Orca Exploration Group Inc. (ORC.B-V, $3.00)

Monday, February 2, 2009

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Rating:	**SECTOR OUTPERFORM**
Target Price:	**$4.75**
Return:	**58.3%**
YTD Performance:	**30.4%**
Risk Profile:	**SPECULATIVE**

While delays in gas plant expansion have pushed out the timing for expected material cash flow increases to 2010, the drilling of SS10 and resultant increase in production capability has enhanced the reserve and backstops the company's expanding marketing efforts. This is a value story that, while growth is slower than originally expected, is nevertheless moving forward.

Operations Update – Gas Plant Capacity Increased

Event: First stage gas plant modifications complete, waiting on recertification.

Impact – Neutral: We had previously discussed the increase in plant capacity; however, completion of the work and waiting on recertification provides clearer timeline for growth.

- **Forecasts –** We have reduced our 2009F CFPS forecast to US$0.61 from US$0.76, taking into account the indirect impact of lower world oil prices.
- **Target Price, Ratings –** We maintain our target price of $4.75 and our rating of Sector Outperform.

Issues:

- **Modifications to the Songo Songo gas plant have resulted in a 29% increase in plant capacity to 90 mmcf/day.** The company is now waiting on formal recertification of the plant capacity, which is within the next month. Subsequent debottlenecking is expected to increase the capacity to 105 mmcf/day – 50% greater than prior to the modifications.
- **CNG facilities have been installed in Dar es Salaam.** Compressed natural gas sales will start at 0.7 mmcf/day and could grow to 15 mmcf/day within three years, all of which accrues to Orca's interest. This potential growth represents 66% of Orca's expected 2008 total sales volumes.
- **Take or pay contracts and government planning to avoid emergency situations during drought conditions have resulted in take or pay and price contracts.** Once the gas plant capacity exceeds 100 mmcf/day, contracts to ensure both volumes and prices, already initialled and expected to be signed, will help to ensure growth in sales volumes for the company.

Valuation: Our target price of $4.75 reflects a price to 2009 CFPS ratio of 6.4x. This premium multiple is 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) Confirmation that the Songo Songo facility is on track for re-rating approval in mid Q1/09. 2) Reserves update, expected late February.

Investment Brief: *Orca has 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. There is potential material upside related to the Songo Songo West prospect which could be drilled after 2010.*

Forecast Risk	**High**
Financial Risk	**Moderate**
Valuation Risk	**Moderate**
Political Risk	**Moderate**
52-Week High/Low	$10.00/$1.76
Dividend/Yield	$0.00/0.0%
Shares O/S (mm)	29.6 (basic) 32.5 (F/D)
Market Capitalization	$88.8 million
Net Debt (Cash) (08-09)	-$10.6 million
Enterprise Value	$78.2 million
Cash (08-09)	$13.7 million
Working Cap. (Def'y)	$10.6 million
Daily Volume	35,600

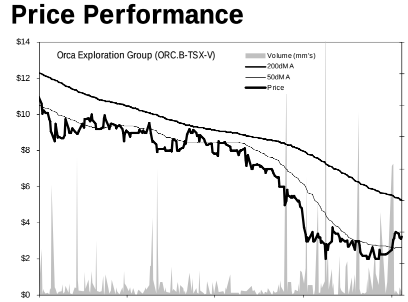
Company Profile www.orcaexploration.com
Orca is a natural gas producer with operations focused in Tanzania.

Company CEO – Peter Clutterbuck

Revisions, Date of Record
Rating – Changed to SECTOR OUTPERFORM from Under Review, January 31, 2007.
Target – Reduced to $4.75 from $5.50 on December 22nd, 2008.

Forecast	2007A	2008F	2009F
Gas (Indust.) - mmcf/d	4.1	3.9	5.1
Gas (Power) - mmcf/d	17.1	18.8	32.3
Total - mmcf/d	21.2	22.7	37.3
Total - boe/d	3,530	3,783	6,221
Cash Flow - $mm	8.7	9.5	18.1
CFPS - diluted	$0.29	$0.32	$0.61
Cap. Ex. - $mm	53.7	9.5	11.0
Net Debt (cash) - $mm	(7.3)	(6.8)	(13.8)

Price Performance



Source: Bloomberg

Please see rating structure, important disclosure, risk profile parameters, disclaimers, and notes on pages –6-9 of this report.

