# EastCoast Energy Corporation (ECE.B–V, $8.06)

**Alan Knowles, CFA, CMA (403-509-1931, aknowles@haywood.com)**

*January 31, 2007*

CAPITAL MARKETS HAYWOOD SECURITIES INC.
MEMBER CIPF

***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.

| | |
|---|---|
| **Revised Rating** | |
| | **SECTOR OUTPERFORM** |
| **Revised Target Price** | **$12.00** |
| | ***(from Under Review, $8.50)*** |
| **Risk** | **SPECULATIVE** |

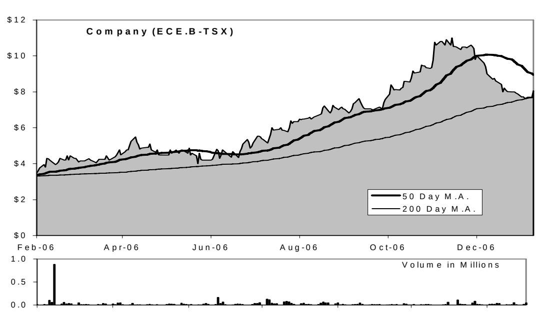
| | |
|---|---|
| **Forecast Risk** | **High** |
| **Financial Risk** | **Moderate** |
| **Valuation Risk** | **Moderate** |
| **Political Risk** | **Moderate** |

| | |
|---|---|
| Current Price | $8.06 |
| Return | 49% |
| 52-Week High / Low | $11.00 / $3.25 |
| Shares O/S | 26.8M (basic) / 28.8M (F/D) |
| Market Capitalization | $216 million |
| Enterprise Value | $194 million |
| Daily Volume | 20,800 |

Note: All amounts in US$ unless otherwise noted.

| | | 2006F | | 2007F | | 2008F | '07/'06 | 08/'07 |
|---|---|---|---|---|---|---|---|---|
| Gas mmcf/day | | 13.2 | | 18.0 | | 70.1 | 36% | 289% |
| % Gas | | 100% | | 100% | | 100% | 0% | 0% |
| Cash Flow | | 5,149 | | 17,764 | | 54,410 | 245% | 206% |
| CFPS - diluted | $ | 0.21 | $ | 0.62 | $ | 1.91 | 203% | 206% |
| CFPS CD$ - diluted | $ | 0.23 | $ | 0.70 | $ | 2.15 | 199% | 206% |
| EPS - diluted | $ | 0.08 | $ | 0.46 | $ | 1.56 | 469% | 240% |
| Capital Expenditures | | 7,634 | | 30,700 | | 18,500 | 302% | -40% |
| Net Debt (Wkg Cap) | | (18,641) | | (4,812) | | (40,257) | -74% | 737% |
| Company Avg $/mcf | $ | 3.79 | $ | 3.35 | $ | 3.23 | -12% | -4% |
| Valuation Parameters | | | | | | | | |
| Price/CFPS diluted | | 34.5 | | 11.4 | | 3.7 | -67% | -67% |
| Price/EPS diluted | | 87.9 | | 15.5 | | 4.6 | -82% | -71% |
| Target Price/CFPS dil'd | | 51.3 | | 16.9 | | 5.5 | -67% | -67% |
| EV/boe/day | $ | 87,743 | $ | 64,491 | $ | 16,583 | -27% | -74% |
| Target EV/boe/day | $ | 145,687 | $ | 107,079 | $ | 27,535 | -27% | -74% |

## Price Performance




Source: Bloomberg

## *New Projects Could Add Over 70 mmcf/day*

- **Name change to Orca Exploration Group Inc. imminent**

  The name change to Orca was approved at the November shareholders' meeting. The final steps for the changeover are just about complete, and the Company will trade under the new symbol ORC.B within days.

- **Permanent and temporary power growth adds 71.5 mmcf/day of demand**

  The installation of permanent facilities over 2007 and 2008 will add 39.2 mmcf/day, and temporary facility additions (2-year contracts, but likely to be extended) will add another 32.3 mmcf/day.

- **Drilling and facility expansion will increase capability**

  One workover and one new development well in early 2007 are expected to increase productive capability by 70 mmcf/day. Expansion of the gas processing facility will increase the nameplate capacity from 70 mmcf/day to in excess of 120 mmcf/day by year-end.

**Valuation** – Our target price of $12.00 reflects a price to 2008 CFPS ratio of 5.5 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. 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 begin in early 2007, has the potential to materially increase the Company's reserves.

