

**ORCA EXPLORATION GROUP INC.**

ORC.B-TSX V: \$4.89 — **BUY**

TARGET PRICE: \$6.60; PROJECTED RETURN: 35%

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**Orca Farms In on Offshore Italy Block**

**EVENT – Announced Farm-in Agreement,**

Orca announced that it has signed an agreement with Petroceltic International plc (Petroceltic) to farm in on the Central Adriatic B.R268.RG Permit offshore Italy (Elsa Block). After talking to management, we have increased our target price from \$6.25 to \$6.60.

**HIGHLIGHTS – 15% Working Interest in Offshore Block**

**15% working interest:** Under the terms of the agreement, Orca is obliged to fund 30% of the Elsa-2 appraisal well to earn a 15% working interest in the permit. The maximum that will be contributed by Orca is US\$11.5 million. Thereafter, Orca will fund 15% of future costs relating to the well and the permit. The company has also agreed to pay 15% of the back costs in relation to the well up to a maximum of US\$0.5 million. The farm-in agreement also provides Orca the opportunity to participate at its 15% working interest in 11 additional Petroceltic blocks (Figure 1).

**Lots of upside in proven basin:** The Elsa field was discovered in 1992 and is in a proven basin with other commercial discoveries, including the Rospo Mare and Ombrina Mare fields. The original Elsa-1 well encountered an oil column of 65 metres in the Lower Cretaceous Maiolica Formation at a depth of approximately 4,500 metres. The Elsa-2 appraisal well has the objective of confirming the potential of the reservoir. Drilling is expected to commence in Q4/10 and, if successful, will be followed by a 3D seismic survey.

**VALUATION – Increasing Valuation**

Management’s internal median estimate is that the field could contain approximately 450 million barrels of original oil in place. Assuming a 10% recovery factor, and a 30% chance of success, we calculate a risked value of \$0.63/fd share, \$2.09 unrisked.

**RECOMMENDATION – Provides Significant Near-Term Upside**

The Elsa farm-in agreement provides Orcas with a high-impact oil exploration/appraisal project to balance against its steady growth natural gas production base in Tanzania. We view this transaction as positive and we maintain our **BUY** recommendation and we have increased our target price from \$6.25 to \$6.60, equivalent to a 0.5x multiple of our risked NAV which equates to a 7.7x multiple of our 2011 EV/DACF.

**Financial Metrics (C\$)**

Shares O/S (mm)*:	29.5	Mkt. Cap (\$ mm):	\$128.3
FD Shares (mm):	32.3	W.Capital (\$ mm)**:	\$20.9
Price:	\$4.89	Ent.Value (\$ mm):	\$111.1
52-Wk High:	\$5.34	52-Wk Low:	\$3.00

\* 27.7 million Class B shares and 1.75 million Class A shares.

\*\*Positive working capital in C\$ as of March 31, 2010

**FY December 31 2008A 2009A 2010E 2011E**

**Production**

Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	23.7	28.5	35.9	35.5
Boe/d (6:1)	3,945	4,756	5,976	5,925

**Financials (US\$)**

Cash Flow (US\$ mm)	\$9.8	\$12.7	\$21.3	\$25.1
CFPS (FD)	\$0.33	\$0.49	\$0.70	\$0.81
EV/DACF	16.0x	12.6x	5.9x	5.4x
D/CF	na	na	na	na

**2010 Quarters Q1A Q2E Q3E Q4E**

Liquids (bbl/d)	-	-	-	-
Gas (mmcf/d)	34.9	34.5	36.0	38.0
Boe/d (6:1)	5,817	5,750	6,000	6,333
CFPS (FD) US\$	\$0.14	\$0.12	\$0.20	\$0.23

**Target Valuation Parameter**

0.5x Risked NAV; 7.7x 2011 EV/DACF



Courtesy of BigCharts.com

**Key Risks**

Expansion of the processing and transportation infrastructure projects will require Songas Limited and EWURA to reach an agreement on terms. Any delays in an agreement could impact Orca's ability to achieve our forecasts

**Corporate Profile**

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

**Multiple Share Structure**

Two-share structure: 1.75 million Class A shares are outstanding with 20 votes each, and 27.7 million Class B single-voting shares. The Chairman & CEO of Orca holds 99.5% of the Class A shares and 17.5% of the outstanding Class B shares.

