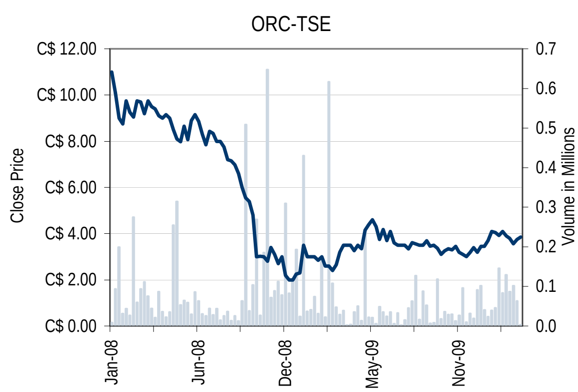
Oil & Gas

Orca Exploration

Share Data	
Recommendation	BUY
Target	C$ 6.90
Shares - (mm, basic/f.d.)	29.5 / 32.1
52-week high/low	C$ 4.75 / C$ 2.00
Market capitalisation	117.6
Net Debt (mm)	(12.4)
Enterprise value (mm)	100.7
Total projected return	79%
Risked NAV	C$ 13.29
Unrisked NAV	C$ 25.36
P/NAV (Risked)	29%

Key financials	09E	10E	11E
Oil and NGLs (b/d)	0	0	0
Natural Gas (mmcf/d)	28.6	32.6	34.2
Total (mboe/d) 6:1	4.8	5.4	5.7
Equivalent Growth	20%	14%	5%
Brent (US$/b)	62.04	79.00	84.00
Natural Gas (US$/mcf)	4.16	5.75	6.00
EPS (f.d.)	0.14	0.39	0.50
CFPS (f.d.)	0.47	0.81	1.02
Capex (mm)	11.0	6.0	48.0
Net debt (mm)	(12.4)	(31.6)	(14.6)
Debt/CF	(0.9)	(1.3)	(0.5)
P/CF (x)	8.7	5.0	4.0
EV/DACF (x)	7.3	3.5	3.3
EV/Reserves (boe 2P)	1.23		
EV/Production (m/boe/d)	21.2		

All figures in USD unless otherwise stated



BUY

ORC-CN	C$3.50
Target	C$6.90

- We are initiating coverage on Orca Exploration with a BUY recommendation and a C$6.90/sh target price based off of its current core NAV of C$4.54/sh and the company's proved non producing booked reserves (C$2.03/sh). The strength of the management team (ex Pan-Ocean – 3,300% return over three years) adds to our conviction on Orca as a longer term BUY.

- Orca Exploration is a TSX-listed exploration, development and marketing company operating in Africa that trades under the symbol 'ORC.B'. Reserves at y/e '08 stood at 491 bcf of 2P (~81.8 mmboe), and production averaged 33.4 mmcf/d (~5.6 mboe/d) in Q3/09.

- Our 2P NAV is $8.37/sh, or about double the current share price, with limited additional expenditure required for drilling and processing facilities. Orca trades at 3.3x 2011 EV/DACF, ~0.8x our proved producing NAV and ~0.46x our 2P reserves NAV (risked).

- There is substantial additional upside from Songo Songo North and West. In the near term, with a limited capex program, we expect few near-term catalysts. We believe Orca represents solid value and given the lack of exploration or financing risk ahead of a deal which we expect to happen by H2/10, we believe this is a stock that can be held for longer term appreciation.

Prepared by GMP Securities Europe LLP
Please see important disclosures at the end of this report.

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INVESTMENT SUMMARY

Orca Exploration, formerly East Coast Energy, and originally a subsidiary of Pan-Ocean Energy Corporation (sold to Addax in 2006 – POC appreciated over 3,300% in three years and was taken out at C$58.60/sh), is a TSX-listed exploration, development and marketing company operating in East Africa that trades under the symbol 'ORC.B'. Reserves at ye/d '08 stood at 491 bcf of 2P reserves (~81.8 mmboe), and production averaged 33.4 mmcf/d (~5.6 mboe/d) in Q3/09.

The valuation for Orca is very robust and is based on its long life producing Songo Songo gas field. Our core NAV of C$4.54/sh consists of the proved producing reserves currently supplying the gas market in Dar es Salaam, Tanzania. This more than underpins the current stock price of C$3.85/sh and equates to a P/NAV of 0.85x. Our 2P NAV is $8.37/sh or about double the current share price with limited additional expenditure required for drilling and processing facilities.

Orca trades at 3.3x 2011 EV/DACF, ~0.85x our proved producing NAV and ~0.46x our proved plus probable reserves NAV (risked). In addition, there is substantial additional upside from Songo Songo North and West. In the near term, with a limited capex program, we expect few near-term catalysts. We believe Orca represents solid value and given the lack of exploration or financing risk ahead of a deal expected by H2/10, we believe this is a stock that can be held for longer term appreciation.

With an expected return of ~79% we are initiating with a BUY recommendation on Orca Exploration based on the long term solid floor in its share price which reflects only a portion of its booked proved reserves. We look to the management team to add additional exploration opportunities to provide a significant growth catalyst for the shares beyond our C$6.90/sh price target.

