

Orca Exploration Group Inc. (ORC.B-V, \$13.55)

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

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June 4, 2007

Investment Brief – Orca has already established a material natural gas resource in Tanzania, and is potentially less than 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 \$17.00
(from \$14.25)
Risk Profile SPECULATIVE

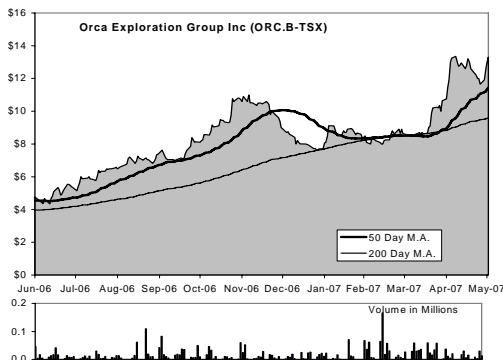
Forecast Risk High
Financial Risk Moderate
Valuation Risk Moderate
Political Risk Moderate

Current Price \$13.55
 Return 26%
 52-Week High / Low \$13.60 / \$8.45
 Shares O/S 26.8M (basic) / 28.9 M (F/D)
 Market Capitalization \$363 million
 Enterprise Value \$352 million
 Daily Volume 22,900

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

	2006A	2007F	2008F	07/06	08/07
Gas mmcf/day	13.3	23.8	62.7	80%	163%
% Gas	100%	100%	100%	0%	0%
Cash Flow	6,030	12,583	49,579	109%	294%
CFPS - diluted	\$ 0.24	\$ 0.44	\$ 1.73	83%	294%
CFPS CD\$ - diluted	\$ 0.27	\$ 0.49	\$ 1.91	78%	293%
EPS - diluted	\$ 0.10	\$ 0.24	\$ 1.25	142%	419%
Capital Expenditures	6,043	32,957	10,500	445%	-68%
Net Debt (Wkg Cap)	(20,430)	(1,456)	(40,074)	-93%	2652%
Company Avg \$/mcf	\$ 3.82	\$ 3.55	\$ 3.31	-7%	-7%
Valuation Parameters					
Price/CFPS diluted	51.4	28.0	7.1	-45%	-75%
Price/EPS diluted	123.3	51.1	9.8	-59%	-81%
Target Price/CFPS dil'd	64.5	35.1	8.9	-45%	-75%
EV/boe/day	\$ 159,142	\$ 88,492	\$ 33,633	-44%	-62%
Target EV/boe/day	\$ 206,306	\$ 114,718	\$ 43,600	-44%	-62%

Price Performance



Source: Bloomberg

Q1/07 As Expected – Expansion Strategy Firms

Production of 18.4 mmcf/day is 82% over last year.

Production averaged 18.4 mmcf/day in the quarter a 6% increase from Q4/06 and 82% higher than Q1/06. CFPS of \$0.04 met our forecast for the quarter.

Two crude oil acquisitions targeted by year end.

Orca has added five consultants to support staff in their effort to identify and execute on the acquisition of two crude oil properties in Africa (we expect West Africa would be a reasonable locale). This would be a potentially accretive use of the company's growing cash flow – which is expected to reach almost US\$50.0 million next year.

Timing of Tanzania growth tightens up.

The schedule for bringing on over 100 MW of new gas powered electricity generation units has firmed up over the balance of the year, with additional growth in 2008. While delayed from our previous expectations, there are additional initiatives, compressed natural gas for one, that are now part of the growth equation.

We increase our target price to \$17.00.

The increased cash flow in later years (see report), advancement in support infrastructure for production increases and importantly the progression of the expansion into a potential oil producer all contribute to our decision to increase the target price to \$17.00 from \$14.25.

Valuation – Our target price of \$17.00 reflects a price to 2008 CFPS ratio of 8.9 times. This is obviously a premium multiple supported by the extensive reserves that allow the company to maintain production at peak levels until 2026. We view the move to expand the asset base to oil assets, and invest the growing cash flow in a potentially accretive asset as positive. We continue to rate Orca as SECTOR OUTPERFORM.