**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 – Changed to SECTOR OUTPERFORM from Under Review, January 31, 2007
Target – Increased to $12.00 from Under Review, $8.50, January 31, 2007.

| | |
|---|---|
| President | Peter Clutterbuck |
| Company Web Site | www.eastcoast-energy.com |

*Please see rating structure,important disclosure,risk profile parameters, disclaimers, and notes on pages 11-14 of this report.*

| EASTCOAST ENERGY CORPORATION | | | | | | ECE.B-V |
|---|---|---|---|---|---|---|
| Rating: Sector Outperform | | | Implied Gain: | 48.9% | One Year Target Price: | $12.00 |
| Current Price | (CD$) | $8.06 | | Market Capitalization | CD$mm | 216.0 |
| Shares O/S | (mm) | 26.8 | Dilution | Current Net Debt (Cash) | CD$mm | (22.3) |
| Shares O/S - FD | (mm) | 28.8 | 7.5% | Enterprise Value | CD$mm | 193.7 |
| Book Value | ($USmm) | 37.7 | | EV / BV in CD$ | | 4.5 |

**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 | 3.9 | 5.3 | 9.5 | 12.5 | 18.7 | 37% | 381% |
| Power | | 4.6 | 9.4 | 12.7 | 60.6 | 57.0 | 55.0 | 36% | 487% |
| | | 6.7 | 13.2 | 18.0 | 70.1 | 69.5 | 73.7 | 36% | 456% |
| Total - boe/day | | 1,118 | 2,208 | 3,004 | 11,681 | 11,577 | 12,277 | 36% | 456% |
| % Change | | | 97% | 36% | 289% | -1% | 6% | | |
| **Financial (US$000's)** | | | | | | | | | |
| Revenue | | 5,759 | 12,785 | 27,095 | 67,598 | 53,183 | 58,144 | 112% | 355% |
| Operating Expense | | 495 | 785 | 986 | 1,224 | 1,222 | 1,234 | 26% | 57% |
| Net Operating Revenue | | 5,264 | 12,000 | 26,109 | 66,374 | 51,961 | 56,911 | 118% | 374% |
| Earnings (Loss) | | 388 | 2,018 | 13,043 | 44,311 | 29,242 | 17,799 | 546% | 782% |
| Cash Flow | | 2,081 | 5,149 | 17,764 | 54,410 | 38,607 | 27,473 | 245% | 434% |
| EPS - Basic | | $ 0.02 | $ 0.09 | $ 0.49 | $ 1.65 | $ 1.09 | $ 0.66 | 464% | 669% |
| - Diluted | | $ 0.02 | $ 0.08 | $ 0.46 | $ 1.56 | $ 1.03 | $ 0.63 | 469% | 676% |
| CFPS - Basic | | $ 0.09 | $ 0.22 | $ 0.66 | $ 2.03 | $ 1.44 | $ 1.02 | 201% | 365% |
| - Diluted | | $ 0.08 | $ 0.21 | $ 0.62 | $ 1.91 | $ 1.36 | $ 0.97 | 203% | 369% |
| % Change | | | 150% | 203% | 206% | -29% | -29% | | |
| CFPS - Basic | CD$ | $ 0.11 | $ 0.25 | $ 0.74 | $ 2.28 | $ 1.62 | $ 1.15 | 197% | 359% |
| - Diluted | CD$ | $ 0.10 | $ 0.23 | $ 0.70 | $ 2.15 | $ 1.53 | $ 1.09 | 199% | 363% |
| US/CD F/X | | 0.8255 | 0.8777 | 0.8900 | 0.8900 | 0.8900 | 0.8900 | | |
| Sensitivity - CFPS US$ | | | | | | | | | |
| Industrial Price | $0.25/mcf | | $ 0.008 | $ 0.011 | $ 0.025 | $ 0.016 | $ 0.012 | 47% | 57% |
