

Orca Exploration Group Inc. (ORC.B-V, \$10.75)

(Formerly EastCoast Ennergy Corporation (ECE.B-V))

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Investment Brief – Orca 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**
Revised Target Price **\$14.25**
(from \$12.00)
Risk Profile **SPECULATIVE**

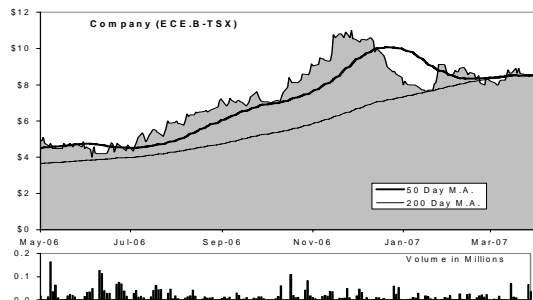
Forecast Risk	High
Financial Risk	Moderate
Valuation Risk	Moderate
Political Risk	Moderate

Current Price	\$10.75
Return	33%
52-Week High / Low	\$11.00 / \$4.00
Shares O/S	26.8M (basic) / 28.8M (F/D)
Market Capitalization	\$288 million
Enterprise Value	\$268 million
Daily Volume	17,200

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

	2006A	2007F	2008F	07/06	08/07
Gas mmmcf/day	13.3	29.2	70.1	120%	140%
% Gas	100%	100%	100%	0%	0%
Cash Flow	6,030	17,764	54,410	195%	206%
CFPS - diluted	\$ 0.24	\$ 0.62	\$ 1.91	160%	206%
CFPS CD\$ - diluted	\$ 0.27	\$ 0.70	\$ 2.15	157%	206%
EPS - diluted	\$ 0.10	\$ 0.46	\$ 1.56	359%	240%
Capital Expenditures	6,043	30,700	18,500	408%	-40%
Net Debt (Wkg Cap)	(20,430)	(4,812)	(40,257)	-76%	737%
Company Avg \$/mcf	\$ 3.82	\$ 3.35	\$ 3.23	-12%	-4%
Valuation Parameters					
Price/CFPS diluted	39.4	15.1	4.9	-62%	-67%
Price/EPS diluted	94.6	20.6	6.1	-78%	-71%
Target Price/CFPS dil'd	52.3	20.1	6.6	-62%	-67%
EV/boe/day	\$ 119,945	\$ 54,424	\$ 22,680	-55%	-58%
Target EV/boe/day	\$ 172,927	\$ 78,464	\$ 32,698	-55%	-58%

Price Performance



Source: Bloomberg

Strong Reserves Growth With No New Wells!

- **CFPS of \$0.10 beats our expectations.**
CFPS of \$0.10 beat our forecast by \$0.03, with the increase largely attributable to higher than expected gas prices received.
- **2P reserves increase 30%**
Orca's 2P reserves increased 30% to 415 bcf due to strong reservoir performance. No new wells were drilled in the year. The company's reserve replacement costs were only US\$0.36 per boe in the year.
- **Field, facility and marketing activity lining up for future years**
Drilling in the field, expansion of the processing capability and an increase in demand for natural gas are all lining up for year end 2007 and into 2008 growth.
- **We increase our target price to \$14.50**

The expansion of the reserves base in 2006, successful workover of SS-9, start-up of drilling on the SS-10 development well and expansion of the processing facilities have all combined at a time when gas demand will be increasing (year end 2007) and justify an increase in our target price to \$14.50 from \$12.00.

Valuation – Our target price of \$14.25 reflects a price to 2008 CFPS ratio of 6.6 times. We note that we have not changed our commodity price expectations at this time, however we believe that the company will likely receive higher prices than our forecast reducing the implied cash flow multiple. We continue to rate Orca 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. Development drilling has now commenced and exploration drilling is expected to start in early 2008, both having the potential to materially increase the Company's reserves.

Industry & Company Profile	Revisions, Date of Record	Company Information
Oil and Gas – Orca is a natural gas producer with operations focused in Tanzania, East Africa. Orca has been particularly effective in establishing a market for its material natural gas reserves base.	Rating – Changed to SECTOR OUTPERFORM from Under Review, January 31, 2007 Target – Increased to \$14.25 from \$12.00 on May 1, 2007.	President – Peter Clutterbuck Company Web Site www.orcaexploration.com

Please see rating structure, important disclosures, risk profile parameters, disclaimers, and notes on pages 9- 12 of this report.

