

Orca Exploration Group Inc. (ORC.B-V, \$6.98)

Tuesday, September 2, 2008

Rating: **SECTOR OUTPERFORM**
 Revised Target Price: **(-\$2.00) \$12.00**
 Return: **72%**
 YTD Performance: **-25%**
 Risk Profile: **SPECULATIVE**

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Q While delays in gas plant expansion have pushed out the timing for expected cash flow increases to 2010, the current year drilling has enhanced the reserve total securing years of strong cash flow with minimal reserve risk. Uganda provides a wild card exposure to what could be multi 100 mmbbls of oil exploration potential.

Q2 Results Meet Expectations

Event: Q2/08 financial and operating results.

Impact - Slightly Negative: Cash flow in line with expectations, more delays in expected growth in facility capacity.

- **Forecasts** – We have revised our forecasts through 2009 to reflect the delay in increasing the capacity potential of the processing facilities and pipeline.
- **Target Price, Ratings** – We have reduced our one year target price to \$12.00 from \$14.00 due to the delay in achieving growth in production and cash flow, and maintain our rating of Sector Outperform.

Issues:

- **Production in Q2/08 averaged 14.2 mmcf/day, 13% greater than last year.** The second quarter has historically lower sales volumes than other quarters as it follows the rainy season in Tanzania when the reservoirs are replenished and hydro generated power is maximized.
- **CFPS was \$0.05 (diluted \$0.05) in the quarter, an increase of 25% from Q2/07.**
- **Orca has a significant natural gas reserve position (474 bcf on a 2P basis; 781 bcf on a 3P basis) in Tanzania.** The market for the produced gas has been related to power generation, the primary growth engine for the economy in Tanzania.
- **By the end of Q3/08 Orca is expected to release the details of a resource evaluation report prepared by McDaniel and Associates Consultants Ltd. on the Songo Songo West prospect.** Orca had previously estimated that the Gas Initially in Place relative to this prospect was 600 bcf with and upside potential of 1,070 bcf.

Valuation: Our target price of \$12.00 reflects a price to 2009 CFPS ratio of 7.9 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 continue to rate Orca as SECTOR OUTPERFORM.

Catalysts: 1) Resource evaluation report by the end of Q3/08 for the Songo Songo West prospect. 2) Confirmation of timing for facility expansions for late Q3 and early 2009. 3) Initiation of drilling of the Songo Songo West prospect in the second half of 2009.

Investment Brief: Orca has already established a material natural gas resource in Tanzania. A steady cash-flow stream and minimal capital commitments provide the opportunity for a steady return to shareholders. Look for upside from the Songo Song West prospect in the near term.

Forecast Risk	High
Financial Risk	Moderate
Valuation Risk	Moderate
Political Risk	Moderate
52-Week High / Low	\$15.00/\$6.75
Shares O/S	29.6 (Basic) / 32.5 (F/D)
Market Capitalization	\$207 million
Daily Volume	8,300

Company Profile
www.orcaexploration.com
 Orca is a natural gas producer with gas operations focused in Tanzania and a new oil exploration initiative in Uganda, both in East Africa.

Company CEO - Peter Clutterbuck

Revisions, Date of Record

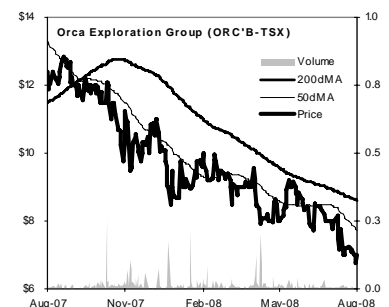
Rating - Changed to SECTOR OUTPERFORM from Under Review, January 31, 2007.

Target - Reduced to \$12.00 from \$14.00 on September 2, 2008.

