

ORCA EXPLORATION GROUP INC.

ORC.B-TSX V: \$5.25 — BUY

TARGET PRICE: \$12.00; PROJECTED RETURN: 119%

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SONGO SONGO WEST PROSPECT ESTIMATE AT 552 BCF

EVENT – LARGE RESOURCE ESTIMATE OF SSW PROSPECT

Orca announced the results of an independent engineering report on the resource potential of the Songo Songo West (SSW) exploration prospect located 2.5 kms west of the existing producing Songo Songo field. The unrisks mean resources estimate is 551.6 bcf. The independent engineers assigned a high probability of success of 50% to the prospect.

IMPACT – REPORT CONFIRMS LARGE POTENTIAL UPSIDE

The SSW prospect has the potential to more than double Orca's 2P reserves. Orca is in the process of securing a jackup rig and plans to drill the Songo Songo West prospect in the second half of 2009. A substantial portion of drilling materials for this program is already stockpiled on Songo Songo Island.

VALUATION – RISKED NAV INCREASES TO \$12.03/FD SHARE

Our risked net asset value is based upon the estimated proven and probable (2P) reserves adjusted for net working capital or debt, plus risked potential for near-term exploration drilling. At the current market price, Orca is trading below our 2P net asset value estimate of \$8.81/share. Based upon the new independent resource estimate, we have adjusted our risked NAV estimate from \$11.47/fd share to \$12.03/fd share.

RECOMMENDATION – MAINTAIN BUY AND INCREASING TARGET PRICE

The market for natural gas is expanding with the power sector, and as a result, we expect that Orca's production will steadily increase for many years. The independent engineering report has confirmed the considerable upside of the SSW exploration prospect. The exploration prospect has a relatively high probability of success and has the potential to double Orca's reserves. We maintain our **BUY** recommendation on the B shares and have increased our target price from \$11.50 to \$12.00.

VALUATION CATALYSTS – PRODUCTION GROWTH AND EXPLORATION SUCCESS

Orca's production should continue to grow with the power market in Tanzania. In addition, Orca plans to drill the high-impact Songo Songo West exploration prospect in the second half of 2009.

Changes	Current	Prior	% Change
Risked NAV/share (FD)	\$12.03	\$11.47	4.9%
Target	\$12.00	\$11.50	4.3%
Recommendation	BUY	BUY	

Financial Metrics (C\$)

Shares O/S (mm)*:	296	Mkt. Cap (\$ mm):	\$155.5
FD Shares (mm):	325	W.Capital (\$ mm)**:	\$6.1
Float (mm)	233	Ent.Value (\$ mm):	\$149.4
52-Wk High:	\$1250	52-Wk Low:	\$4.50

* 27.9 million Class B shares and 1.75 million Class A shares.

**Positive working capital as of June 30, 2008

FY December 31 **2007A** **2008E** **2009E** **2010E**

Production

Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	21.2	26.2	40.0	57.0
Boe/d (6:1)	3,530	4,369	6,667	9,500

Financials

Cash Flow (C\$ mm)	\$9.2	\$13.0	\$25.6	\$36.3
CFPS (FD)	\$0.31	\$0.42	\$0.82	\$1.17
EPS (FD)	\$0.06	\$0.22	\$0.56	\$0.82
EV/DACF	19.2x	11.9x	5.1x	3.2x
D/CF	4.3x	0.0x	1.0x	1.0x

2008 Quarters

	Q1A	Q2A	Q3E	Q4E
Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	25.3	14.2	28.0	36.5
Boe/d (6:1)	4,217	2,367	4,667	6,083
CFPS (FD)	\$0.08	\$0.05	\$0.12	\$0.17

Target Valuation Parameter

1.0 x Risked NAV/fd share



Courtesy of BigCharts.com

Key Risks

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.

Corporate Profile

Orca Exploration Group Inc. (www.orcaexploration.com) is an international oil and gas exploration and production company that produces and markets natural gas in Tanzania.