Catalysts – Adding to the thermal generating infrastructure as planned, adds to our confidence level in the ability of the Company to contract its natural gas reserves. The announcement of an oil property acquisition would be positive. Development drilling has commenced and exploration drilling is expected to start 2008, both having the potential to increase the Company's reserves.

Industry & Company Profile

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.

Revisions, Date of Record

Rating – Changed to SECTOR OUTPERFORM from Under Review, January 31, 2007
 Target – Increased to \$17.00 from \$14.25 on June 4, 2007.

Company Information

President – Peter Clutterbuck
 Company Web Site www.orcaexploration.com

Please see rating structure, important disclosures, risk profile parameters, disclaimers, and notes on pages 13 - 16 of this report.

ORCA EXPLORATION GROUP INC.								ORC.B-TSXV	
Rating: Sector Outperform		Implied Gain: 25.5%		One Year Target Price: \$17.00					
Current Price (CD\$)	\$13.55			Market Capitalization		CD\$m	363.1		
Shares O/S (mm)	26.8	Dilution		Current Net Debt (Cash)		CD\$m	(11.6)		
Shares O/S - FD (mm)	28.9	7.8%		Enterprise Value		CD\$m	351.5		
Book Value (\$USmm)	38.0			EV / BV in CD\$			8.4		
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	5.7	10.5	13.5	19.7	41%	391%
Power		4.6	9.2	18.2	52.2	56.7	55.0	97%	495%
		6.7	13.3	23.8	62.7	70.2	74.7	80%	463%
Total - boe/day		1,118	2,209	3,972	10,451	11,702	12,443	80%	463%
% Change			98%	80%	163%	12%	6%		
Financial (US\$000's)									
Revenue		5,759	13,828	23,711	61,459	67,552	58,884	71%	326%
Operating Expense		495	793	1,019	1,229	1,245	1,258	29%	59%
Net Operating Revenue		5,264	13,035	22,691	60,230	66,307	57,627	74%	342%
Earnings (Loss)		388	2,577	6,904	35,829	39,653	24,237	168%	841%
Cash Flow		2,081	6,030	12,583	49,579	54,252	39,504	109%	555%
EPS - Basic	\$	0.02	\$ 0.11	\$ 0.26	\$ 1.34	\$ 1.48	\$ 0.90	134%	722%
- Diluted	\$	0.02	\$ 0.10	\$ 0.24	\$ 1.25	\$ 1.39	\$ 0.85	142%	748%
CFPS - Basic	\$	0.09	\$ 0.26	\$ 0.47	\$ 1.85	\$ 2.02	\$ 1.47	81%	467%
- Diluted	\$	0.08	\$ 0.24	\$ 0.44	\$ 1.73	\$ 1.90	\$ 1.38	83%	476%
% Change			191%	83%	294%	9%	-27%		
CFPS - Basic	CD\$	\$ 0.11	\$ 0.30	\$ 0.52	\$ 2.03	\$ 2.22	\$ 1.62	75%	448%
- Diluted	CD\$	\$ 0.10	\$ 0.27	\$ 0.49	\$ 1.91	\$ 2.09	\$ 1.52	78%	456%
US/CD F/X		0.8255	0.8793	0.9075	0.9100	0.9100	0.9100		
Sensitivity - CFPS US\$									
Industrial Price	\$0.25/mcf			\$ 0.010	\$ 0.027	\$ 0.022	\$ 0.024		
Power Price	\$0.25/mcf			\$ 0.009	\$ 0.018	\$ 0.012	\$ 0.009		
Additional Gas - Industrial	1.0 mmcf/d			\$ 0.045	\$ 0.083	\$ 0.048	\$ 0.035		
Additional Gas - Power	1.0 mmcf/d			\$ 0.015	\$ 0.025	\$ 0.017	\$ 0.013		
Industrial Price	\$0.25/mcf			2.0%	1.5%	1.1%	1.6%		
Power Price	\$0.25/mcf			1.8%	1.0%	0.6%	0.6%		
Additional Gas - Industrial	1.0 mmcf/d			9.5%	4.5%	2.4%	2.4%		
Additional Gas - Power	1.0 mmcf/d			3.1%	1.4%	0.8%	0.9%		
Capex		5,648	6,043	32,957	10,500	26,500	2,500	445%	-59%
Net Debt (Cash)		(2,211)	(20,430)	(1,456)	(40,074)	(26,491)	(76,696)	-93%	275%
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	\$ 7.86	\$ 7.95	\$ 7.33	\$ 7.33	-4%	-11%
Power - Ubungo		\$ 1.66	\$ 1.75	\$ 2.19	\$ 2.40	\$ 2.50	\$ 2.60	25%	49%
Power - Other		\$ 2.66	\$ 2.10	\$ 2.21	\$ 2.38	\$ 2.60	\$ 2.70	5%	29%
Total		\$ 3.37	\$ 3.82	\$ 3.55	\$ 3.31	\$ 3.50	\$ 3.91	-7%	2%
Revenue		\$ 2.35	\$ 2.86	\$ 2.73	\$ 2.68	\$ 2.64	\$ 2.16	-5%	-24%
Operating Expenses		\$ 0.20	\$ 0.16	\$ 0.12	\$ 0.05	\$ 0.05	\$ 0.05	-28%	-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	\$ 0.56	\$ 0.56	\$ 0.56	\$ 0.56	28%	26%
Earnings (Loss)		\$ 0.16	\$ 0.53	\$ 0.79	\$ 1.56	\$ 1.55	\$ 0.89	50%	68%
Cash Flow		\$ 0.85	\$ 1.25	\$ 1.45	\$ 2.16	\$ 2.12	\$ 1.45	16%	16%
Valuation Parameters									
Current Price/CFPS diluted Multiple	CD\$	149.6	51.4	28.0	7.1	6.5	8.9	-45%	-83%
EV / DACF Multiple (Debt Adjusted CF)			66.6	28.9	6.6	6.3	7.6	-57%	-89%
Target Price/CFPS diluted Multiple	CD\$	187.7	64.5	35.1	8.9	8.2	11.2	-45%	-83%
Price/EPS diluted Multiple	CD\$	616.5	123.3	51.1	9.8	8.9	14.5	-59%	-88%
EV/boe/day	CD\$	\$314,319	\$159,142	\$88,492	\$33,633	\$30,038	\$28,247	-44%	-82%
Target EV/boe/day	CD\$	\$353,652	\$206,306	\$114,718	\$43,600	\$38,940	\$36,619	-44%	-82%