	2007A	2008F	2009F
Financial Forecast			
Gas - Industrial	mmcf/d 4.1	4.0	5.0
Gas - Power	mmcf/d 17.1	23.1	39.6
Total	mmcf/d 21.2	27.1	44.6
Total	boe/d 3,530	4,525	7,427
% Liquids	0%	0%	0%
Cash Flow	\$mm 8.6	13.2	26.2
CFPS - diluted	\$0.29	\$0.43	\$0.85
EPS - diluted	\$0.06	(\$0.12)	\$0.51
Capital Expenditure:	\$mm 53.7	16.5	18.5
Net Debt (Wk Cap)	\$mm (7.3)	(12.0)	(20.0)
WTI	US\$/bbl \$72.36	\$120.00	\$115.00
AECO	\$/gij \$6.46	\$9.75	\$8.50
Valuation Parameters			
Price/CFPS	23.0x	15.6x	7.9x
Target Price/CFPS	39.5x	26.8x	13.6x
EV/boe/day	\$ 9,471	\$ 44,339	\$ 27,013
Target EV/boe/day	\$ 16,490	\$ 77,197	\$ 47,030

Source: Orca and Haywood Securities

Price Performance



Source: Bloomberg



Orca Exploration Group Inc. TSX-V:ORC.B Price \$6.98 Rating: Sector Outperform
Dividend: \$0.00 Yield: 0.0% Implied All-in Return: 72% Target: \$12.00

Alpha: While delays in gas plant expansion have pushed out the timing for expected cash flow increases to 2010, the current year drilling has enhanced the reserve total securing years of strong cash flow with minimal reserve risk.

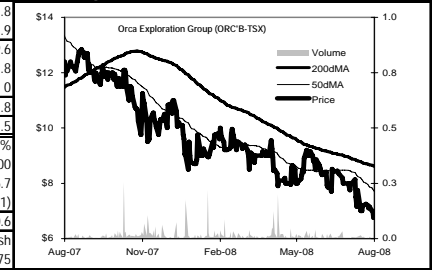
Investment Highlights

Orca is in a position to contract all its existing, material natural gas reserves over the next 6 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. -The company has experienced delays with respect to the timing of facility capacity expansion, partially due to regulatory issues and the timing of such filings. Unfortunately the company relies on Songas, the owner of the facility (and Songas is also paying the capital costs) and its schedule which does not always align with the timing of Orca. Nevertheless, forward movement has recently been made on the approval process and the current timing could see the first stage of the expanded capacity operational by early Q4/08 (from 70 to 90 mmcf/day) and the next stage (to 105 mmcf/day) by early 2009. In the meantime, the company has had a resource report for Songo Songo West prepared (original estimates of 600 bcf of GIIP) which will

Capital Structure (mm's)

Class A	1.8
Class B	27.9
Shares O/S	29.6
Options	9.6%
Warrants/Other	0.0%
Fully Diluted	32.5
D&O % Owned (B/FD)	22%/28%
Liquidity (90dMA) % EV	8.300
Market Capitalizati	103%
Net Debt	(6.1)
Enterprise Value	100%
Last Financing (Jun 07)	2.5 mm shs @ \$13.80/sh
52 wk H/L	\$13.00/\$6.75

Price History



Areas of Operation

Orca's operations are focused in Tanzania where it is producing gas for electrical generation.



Financial (\$mm's)	2006	2007	2008F	2009F	% Chg '09/'08
Revenue	13.8	18.8	20.0	31.4	57%
Cash Flow	6.0	8.6	13.2	26.2	98%
CFPS Basic	\$0.26	\$0.30	\$0.45	\$0.89	98%
CFPS Diluted	\$0.24	\$0.29	\$0.43	\$0.85	98%
Consensus	\$0.24	\$0.40	\$0.48	\$0.87	82%
Earnings (loss)	2.6	1.7	(3.7)	16.0	n/a
EPS Basic	\$0.11	\$0.06	(\$0.12)	\$0.54	n/a
EPS Diluted	\$0.10	\$0.06	(\$0.12)	\$0.51	n/a
Consensus	\$0.10	\$0.20	\$0.16	\$0.37	139%
Capital Expenditures - E&D	6.0	53.7	16.5	18.5	12%
Reinvestment Ratio	1.0x	6.3x	1.2x	0.7x	-43%
Capital Expenditures - incl. acq.	6.0	53.7	16.5	18.5	12%
Net Debt	(20.4)	(7.3)	(12.0)	(20.0)	n/a
Net Debt/CF	-3.4x	-0.9x	-0.9x	-0.8x	n/a

Undeveloped Land (net acres)	2006	2007	% Chg '07/'06	Cur Est	% of Total
Songo Songo, Tanzania	0	0		0	n/a

Does not include Songo Songo developed land. Orca has relinquished all its undeveloped land in Tanzania.

