

August 28, 2007

## Orca Exploration Group Inc. (ORC.B-V, \$12.44)

Alan Knowles, CFA, CMA (403-509-1931, [aknowles@haywood.com](mailto:aknowles@haywood.com))

**Rating: SECTOR OUTPERFORM; 12-Month Target: \$17.00; Risk: SPECULATIVE**

Target Price \$17.00  
 Current Price \$12.44  
 Return (incl. dist'n) 15%

**Risk Profile:** SPECULATIVE  
 Forecast Risk High  
 Financial Risk Moderate  
 Valuation Risk Moderate  
 Political Risk Moderate

52-Week High/Low \$15.00/\$8.45  
 Shares O/S 26.8 million (basic)  
 28.9 million (F/D)

Market Capitalization \$333 million  
 Enterprise Value \$321 million

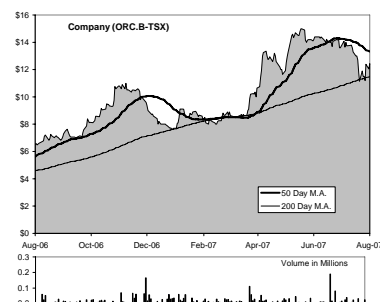
Daily Volume  
 (3-month average) 21,600

Currency C\$ unless noted

Company Web Site  
[www.orcaexploration.com](http://www.orcaexploration.com)

President Peter Clutterbuck

### Price Performance



Source: Bloomberg

### Impact: Positive

#### Adds Exploration Opportunity in Uganda

- Orca has negotiated a farm-in on Exploration Area 5 in northern Uganda with Neptune Petroleum (Uganda) Limited, a wholly owned subsidiary of Tower Resources plc (TRP:London AIM) whereby Orca will earn a 50% working interest in the 6,040 km<sup>2</sup> block. Please refer to the map on page 2 for the details.
- The time frame for activity for a transaction of this type is faster than we have usually witnessed. Orca will pay 83.33%, up to a maximum of US\$6.0 million, to acquire 250 to 300 km of 2D seismic with activity expected to commence November 2007. Orca then has the option to earn a 50% interest in the block by funding 83.33% of the cost of two exploration wells to a maximum of US\$10 million if they are not tested, and to US\$15 million if they are tested. Drilling is expected to commence by Q3/08.
- Heritage Oil (HOC:TSX) has enjoyed recent drilling successes in Uganda and has by its early estimates made a 1.0 billion bbls discovery at Kingfisher on Block 3A. Heritage also has a 50% interest in Block 1, immediately south of Block 5, where it has identified leads which have the potential to contain up to 804 mmbbls on an unrisks basis.
- The north part of the country can be characterized as plains and escarpment type terrain (as opposed to jungle), which facilitates oil and gas exploration. South of Lake Albert there have been border disputes with the Democratic Republic of the Congo which recently resulted in an incident between a DRC patrol boat and a Heritage seismic barge. We understand this situation is contained in the south.

**Implications:** The expansion of activities of the company to include what could be a significant exploration exposure is positive. The company's working interest and potential size of the exploration prospects could result in a meaningful appreciation in value of the company with success.

[Last Research Report: June 4, 2007](#)