ORCA EXPLORATION GROUP INC.								ORC.B-TSXV	
Rating: Sector Outperform		Implied Gain: 32.6%		One Year Target Price:		\$14.25			
Current Price (CD\$)	\$10.75			Market Capitalization		CD\$m	288.1		
Shares O/S (mm)	26.8	Dilution		Current Net Debt (Cash)		CD\$m	(23.2)		
Shares O/S - FD (mm)	28.8	7.5%		Enterprise Value		CD\$m	264.9		
Book Value (\$USmm)	37.9			EV / BV in CD\$		6.2			
Orca - Operating and Financial Forecast (US\$ unless noted)									
	2005A	2006A	2007F	2008F	2009F	2010F	'07/'06	'10/'06	
Production									
Natural Gas - mmcf/day									
Industrial	2.1	4.0	5.3	9.5	12.5	18.7	32%	366%	
Power	4.6	9.2	23.9	60.6	57.0	55.0	159%	495%	
	6.7	13.3	29.2	70.1	69.5	73.7	120%	456%	
Total - boe/day	1,118	2,209	4,868	11,681	11,577	12,277	120%	456%	
% Change		98%	120%	140%	-1%	6%			
Financial (US\$000's)									
Revenue	5,759	13,828	27,095	67,598	53,183	58,144	96%	320%	
Operating Expense	495	793	986	1,224	1,222	1,234	24%	56%	
Net Operating Revenue	5,264	13,035	26,109	66,374	51,961	56,911	100%	337%	
Earnings (Loss)	388	2,577	13,043	44,311	29,242	17,799	406%	591%	
Cash Flow	2,081	6,030	17,764	54,410	38,607	27,473	195%	356%	
EPS - Basic	\$ 0.02	\$ 0.11	\$ 0.49	\$ 1.65	\$ 1.09	\$ 0.66	342%	504%	
- Diluted	\$ 0.02	\$ 0.10	\$ 0.46	\$ 1.56	\$ 1.03	\$ 0.63	359%	526%	
CFPS - Basic	\$ 0.09	\$ 0.26	\$ 0.66	\$ 2.03	\$ 1.44	\$ 1.02	155%	294%	
- Diluted	\$ 0.08	\$ 0.24	\$ 0.62	\$ 1.91	\$ 1.36	\$ 0.97	160%	302%	
% Change		191%	160%	206%	-29%	-29%			
CFPS - Basic CD\$	\$ 0.11	\$ 0.30	\$ 0.74	\$ 2.28	\$ 1.62	\$ 1.15	152%	289%	
- Diluted CD\$	\$ 0.10	\$ 0.27	\$ 0.70	\$ 2.15	\$ 1.53	\$ 1.09	157%	298%	
US/CD F/X	0.8255	0.8793	0.8900	0.8900	0.8900	0.8900			
Sensitivity - CFPS US\$									
Industrial Price \$0.25/mcf			\$ 0.011	\$ 0.025	\$ 0.016	\$ 0.012			
Power Price \$0.25/mcf			\$ 0.016	\$ 0.019	\$ 0.009	\$ 0.005			
Additional Gas - Industrial 1.0 mmcf/d			\$ 0.071	\$ 0.083	\$ 0.036	\$ 0.019			
Additional Gas - Power 1.0 mmcf/d			\$ 0.023	\$ 0.026	\$ 0.013	\$ 0.007			
Industrial Price \$0.25/mcf			1.7%	1.2%	1.1%	1.2%			
Power Price \$0.25/mcf			2.5%	0.9%	0.6%	0.5%			
Additional Gas - Industrial 1.0 mmcf/d			10.8%	4.1%	2.5%	1.9%			
Additional Gas - Power 1.0 mmcf/d			3.5%	1.3%	0.9%	0.7%			
Capex	5,648	6,043	30,700	18,500	2,500	2,500	408%	-59%	
Net Debt (Cash)	(2,211)	(20,430)	(4,812)	(40,257)	(34,673)	(65,092)	-76%	219%	
Common Shares O/S (000s)	23,264	26,804	26,804	26,804	26,804	26,804	0%	0%	
Weighted Average	23,264	23,418	26,804	26,804	26,804	26,804	14%	14%	
Per Mcf (US\$)									
Gas Price									
Industrial	\$ 7.07	\$ 8.22	\$ 7.95	\$ 7.95	\$ 7.33	\$ 7.33	-3%	-11%	
Power - Ubungo	\$ 1.66	\$ 1.75	\$ 2.30	\$ 2.40	\$ 2.50	\$ 2.60	31%	49%	
Power - Other	\$ 2.66	\$ 2.10	\$ 2.34	\$ 2.50	\$ 2.60	\$ 2.70	11%	29%	
Total	\$ 3.37	\$ 3.82	\$ 3.35	\$ 3.23	\$ 3.44	\$ 3.87	-12%	1%	
Revenue	\$ 2.35	\$ 2.86	\$ 2.54	\$ 2.64	\$ 2.10	\$ 2.16	-11%	-24%	
Operating Expenses	\$ 0.20	\$ 0.16	\$ 0.09	\$ 0.05	\$ 0.05	\$ 0.05	-43%	-72%	
Net Operating Revenue	\$ 2.15	\$ 2.70	\$ 2.15	\$ 3.15	\$ 4.15	\$ 5.15	-20%	91%	
Depletion and Depreciation	\$ 0.37	\$ 0.44	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36	-18%	-19%	
Earnings (Loss)	\$ 0.16	\$ 0.53	\$ 1.22	\$ 1.73	\$ 1.15	\$ 0.66	131%	25%	
Cash Flow	\$ 0.85	\$ 1.25	\$ 1.67	\$ 2.12	\$ 1.52	\$ 1.02	33%	-18%	
Valuation Parameters									
Current Price/CFPS diluted Multiple	114.8	39.4	15.1	4.9	7.0	9.8	-62%	-75%	
EV / DACF Multiple (Debt Adjusted CF)		52.3	16.2	4.7	6.7	8.6	-69%	-84%	
Target Price/CFPS diluted Multiple	152.2	52.3	20.1	6.6	9.2	13.0	-62%	-75%	
Price/EPS diluted Multiple	473.0	94.6	20.6	6.1	9.2	15.1	-78%	-84%	
EV/boe/day	\$236,901	\$119,945	\$54,424	\$22,680	\$22,884	\$21,579	-55%	-82%	
Target EV/boe/day	\$296,431	\$172,927	\$78,464	\$32,698	\$32,992	\$31,111	-55%	-82%	