Orca Exploration Group Inc.	**TSX-V:ORC.B**	**Price $3.00**	**Rating: Sector Outperform**
Dividend: $0.00 Yield: 0.0%	**Implied All-in Return: 58%**		**Target: $4.75**

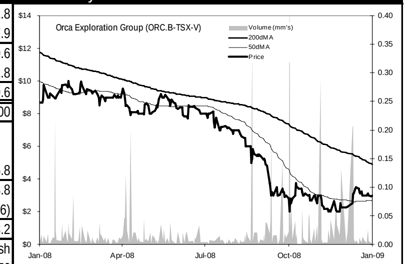
Alpha: While delays in gas plant expansion have pushed out the timing for expected material cash flow increases to 2010, the drilling of SS10 and resultant increase in production capability has enhanced the reserve and backstops the company's expanding marketing efforts. This is a value story, that while growth is slower than originally expected, is nevertheless moving forward.

Investment Highlights

- Orca is in a position to contract all its existing, material natural gas reserves through 2009 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.
- 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 (which is also funding the expansion costs) and its schedule which does not always align with the timing of Orca. The first stage of the planned facility expansion, the installation of new Joule Thomson valves, was completed at the beginning of 2009 and has resulted in the plant capacity increasing to 90 mmcf/day from 70 mmcf/day. All of the increment, once marketed, would accrue to Orca's account as Additional Gas.
- The company has received a resource report for Songo Songo West (McDaniel) which estimated a mean, unrisked recoverable resource of 552 bcf. The chance of success was estimated at approximately one in two. This prospect is likely to be drilled post 2010, and with success could double the company's reserves. The well is likely to be able to be funded from accumulated cash flow if drilled after 2010.
- Orca has commenced construction of a CNG (compressed natural gas) facilities in Dar es Salaam that is expected to result in an incremental 15.0 mmcf/day of Additional Gas sales over the next several years.

Capital Structure (mm's)		
Class A (multi-voting: 20 votes/sh)		1.8
Class B		27.9
Shares O/S	% dil'n	29.6
Options	9.6%	2.8
Fully Diluted		29.6
Liquidity (shs/day: 90d MA)		35,600
D&O % Owned (B/FD)	22%/28%	
D&O % Voting	63%	
Trapeze ownership (mm)	21%	5.8
Market Capitilization	114%	88.8
Net Debt (08-09)	-14%	(10.6)
Enterprise Value	100%	78.2
Last Financing (Jun 07)	2.5 mm shs @ $13.80/sh	
52 wk H/L		$10.00/$1.76

Price History



Areas of Operation

Orca's operations are focused in Tanzania where it is producing natural gas for electrical generation and is developing a growing industrial and CNG market.

Financial (US$mm's)	2006A	2007A	2008F	2009F	% Chg '09/'08
Revenue	13.8	18.8	20.7	26.3	27%
Cash Flow	6.0	8.7	9.5	18.1	90%
CFPS Basic	$0.26	$0.31	$0.32	$0.61	90%
CFPS Diluted	$0.24	$0.29	$0.32	$0.61	90%
Consensus	$0.24	$0.40	$0.33	$0.64	94%
Earnings (loss)	2.6	1.7	(8.3)	8.4	n/a
EPS Basic	$0.11	$0.06	($0.28)	$0.28	n/a
EPS Diluted	$0.10	$0.06	($0.28)	$0.28	n/a
Consensus	$0.10	$0.20	($0.13)	$0.23	n/a
Capital Expenditures - E&D	6.0	53.7	9.5	11.0	16%
Reinvestment Ratio	1.0x	6.2x	1.0x	0.6x	-39%
Capital Expenditures - incl. acq.	6.0	53.7	9.5	11.0	16%
Net Debt	(20.4)	(7.3)	(6.8)	(13.8)	n/a
Net Debt/CF	-3.4x	-0.8x	-0.7x	-0.8x	n/a