Source: Orca Exploration and Haywood Securities

Investment Thesis

Orca 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. Alternatively, the company's plans to execute the acquisition of at least two crude oil properties, likely in Africa, by the end of the year will likely result in a more accretive use of capital.

NOTE: Orca reports in US\$. All amounts discussed below are in US\$ unless otherwise noted.

Q1/07 Production Increases 82% Y/Y

Orca's CFPS in the first quarter was \$0.04 (diluted \$0.04), a 54% increase year over year but down 58% from the previous quarter. Despite higher sales volumes than Q4/06 (see below), cash flow was lower in the current quarter. This is due to the impact of a Q4/06 adjustment to income taxes, which increased the cost recovery allocation to Orca in that quarter.

Gas sales averaged 18.4 mmcf/day in Q1/07, an increase of 82% from Q1/06 (10.1 mmcf/day) and 6% higher than the previous quarter (17.4 mmcf/day). Industrial sales averaged 3.3 mmcf/day and were down 23% from the previous quarter due to unscheduled downtime at one of Orca's clients. Industrial sales are expected to be 4.5 mmcf/day in Q2/07, an increase of 34% from Q1/07 and 4% over the Q4/06 sales. Power sales were 15.1 mmcf/day, 15% greater than the Q4/06 sales.

The price received for power sales is relatively consistent between quarters as it is tied to an existing agreement. The Q1/07 average was \$2.19 per mcf, a 12% increase quarter over quarter. The price received related to industrial sales is tied to the price of crude oil, which decreased in the quarter. The average industrial related gas price was \$7.70 per mcf, down 5% from Q4/06.

Capital expenditures were \$11.1 million in the quarter, well over the \$0.9 million expended in Q1/06 and 3.2 times the level of expenditures in the previous quarter. Orca successfully completed a clean-up operation on SS-9, which had over 5,000 feet of wireline left in the well since 1997. As a result of this operation deliverability of the well has increased 30 mmcf/day to 50 mmcf/day.