Source: Orca Exploration Group and Haywood Securities

Investment Thesis

We rate Orca Exploration Group (ORC.B-V) as SECTOR OUTPERFORM and have a 1-year target price of \$12.00. 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.

Reserves Increase 30% Despite No New Wells

Orca's 2P reserves increased 30% to 415 bcf, net of the current year's production of 4.8 bcf. Both proved and probable reserves increased materially for a total increase, before production, of 99.8 bcf.

Significantly, the company did not drill or workover any wells in the year, thus we attribute the increase to strong reservoir performance (note: the company has released only a summary discussion of the reserves at this point. Given standard engineering practice of cutting off events at December 31, we do not expect any impact from the workover of SS-9 to be included in the current year's evaluation).

Orca Exploration - Reserves Summary - (Gross Before Royalties)						
To End of Licence - 2026						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>% Change</u>	
	McDaniel	McDaniel	McDaniel	McDaniel	<u>'05/'04</u>	<u>'06/'05</u>
	03-12-31	04-12-31	05-12-31	06-12-31		
Independent Engineers						
As At						
Reserves Balance						
Additional Gas (bcf)						
Proved	85.3	171.2	240.6	266.0	40%	11%
Probable	174.2	84.2	79.4	149.0	-6%	88%
	<u>259.6</u>	<u>255.4</u>	<u>320.0</u>	<u>415.0</u>	<u>25%</u>	<u>30%</u>
Possible	335.9					
	<u>595.5</u>					
Total (6:1) (mmboe)						
Total Proved	14.2	28.5	40.1	44.3	40%	11%
Probable	29.0	14.0	13.2	24.8	-6%	88%
	<u>43.3</u>	<u>42.6</u>	<u>53.3</u>	<u>69.2</u>	<u>25%</u>	<u>30%</u>
Engineering Value - Additional Gas (\$USmm)						
5% Proved	17.7	51.7	103.1	n/a	99%	n/a
P+P	91.0	64.7	141.2	n/a	118%	n/a
10% Proved	7.6	35.5	67.7	109.0	91%	61%
P+P	46.4	43.4	83.8	158.7	93%	89%
Additional + Protected Gas to end of Licence 2026 (bcf)						
P+P	506.7	504.7	569.0	698.0	13%	23%
Orca % Tot	51%	51%	56%	59%	11%	6%