Undeveloped Land (net acres)	2006A	2007A	% 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 (US$/boe)	2006	2007	2008F	2009F	% Chg '09/'08
Revenue	$17.15	$14.57	$16.88	$13.54	-20%
Operating Costs	$0.98	$0.93	$1.17	$0.47	-60%
Net Operating Revenue	$16.17	$13.65	$15.72	$13.07	-17%
Cash Flow	$7.40	$6.75	$6.88	$7.98	16%
D&D	$0.90	$3.59	$3.78	$3.76	-1%
Earnings	$3.20	$1.35	($6.03)	$3.68	n/a

Production	2006A	2007A	2008F	2009F	% Chg '09/'08
Gas - Industrial (mcf/d)	4,016	4,121	3,850	5,050	31%
Gas - Power (mcf/d)	9,236	17,060	18,847	32,277	71%
Total (mcf/d)	13,252	21,181	22,697	37,327	64%
Total (boe/d)	2,209	3,530	3,783	6,221	64%
% Change	98%	60%	7%	64%	

	CFPS	% Chg CFPS
Cash Flow Sensitivity	2009F	2009F
Industrial Price ($0.25/mcf)	$0.010	1.4%
Power Price ($0.25/mcf)	$0.020	1.9%
Addn'l Gas - Ind. (1.0 mmcf/d)	$0.090	11.2%
Addn'l Gas - Pow. (1.0 mmcf/d)	$0.020	2.8%

Reserves (bcf)	2006A	2007A	% Chg '06/'05	RLI - 2007
Independent Engineers:	McDaniel	McDaniel		
Proved Producing	219.5	247.6	13%	32.0
Proved Non-Prod & PUDS	46.3	60.9	32%	7.9
Total Proved	265.8	308.6	16%	39.9
Probable	149.3	165.0	11%	21.3
2P	415.1	473.6	14%	61.3
2P (6:1, mmboe)	69.2	78.9	14%	61.3
3P (includes Possible)	n/a	780.7	n/a	101.0
3P (6:1, mmboe)	n/a	130.1	n/a	101.0

Songo Songo West - Resource Est (McDaniel)	P90 (Bcf)	P50 (Bcf)	Mean (Bcf)	P10 (Bcf)
Unrisked	178.6	449.8	551.6	1,145.6
Risked			280.6	
Chance of success (based on risk/unrisked volume)			51%	

Valuation Parameters	2006A	2007A	2008F	2009F	% Chg '09/'08
Price/CF (in CD$)	11.5x	9.7x	9.3x	4.0x	-57%
Target Price/CF (in CD$)	18.3x	15.4x	14.8x	6.4x	-57%
DACF			9.3x	4.0x	-57%
Target DACF			14.8x	6.4x	-57%
EV/boe/d	$5,903	$3,693	$20,679	$12,574	-39%
Target EV/boe/d	$9,814	$6,140	$34,379	$20,905	-39%
Prod (boe)/mm shs	82.5	119.3	127.7	210.1	64%
2P boe Reserves/sh	2.6	2.7			
Undev. Land/boe/d (net)	0.0	0.0			
Recycle Ratio (2P)	44.9x	2.8x			

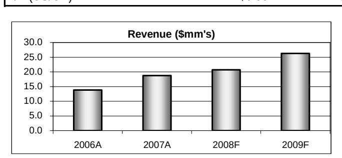
Reserve Metrics		
PUD/Proved	17%	20%
Proved/2P	64%	65%
Res. Repl. Cost (2P)	$0.36	$4.86
3-year average	$0.26	$1.68
Res. Repl. Cost (incl. FDC, 2P)	n/a	n/a
3-year average	n/a	n/a
Times Prod. Replaced (2P)	20.6x	8.6x

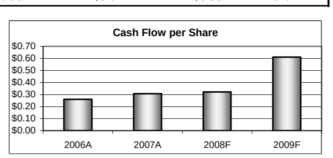
Resource Estimate for Songo Songo West

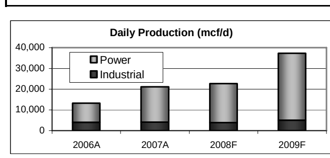
McDaniel's completed a resource report for Songo Songo West in Q3/08. Orca plans to ultimately drill an exploration well at Songo West, likely post 2010.