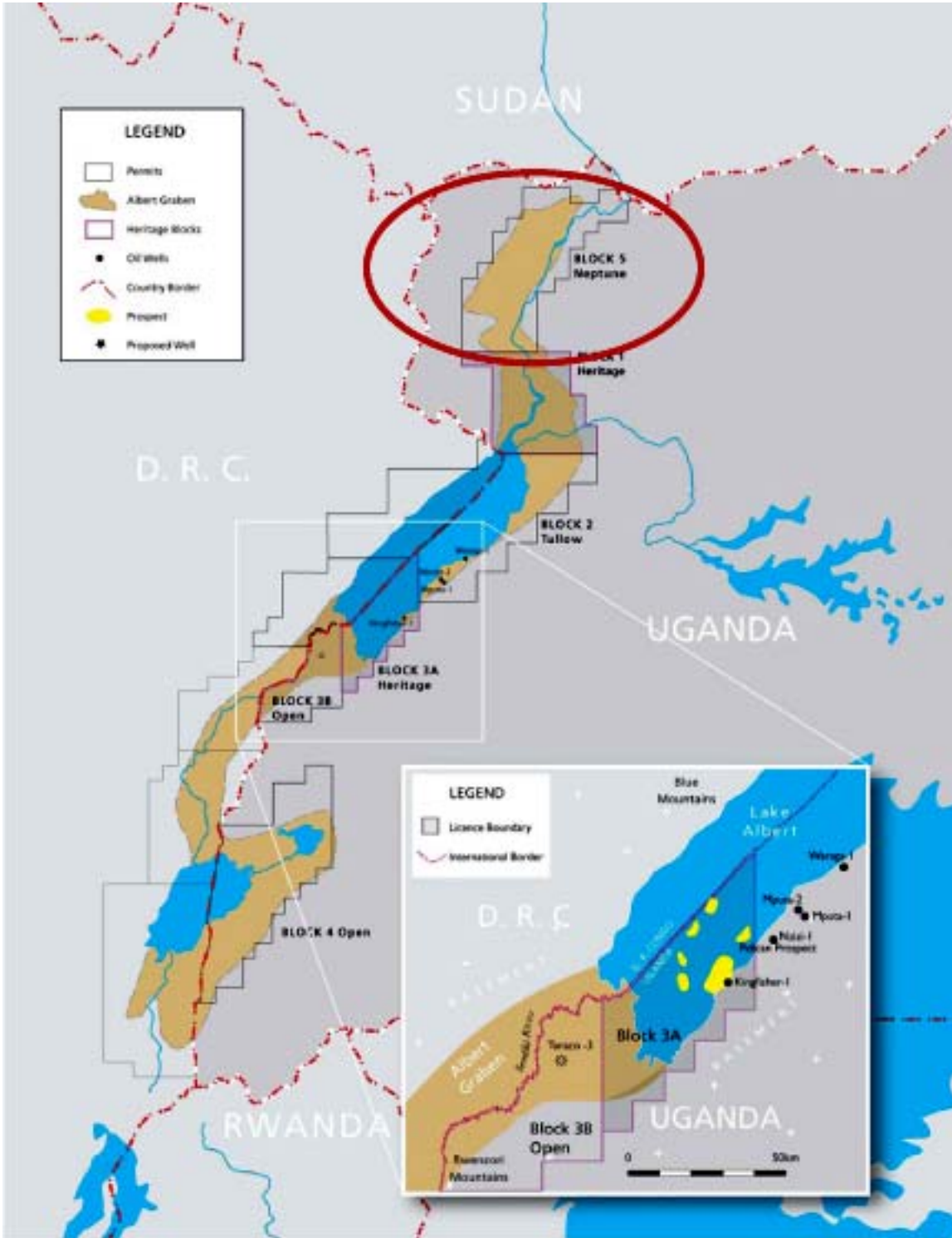


Please see rating structure, important disclosures, risk profile parameters, disclaimers, and notes on pages 3 - 6 of this report.

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## Uganda – Oil and Gas Exploration Blocks



Source: Heritage Oil Corp.

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- n/a

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*Each company within analyst's universe, or group of companies covered, is assigned a rating to represent how the analyst feels the stock will perform in comparison with the other companies, in that specific sector, over the upcoming 12 month period.*

**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.

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

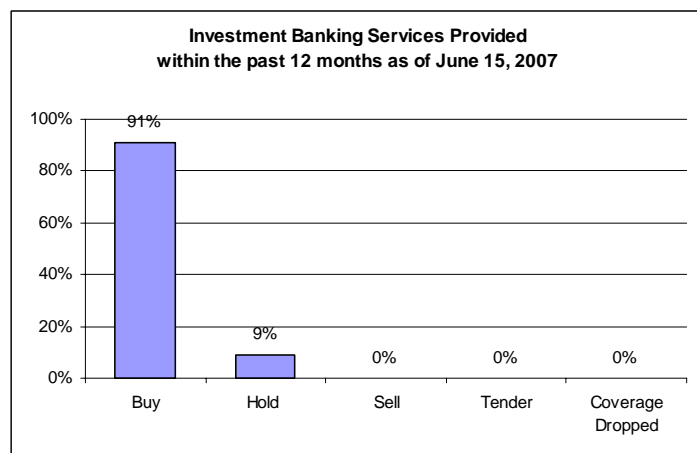
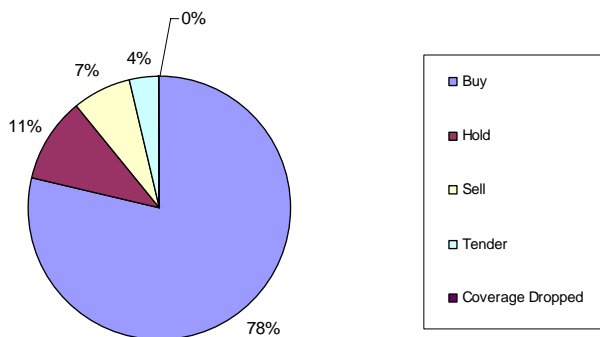
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Rating Distribution March 15 2007 - June 15, 2007



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## Risk Profile Parameters – Oil and Gas Sector

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**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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