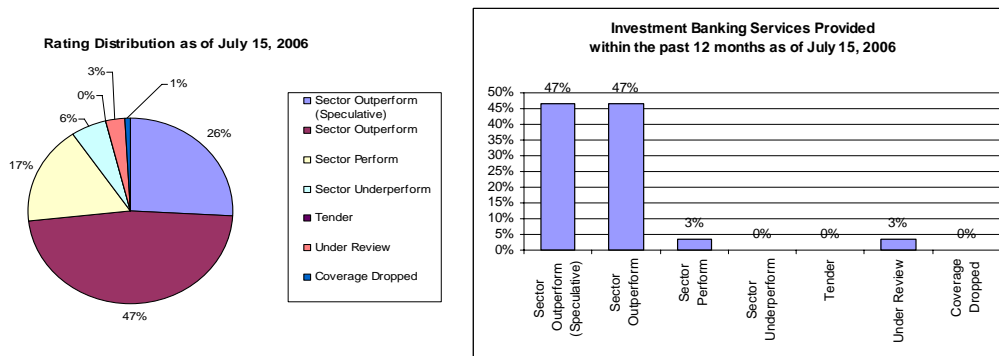
SECTOR UNDERPERFORM – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments.

TENDER – The analyst is recommending that investors tender to a specific offering for the company’s stock.

RESEARCH COMMENT – An analyst comment about an issuer event that does not include a rating.

COVERAGE DROPPED – Haywood Securities will no longer cover the issuer. Haywood will provide notice to clients whenever coverage of an issuer is discontinued. The termination of coverage will not occur unless clients have been provided with advice relating to positions they may still hold, such as a recommendation to sell their securities.

The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short term volatility. At the discretion of Haywood’s Management, these deviations may be permitted after careful consideration.



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Risk Profile Parameters

SPECULATIVE: – Investment for risk accounts only. Companies within this category carry greater financial and/or execution risk. All junior/venture companies that carry great financial and/or liquidity risk will be tagged “SPECULATIVE”. A stock indicating a SPECUALTIVE risk is determined from sector specific criteria outlined below listed below.

Risk Profile Parameters – Oil and Gas Sector

Forecast Risk: High – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Limited hedging increases commodity risk beyond peers. To raise expectations requires higher commodity prices or production that is ahead of guidance. **Moderate** – Haywood forecasts are generally in line with guidance. The Company has a history of meeting or exceeding guidance. Forecasts are consistent with current commodity pricing and production guidance. Hedging practices are in line with peers. **Low** – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance. Forecasts allow for modestly lower commodity pricing or production levels. Commodity hedging lowers volatility relative to peers.

Financial Risk: High – The capital expenditure program in the current year or the next year of the forecast is not fully funded but requires additional debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. **Moderate** – The capital expenditure program in the current year or the next year is fully funded with cash flow and limited debt. **Low** – The capital expenditure program in the current year or the next year is fully funded with cash flow and no new debt.

Political Risk: *High* – Properties are located in an area with limited petroleum industry activity or infrastructure. An environment unfriendly to the industry makes obtaining permits to drill or produce hydrocarbons challenging. Significant government or local opposition exists. *Moderate* – Properties are located in an area with minimal petroleum industry activity or infrastructure. An environment friendly to the industry makes obtaining permits relatively straightforward. All levels of government are considered indifferent to hydrocarbon activity. *Low* – Properties are located in an area with established petroleum exploration and development activity. Oil and gas Production Sharing Agreements or Exploration Permits are in hand. Government at all levels supports the sector.

Valuation Risk: *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects continued production growth and/or continuing strong commodity prices or further appreciation. Where applicable, the market capitalization exceeds the NAV by more than 30%. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable production growth and/or commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by 15% to 30%. *Low* – The current valuation is at the low end of historic ranges and/or at a discount to peer valuations. The valuation reflects limited production growth and/or no commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by less than 15% or falls below the capitalization.

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- (b) in the event of a dispute, access to the UK’s Financial Ombudsman Service;
- (c) protection of money held on your behalf under the FSA’s Client Money Rules.

