

# ORCA EXPLORATION GROUP INC.

ORC.B-TSX V: \$12.40 — BUY



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## Uganda Adds High-Impact Exploration Upside

### Per Share Data (C\$)

Price	\$12.40	Shares O/S (mm)*:	29.3
Target Price (1 yr.):	\$16.50	FD Shares (mm):	31.4
Projected Return:	33%	Mkt. Cap (\$ mm):	\$351.3
52-Wk High:	\$15.00	W.Capital (\$ mm)**:	\$36.0
52-Wk Low:	\$6.43	Ent.Value (\$ mm):	\$315.3

\* 27.5 million Class B shares and 1.75 million Class A shares.

\*\*Estimated working capital post finaicne which closed July 5, 2007

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
Equivalent Growth	98%	66%	120%	28%

### Financial

Cash Flow (C\$ mm)	\$6.8	\$13.3	\$32.6	\$46.9
CFPS (FD)	\$0.27	\$0.44	\$1.05	\$1.51

### Valuation

P/CF	45.2x	28.0x	11.8x	8.2x
EV/DACF	46.1x	23.7x	9.7x	6.7x
EV/boed	na	85,988	39,005	30,512
Net Asset Value (FD)	\$7.06			

### Target Valuation Parameter

2.3 x NAV/fd share



Courtesy of BigCharts.com

### Upcoming Events

August: Q2/07 results.  
October: 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.

### Key Risk

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

### INVESTMENT OPINION

Yesterday, Orca announced that it has an agreement to earn a 50% interest in a large exploration block in Uganda. **Orca is targeting multi-hundred-million-barrel light oil reserves. For a minimum capital investment, Orca is exposed to considerable upside.** We maintain our \$16.50 target price; however, due to a recent pullback in the stock price, we have upgraded Orca from ACCUMULATE to **BUY**.

### ANALYSIS

**Orca gains access to a large exploration block in Uganda:** Orca has an agreement to earn a 50% interest in the 6,040 km<sup>2</sup> Exploration Area Block 5, located in north-western Uganda (Figure 1). The license is held 100% by Neptune Petroleum (Uganda) Ltd., which is a wholly-owned subsidiary of Tower Resources PLC, a publicly-traded company based in London. Uganda is located in east-central Africa and north of Tanzania, where Orca's current operations are located. Orca will fund 83.33% of a 200-300 km 2D seismic program (to a maximum cost of US\$6.0 million), which is expect to be completed and interpreted by Q1/08. Upon completion of the seismic program, Orca will have the right to earn a 50% interest in the entire block by funding 83.33% of two exploration wells. Total drilling costs are capped at between US\$10 million and US\$15 million, depending on if the wells are tested. Drilling could begin as early as mid 2008.

**Recent exploration success in Uganda:** Currently, Uganda does not have any production and is vastly unexplored. However, Heritage Oil Corporation and Tullow Oil PLC have recently announced significant light oil discoveries in the Albertine Graben, located in western Uganda. Neptune's Block 5 is located at the northern extension of the Albertine Graben (Figure 1).

**High-risk, high-impact potential:** Orca hopes to identify multi-hundred-million-barrel oil targets. For a minimum capital investment, Orca could be exposed to considerable upside. Uganda introduces a new political-risk element to the story; however; this is mitigated somewhat by the country's need for investment capital and Orca's management team, who have years of experience operating in similar political environments.

**Expanding opportunity base:** The higher-risk, high-impact oil potential of Uganda complements Orca's steady growth, natural gas production in Tanzanian. In addition, Orca continues to evaluate other development and exploration properties located in sub-Saharan Africa.

**Recent pullback creates buying opportunity:** The Uganda opportunity fits with Orca's strategy of developing its large Songo Songo natural gas assets in Tanzania, while expanding into new countries with high-impact oil potential. We maintain our \$16.50 target price on the ORC.B shares; however, due to a recent pullback in the stock price, we are upgrading our recommendation on Orca from ACCUMULATE to **BUY**.

# UGANDA

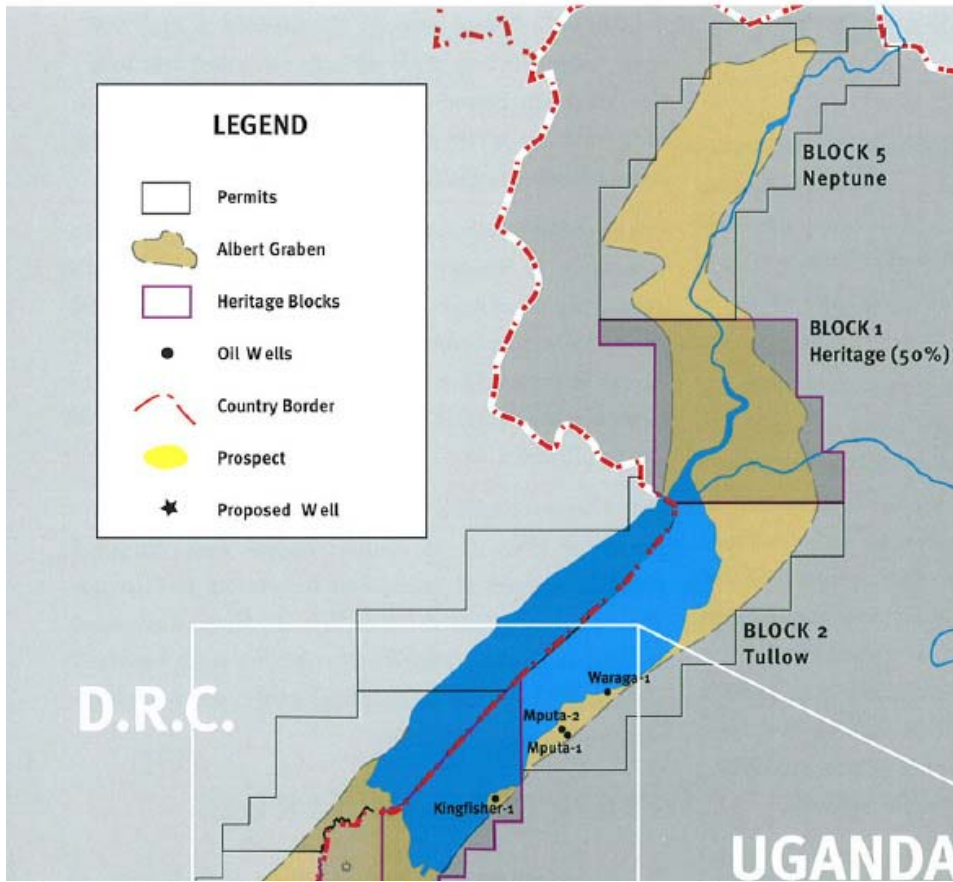


Figure 1. Uganda - Block 5  
Source. Heritage Oil Company



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