TOP 3 CATALYST EVENTS AND TOP 3 RISKS

Over the next twelve months we believe the following events are the most important catalysts for investors to focus on and are events which could potentially drive valuation levels forward:

- Addition of new exploration opportunities; which would complement the producing business in Tanzania. Orca is focused on acquiring two oil exploration prospects in West Africa and the Middle East which must meet company's strategic criteria: proven hydrocarbon basin, significant upside and ability to drill within 24 months. The company signed a Joint Bidding Agreement for an exploration license in November, 2009.

- Exploration drilling at the Songo Songo West prospect; which should commence in 2011. Songo Songo West lies on a separate fault block ~2.5 km to the west of the main field and is believed to be very similar to the main field in terms of trap and reservoir presence. Given its proximity to the main Songo Songo field, McDaniel & Associates Consultants Ltd. views it as a low risk prospect with unrisked mean recoverable resources of 551.6 bcf.

- Upgrading processing infrastructure to meet expanding demand; which could have a positive impact on production and revenue figures. With recent recertification of the plant to 90 mmcf/d, plans are underway to increase capacity to 140 mmcf/d by the end of 2012 subject to regulatory approval. Currently, Orca is selling additional gas to three power plants and 21 industrial customers whose combined demand is approximately 45 mmcf/d. In the next 15 months TANESCO (Tanzania Electric Supply Company) is planning to add another 100 MW power plant and beyond 2010 it has planned to construct a new 200 MW power plant that would require approximately 40 mmcf/d of additional gas. Moreover, Orca has installed compressed natural gas (CNG) facilities that will add another 15 mmcf/d of Additional Gas over the next several years.

In our opinion the top three risks facing the company in the next six months are the following:

- Exploration failures and dry holes. A risk common to all E&P companies. Orca has proven it has the experience to sidestep exploration failure as illustrated in Uganda, when the company decided to exit Block 5 due to higher than expected risk level. Its stable cash flow generating production somewhat negates the negative impact exploration failure might have on market's perception of the company.
- Regulatory issues and reliance on Songas' schedule; which may result in delays. Orca has encountered delays before in relation to the timing of facility capacity expansion due to regulatory issues. The company relies on Songas Ltd. to reach an agreement on terms with the energy regulator, EWURA. If this agreement is delayed, Orca may not be able to deliver on its forecasts.
- Dependence solely on Tanzanian domestic gas demand; which are prone to seasonal fluctuations.

COMPANY HISTORY

Orca Exploration, formerly East Coast Energy, and originally a subsidiary of PanOcean Energy Corporation (sold to Addax in 2006), is a TSX-listed exploration, development and marketing company operating in Africa.

- Since 1994, Orca's predecessor companies have been involved in oil and gas exploration and development in Africa. An interest in the Songo Songo offshore natural gas properties was acquired and its initial goal was to meet the needs of a single power plant in Dar es Salaam.
- In 2001, the company sold its power generation interests to the AES Corporation but retained the reserves associated with uncommitted gas in the Songo Songo field.
- In 2006, the company was renamed to Orca Exploration Group Inc. and commenced trading on the TSXV on 4 April 2007.
- Orca is now the contract operator for natural gas production from the Songo Songo gas field in Tanzania and markets and distributes gas from the field to industrial and utility customers in Dar es Salaam. The company is also committed to expanding its reserve base by exploring additional opportunities, principally in East Africa.

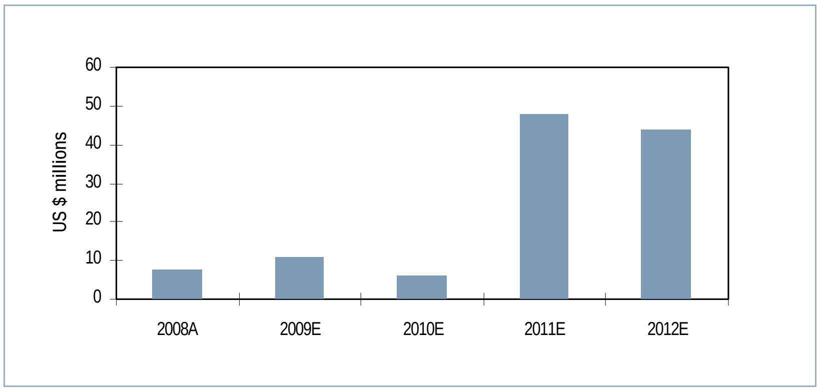
FINANCIAL OUTLOOK AND CATALYSTS

Financial Position

As at 30 September 2009, the company had no debt and 29.6 mm shares outstanding. The cash position at the end of Q3/09 was ~US$9.7 mm.