The SS 10 development well spud on April 28, 2007. This well is expected to add approximately 50.0 mmcf/day to the field's production capability taking the total to 210 mmcf/day. The maximum Protected Gas volumes are 45 mmcf/day leaving 145 mmcf/day as potential Additional Gas sales.

Orca Exploration - Songo Songo Production Capability						
	Flow Rate Capacity Fcst					
	1997	2004	2005	2006	2007-03 ⁽¹⁾	2007 w/ SS10 ⁽²⁾
	(mmcf/day)					
SS 3	10	17	18	16	16	16
SS 4	10	19	17	12	12	12
SS 5	60	65	63	62	62	62
SS 7	20	22	22	20	20	20
SS 9	40	35	25	20	50	50
SS 10						50
	140	158	145	130	160	210
Max. Protected Gas	45	45	45	45	45	45
Currently Avail. 'Additional Gas'	95	113	100	85	115	165

(1) A clean-up operation on SS 9 was successfully completed in Q1/07 resulting in an increase the maximum deliverability of the well.

(2) SS 10, a development well, spud on April 28, 2007.

Source: Orca Exploration and Haywood Securities

At March 31, 2007 Orca had net working capital of \$10.6 million, including cash of \$14.7 million. During Q1/07 Orca expended \$10.2 million on the clean-up operation of SS 9 and the drilling of SS 10 (preparatory work prior to spudding). An additional \$7.0 million is expected to be incurred in Q2/07 in order to complete the drilling of SS 10. In addition, Orca intends to complete a 16 km expansion of the distribution ringmain, closing the loop and requiring an additional \$1.8 million over the balance of the year.

Orca Exploration - Quarterly Summary (US\$000's, except per share amounts)							
		Q1/06	Q2/06	Q3/06	Q4/06	Q1/07	% Chg vs. Q1/06
Oil and Gas Revenue		2,073	3,198	3,835	4,722	3,831	84.8%
Cash Flow		671	1,333	1,589	2,438	1,190	77.3%
	% Chg - Prev Qtr	-51%	99%	19%	53%	-51%	
	% Chg - Prev Yr	n/a	n/a	27%	78%	77%	
CFPS	Basic \$/sh	\$ 0.03	\$ 0.06	\$ 0.07	\$ 0.10	\$ 0.04	54.4%
	Diluted \$/sh	\$ 0.03	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.04	54.3%
	% Chg - Prev Qtr	-50%	97%	18%	58%	-58%	
	% Chg - Prev Yr	n/a	n/a	27%	85%	54%	
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)		83	660	809	1,025	128	54.2%
EPS	Basic \$/sh	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.00	0.0%
	Diluted \$/sh	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.04	\$ 0.00	0.0%
	% Chg - Prev Qtr	n/a	n/a	0%	33%	-89%	
	% Chg - Prev Yr	n/a	n/a	0%	100%	n/a	
Capital Expenditures		851	1,034	749	3,409	11,077	1201.6%
Net Debt (Working Capital)		(2,118)	(2,448)	(3,298)	(20,430)	(10,570)	399.1%
	Net Debt/Cash Flow (Annualized)	n/a	n/a	n/a	n/a	n/a	n/a
Production							
	Natural Gas - mmcf/day						
	Industrial	2.6	3.8	5.3	4.3	3.3	30.9%
	Power	7.6	8.1	8.1	13.1	15.1	98.8%
	Total	10.1	11.9	13.4	17.4	18.4	81.7%
	Total - boe/day	1,689	1,989	2,237	2,906	3,069	81.7%
	Q/Q % Change	-13%	18%	12%	30%	6%	
	Industrial %	25%	32%	40%	25%	18%	
	% Gas	100%	100%	100%	100%	100%	
Commodity Prices - net of hedges							
	Gas (US\$/mcf)						
	Industrial	\$ 7.63	\$ 8.69	\$ 8.63	\$ 8.09	\$ 7.70	0.9%
	Power	\$ 1.79	\$ 2.13	\$ 1.69	\$ 1.95	\$ 2.19	22.3%
	Total	\$ 3.26	\$ 4.23	\$ 4.45	\$ 3.48	\$ 3.19	-2.1%
	% Chg - Prev Qtr	-13%	30%	5%	-22%	-8%	
	% Chg - Prev Yr	-38%	-32%	72%	-7%	-2%	