Source: Orca Exploration Group and Haywood Securities

The engineering value, using a 10% discount rate, increased 89% to US\$158.7 million, and even exceeding last year's 5% discounted amount. The company

has not released many of the details regarding its reserves, including the 5% discounted value.

Orca Exploration - Reserves Reconciliation			
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Natural Gas (bcf)			
Proved			
Opening	85.3	171.2	240.6
Extensions, Additions	0.0	0.0	0.0
Technical Revisions	86.0	71.9	30.2
Production	-0.1	-2.5	-4.8
Closing	<u>171.2</u>	<u>240.6</u>	<u>266.0</u>
Probable			
Opening	174.3	84.2	79.4
Extensions, Additions	0.0	0.0	0.0
Technical Revisions	-90.1	-4.8	69.6
Closing	<u>84.2</u>	<u>79.4</u>	<u>149.0</u>
Proved + Probable			
Opening	259.6	255.4	320.0
Extensions, Additions	0.0	0.0	0.0
Technical Revisions	-4.1	67.1	99.8
Production	-0.1	-2.5	-4.8
Closing	<u>255.4</u>	<u>320.0</u>	<u>415.0</u>
Revisions as % of Opening	-1.6%	26.3%	31.2%
Production as % of Opening	0.0%	-1.0%	-1.5%
Reserve Life Index (years)			
Proved	1,712	96	55
Proved + Probable	2,554	128	86

Source: Orca Exploration Group and Haywood Securities

Production almost doubled in the year, however the reserve life index continues to be robust at 86 years leaving the company with the opportunity to monetize the reserves faster and reduce the reserve life index – which the company is in the process of doing, as discussed in this and previous reports (please refer to our report of [April 2, 2007](#) and [January 31, 2007](#)).

Strong Finish to 2006

Orca's production in the fourth quarter was 17.4 mmcf/day matching our expectations. Industrial sales were 4.3 mmcf/day – 25% of the total, and power sales 13.1 mmcf/day – 75% of the total, up from 8.1 mmcf/day in Q3/06.

CFPS was US\$0.10 (diluted \$0.10), an increase of 58% compared to the diluted CFPS last quarter and 85% Y/Y. Higher than expected revenue per boe, caused by a higher price primarily on the power portion and a lower than expected tariff and TPDC profit share (all netted into revenue) are the reasons for the better than expected results.

Orca's capital expenditures in the quarter were US\$3.4 million making the total for the year US\$6.0 million.

Based on our analysis of reserves above, Orca's 2P reserve replacement costs for the year were only US\$0.36 per boe.

In December Orca successfully completed a rights offering, issuing 3.3 million common shares at \$6.43 per share for net proceeds of US\$18.1 million. At the end of the year the company had a net working capital position of US\$20.4 million, including cash of US\$20.7 million.