| Power Price | $0.25/mcf | | $ 0.016 | $ 0.016 | $ 0.019 | $ 0.009 | $ 0.005 | 4% | -68% |
| Additional Gas - Industrial | 1.0 mmcf/d | | $ 0.068 | $ 0.071 | $ 0.083 | $ 0.036 | $ 0.019 | 5% | -72% |
| Additional Gas - Power | 1.0 mmcf/d | | $ 0.006 | $ 0.023 | $ 0.026 | $ 0.013 | $ 0.007 | 310% | 24% |
| Industrial Price | $0.25/mcf | | 3.5% | 1.7% | 1.2% | 1.1% | 1.2% | | |
| Power Price | $0.25/mcf | | 7.1% | 2.5% | 0.9% | 0.6% | 0.5% | | |
| Additional Gas - Industrial | 1.0 mmcf/d | | 30.7% | 10.8% | 4.1% | 2.5% | 1.9% | | |
| Additional Gas - Power | 1.0 mmcf/d | | 2.6% | 3.5% | 1.3% | 0.9% | 0.7% | | |
| Capex | | 5,648 | 7,634 | 30,700 | 18,500 | 2,500 | 2,500 | 302% | -67% |
| Net Debt (Cash) | | (2,211) | (18,641) | (4,812) | (40,257) | (34,673) | (65,092) | -74% | 249% |
| Common Shares O/S (000s) | | 23,264 | 26,804 | 26,804 | 26,804 | 26,804 | 26,804 | 0% | 0% |
| Weighted Average | | 23,264 | 23,373 | 26,804 | 26,804 | 26,804 | 26,804 | 15% | 15% |
| **Per Mcf (US$)** | | | | | | | | | |
| Gas Price | | | | | | | | | |
| Industrial | | $ 7.07 | $ 8.20 | $ 7.95 | $ 7.95 | $ 7.33 | $ 7.33 | -3% | -11% |
| Power - Ubungo | | $ 1.66 | $ 1.93 | $ 2.30 | $ 2.40 | $ 2.50 | $ 2.60 | 19% | 35% |
| Power - Other | | $ 2.66 | $ 2.13 | $ 2.34 | $ 2.50 | $ 2.60 | $ 2.70 | 10% | 27% |
| Total | | $ 3.37 | $ 3.79 | $ 3.35 | $ 3.23 | $ 3.44 | $ 3.87 | -12% | 2% |
| Revenue | | $ 2.35 | $ 2.64 | $ 2.54 | $ 2.64 | $ 2.10 | $ 2.16 | -4% | -18% |
| Operating Expenses | | $ 0.20 | $ 0.16 | $ 0.09 | $ 0.05 | $ 0.05 | $ 0.05 | -43% | -72% |
| Net Operating Revenue | | $ 2.15 | $ 2.48 | $ 2.15 | $ 3.15 | $ 4.15 | $ 5.15 | -13% | 107% |
| Depletion and Depreciation | | $ 0.37 | $ 0.37 | $ 0.36 | $ 0.36 | $ 0.36 | $ 0.36 | -3% | -5% |
| Earnings (Loss) | | $ 0.16 | $ 0.42 | $ 1.22 | $ 1.73 | $ 1.15 | $ 0.66 | 193% | 59% |
| Cash Flow | | $ 0.85 | $ 1.07 | $ 1.67 | $ 2.12 | $ 1.52 | $ 1.02 | 56% | -4% |
| **Valuation Parameters** | | | | | | | | | |
| Current Price/CFPS diluted Multiple | | 86.1 | 34.5 | 11.4 | 3.7 | 5.2 | 7.3 | -67% | -79% |
| EV / DACF Multiple (Debt Adjusted CF) | | | 52.3 | 16.2 | 4.7 | 6.7 | 8.6 | -69% | -84% |
| Target Price/CFPS diluted Multiple | | 128.1 | 51.3 | 16.9 | 5.5 | 7.8 | 10.9 | -67% | -79% |
| Price/EPS diluted Multiple | | 354.6 | 87.9 | 15.5 | 4.6 | 6.9 | 11.3 | -82% | -87% |
| EV/boe/day | | $173,222 | $87,743 | $64,491 | $16,583 | $16,733 | $15,779 | -27% | -82% |
| Target EV/boe/day | | $249,624 | $145,687 | $107,079 | $27,535 | $27,782 | $26,198 | -27% | -82% |