Netbacks (\$/boe)	2006	2007	2008F	2009F	% Chg '09/'08
Revenue	\$17.15	\$14.57	\$13.92	\$14.08	1%
Operating Costs	\$0.98	\$0.93	\$0.73	\$0.47	-36%
Net Operating Revenue	\$16.17	\$13.65	\$13.19	\$13.61	3%
Cash Flow	\$7.40	\$6.66	\$8.00	\$9.67	21%
D&D	\$0.90	\$3.59	\$3.41	\$3.41	0%
Earnings	\$3.20	\$1.35	(\$2.23)	\$5.88	n/a

Production	2006	2007A	2008F	2009F	% Chg '09/'08
Gas - Industrial (mcf/d)	4,016	4,121	4,000	5,000	25%
Gas - Power (mcf/d)	9,236	17,060	23,147	39,560	71%
Total (mcf/d)	13,252	21,181	27,147	44,560	64%
Total (boe/d)	2,209	3,530	4,525	7,427	
% Change	98%	60%	28%	64%	

Cash Flow Sensitivity	CFPS	% Chg CFPS		
Industrial Price (\$0.25/mcf)	2008F	2009F	2008F	2009F
Industrial Price (\$0.25/mcf)	\$0.010	\$0.010	2.0%	1.3%
Power Price (\$0.25/mcf)	\$0.010	\$0.020	2.9%	1.9%
Add'l Gas - Ind. (1.0 mmcf/d)	\$0.080	\$0.070	16.8%	7.9%
Add'l Gas - Pow. (1.0 mmcf/d)	\$0.020	\$0.020	4.3%	2.5%

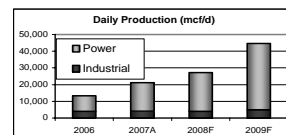
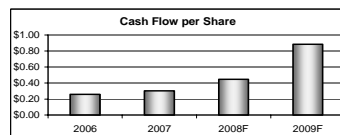
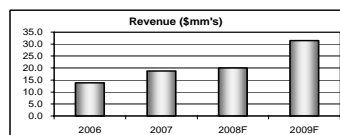
Reserves (bcf)	2006	2007	% Chg '06/'05	RLI - 2007
Independent Engineers:	McDaniel	McDaniel		
Proved Producing	219.5	247.6	13%	4.0
Proved Non-Prod & PUDS	46.3	60.9	32%	1.0
Total Proved	265.8	308.6	16%	5.0
Probable	149.3	165.0	11%	2.7
Proved + Probable	415.1	473.6	14%	7.6
3P	n/a	780.7		12.6
Total (6.1, mmboe)	n/a	130.1		7.6

Valuation Parameters	2006	2007	2008F	2009F	% Chg '09/'08
Price/CF	26.8x	23.0x	15.6x	7.9x	-49%
Target Price/CF	46.2x	39.5x	26.8x	13.6x	-49%
DACF			9.9x	6.4x	-35%
Target DACF			13.9x	7.3x	-47%
EV/boe/d	\$15,138	\$9,471	\$44,339	\$27,013	-39%
Target EV/boe/d	\$26,356	\$16,490	\$77,197	\$47,030	-39%
Prod/mm shs	82.49	119.20	152.78	250.78	64%
Reserves/sh (2P)	2.6				
Undeveloped Land/boe/d (net)	0.0	0.0			
Recycle Ratio (2P)	44.5x				

Reserve Metrics	2006	2007	Reserve Update & Notes
PUD/Proved	17%	20%	A McDaniel resource report for Songo Songo
Proved/2P	64%	65%	West should be available at the end of Q3/08 and
Res. Repl. Cost (2P)	\$0.36	\$4.86	an exploration well drilled in H2/09. Original
3-year average	\$0.26	\$1.68	estimates for SSW were for 600 bcf of GIIP.
Res. Repl. Cost (incl. FDC, 2P)	n/a	n/a	
3-year average	n/a	n/a	
Times Prod. Replaced (2P)	20.6x	8.6x	