Assumptions	2006A	2007A	2008F	2009F	% Chg '09/'08
WTI (US$/bbl)	$66.25	$72.36	$99.75	$55.00	-45%
Edm LT ($/bbl)	$73.25	$76.99	$104.72	$63.96	-39%
Bow River ($/bbl)	$51.30	$53.09	$83.38	$46.69	-44%
Differential	($21.94)	($23.90)	($21.80)	($17.27)	-21%
Henry Hub (US$/mmbtu)	$6.98	$6.97	$8.90	$7.10	-20%
AECO ($/mcf)	$6.53	$6.46	$8.17	$7.00	-14%
F/X (US/CD)	$0.88	$0.93	$0.94	$0.85	-9%

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	Nigel A. Friend - Vice President, CFO
Pierre Raillard - VP Operations (Tanzania)	John Patterson
David W. Ross - Corporate Secretary	Pierre Raillard - VP, Operations (Tanzania)
	James N. Smith - VP Exploration
	David W. Ross - Corporate Secretary







Consensus		Potential Upside
Average Target	$5.83	94%
	No. Analysts	
Sector Outperform	3	
Sector Perform	0	
Sector Underperform	0	
Total	3	

Company Website: www.orcaexploration.com
Operating Office: 255-22-2138737 (Tanzania)

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Associate: Shane Helwer - shelwer@haywood.com, 403-509-1966

Sources: Orca Exploration, Thomson, SEDI and Haywood Securities

Investment Thesis

Orca presents the unique opportunity to invest in a small cap international junior that has ¾ of a tcf of 3P reserves to its interest. The company has been diligently and steadily adding to its customer base over the past several years. The most recent initiative is to add a CNG marketing component that could grow to 15 mmcf/day over the next two to three years, obviously very accretive to the company's production and cash flow. As well, the two step expansion of the gas plant capacity (first step completed in early 2009) will allow the company to accelerate the marketing of its booked reserves, which at the end of 2007 posted a reserve life index of 61 years. While increases have been slower than originally expected, the recent expansion of the gas plant and construction of CNG facilities will allow the company to expand its production materially over the next several years.

Two Initiatives Provide Ability to Increase Sales

Orca has undertaken two initiatives that will allow the Company to expand its marketing efforts and add materially to its production and cash flow over the next two to three years. These developments, the expansion of the gas plant capacity to 90 mmcf/day from 70 mmcf/day and the construction of CNG facilities, are discussed more fully below.

Increase in Gas Plant Capacity by 29%

In early November, Orca and its partner at the Songo Songo gas plant, Songas, signed a Memorandum of Understanding that has now allowed Orca to proceed with the **installation of larger Joule-Thompson valves that will increase the capacity of the two trains and the facility to 90 mmcf/day to 70 mmcf/day (29% increase).** The installation was completed on the first train within 30 hours with minimal disruption to gas deliveries to the Dar es Salaam customers. The second Joule-Thompson valve was installed by the end of 2008.

Orca is now waiting on the formal re-rating process to be completed by Lloyds Register, likely by the middle of the current quarter. **The re-rating of the facility will allow Orca to increase production to the new level. All of the increment would be classified as Additional Gas production – which would be sourced from Orca's share of the total reserves** (as opposed to Protected Gas, being the gas allocated to a base level of supplying power projects) and would therefore result in a direct contribution to the Company's production and cash flow.

Subsequent debottlenecking of the facilities could increase the capacity to 105 mmcf/day, a 17% increase from 90 mmcf/day and a 50% increase from the current 70 mmcf/day. In our view, it is likely that debottlenecking will occur before the expansion noted below.

Following the valve installation and re-rating, Orca had also discussed with Songas, the potential installation of two more trains at Songo Songo. An application was filed with EWURA (the Tanzania Energy and Water Utilities Regulatory Authority) in Q3/08 for these trains which would cost an estimated US$65 million in total. Should this construction proceed, the expanded facility could be operational by mid-2010. TANESCO (Tanzania Electric Supply Company) would be obligated to pay the majority of the increased transportation tariffs associated with this expansion. Alternatively, TANESCO may decide to defer the addition of two more trains in favour of taking advantage of the new J-T valves and debottlenecking and the contracting of temporary excess gas generated electrical capacity, as was the case two years ago following the extensive drought in East Africa. Given the current world financial situation we expect that a decision to proceed with this option will be deferred.