Source: EastCoast Energy and Haywood Securities

## Investment Thesis

We rate EastCoast Energy Corporation (ECE.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.

## Name Change to Orca Exploration Group Inc.

In October, EastCoast announced that it was planning to change its name to **Orca Exploration Group Inc.** The name change was approved at the shareholders' meeting on November 14, 2006. The Company is in the final stages of the administrative portion of the change, which is expected to become effective within the next few days. The new trading symbols on the TSX–V will be **OCA.A** and **OCA.B**. The majority of EastCoast shareholders hold the B shares.

## Highlights – Several Moving Parts Will Provide Growth

EastCoast will have an active 24 months on several fronts, with the potential to increase production through higher demand, increase the production capability of the field, and expand the gas processing capability and potentially the reserves through exploration drilling. Once EastCoast has executed contracts for all of the projects discussed below, the Company will have essentially monetized the majority of its Additional Gas reserves.

- 2006 marked the third year of drought conditions in East Africa, resulting in a significant erosion in hydro electricity generation. The only alternative is thermal generation, with Songo Songo gas being the preferable fuel over HFO, which is priced off crude oil.
- Three permanent thermal generating facilities have been contracted adding 245 MW of generating capacity and demand for 39 mmcf/day of Additional Gas at a 75% load factor. Approximately 60% of the increase will be installed in 2007, with the balance through 2008.
- Four temporary power projects are in various phases of operation/installation, adding 168 MW and demand for 32 mmcf/day at a 75% load factor. All are expected to be operational by mid-2007.
- Looping of the ring main is expected to be completed by mid-year, and the Company will potentially add an additional 4 mmcf/day of new industrial demand.
- A workover of SS-9 and the drilling of SS-10 (a development well) are expected to add 70 mmcf/day of Additional Gas production, taking the total potential of the field to 215 mmcf/day and the Additional Gas portion to 170 mmcf/day.
- The expansion of the Songo Songo gas facilities, expected by the end of 2007, will increase the processing capability from the currently rated amount of 70 mmcf/day to in excess of 120 mmcf/day.
- Two exploration prospects have been identified on the block that could be drilled by late 2007 or into 2008.

In addition to the operational activity noted above, EastCoast has expanded its management and directors to include, in particular, two experienced oilmen. Graham Goffey joined the Company as Exploration and Business Development Manager in September 2006. Mr. Goffey has over 20 years experience in international oil exploration, most recently as General Manager, International at Paladin Resources plc prior to that company being acquired by Talisman Energy Inc. In November 2006, James Smith was elected as a director of EastCoast. Mr. Smith has extensive oil and gas exploration experience in Africa, most recently as Vice President of Exploration for PanOcean Energy Corporation Limited prior to its acquisition by Addax Petroleum Corp., and prior thereto as Manager New Ventures for Chevron (Africa/Middle East) Ltd. The addition of these two individuals signals to us that EastCoast will attempt to secure an interest in new assets in Africa. While one cannot assign a value to this potential, given the track record of this management (the Chairman held the same position at PanOcean), we believe that should a transaction occur it would likely be accretive to the value of the Company.

## Timing of Power Demand Growth Accelerated

In 2006, East Africa, and in particular Tanzania, experienced its third year of drought conditions. This situation resulted in the water levels in the country's reservoirs being reduced below levels that would allow continued operation of the hydro generating facilities, necessitating a shutdown of a significant portion of those facilities. Both scheduled and unscheduled load shedding resulted (blackouts up to 12 hours or more per day), inconveniencing many businesses and households, to say the least. With the return of the rains in November, with December being especially heavy, water levels at the key reservoirs, including Mtera and Kidatu which service Dar es Salaam, recovered to in excess of minimum levels. While not considered robust, the current levels have allowed hydro generation to restart, except at Mtera where TANESCO (the state agency that manages the country's electricity grid) is holding the potential in reserve. There is a second rainy period that ends in March that will supplement the water levels. In some cases, the recovery is only a few metres above the minimum, and it is likely the country will find itself short of electricity again this year.

**Tanzania - Hydropower Electric Generation (MW)**

| | Installed | Effective |
|---|---|---|
| Kidatu | 204 | 204 |
| Mtera | 80 | 80 |
| New Pangani Falls | 68 | 67 |
| Hake | 21 | 18 |
| Nyumba ya Mungu | 8 | 6 |
| Kihansi | 180 | 180 |
| | 561 | 555 |

Source: MIRREIA and Haywood Securities

During this difficult period, the government made a commitment to expand the gas-generated electricity potential of the country in order to mitigate the country's exposure to these types of shortfalls. In fact, even prior to the essential shutdown of the hydro generating facilities in Tanzania, the existing infrastructure could not meet the demand for electricity, and many areas suffered unscheduled blackouts or rotating power rationing, oftentimes without notice.

There is no doubt that the lack of growth in electricity generation has held the potential growth of the Tanzanian economy in check.

In mid-October, President Kikwete effected a cabinet shuffle that resulted in the appointment of Nazir Karamagi as Minister of Energy and Minerals. At the beginning of November, the Electricity, Water and Utilities Authority (EWURA) was inaugurated. EWURA will oversee, and essentially regulate, the supply of petroleum, electricity, natural gas, and water services. The power situation and recent changes have added a new sense of urgency to bringing about the additions required in order to improve the country's ability to generate electricity. They will, we expect, indirectly aid in the monetization of EastCoast's natural gas assets more rapidly than was the case a year ago.

Towards this end, Tanzania has expanded and accelerated its plans to add thermal electricity generation capability from natural gas. Through the installation of a combination of permanent and so termed 'emergency' generators, the country will realize an addition of 245 MW of generating capability.

## Three Power Projects Add 39 mmcf/day of New Gas Demand

**Three permanent power generation projects are scheduled to be installed and begin operations in Tanzania over the next 12 to 24 months. They will add peak generating capacity of 245 MW and result in peak demand of 61 mmcf/day of natural gas from EastCoast—39.25 mmcf/day under a more reasonable 75% load factor**. Each of these projects is intended to utilize Songo Songo natural gas, which equates to an addition to EastCoast's planned sales. It is important for investors to appreciate that, for various reasons, time is one of the greatest risks when dealing with projects in Africa. While the projects discussed below have been committed to, there is the possibility that delays could extend the start-up date.