Source: Orca Exploration and Haywood Securities

Targeting Two New Oil Opportunities by Year End

Orca has steadily been increasing its efforts to identify and secure additional exploitation and/or exploration activities outside of Tanzania. In fact the company is targeting the acquisition of two oil opportunities by the end of 2007.

We note two factors relative to this initiative. First, the company is focused in expanding its exposure to crude oil as opposed to natural gas. We view this positively. Second, given the previous experience and track record of several of the senior managers we expect that any new opportunities will have an exploitation component, vs. entirely rank exploration, associated with them, thus providing the potential for early cash flow related thereto.

James Smith has been hired as Vice President Exploration and is heading a team that is tasked with identifying new oil opportunities with a focus on Africa. Mr. Smith had previously worked with PanOcean Energy Corporation prior to its acquisition by Addax Petroleum (AXC-T) and in our view a major contributor to

the ultimate success that put the company in Addax's sights. In addition Orca contracted the services of two consultants in Q1/07 to work on this project, which was expanded to five consultants in Q2/07.

The commitment to this initiative is quite evident. In Q1/07 the company's administration expense included \$422,000 in costs relative to business development outside Tanzania representing 19% of the total administration costs. The quarter's costs represent a 2.6 times increase to similar expenditures in Q4/06 of \$160 million.

Opportunity to Increase Value of Existing Gas Assets

Orca is continuing to add value to its existing natural gas asset in Tanzania. The 2006 2P reserves reflected a year over year increase of 30% to 415 bcf.

Orca Exploration - Reserves Summary - (Gross Before Royalties)									
				To End of Licence - 2026					
				2003	2004	2005	2006	% Change	
				McDaniel	McDaniel	McDaniel	McDaniel	'05/'04	'06/'05
Independent Engineers									
As At				03-12-31	04-12-31	05-12-31	06-12-31		
Prepared				03-04-23	05-04-11	06-04-05	06-04-30		
Reserves Balance									
Additional Gas (bcf)									
Proved Producing				0.0	124.6	179.8	219.5	44%	22%
Proved Non-Producing				0.0	0.0	0.0	0.0	0%	0%
Proved Undeveloped				85.3	46.6	60.7	46.3	30%	-24%
Total Proved				85.3	171.2	240.6	265.8	40%	10%
Probable				174.2	84.2	79.4	149.3	-6%	88%
Possible				335.9	255.4	320.0	415.1	25%	30%
				595.5					
Total (6:1) (mmboc)									
Proved Producing				0.0	20.8	30.0	36.6	44%	22%
Proved Non-Producing				0.0	0.0	0.0	0.0	0%	0%
Proved Undeveloped				14.2	7.8	10.1	7.7	30%	-24%
Total Proved				14.2	28.5	40.1	44.3	40%	10%
Probable				29.0	14.0	13.2	24.9	-6%	88%
				43.3	42.6	53.3	69.2	25%	30%
Assumed Future Protected Gas Usage				247.1	249.3	249.0	233.0	0%	-6%
Assumed Protected Gas Load Factor				75.0%	75.0%	80.5%	80.5%	7%	0%
Additional Gas (2P) + Protected Gas				506.7	504.7	569.0	648.1	13%	14%
Engineering Value - Additional Gas (\$USmm)									
5% Proved				17.7	51.7	103.1	154.9	99%	50%
P+P				91.0	64.7	141.2	241.7	118%	71%
10% Proved				7.6	35.5	67.7	109.0	91%	61%
P+P				46.4	43.4	83.8	158.7	93%	89%
Reserve Component Analysis									
% PUDs of Total Proved				100.0%	27.2%	25.2%	17.4%	-7%	-31%
% Proved of Total P+P				32.9%	67.0%	75.2%	64.0%	12%	-15%
% Probable of Total P+P				67.1%	33.0%	24.8%	36.0%	-25%	45%
Price Assumptions - Additional Gas (2P) US\$/mcf									
Songo Songo		Year 1	\$ 2.50	\$ 3.96	\$ 3.92	\$ 3.52			
		Year 2	\$ 2.55	\$ 2.75	\$ 3.76	\$ 3.38			
		Year 3	\$ 2.60	\$ 2.51	\$ 3.01	\$ 3.25			
		Year 4	\$ 2.65	\$ 2.52	\$ 3.01	\$ 3.23			
		Year 5	\$ 2.71	\$ 2.56	\$ 3.08	\$ 3.36			