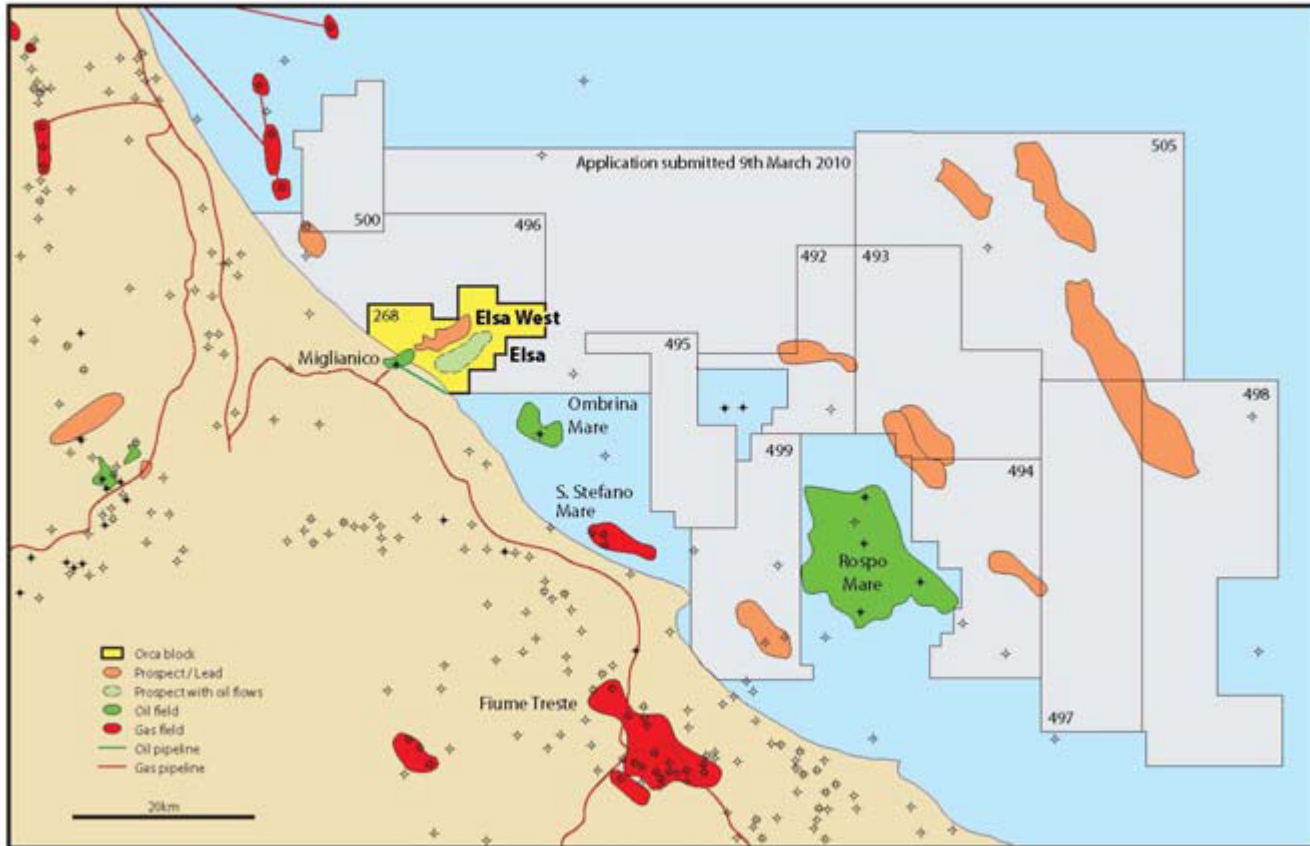


Figure 1. Elsa and Surrounding Block  
 Source. Company presentation

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