Multiple Share Structure

Orca has a two-share structure: 1.75 million Class A shares are outstanding with 20 votes each, and 27.9 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.



SSW EXPLORATION PROSPECT HOLDS SIMILAR POTENTIAL TO THE SONGO SONGO FIELD

Independent engineering firm McDaniel & Associates Consultants Ltd (McDaniel) completed a reserves estimate of the Songo Songo natural gas field in Tanzania. At December 31, 2007, total net proven and probable (2P) reserves were estimated to be 474 bcf with an after-tax NP10 value of \$254.9 million. McDaniel also completed a resource estimate of the SSW exploration prospect, which is located approximately 2.5 kilometres west of the producing Songo Songo field (Figure 1). The SSW prospect has a similar geological structure to the Songo Songo field and is expected to trap natural gas in the same reservoir. McDaniel's unrisks recoverable resource estimate of 551.6 bcf is similar to the 2P reserves of the Songo Songo field (Figure 2). McDaniel assigned a relatively high chance of success to the exploration prospect of 50%. Valuing the prospect at \$0.25/mcf, we calculate a risked potential value of \$70.2 million (\$2.37/share). Based upon the new independent resource estimate, we have adjusted our risked NAV estimate from \$11.47/fd share to \$12.03/fd share (Figure 3).

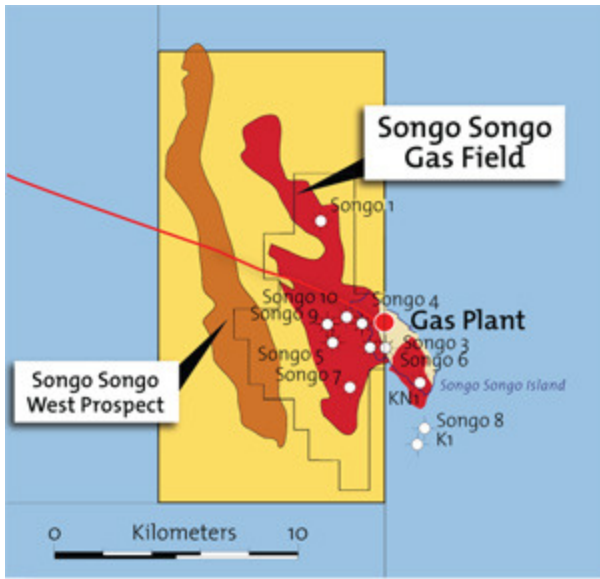


Figure 1. Songo Songo Field
Source. Company reports

Songo Songo West Exploration Prospect

Formation	Unrisks	Unrisks Value		COS %	Risks	Unrisks Value	
	bcf	C \$ mm	C\$/share		bcf	C \$ mm	C\$/share
Neocomian	505.2	126.3	\$4.26	53%	264.4	66.1	\$2.23
Cenomanian	46.4	11.6	\$0.39	35%	16.2	4.05	\$0.14
Total	551.6	137.9	\$4.66	51%	280.6	70.15	\$2.37

The prospect is interpreted by McDaniel as having a high geological chance of success of 52% in the Neocomian and 35% in the Cenomanian reservoirs.

Figure 2. SSW Resource Estimate
Source. Company report, Research Capitals



Estimated Net Asset Value

	C\$ mm	C \$/share
Res erves (December 31, 2007)		
P roven	182.7	\$6.17
P roba ble	72.2	\$2.44
Total	254.9	\$8.61
P ositive Working Capital (December 31, 2007)	6.1	\$0.21
Net Asset Value (Basic)	261.0	\$8.81
R isked P ossible Reserves (S ongo S ongo Field)	43.6	\$1.47
R isked R es ource Value (S ongo S ongo West)	70.2	\$2.37
Dilution Increment	1.7	\$0.06
R isked Net Asset Value (FD)	376.4	\$12.03
Converted at US\$/C\$:	1.00	

Figure 3. Risked Net Asset Value Estimate
Source. Company report, Research Capitals



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