Source: Orca Exploration and Haywood Securities

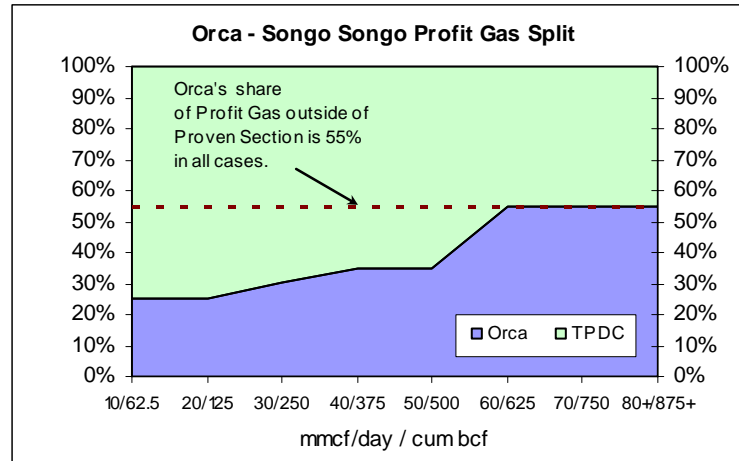
Significantly, the 30% increase in 2P reserves took place in a year during which the company had not undertaken any drilling operations. We note that based on the 2006 reserves balance and production that Orca has an 86 year reserve life index (RLI) leaving the company with lots of room to increase its production.

The addition of the Emergency Power Plants and other planned growth in gas fired power generation will increase the company's sales in 2007 but particularly 2008. But there is still ample room within the current reserves base to allow for an increase in Additional Gas production and still maintain a margin of safety in the company's ability to deliver natural gas until the end of the contract expiry in 2026. For example, at 50 mmcf/day the company would have a 23 year RLI.

Orca Exploration - Reserves Reconciliation			
	2004	2005	2006
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	171.2	240.6	266.0
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	84.2	79.4	149.0
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	255.4	320.0	415.0
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
Years Until Licence Expiry in 2026			
Ratio P+P RLI to Years Remaining	116.1	6.1	4.3
RLI at increased production levels			
25 mmcf/day - 9.1 bcf	28.1	35.2	45.6
50 mmcf/day - 18.3 bcf	14.0	17.5	22.7
75 mmcf/day - 27.4 bcf	10.1	12.6	16.4

Source: Orca Exploration and Haywood Securities

As Orca increases its production, its share of the Profit Gas increases, which is unique when compared to most international oil and gas contracts in which the contractor's share decreases. This factor will be increasingly important to the company as the cost pool is utilized in the years to come. During the cost recovery phase Orca receives 75% of the revenue, less tariffs and direct sales taxes.



Another development well is planned to be drilled at Songo Songo North in 2008 or 2009, a north lobe to the main Songo Songo field.

In 2008 or 2009 Orca is planning to drill the Songo Songo West prospect which is estimated to have OGIP of 0.6 tcf under a best case scenario and 1.07 tcf under a high case scenario (as estimated by management). We had previously expected this well to be drilled in 2009 or 2010.

And if the above was not enough, the company is pursuing two incremental revenue streams for future benefit. First, there is demand for compressed natural gas (CNG) in Tanzania which will likely start slow at 1.0 mmcf/day as early as 2008, but could expand to 10.0 to 15.0 mmcf/day in the coming years. Gas sold under the CNG initiative would be at the same price as the company receives for its industrial related sales – tied back to the price of crude oil – and approximating \$8.00 per mcf in recent quarters, about 2.5 times the price received currently for power related sales.