Assumptions	2006	2007	2008F	2009F	% Chg '09/'08
WTI (US\$/bbl)	\$66.25	\$72.36	\$120.00	\$115.00	-4%
Edm LT (\$/bbl)	\$73.25	\$76.99	\$119.92	\$114.25	-5%
Bow River (\$/bbl)	\$51.30	\$53.09	\$94.70	\$85.05	-10%
Differential	(\$21.94)	(\$23.90)	(\$27.38)	(\$29.13)	6%
Henry Hub (US\$/mmbtu)	\$6.98	\$6.97	\$11.00	\$9.50	-14%
AECO (\$/mcf)	\$6.53	\$6.46	\$9.75	\$8.50	-13%
F/X (US/CD)	\$0.88	\$0.93	\$1.00	\$1.00	0%

Management	Directors
Peter R. Clutterbuck - President, CEO	W. David Lyons, Chairman
Nigel A. Friend - Vice President, CFO	Peter R. Clutterbuck - President, CEO
James Smith - VP Exploration (Tanzania)	Nigel A. Friend - Vice President, CFO
Pierre Raillard - Vice President, Operations	John Patterson
David W. Ross - Corporate Secretary	James N. Smith
	David W. Ross - Corporate Secretary



Consensus	Potential Upside
Average Target	\$14.00 101%
No. Analysts	3
Sector Outperform	0
Sector Perform	0
Sector Underperform	0
Total	3

Company Website: www.orcaexploration.com Analyst: Alan Knowles, CFA, CMA - aknowles@haywood.com, 403-509-1931
 Operating Office: 255-22-2138737 (Tanzania) Associate: Shane Helwer - shelwer@haywood.com, 403-509-1966
 Sources: Orca Exploration, Thomson, SEDI, and Haywood Securities





Investment Thesis

Orca has a significant natural gas reserve position (474 bcf on a 2P basis; 781 bcf on a 3P basis) in Tanzania. The market for the produced gas has been related to power generation, the primary growth engine for the economy in Tanzania. While there have been challenges with respect to the timing, in the past six months decisions related to long term pricing contracts, increasing the gas plant throughput capacity and a steady increase in demand for power have all contributed to increasing the productive potential of an asset that could deliver steady to increasing cash flow until 2026 – a unique situation within the oil and gas business.

Quarter Results Down From Q1

Production in Q2/08 averaged 14.2 mmcf/day, 13% greater than last year. The second quarter has historically lower sales volumes than other quarters as it follows the rainy season in Tanzania when the reservoirs are replenished and hydro generated power is maximized. As the reservoirs are drawn down the need for gas generated power increases. In addition, the textile business, which comprises a portion of the industrial sales, normally slows down in Tanzania during the first half of the year (also indirectly related to the rainy season) resulting in lower industrial demand for natural gas which recovers after the rainy season. Power related sales were 10.5 mmcf/day, up 28% year over year but down 52% from Q1/08. Industrial sales were 3.7 mmcf/day, down 15% year over year and up 6% from the first quarter.

CFPS was \$0.05 (diluted \$0.05) in the quarter, an increase of 25% from Q2/07 but down 38% from the previous quarter due to the lower production levels discussed above. The average gas price received was \$5.54 per mcf, with industrial sales receiving \$12.97 per mcf (primarily tied to the price of heavy fuel oil, which is driven off of the price of crude oil) and power sales receiving \$2.93 (primarily agreed contract pricing). The average price of \$5.54 per mcf reflects a 26% increase over the previous quarter due to the proportionately higher contribution of the industrial price vs. the power price received. That is, the industrial sales represented 26% of the total in Q2/08 compared to 14% in the first quarter.

Orca posted a loss of \$10.2 million in the quarter (\$0.34 per share) resulting primarily from the \$9.45 million writedown of its Uganda expenditures after the company decided not to pursue its option to drill two exploration wells (following seismic acquisition and evaluation) to earn a 50% working interest in block EA-5. Please refer to our flash of [August 1, 2008](#) for a discussion of the Uganda election.

Capital expenditures in the quarter totalled \$3.9 million taking the year to date total to \$5.3 million. During the first six months of 2007 the company's capex totalled \$26.1 million, which included the drilling of the SS-10 development well. As noted above, the capital expenditures incurred in 2007 and 2008 relative to evaluating the potential of continued involvement in Uganda were written off in the quarter. The company is continuing to evaluate an exploitation opportunity offshore West Africa.

