

ORCA EXPLORATION GROUP INC.

ORC.B TSX V: \$14.50 — ACCUMULATE

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Initiating Coverage — Spinout Exploration Company Looks to Repeat on Success

Per Share Data (C\$)

Price	\$14.50	Shares O/S (mm)*:	26.8
Target Price (1 yr.):	\$16.50	FD Shares (mm):	28.9
Projected Return:	14%	Mkt. Cap (\$ mm):	\$388.2
52-Wk High:	\$14.70	W.Capital (\$ mm)**:	\$11.7
52-Wk Low:	\$4.00	Ent.Value (\$ mm):	\$376.5

* 25.0 million Class B shares and 1.75 million Class A shares.

**March 31, 2007, converted at US\$0.90/Canadian dollar.

FY December 31

	2006A	2007E	2008E	2009E
Production				
Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	13.3	22.0	48.5	62.0
Boe/d (6:1)	2,209	3,667	8,083	10,333
EV/boed	na	102,676	46,575	36,433

Cash Flow Multiples

CFPS (FD)	\$0.27	\$0.47	\$1.14	\$1.65
P/CF	52.8x	31.1x	12.7x	8.8x
EV/DACF	55.1x	28.3x	11.5x	8.0x

2007 Quarters

	Q1A	Q2E	Q3E	Q4E
Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	18.4	18.5	23.0	28.0
Boe/d (6:1)	3,067	3,083	3,833	4,667
CFPS (FD)	\$0.05	\$0.05	\$0.15	\$0.22

Target Valuation Parameter

2.3 x NAV/fd share



Courtesy of BigCharts.com

Upcoming Events

June: Results of SS#10.

Share Structure

Orca has a two-share structure: 1.75 million Class A shares are outstanding with 20 votes each, and 25.0 million Class B single-voting shares. The Non-Executive Chairman of Orca holds 99.5% of the Class A shares and 17.5% of the outstanding Class B shares. Combined, the Non-Executive Chairman controls 65.3% of the total voting rights in Orca.

Profile

Orca Exploration Group Inc. (www.orcaexploration.com) is an international oil and gas exploration and production company that produces and markets natural gas in Tanzania.

INVESTMENT OPINION

We are initiating coverage on Orca Exploration Group Inc with an ACCUMULATE recommendation on its Class B voting common shares, with a 12-month target price of \$16.50. Orca's Songo Songo natural gas pool in Tanzania will provide a base of cash flow to fund new exploration projects in sub-Saharan Africa. We feel that Orca's exploration team has the experience and connections to ensure success.

ANALYSIS

The Songo Songo natural field is a cash-flow generator: The Songo Songo natural gas field contains a world-class reservoir that is capable of delivering high volumes of natural gas for several decades. With the large reserve base and minimal production declines, we expect that the Songo Songo project should generate significant and stable cash flows for many years.

Moving into an exploration phase: Originally, Orca's primary focus was on the development of a market for natural gas in Tanzania. Over a number of years, the construction of major infrastructure projects has been completed and the economic value of the Songo Songo natural gas field is finally being realized. Going forward, Orca plans to be more active on the exploration front. In addition to exploration of its Songo Songo license, Orca also plans to add new exploration areas in sub-Saharan Africa. With its experience and connections gained through its successful predecessor company, Pan Ocean Energy Corporation, we feel that it is highly likely Orca will return to Gabon.

Natural gas market continues to expand: Orca currently supplies natural gas to the power sector and industrial users in Dar es Salaam. Both market segments are expanding; however, most of the future demand for Orca's natural gas will continue to be from the power-generation sector. Orca is currently supplying natural gas to power facilities that can generate a total of 110 MW. An additional 200 MW of power-generation capacity is expected to be installed by the end of 2007. The combined 310 MW of capacity would require 68 mmcf/d at peak load, or 41 mmcf/d at a 60% average utilization rate. We expect demand for Orca's natural gas to increase to over 60 mmcf/d in 2009.

Significant increase in reserve value: On a per share basis, the value of Orca's reserves has grown by about 85% in each of the last two years. This was accomplished without drilling or field operations. With the successful re-completion of the SS-9 well earlier this year and with success of the SS-10 development well currently drilling, we believe that Orca will demonstrate similar growth in 2007.

Key risk: Although the expansion of processing and transportation infrastructure projects is currently on schedule, unforeseen construction issues could delay production and cash flow growth.

Target price and recommendation: With the large reserve base and minimal production declines, we expect that the Songo Songo project will generate significant and stable cash flows for many years. Orca's stock price has appreciated significantly and is trading near its 52-week high. We feel that the stock should continue to appreciate as the power market in Tanzania develops and as Orca expands into new exploration areas in Africa. We are initiating coverage on Orca Exploration Group Inc. with an **ACCUMULATE** recommendation on its Class B voting common shares, with a 12-month target price of \$16.50, equivalent to a 2.3x multiple of our net asset value estimate of \$7.06/fd share.



RELEVANT DISCLOSURES APPLICABLE TO: ORCA EXPLORATION GROUP INC.

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