Second, the company is investigating the potential to generate and sell electricity itself. This is still early for this initiative, but the potential could be one half the CNG volumes in coming years.

To accommodate the increased production capability Orca has been working to expand the system deliverability. 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.

Emergency Power Plants Coming On – But Slower Than Previously Expected

The commissioning of EPP's is proceeding at a slower pace than originally thought, but will still result in a significant demand growth event by the end of 2007. Total EPP demand for natural gas will be 32 mmcf/day under a 75% load factor. Start up of the Dowans units has been pushed out until the end of 2007 from mid 2007 previously.

In total we have identified a total of 165 mmcf/day of potential demand for Songo Songo gas. Several of the EPP projects are still in various stages of

construction. The Kinyerezi Project has yet to be approved. And, currently the plan is to replace the EPP generation by the end of 2008 with planned new, permanent facilities (Wartsila and Tegeta). We believe there is an excellent chance that the demand for electricity, which is far from adequately serviced currently, will result in the EPP facilities remaining in country indefinitely, or being replaced with new, permanent facilities.

The 310 MW of expected gas fired power generation (EPP plus Wartsila and Ubungo) will require an estimated 68 mmcf/day of natural gas at a 100% load factor or 51 mmcf/day at 75% and 41 mmcf/day at 60%.

The World Bank is supportive of Tanzania's effort to increase electricity generation in the country. In April 2007 the Bank approved a \$232 million credit to support economic growth and poverty reduction with one of the stated goals of the credit being to support the power sector.

Orca Exploration - Production Upside and Marketing Potential (mmcf/day)				
Production Potential				
		<u>Add'l Gas</u>	<u>Prot'd Gas</u>	<u>Total</u>
Current Songo Songo maximum production		115.0	45.0	160.0
Drill SS-10 development well	mid 2007	50.0	0.0	50.0
		165.0	45.0	210.0
Success at Songo Songo West	2008-09	40.0	0.0	40.0
		205.0	45.0	250.0
Additional Gas - Marketing Potential Upside				
Industrial				
Current				5.0
Increase by end of 2007				2.5
				7.5
Additional Increase	through 2010			10.5
				18.0
CNG	over 3 - 5 years			10.0
Power				
		<u>MW</u>	<u>100% Load</u>	<u>80% Load</u>
Current Demand - Ubungo		42	9.1	7.3
Permanent Increases				
				<u>75% Load</u>
Wartsila ⁽¹⁾	Aug 2007	100	18.0	13.5
Tegeta	Dec 2007	45	8.5	6.4
Convert IPTL from HFO to natural gas	2008-10	100	25.0	18.8
		245	51.5	38.6
Kinyerezi Project	2010	250	47.0	32.9
		495	98.5	71.5
Temporary Increases				
Aggreko	Q4/06	48	11.0	8.3
Dowans	Q1/07	20	6.0	4.5
Dowans	Q3/07	60	14.5	10.9
Dowans	Q4/07	40	9.5	7.1
		168	41.0	30.8
Permanent + Temporary Increases		763	168.2	122.4
Total Power			177.3	129.6
Total Potential Demand - Industrial + CNG + Power				<u>162.6</u>

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

Source: Orca Exploration and Haywood Securities

Update to Our Forecast

Based on the discussion above with respect to the timing of bringing on the EPP units, we have adjusted our production and resultant CFPS forecast. In addition, due to heavy rains at the end of 2006 and early 2007 the Mtera reservoir levels have been replenished to levels that will allow the generation of hydro electricity – a source that has been limited over the past three years due to an extended drought. We expect this fact will add more seasonality to the demand for power related natural gas (stronger in the dry seasons). In addition, we have increased the administration expense forecast to accommodate the increase in the consulting staff to work on the business development strategy outside of Tanzania.