Net working capital at June 30, 2008 was \$6.1 million, down from \$7.3 million at December 31, 2007. Included in this net amount is cash of \$11.9 million, which is down from \$16.5 million at the end of 2007.





Orca Exploration - Quarterly Summary (US\$000's, except per share amounts that are US\$/share)							ORC.B - TSXV			
		Q2/07	Q3/07	Q4/07	Q1/08	Q2/08	% Chg vs. Q2/07	6 Mo '08	6 Mo '07	% Chg 6 mo
Oil and Gas Revenue		3,021	6,363	5,562	5,284	4,826	59.7%	10,110	6,852	47.5%
Cash Flow		995	3,718	2,698	2,391	1,619	62.7%	4,010	2,168	85.0%
	% Chg - Prev Qtr	-15%	274%	-27%	-11%	-32%				
	% Chg - Prev Yr	-25%	137%	11%	104%	63%				
CFPS										
	Basic \$/sh	\$ 0.04	\$ 0.13	\$ 0.09	\$ 0.08	\$ 0.05	25.0%	\$ 0.14	\$ 0.08	75.0%
	Diluted \$/sh	\$ 0.03	\$ 0.12	\$ 0.08	\$ 0.08	\$ 0.05	66.7%	\$ 0.13	\$ 0.08	62.5%
	% Chg - Prev Qtr	-25%	300%	-30%	-5%	-38%				
	% Chg - Prev Yr	-40%	100%	-15%	100%	67%				
Net Earnings (Loss)		(608)	1,942	283	(143)	(10,208)	n/a	(10,351)	(480)	n/a
EPS										
	Basic \$/sh	\$ (0.02)	\$ 0.07	\$ 0.01	\$ 0.00	\$ (0.34)	n/a	\$ (0.35)	\$ (0.02)	n/a
	Diluted \$/sh	\$ (0.02)	\$ 0.06	\$ 0.01	\$ 0.00	\$ (0.33)	n/a	\$ (0.33)	\$ (0.02)	n/a
	% Chg - Prev Qtr	n/a	-400%	-85%	n/a	n/a				
	% Chg - Prev Yr	n/a	100%	-78%	n/a	n/a				
Capital Expenditures		14,989	10,855	16,796	1,436	3,851	-74.3%	5,287	26,066	-79.7%
Net Debt (Working Capital)		3,050	(20,938)	(7,299)	(8,297)	(6,094)	n/a	(6,094)	3,050	n/a
	Net Debt/Cash Flow (Annualized)	0.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Production										
	Natural Gas - mmcf/day									
	Industrial	4.4	4.8	4.0	3.5	3.7	-15.4%	3.6	3.9	-6.2%
	Power	8.2	21.5	23.4	21.8	10.5	28.3%	16.1	11.6	39.1%
		12.5	26.3	27.3	25.3	14.2	13.1%	19.8	15.5	27.8%
	Total - boe/day	2,092	4,377	4,558	4,222	2,366	13.1%	3,294	2,577	27.8%
	Q/Q % Change	-32%	109%	4%	-7%	-44%	38.0%			
	% Gas	100%	100%	100%	100%	100%		100%	100%	
	% Industrial	35%	18%	14%	14%	26%		18%	25%	
	% Power	65%	82%	86%	86%	74%		82%	75%	
Commodity Prices - net of hedges										
	Gas (US\$/mcf)									
	Industrial	\$ 8.61	\$ 9.58	\$ 11.33	\$ 11.55	\$ 12.97	50.6%	\$ 12.27	\$ 8.22	49.3%
	Power	\$ 2.17	\$ 2.19	\$ 2.21	\$ 2.05	\$ 2.93	35.0%	\$ 2.33	\$ 2.18	6.9%
	Total	\$ 4.41	\$ 3.54	\$ 3.53	\$ 3.38	\$ 5.54	25.7%	\$ 4.15	\$ 3.69	12.5%
	% Chg - Prev Qtr	38%	-20%	0%	-4%	64%				
	% Chg - Prev Yr	4%	-20%	1%	6%	26%				

Source: Orca Exploration Group and Haywood Securities





Capacity Increases Coming, But Delays Continue

In our report of [June 2, 2008](#) we set out the company's plans and strategy to increase the production from Songo Songo and delivery capability of the facility and pipeline (which is owned by Songas). While the timing has shifted the strategy is still in place and there has been forward movement in getting to a point whereby the facility could ultimately handle 140 mmcf/day, double its current capacity.