CNG Capability Could Grow to 15 mmcf/day

Orca has installed CNG facilities in Dar es Salaam that include a compressor, vehicle refuelling dispenser and two trailer filling facilities at a cost of $2.5 million. These facilities are expected to be operational in the middle of this quarter. These facilities will be tied into Orca's existing ring main system which is utilized to distribute natural gas to the company's industrial customers. Sales are expected to start at 0.7 mmcf/day and increase over the next two to three years, to potentially 15.0 mmcf/day. To put this level of growth in perspective, Orca's 2008 production is expected to be 22.7 mmcf/day meaning CNG could represent a 66% increase from these levels. All of the increase would be classified as Additional Gas and as such accrue to Orca's interest.

The population of Dar es Salaam is estimated to be growing at a rate of 7% to 10% annually and is currently estimated to be five million people. Increased movement of people from rural to urban centres, as is the case in many developing countries, has resulted in a high level of stress being placed on existing services, which for the most part have failed to keep pace with the growth. The availability of a cheaper source of fuel (than gasoline), particularly for use in commercial vehicles (such as delivery vehicles), will see a ready acceptance within the populace.

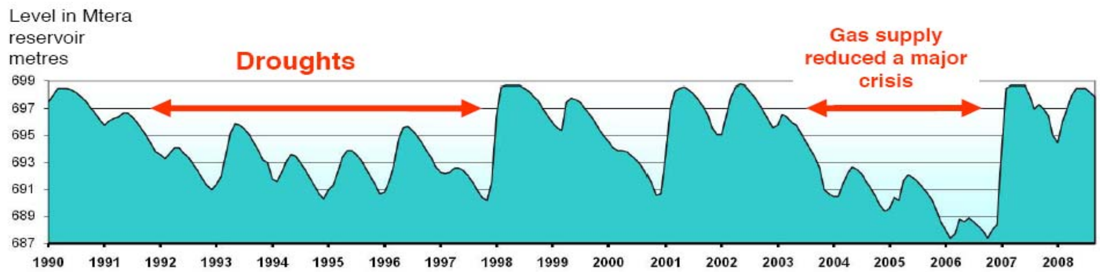
Contracted Power Related Price and Volumes Add to Security of Cash Flow

Orca has initialled two agreements with Songas, TANESCO and EWURA that result in establishing take or pay contracts for power related natural gas sales and the price to be paid for same. The contracts will be signed after the infrastructure capacity to deliver Songo Songo gas has been increased to 100 mmcf/day. Depending on certain conditions, the volume of natural gas to be provided could vary between 30 and 45 mmcf/day.

- Orca has been providing and selling natural gas to TANESCO to operate the sixth turbine at the Ubungo power facility. The contract provides for up to 9.0 mmcf/day to be provided for this unit.

- A second contract relates to Additional Gas volumes to be provided for other power generation units within Tanzania, depending on the availability of hydro-generated power generation, subject to volatility during the year and between years depending on the level of rainfall. Drought conditions two years ago created an emergency condition in the country and temporary gas fired generation units were brought on line. Commencing in November 2010, a take or pay contract provides for the delivery of 32 mmcf/day through July 2023, with a maximum of 36 mmcf/day.

Tanzania - Reservoir Levels for Hydro Power Generation



Source: Orca Exploration and Haywood

- Contracted pricing for both of the above will start at US$1.95 per mcf, increasing 2% per year, starting July 2009. In July 2012, the price will increase to US$2.83 per mcf, increasing 2% per annum. Including other allowed cost inclusions in the price charged, the initial all-in contract price is expected to be US$2.36 to US$2.46 per mcf.

Update to our forecast. We had previously incorporated the above in our forecast. The recent weakness in world oil prices results, indirectly, in a decrease in the price charged for industrial natural gas sales by Orca. The alternative to natural gas is heavy fuel oil. A pricing formula is in place to adjust the price paid by customers depending on the oil price. Even at an oil price of US$45.00 per bbl, the price received for industrial gas sales is well above the power sales price. As a result of adjusting for the current level of oil prices we are reducing our 2009 forecasted CFPS to US$0.61 (CD$0.74 assuming a US/CD f/x of 0.8200) from US$0.76, previously. We are expecting 2010 CFPS to approach US$1.00, increasing thereafter; however, the timing of CNG-related sales growth is critical to this estimate.