Orca Exploration - Quarterly Summary (US\$000's except per unit amounts)										ORC.B - TSXV	
		Q4/05	Q1/06	Q2/06	Q3/06	Q4/06	% Chg vs. Q4/05	12 Mo 06	12 Mo 05	% Chg 12 mo	
Oil and Gas Revenue		2,741	2,073	3,198	3,835	4,722	72.3%	13,828	5,759	140%	
Cash Flow		1,366	671	1,333	1,589	2,438	78.5%	6,030	2,081	190%	
	% Chg - Prev Qtr	9%	-51%	99%	19%	53%					
	% Chg - Prev Yr	n/a	n/a	n/a	27%	78%					
CFPS	Basic \$/sh	\$ 0.06	\$ 0.03	\$ 0.06	\$ 0.07	\$ 0.10	70.3%	\$ 0.26	\$ 0.09	191%	
	Diluted \$/sh	\$ 0.05	\$ 0.03	\$ 0.05	\$ 0.06	\$ 0.10	84.9%	\$ 0.24	\$ 0.09	167%	
	% Chg - Prev Qtr	9%	-50%	97%	18%	58%					
	% Chg - Prev Yr	n/a	n/a	n/a	27%	85%					
Note: Until Q4/06 Orca's reported CFPS uses Cash Flow From Operations plus change in Working Capital. Our calculation uses only Cash Flow From Operations, therefore CFPS varies from the reported amounts											
Net Earnings (Loss)		396	83	660	809	1,025	158.8%	2,577	388	564%	
EPS	Basic \$/sh	\$ 0.02	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.04	100.0%	\$ 0.11	0.02	450%	
	Diluted \$/sh	\$ 0.02	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.04	100.0%	\$ 0.10	0.02	400%	
	% Chg - Prev Qtr	-33%	n/a	n/a	0%	33%					
	% Chg - Prev Yr	n/a	n/a	n/a	0%	100%					
Capital Expenditures		2,902	851	1,034	749	3,409	17.5%	6,043	5,648	7%	
Net Debt (Working Capital)		(2,211)	(2,118)	(2,448)	(3,298)	(20,430)	824.0%	(20,430)	(2,211)	824%	
	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		3.3	2.6	3.8	5.3	4.3	32.8%	4.0	2.1	89%	
Power		8.3	7.6	8.1	8.1	13.1	57.3%	9.2	4.6	102%	
		11.6	10.1	11.9	13.4	17.4	50.4%	13.3	6.7	98%	
Total - boe/day		1,932	1,689	1,989	2,237	2,906	50.4%	2,209	1,118	98%	
	Q/Q % Change	-9%	-13%	18%	12%	30%	n/a				
	% Gas	100%	100%	100%	100%	100%		100%	100%		
Commodity Prices - net of hedges											
Gas	US\$/mcf										
	Industrial	\$ 7.86	\$ 7.63	\$ 8.69	\$ 8.63	\$ 8.09	2.9%	\$ 8.22	\$ 7.07	16%	
	Power	\$ 2.15	\$ 1.79	\$ 2.13	\$ 1.69	\$ 1.95	-9.3%	\$ 1.90	\$ 1.66	14%	
	Total	\$ 3.76	\$ 3.26	\$ 4.23	\$ 4.45	\$ 3.48	-7.4%	\$ 3.82	\$ 3.37	13%	
	% Chg - Prev Qtr	46%	-13%	30%	5%	n/a					
	% Chg - Prev Yr	-29%	-38%	-32%	72%	n/a					

Source: Orca Exploration Group and Haywood Securities

Several Activities Will Enhance Future Valuation

As noted above, please refer to our comments of [April 2, 2007](#) and [January 31, 2007](#) for a discussion of Orca's growth opportunities and the plans the company has to accelerate the monetization of its assets. In addition, the company has provided the updates discussed below.

Gas Sales Market

- The industrial gas distribution network was expanded by 3 km in the year to a total of 28 km. A 16 km expansion is planned for 2007 at a cost of US\$4.5

million. After the expansion industrial sales are expected to increase to 7.5 mmcf/day from 4.3 mmcf/day in Q4/06.

- Signed a two year contract to sell natural gas in order to operate the 48 MW of emergency power generation operated by Aggreko plc in Dar es Salaam, which at a 100% load factor would be 12 mmcf/day. Note that it is not reasonable to expect these units to run at a 100% load factor.
- Up to 100 MW of additional emergency power generation will be installed in 2007 by Dowans Tanzania Limited, with 20 MW installed to date and an additional 60 MW expected to be on line by Q3/07. The total 100 MW would have demand for 25 mmcf/day of natural gas at a 100% load factor.
- An additional 40 MW is expected to arrive in country and be installed by the end of the year which would add 10 mmcf/day of demand at a 100% load factor.
- The Wartsila 100 MW installation is still scheduled to be available by Q3/07.
- A new 45 MW facility to be constructed at Tegeta is scheduled for a mid 2008 startup.
- **By the end of 2007 the company estimates it could be supplying peak incremental natural gas due to the above of 68 mmcf/day or 41 mmcf/day at a 60% load factor to fund 310 MW of power generation equipment.**
- **Due to the substantial rains the reservoirs, particularly Mtera, have been refilled and are capable of sustained hydro power generation at expected rates through 2008. Sales to the power sector are expected to average 15 to 20 mmcf/day in 2007 – which is in line with our forecast.**
- Commencing in 2008 Orca expects to commence selling compressed natural gas (CNG) which could grow to a 10 mmcf/day market over several years.