To the end of August, the company has undertaken the following:

- Negotiations continued with TANESCO, Songas and Ministry of Energy and Minerals for two long term contracts to secure 30 to 45 mmcf/day for power generation. Ultimately Songas will install a third and fourth train at the Songas facility that would see the capacity double to 140 mmcf/day.
- EWURA, the government agency that oversees the utility business, requested that Songas resubmit its application as by the beginning of August the cost estimates for the expansion that had been tendered were no longer valid (dating back to 2007). From EWURA's perspective, since the rate of return allowed would be a percentage of the costs the cost base needed to be firmed up. Songas is working to submit an amendment to the submission with updated tender information which should satisfy EWURA's requirement, hopefully by year end.
- Two new high capacity Joule-Thomson valves were acquired and the company is expecting to receive the approval and have the valves installed by the end of the quarter. Upon completion of this work it is expected that the capacity of the Songo Songo facility will be rerated from 70 to 90 mmcf/day, an increase of 29%. Previously this work was expected to be completed by the end of June.
- Engineering and regulatory approval for a bypass system that will allow throughput to increase to the current pipeline capacity (before added compression) of 105 mmcf/day is expected by year end with the actual work only taking a short time to complete thereafter.
- Twiga Cement negotiations have been finalized providing for the supply of 2.0 mmcf/day from Q2/09 increasing to 4.0 mmcf/day in 2010.
- Ten new industrial customers are expected to be connected over the next year adding 1.2 mmcf/day of demand.
- New CNG facilities are expected to be constructed by Q1/09 that will add 0.7 mmcf/day of demand that the company estimates could ultimately grow to 15 mmcf/day.
- The emergency power generators first put in place two years ago are now starting to be wound down. The Dowans 120 MW emergency power system will terminate July 31, 2009. The power generation will be replaced with the 100 MW Wartsila plant, which is now operational. We have already accounted for this transition in our forecast.
- The addition of a new 45 MW facility at Tegata, combined with the existing 190 MW of gas fired generation using Additional Gas is expected to increase the gas fired generation demand to the potential capacity upon completion of the third and fourth train installation.





Songo Songo West Resource Report Coming

By the end of Q3/08 Orca is expected to release the details of a resource evaluation report prepared by McDaniel and Associates Consultants Ltd. on the Songo Songo West prospect. Orca had previously estimated that the Gas Initially in Place relative to this prospect was 600 bcf with an upside potential of 1,070 bcf. Assuming a 70% recovery factor, a successful exploration well could result in the addition of 420 to 749 bcf of reserves – which would double (or more) the companies existing 2P reserves. Songo Songo West is located two km west of the existing Songo Songo field. The Songo Songo reservoir performance to date, combined with the recent drilling data obtained from the SS-10 well has resulted in the company viewing this prospect more positively than previously. In early Q3/08 a tender for a jackup rig to drill an exploration well at Songo Songo West was issued. The bids are currently being evaluated with a view to drilling the well in the second half of 2009.

The Songo Songo reservoir has outperformed the company's expectations, with each year resulting in positive revisions due primarily to well performance. The 2P reserves at the end of 2007 increased 14% from the previous year to 473.6 bcf but significantly were up 85% since the end of 2004 despite steady production through those years. The 3P reserves at the end of 2007 were 780.7 bcf. The company had not provided 3P estimates in the immediately prior years, having last done so at year end 2003 when the total was 595.5 bcf – making the current volume 31% higher.

While the delays in achieving expected increases have become systemic, largely due to the nature of how business is carried out in Africa vs. North America, the company's underlying assets have continued to outperform. The potential of Songo Songo West, plus the pending growth in deliverability both serve to add to the underlying value but also the future cash flow of the company.