For 2007 we have reduced our expected production to 23.8 mmcf/day (from 29.2 mmcf/day previously) and CFPS to US\$0.47 – CD\$0.52 (from US\$0.66; CD\$0.74). The impact on our 2008 forecast is considerably less, with production moving to 62.7 mmcf/day (from 70.1 mmcf/day) and CFPS to US\$1.85 – CD\$2.03 (from US\$2.03; CD\$2.28). Our 2009 forecasted production has increased slightly to 70.2 mmcf/day (from 60.5 mmcf/day) and CFPS to US\$2.02 – CD\$2.22 (from US\$1.44; CD\$1.62). The reason for the more material increase is the impact of an increased capital budget in our assumptions in 2008 and 2009 to accommodate the drilling, which positively impacts the cost pool portion of Orca's revenue share.

Increase Our Target Price

Orca's current share price of \$13.55 reflects a dramatic increase over the past two months. We believe the strong 2006 reserves growth was one of the contributing factors to this growth. Also, the company has stated its goal to expand into other venues other than Tanzania, ideally with crude oil opportunities.

We are increasing our target price for Orca Exploration to \$17.00 from \$14.25 for the following reasons:

- Success of the SS 9 workover and commencement of drilling of the SS 10 development well (timing previously uncertain).
- Plans in place to double the Songo Songo facility throughput capability to 140 mmcf/day by year end.
- Increased production combined with higher capital expenditures result in increased cash flow to the company due to the unique terms of the Production Sharing Contract.
- Orca has made a very visible commitment to securing up to two crude oil assets that we expect will have a combination of exploitation and exploration potential. We expect a transaction with respect to this initiative prior to year end, possibly in Q3. Given the history of several of the senior management we would not be surprised to see a transaction in West Africa.
- Tanzania continues to have the lowest electricity rates in East Africa. We understand the government is seeking ways to increase the rates

charged without impacting the economy too much (GDP increased 6% last year). An increase in rates would allow for an increase in the price charged for natural gas and hence higher cash flow for Orca.

- Discussions continue among Tanzania, Kenya and Uganda regarding an integrated East African electricity grid, which if it came to pass, would increase the potential market for Orca's natural gas.
- While initially small, Orca is pursuing the new CNG and even the direct electricity sales market, which in two to three years could provide additional, meaningful cash flow to the company.

Valuation

Our target price of \$17.00 reflects a price to 2008 CFPS ratio of 8.9 times. This is obviously a premium multiple supported by the extensive reserves that allow the company to maintain production at peak levels until 2026. While utilization of the cost pool will reduce the company's share of revenues, we do not expect major erosion to occur until 2010. However, any additional capital expenditures over our assumptions will result in greater growth in the cost pool (due to the workings of the cost recovery factor). Success at Songo Songo West in particular would add to the reserves, production capability and extend the stronger cash flow levels past 2010. 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.

In addition, while no agreement has been made to date, we fully expect the company to conclude a transaction involving an oil property which, given the track record of the management team, will likely prove to be accretive to the company.

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 starting in 2008. 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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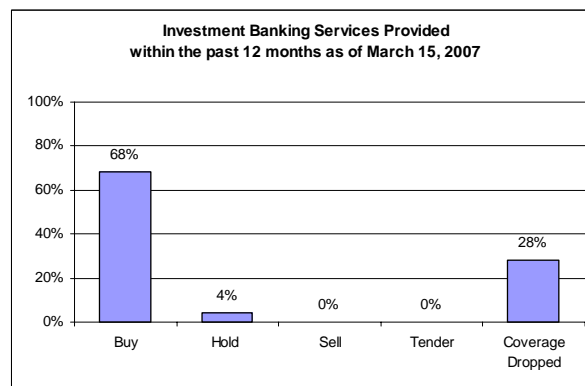
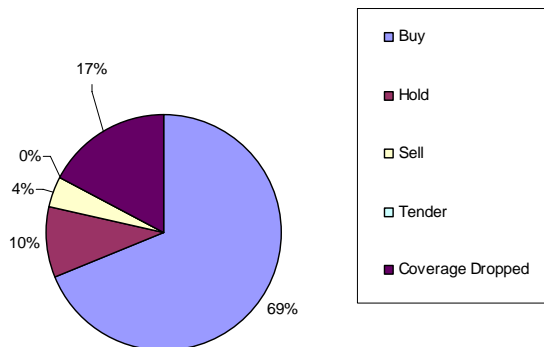
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