- **Wartsila Corporation (a Finnish company) has been contracted to supply 100 MW of capacity, expected to be operational by late Q3/07**. The US$74 million power plant was ordered in July 2006. It would result in demand for 18.8 mmcf/day of gas at peak capacity, with an expected load factor of 75% for an **effective 14.1 mmcf/day**. This is a 20-year contract. Wartsila also provided the Independent Power Tanzania Limited (IPTL) turbines. The original plan was that once the 100 MW of 'Wartsila sourced' generation are in place, the temporary facilities will be shut down. However, see the discussion below for caveats to this plan.

- **A 45 MW thermal generating facility will be constructed at Tegeta, adjacent to the IPTL facility**. Tegeta is expected to be operational by the **end of 2007** and require at peak load 8.5 mmcf/day, or at a 75% load factor, **6.4 mmcf/day** of natural gas from EastCoast. A connecting pipeline could readily be installed between the IPTL facility and Tegeta.

- **IPTL will be converted from HFO to natural gas starting at the end of 2007**. The facility has 10 Wartsila generators that in total can generate **100 MW of power**. The generators would be converted two at a time commencing at the beginning of 2008 with work to be **completed by Q4/08**. All feasibility studies have been completed on the conversion. This project was previously supposed to begin in mid-2007, but owing to a disagreement between the current owners of IPTL and the government, as well as the drought situation which meant that no existing facilities could be taken offline, it was deferred. Once completed, IPTL would require 25 mmcf/day of natural gas at peak load or **18.75 mmcf/day** at a 75% load factor. A pipeline has already been installed to the edge of the IPTL property and would require only minimal work to complete the connection.

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

| | | | | |
|---|---|---|---|---|
| **Production Potential** | | | | |
| | | Add'l Gas | Prot'd Gas | Total |
| Current Songo Songo maximum production | | 100.0 | 45.0 | 145.0 |
| Workover on SS-9 (increase to 60 mmcf/day) | mid 2007 | 35.0 | 0.0 | 35.0 |
| Drill SS-10 development well | mid 2007 | 35.0 | 0.0 | 35.0 |
| | | 170.0 | 45.0 | 215.0 |
| Success at Songo Songo West | 2009-10 | 35.0 | 0.0 | 35.0 |
| | | 205.0 | 45.0 | 250.0 |
| **Additional Gas - Marketing Potential Upside** | | | | |
| **Industrial** | | | | |
| Current | | | | 5.0 |
| Increase by end of 2007 | | | | 3.5 |
| | | | | 8.5 |
| Additional Increase | through 2010 | | | 10.5 |
| | | | | 19.0 |
| **Power** | | MW | 100% Load | 80% Load |
| Current Demand - Ubungo | | | 9.1 | 7.3 |
| Permanent Increases | | | | 75% Load |
| Wartsila (1) | Aug 2007 | 100 | 18.8 | 14.1 |
| Tegeta | Dec 2007 | 45 | 8.5 | 6.4 |
| Convert IPTL from HFO to natural gas | Jan 08-Dec 08 | 100 | 25.0 | 18.8 |
| | | 245 | 52.3 | 39.2 |
| Kinyerezi Project | 2010 | 250 | 47.0 | 32.9 |
| | | 495 | 99.3 | 72.1 |
| Temporary Increases | | | | |
| Aggreko | Q4/06 | 48 | 12.0 | 9.0 |
| Richmond | Q1/07 | 20 | 6.0 | 4.5 |
| Dowans | Feb 2007 | 60 | 15.0 | 11.3 |
| Dowans | Mid 2007 | 40 | 10.0 | 7.5 |
| | | 168 | 43.0 | 32.3 |
| Permanent + Temporary Increases | | 763 | 171.0 | 124.5 |
| Total Power | | | 180.1 | 131.7 |
| **Total Potential Demand - Industrial + Power** | | | | 155.7 |

Note: (1) New Power Generation is currently expected to replace the Leased facility. There is the potential to retain the leased facility should EastCoast increase its natural gas reserves and thus support the additional demand.

Source: EastCoast Energy and Haywood Securities

## Temporary Power Projects Accelerate Demand for Natural Gas

The 3-year drought created an situation in 2006 that forced the government to contract emergency gas-powered generators in order to alleviate the problem of decreased hydro generated electricity. For various reasons, these generators are only now being installed. While the generators have been characterized as 'temporary', we believe that once they are installed and operational, it will be difficult to withdraw the power, given the ever expanding need for power generation in Tanzania.