Orca Exploration - Reserves Summary - (Gross Before Royalties)							To End of Licence - October 2026	
	2003	2004	2005	2006	2007	% Change		
	McDaniel	McDaniel	McDaniel	McDaniel	McDaniel	'07/'03	'07/'06	
Independent Engineers								
As At	03-12-31	04-12-31	05-12-31	06-12-31	07-12-31			
Prepared	03-04-23	05-04-11	06-04-05					
Reserves Balance								
Additional Gas (bcf)								
Proved Producing	0.0	124.6	179.8	219.5	247.6		13%	
Proved Non-Producing	0.0	0.0	0.0	0.0	0.0		n/a	
Proved Undeveloped	85.3	46.6	60.7	46.3	60.9		32%	
Proved	85.3	171.2	240.6	266.0	308.6		262%	
Probable	174.2	84.2	79.4	149.0	165.0		-5%	
2P	259.6	255.4	320.0	415.0	473.6		82%	
Possible	335.9				307.1		-9%	
3P	595.5				780.7		31%	
Total (6:1) (mmboe)								
Proved Producing	0.0	20.8	30.0	36.6	41.3		22%	
Proved Non-Producing	0.0	0.0	0.0	0.0	0.0		n/a	
Proved Undeveloped	14.2	7.8	10.1	7.7	10.2		-24%	
Total Proved	14.2	28.5	40.1	44.3	51.4		11%	
Probable	29.0	14.0	13.2	24.8	27.5		88%	
2P	43.3	42.6	53.3	69.2	78.9		30%	
Possible	56.0				51.2			
3P	99.2				130.1			
Engineering Value - Additional Gas (\$USmm)								
5% Proved	17.7	51.7	103.1	154.9	256.8		1352%	
2P	91.0	64.7	141.2	241.7	371.6		308%	
3P					556.7			
10% Proved	7.6	35.5	67.7	109.0	182.7		2298%	
P+P	46.4	43.4	83.8	158.7	254.9		449%	
3P					342.0			

Source: Orca Exploration Group and Haywood Securities





Valuation

We have updated our forecast to adjust for the delays in bringing on the growth in delivery capability previously expected by year end and into 2009. The 2008 forecasted production and CFPS move down materially, from 34.6 mmcf/day to 27.1 mmcf/day and from \$0.52 to \$0.45, respectively. Our 2009F production decreases to 44.6 mmcf/day from 48.3 mmcf/day and CFPS from \$0.91 to \$0.89. The impact on 2009 of our adjustments is obviously less as based on the company's current timetable most of the facility increases will be operational in early 2009.

Our target price of \$12.00 reflects a price to 2009 CFPS ratio of 7.9 times. This is obviously a premium multiple supported by the extensive reserves and growth into 2010 that allow the company to maintain production at peak levels until 2026. While utilization of the cost pools will reduce the company's share of revenues, we do not expect major erosion to occur until 2012. 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), although the only major expenditure over the next 15 months will likely be the drilling of the Songo Songo West exploration well. Success at Songo Songo West would add to the reserves (as detailed above), the production capability and extend the stronger cash flow levels past 2010. .





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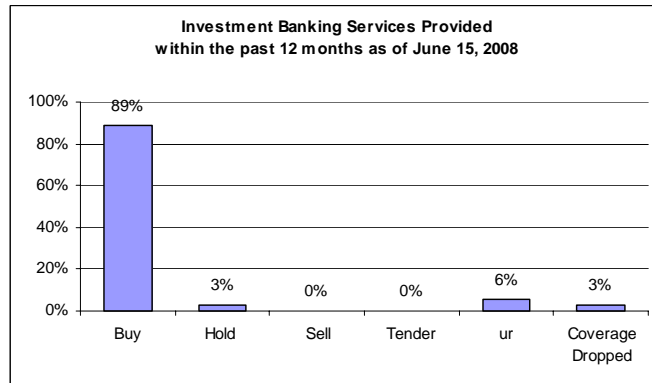
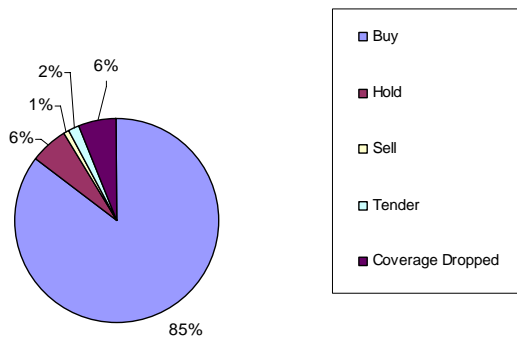
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Rating Distribution March 15, 2008 - June 15, 2008



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