

ORCA EXPLORATION GROUP INC.

ORC.B-TSX V: \$12.10 — BUY

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SS-10 Well Capable of 55 mmcf/d

Per Share Data (C\$)

Price	\$12.10	Shares O/S (mm)*:	29.3
Target Price (1yr.):	\$16.50	FD Shares (mm):	314
Projected Return:	36%	Mkt. Cap (\$ mm):	\$354.2
52-Wk High:	\$16.00	W.Capital (\$ mm)**:	\$29.3
52-Wk Low:	\$8.45	Ent.Value (\$ mm):	\$324.9

*27.5 million Class B shares and 175 million Class A shares.

**Estimated working capital post finance 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

2007 Quarters

	Q1A	Q2A	Q3E	Q4E
Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	18.4	18.5	23.0	28.0
Boe/d (6:1)	3,067	3,083	3,833	4,667
CFPS (FD)	\$0.05	\$0.05	\$0.12	\$0.22

Target Valuation Parameter

2.3x NAV/fd share



Upcoming Events

November: Q3/07 results.

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 the SS-10 development well at the Songo Songo natural gas field in Tanzania was successful. Total field deliverability increases to over 200 mmcf/d. We maintain our **BUY** recommendation and \$16.50 target price.

ANALYSIS

Songo Songo field deliverability increases to over 200 mmcf/d: The SS-10 well was drilled to a total measured depth of 2,426 metres and a 101-metre (331 feet) section of the reservoir was perforated. The well tested at a peak rate of 52 mmcf/d and is expected to initially produce in excess of 55 mmcf/d. The total field deliverability of the six production wells on the Songo Songo field increases to over 200 mmcf/d.

Power market continues to develop: Over the last 12 months, 268 MW of gas-fired generation has been installed, taking total natural gas-fired power capacity to 310 MW. At peak demand, the facilities would require 68 mmcf/d of additional gas. Assuming an average 60% utilization rate, natural gas demand from the power sector is estimated to be to 41 mmcf/d. An additional 45 MW is currently under construction, which is expected to be operational in September 2008. Orca is currently negotiating a long-term contract to supply natural gas to these units.

No change to target price or recommendation: The results of the SS-10 well were right in line with expectations. With the large reserve base and minimal production declines, we expect that the Songo Songo project should generate significant and stable cash flows for many years. In addition, Orca is in a strong financial position, which should allow the company to exploit its high-impact exploration play in Uganda. We maintain our **BUY** recommendation on the B shares and \$16.50 target price.



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