We do not believe our assumption regarding 'temporary, perhaps not be so temporary' to be unreasonable given the experience of Uganda, Tanzania's neighbour to the west. In May 2005, Aggreo (which is also being contracted by Tanzania, see below) installed a temporary 50 MW emergency power generating facility at Lugogo to alleviate the 120 MW shortfall the country faced at the time. By September of the same year, the country was attempting to source additional thermal generators as manufacturing expanded given the availability of this new power.

The projects summarized below sum to an additional 168 MW of thermal power generation, creating peak demand for 43 mmcf/day or 32.3 mmcf/day at a 75% load factor. We have been more conservative in our forecast model and have assumed a 55% to 65% load factor, depending on the project, for these units.

- **Aggreko plc** (headquartered in Scotland) was contracted for 2 years to provide up to 48 mmcf/day of thermal power generation. This project became **operational in Q4/06** requiring 12 mmcf/day of natural gas at peak demand and **9 mmcf/day** at a 75% load factor.

- In mid-2006, a U.S. company called **Richmond Development Corporation** was contracted for 2 years by the Tanzanian government to provide **100 MW of emergency power**. Originally, this project was to be operational by mid-Q4/06. To date, 20 MW have been installed, but are still being tested, with an expected start-up within weeks. Demand will be 6 mmcf/day of natural gas, or **4.5 mmcf/day** under a 75% load factor.

- Owing to the difficulties and delays encountered on start-up with Richmond, Richmond had to sell its contract for the remaining 80 MW to a UAE company called **Dowans Holdings S.A.**. We understand that three 20 MW generators have landed in the country, and there is the potential to have these operational by the end of February 2007. However, we would not be surprised to see start-up pushed well into Q2/07. The **60 MW of power** would require peak demand of 15 mmcf/day or **11.25 mmcf/day** at a 75% load factor.

- **Dowans** is also working towards supplying an additional 40 MW of thermal generating capacity by **mid-2007** requiring 10 mmcf/day of natural gas or **7.5 mmcf/day** at a 75% load factor.

## Industrial Sales to Grow in 2007

EastCoast will be expanding its industrial sales base in 2007 as well. While the volumes are materially less than the power demand for natural gas, the price received is quite a bit higher as it is based on the heating value of the HFO equivalent. So far in 2006, the industrial gas price has averaged greater than four times the power-related price at US$8.27 per mcf. The industrial gas price will decrease with weakness in oil prices, and strengthen with stronger oil prices.

Industrial natural gas sales were approximately 5.0 mmcf/day at the end of 2006. In 2007, the Company plans to complete the looping of the ring main system and extend the line to the northeast in Dar es Salaam. Existing customers have been expanding their businesses and therefore their requirements. Combined with the extension of the line, EastCoast could add approximately 4.0 mmcf/day of industrial demand in the latter half of 2007.

## Songo Songo Field Activity to Ramp Up in 2007

The existing five wells at Songo Songo have the capability of delivering 145 mmcf/day (100 mmcf/day of Additional Gas). There are two operations available to the Company that will handily increase the field deliverability to 215 mmcf/day, 170 mmcf/day of which would be Additional Gas.

First, a workover of SS-9 would result in increasing the well's capability from 25 mmcf/day to 60 mmcf/day, an increase of 35 mmcf/day. Second, the drilling of a new infill well, SS-10, is also expected to add 35 mmcf/day. Both operations would result in an increase in Additional Gas that will directly benefit EastCoast.

EastCoast is in the final stages of negotiating a contract for a drilling barge/crane to handle the SS-9 workover and to contract an onshore rig to drill SS-10. SS-10 will be drilled as a long-reach deviated well from Songo Songo island. Given the costs of an offshore rig, plus tie-in costs from offshore, the long-reach well provides the most economical alterative at approximately US$12 million. Both of these operations could begin before the end of Q1/07.

| EastCoast - Songo Songo Production Capability | | | | | | |
|---|---|---|---|---|---|---|
| | Flow Rate Capacity Fcst | | | Total | Production - 2005 | |
| | 1997 | 2004 | 2005 | Deliverab'y | Total | % of Cap'y |
| | (mmcf/day) | | | (mmcf/day) | (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% |
| | 140 | 158 | 145 | 145 | 40.3 | 28% |
| Max. Protected Gas | 45 | 45 | 45 | | 32.6 | 72% |
| Currently Avail. 'Additonal Gas' | 95 | 113 | 100 | | 7.7 | 8% |
| Workover on SS 9 - increase | | | 35 (1) | 35 | | |
| | | | 135 | 180 | | |
| Expected increase from SS 10 | | | 35 | 35 | | |
| | | | 170 | 215 | | |

(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 and Haywood Securities

The potential for **exploration drilling** on the block, given at least two identified prospects, will likely not occur until late in 2007 or even into 2008. The Songo Songo West (SSW) prospect is estimated to be 0.6 bcf (P50) to 1.1 tcf of original gas in place, and Songo Songo North (SSN) could be 0.1 bcf (P50). An offshore rig would be required, and optimally the Company could work with another operator in the area to jointly contract a rig and reduce the mobilization and demobilization costs.