Production Enhancement

- A workover of the SS-9 well in Q1/07 resulted in a 30 mmcf/day increase in the production capability of the field to 160 mmcf/day.
- The SS-10 development well commenced drilling in April 2007 and could add up to an additional 50 mmcf/day of production potential from the field.
- A northern extension of Songo Songo, called Songo Songo North, must be drilled in order to access additional reserves, either through the use of a jack up rig or a deviated well from an artificial island.
- An exploration well at Songo Songo West, if successful, would add additional reserves. This well could potentially be drilled from the same artificial island as Songo Songo North. The company has yet to contract a drilling rig for both of these wells.

Processing and Delivery

- As an interim measure, Petrofac has completed a study that would suggest the gas processing plant could be run at 85 mmcf/day, a 21% increase from the current nameplate capacity of 70 mmcf/day.
- Early stage negotiations have taken place with TANESCO and Songas regarding the addition of a third and fourth train taking capacity to 140 mmcf/day. On a preliminary basis, Songas would pay for the expansion and continue to charge Orca the same tariff as currently, being 17.5% of the sales price.

Valuation

We have increased our one year target price to \$14.25 from \$12.00 due to the improvement in the reserves year over year, without drilling a well, and the progress made on both drilling and plans to expand the processing capability of at Songo Songo.

Our target price of \$14.25 reflects a price to 2008 CFPS ratio of 6.6 times. We note that we have not changed our commodity price expectations at this time, however we believe that the company will likely receive higher prices than our forecast reducing the implied cash flow multiple.

Our production and cash-flow forecast does not assume success in the Company's exploration at Songo Songo. More significantly, we have assumed a price increase for natural gas used in power generation of only \$0.10 per mcf per year. Tanzania has the lowest electricity prices in East Africa (at only two-thirds the price in Uganda or Kenya) and is under some pressure from the World Bank to enact price increases. A 5% increase has been discussed relative to 2007. However, we have not assumed same in our forecast. An increase in the amount charged for electricity would result in Tanesco being able to pay a higher price for the Songo Songo natural gas.

Investment Profile

Risks

We rate the overall risk of Orca 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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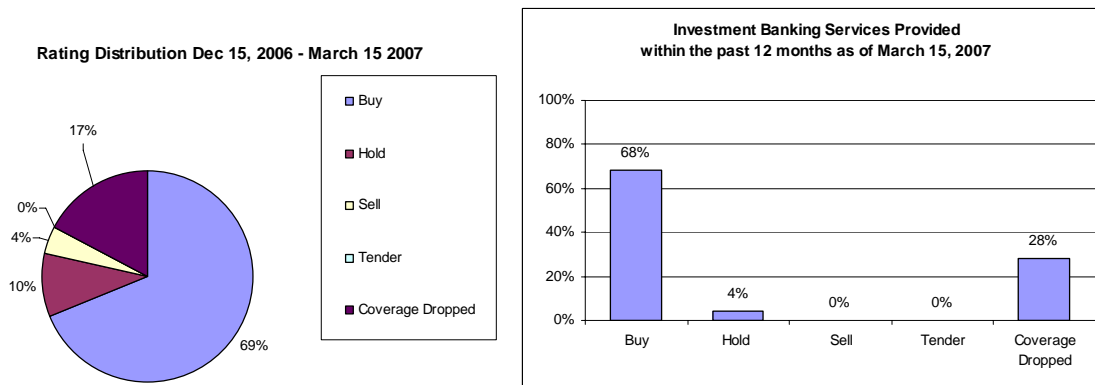
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