

March 17, 2008

## Orca Exploration Group Inc. (ORC.B-V, \$9.50)

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**Rating: SECTOR OUTPERFORM; 12-Month Target: \$14.00; Risk: SPECULATIVE**

**Impact: Neutral**

### Event: Discovery on Neighbouring Tanzania Block

- Aminex plc, which is the operator of the Nyuni block located immediately east of Songo Songo, has announced a discovery in the second of a two well exploration program. The Kilwani North 1 well has intersected a gas column in the same zone, but different structure, as is being produced by Orca at Songo Songo. The well was drilled to 6,687 feet and Aminex estimates that a gross gas column of 60 metres has been identified. Aminex plans to complete the well as a gas producer and conduct a production test. Appraisal drilling will be required to define this discovery and its potential.
- The information regarding Kilwani North 1 is still in the preliminary stage and its commerciality has yet to be determined. We expect this would be a smaller discovery, not of the size of Songo Songo. However, with Songo Songo in place the production of a smaller 'satellite' discovery could be produced. This would ultimately benefit Orca as a fee would undoubtedly be charged to process any gas through the Songo Songo facility.
- Meanwhile, Orca continues to review the recently acquired seismic over Block 5 in Uganda where the Company has an option to drill two exploration wells. Orca had expected to make the election to drill by the end of April 2008. This area could hold significant potential for the company given the recent successes of Heritage and Tullow immediately south of Block 5.

**Implications:** The implications for Orca are minimal from this discovery except to allow the company to leverage off of additional production through the Songo Songo facility. On a 'trendology' basis the Aminex discovery is the first outside of Songo Songo and perhaps reduces some of the risk associated with the Songo Songo West prospect.

**Valuation:** Our target price of \$14.00 reflects a price to 2009 CFPS ratio of 9.7 times. This is 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 potential oil exploration assets in Uganda as positive. We continue to rate Orca as SECTOR OUTPERFORM.

Last Research: December 3, 2007

Target Price	\$14.00	52-Week High / Low	\$15.00 / \$7.55
Current Price	\$9.50	Shares O/S	29.6 million (basic)
Return (incl. dividend)	47%		32.3 million (F/D)
YTD Performance	10%	<b>Market Capitalization</b>	\$281 million
		Enterprise Value	\$266 million
<b>Risk Profile:</b>	<b>SPECULATIVE</b>	Daily Volume	
Forecast Risk	High	(3 mo avg)	18,800
Financial Risk	Moderate	Currency	US\$ unless noted
Valuation Risk	Moderate	Web Site	www.orcaexploration.com
Political Risk	Moderate	CEO	Peter Clutterbuck

### Price Performance



Source: Bloomberg

Please see rating structure, important disclosures, risk profile parameters, disclaimers, and notes on pages 2 - 5 of this report.



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- n/a

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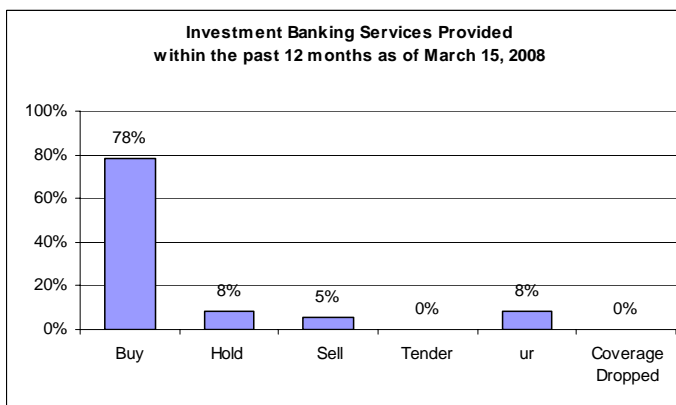
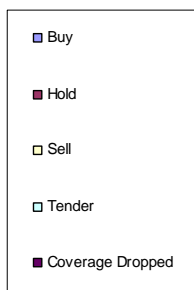
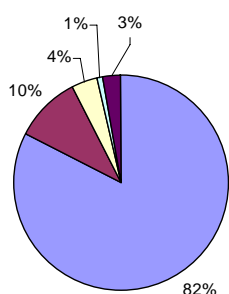
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Rating Distribution December 15, 2007 - March 15, 2008



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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.

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