Earlier in 2006, EastCoast had engaged Petrofac Engineering Limited to assess ways in which the throughput of the **Songo Songo gas facilities** can be expanded. The current rated throughput is 70 mmcf/day but could be expanded to 105 to 110 mmcf/day by the addition of a cold separator. The addition of a third and potentially fourth train could take the maximum capacity to greater than 120 mmcf/day. While no agreement has been finalized, there is the potential that Songas would agree to finance the expansion and in exchange charge EastCoast a fee to handle the gas. Construction on this expansion could be completed by the end of 2007 or early 2008.

## Rights Issue Will Provide Funding for 2007 Plans

**The Company exited Q3/06 with a net working capital position of US$3.3 million. A C$21.5 million rights offering, plus cash flow, should fund the Company's planned capital expenditures over the next year**.

In January, EastCoast stated that the rights issue announced in September (and followed up with an offering document in mid-November) was fully subscribed. Shareholders received one right for each share held and were required to exercise 7 rights in order to acquire one EastCoast Class B share for C$6.43 each. Being fully subscribed, the Company **issued 3.35 million Class B shares and raised C$21.5 million (US$19.0)**. The Company now has 25.1 million Class B shares outstanding, and including 1.8 million Class A shares, a total of 26.8 million shares outstanding.

The Company exited Q3/06 with a net working capital position of US$3.3 million. The proceeds from the rights offering, plus cash flow, should fund the Company's planned capital expenditures over the next year.

## Valuation

Our target price of $12.00 reflects a price to 2008 CFPS ratio of 5.5 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.

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 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.

## Distribution

This report may only be distributed to non-institutional US clients in the following states: Delaware, Georgia Louisiana, Maryland, New York, and Pennsylvania.

East Coast Energy Corporation. may be a designated penny stock in the following states: Georgia.

## Analyst Certification

I, Alan Knowles, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

## Important Disclosures

This report is prepared by Haywood Securities Inc. for use by Haywood Securities Inc., Haywood Securities (USA) Inc. and Haywood Securities (UK) Limited and their clients. Haywood Securities Inc. is a Canadian broker-dealer and a member of the Toronto Stock Exchange and the Canadian Venture Exchange. Haywood Securities (USA) Inc. is a wholly owned subsidiary of Haywood Securities Inc., registered with the U.S. Securities and Exchange Commission, and is a member of the National Association of Securities Dealers (NASD) and the Securities Investor Protection Corporation (SIPC).

Haywood Securities, Inc., and Haywood Securities (USA) Inc. do have officers in common however, none of those common officers affect or control the ratings given a specific issuer or which issuer will be the subject of Research coverage. In addition, the firm does maintain and enforce written policies and procedures reasonably designed to prevent influence on the activities of affiliated analysts.

Haywood analysts are salaried employees who may receive a performance bonus that may be derived, in part, from corporate finance income.

**Of the companies included in the report the following Important Disclosures apply:**

- The Analyst(s) preparing this report (or a member of the Analysts' households) have a financial interest in EastCoast Energy Corporation (ECE.B–T).
- As of the end of the month immediately preceding this publication either Haywood Securities, Inc., its officers or directors beneficially owned 1% or more of EastCoast Energy Corporation (ECE.B–T).
- Haywood Securities, Inc. or an Affiliate has received compensation for investment banking services from EastCoast Energy Corporation (ECE.B–T) in the past 24 months

Other material conflict of interest of the research analyst of which the research analyst or member knows or has reason to know at the time of publication or at the time of public appearance:

- n/a

## Rating Structure *

*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.

**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.

*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*

## Other Ratings

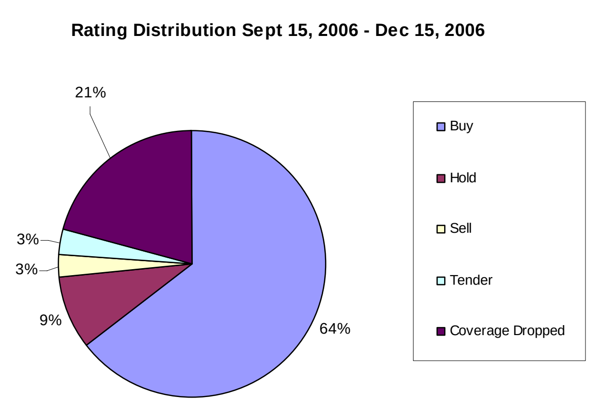
**TENDER –** The analyst is recommending that investors tender to a specific offering for the company's stock.