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- As of the end of the month immediately preceding this publication either Haywood Securities, Inc., its officers or directors beneficially owned 1% or more of Orca Exploration Group Inc. (ORC.B-V).
- Haywood Securities, Inc. has reviewed lead projects of Orca Exploration Group Inc. (ORC.B-V) and a portion of the expenses for this travel have been reimbursed by the issuer.

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- n/a

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SECTOR OUTPERFORM – Haywood's top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security.

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SECTOR UNDERPERFORM – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments.

The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short term volatility. At the discretion of Haywood's Management, these deviations may be permitted after careful consideration

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RESEARCH COMMENT – An analyst comment about an issuer event that does not include a rating or recommendation.

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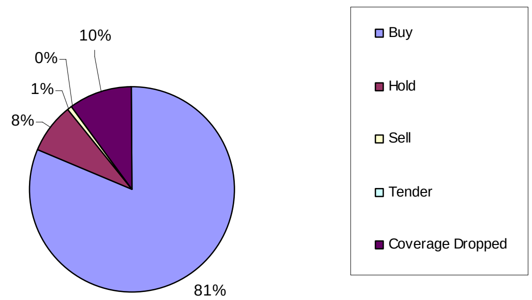
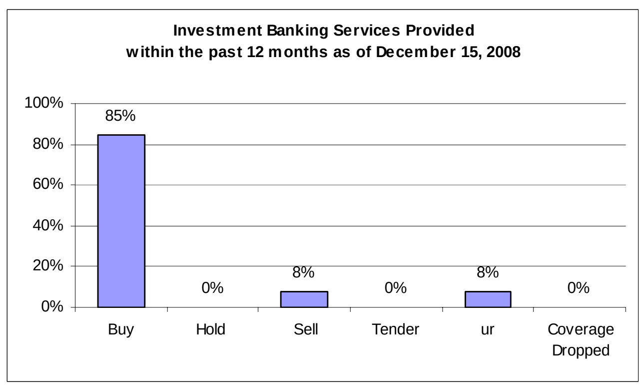
Rating Distribution September 15, 2008 - December 15, 2008





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SPECULATIVE: – Investment for risk accounts only. Companies within this category carry greater financial and/or execution risk. All junior/venture companies that carry great financial and/or liquidity risk will be tagged "SPECULATIVE". A stock indicating a SPECULATIVE risk is determined from sector specific criteria outlined below listed below.

Risk Profile Parameters – Oil and Gas Sector

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.

Financial Risk: *High* – The capital expenditure program in the current year or the next year of the forecast is not fully funded but requires additional debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. *Moderate* – The capital expenditure program in the current year or the next year is fully funded with cash flow and limited debt. *Low* – The capital expenditure program in the current year or the next year is fully funded with cash flow and no new debt.

Political Risk: *High* – Properties are located in an area with limited petroleum industry activity or infrastructure. An environment unfriendly to the industry makes obtaining permits to drill or produce hydrocarbons challenging. Significant government or local opposition exists. *Moderate* – Properties are located in an area with minimal petroleum industry activity or infrastructure. An environment friendly to the industry makes obtaining permits relatively straightforward. All levels of government are considered indifferent to hydrocarbon activity. *Low* – Properties are located in an area with established petroleum exploration and development activity. Oil and gas Production Sharing Agreements or Exploration Permits are in hand. Government at all levels supports the sector.

Valuation Risk: *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. The valuation reflects continued production growth and/or continuing strong commodity prices or further appreciation. Where applicable, the market capitalization exceeds the NAV by more than 30%. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable production growth and/or commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by 15% to 30%. *Low* – The current valuation is at the low end of historic ranges and/or at a discount to peer valuations. The valuation reflects limited production growth and/or no commodity price appreciation. Where applicable, the market capitalization exceeds the NAV by less than 15% or falls below the capitalization.

Disclaimers

Estimates and projections contained herein, whether or not our own, are based on assumptions that we believe to be reasonable. The information presented, while obtained from sources we believe reliable, is checked but not guaranteed against errors or omissions.

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(b) in the event of a dispute, access to the UK’s Financial Ombudsman Service;
(c) protection of money held on your behalf under the FSA’s Client Money Rules.