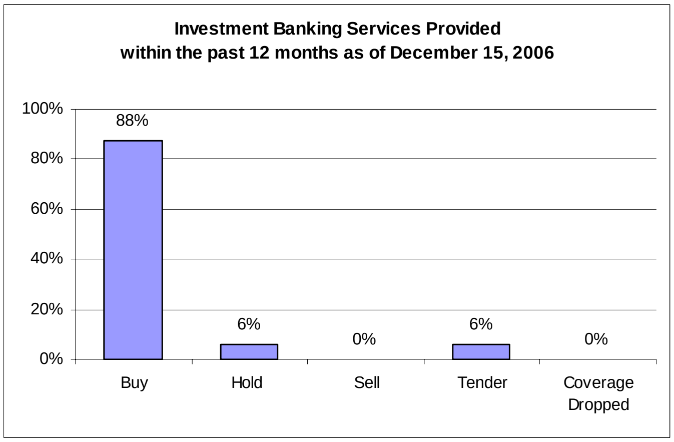
**RESEARCH COMMENT** – An analyst comment about an issuer event that does not include a rating or recommendation.

**UNDER REVIEW –** Placing a stock Under Review does not revise the current rating or recommendation of the analyst. A stock will be placed Under Review when the relevant company has a significant material event with further information pending or to be announced. An analyst will place a stock Under Review while he/she awaits sufficient information to re-evaluation the company's financial situation.

**COVERAGE DROPPED** – Haywood Securities will no longer cover the issuer. Haywood will provide notice to clients whenever coverage of an issuer is discontinued.

** Haywood's current rating structure (outlined above) does not correlate to the 3-tiered BUY, HOLD, SELL structure required by the NASD and NYSE. Our ratings of Sector Outperform, Sector Perform and Sector Underperform most closely correspond to Buy, Hold/Neutral and Sell respectively however, as described above, our assigned ratings take into account the relevant sector.*




*Haywood's focus is to search for undervalued companies which analysts believe may achieve attractive risk-adjusted returns. This research coverage on potentially undervalued companies may result in an outweighed percentage of companies rated as Sector Outperform. Management regularly reviews rating and targets in all sectors to ensure fairness and accuracy.*

For further information on Haywood Securities' research dissemination policies, please visit:
**http://www.haywood.com/research_dissemination.asp**

## 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 SPECULATIVE 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.

## Disclaimers

Estimates and projections contained herein, whether or not our own, are based on assumptions that we believe to be reasonable. The information presented, while obtained from sources we believe reliable, is checked but not guaranteed against errors or omissions.

Haywood Securities Inc., its subsidiaries and their respective officers, directors, and employees may hold positions in the securities mentioned and may purchase and/or sell them from time to time.

This report is neither a solicitation for the purchase of securities nor an offer of securities. Our ratings are intended only for clients of Haywood Securities Inc. Haywood Securities (USA) Inc., and those of Haywood Securities (UK) Limited and such clients are cautioned to consult the respective firm prior to purchasing or selling any security recommended or views contained in this report. Haywood Securities (UK) Limited ("HSUK") is a wholly owned subsidiary of Haywood Securities Inc. authorized and regulated in the UK by the Financial Services Authority as a stock broker and investment adviser and is a member of the London Stock Exchange.

This report has been approved by HSUK for the purposes of section 21 of the UK's Financial Services and Markets Act 2000.If you wish to contact HSUK please email D. Kim Gorius at kgorius@haywood.com.

Haywood Securities, or certain of its affiliated companies, may from time to time receive a portion of commissions or other fees derived from the trading or financings conducted by other affiliated companies in the covered security

If you are a UK resident private customer your attention is drawn to the risk warnings set out below:

Haywood Securities Inc or its subsidiaries or respective officers, directors or employees have or may have a material interest in the securities to which this report relates.

Past performance should not be seen as an indication of future performance. The investments to which this report relates can fluctuate in value and accordingly you are not certain to make a profit on any investment: you could make a loss.

Changes in the rates of exchange between currencies may cause the value of your investment to fluctuate.

If you are a UK resident private customer and you propose to do business with Haywood Securities Inc, please take note of the following:

Any investment services undertaken on your behalf by Haywood Securities Inc are not covered by the rules and regulations made for the protection of private investors in the UK. This means that you will not have the benefit of rights designed to protect investors under the Financial Services and Markets Act 2000 and under the rules of the Financial Services Authority ("FSA").In particular, you will not benefit from the following UK protections:

(a) the right to claim through the UK's Financial Services Compensation Scheme for losses resulting in the unlikely event of our default;

(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.