Capital expenditures (capex) accounted for US$7.7 mm in 2008 and the budgeted capex in 2009 is US$11 mm. In 2011, capex will increase considerably, when Orca drills Songo Songo West, and will continue to stay high during 2012 reflecting the costs of drilling the main field. Our estimates include the future contribution by Tanzanian Petroleum Development Corporation (TPDC) towards these capex costs. We assume that TPDC will exercise its right to 'back in' by contributing 20% of the costs of the future wells. (Exhibit 1)

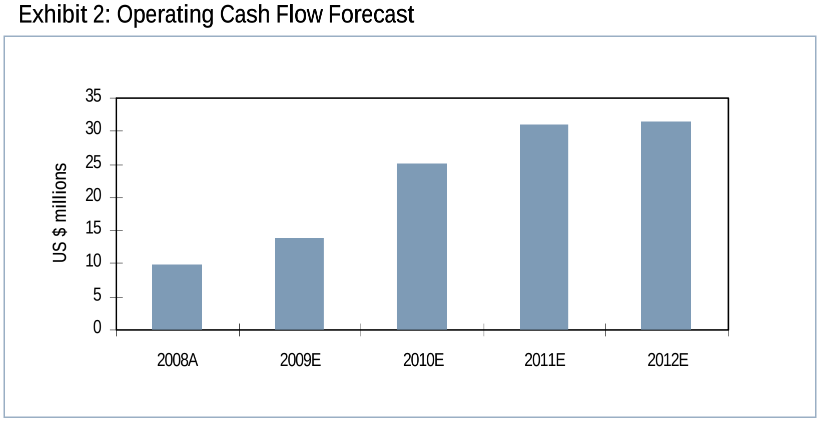
Exhibit 1: Capital Expenditure Forecast



Source: Orca, GMP Estimates

Orca's operating cash flows are projected to grow over the forecast period and it is in a reasonable position to finance the 2011 work program from internal sources. The company may seek external financing, from either debt or equity, to fill any funding gaps or if it acquires additional acreage with funding requirements. Downstream gas market expansion and negotiating fixed prices with its customers are both factors supporting Orca's current and future cash flow growth.

Exhibit 2: Operating Cash Flow Forecast



Source: Orca, GMP Estimates

Catalysts Over the Next 12 Months

There are several catalysts over the next 12-24 months that we expect will impact the stock price including:

Adding exploration assets to its lower risk portfolio would complement the gas producing business in Tanzania and allow the market to value its exploration potential. Orca has been looking at acquiring at least two oil exploration prospects in West Africa and the Middle East. The company has set strict strategic criteria for potential additions: properties must be located in a proven hydrocarbon basin, have significant upside and could be drilled within 24 months. The company signed a Joint Bidding Agreement for an exploration license in November 2009 and it expects to announce the results in coming months.

In 2010, Orca is planning to drill the Songo Songo West (SSW) prospect. SSW lies on a separate fault block ~2.5 km to the west of the main field and is believed to be very similar to the main field in terms of trap and reservoir properties. Like the main field, two reservoirs are believed to be present, the Neocomian and Cenomanian. Given its proximity to the main Songo Songo field, McDaniel's views it as a low risk prospect with a 52% chance of success in the Neocomian and 35% chance of success in the Cenomanian. McDaniel's estimates an unrisked combined P50 OGIP of 609 bcf and unrisked resources of 450 bcf. Full estimates are shown in Exhibit 3.

Exhibit 3: McDaniel's Songo Songo West Estimates

	P90	P50	Mean	P10
Neocomian (Bcf)				
Unrisked OGIP	232	566	678	1381
Unrisked Resources	170	418	505	1028
Risked Mean Resources			264	
Cenomanian (Bcf)				
Unrisked OGIP	12	43	62	158
Risked Mean Resources	9	32	46	118

Source: Orca Exploration

SSW requires a jack-up to drill and Orca believes that deferring drilling will result in lower drill costs due the current weak jack-up market. In addition, the reserves in the main Songo Songo field main are sufficient to meet current gas demand in Tanzania and significant additional processing facilities would be required to commercialize SSW. We believe the largest risk for SSW will be gas demand growing sufficiently for the gas to be produced in the life of the PSC (until 2026).

Revenues should be driven by both downstream gas markets expansion and corresponding production increases. As of now, Orca is selling additional gas to three power plants and 21 industrial customers whose combined demand is approximately 45 mmcf/d. In the next 15 months TANESCO (Tanzania Electric Supply Company) is planning to add another 100 MW power plant and beyond 2010 it has planned to construct a new 200 MW power plant that would require approximately 40 mmcf/d of natural gas. The Tanzania economy grew at 7.5% in 2008 and is projected to grow 4.5% in 2009, driving an increase in gas demand for both electricity generation and industrial use.

Corresponding upgrades in processing infrastructure should drive production figures. With recent recertification of the plant to 90 mmcf/d, plans are underway to increase capacity to 140 mmcf/d by the end of 2012 subject to regulatory approval. Installed CNG facilities should add another 15 mmcf/d of additional gas over the next several years. As the only large gas supplier in East Africa, Orca has the ability to support the steady growth of its production levels and revenues.

Reserves and Resources

According to McDaniel & Associates' reserves assessment report dated December 31 2008, Songo Songo gas field has 2P reserves of 491 bcf. Songo Songo West unrisked mean recoverable resources were estimated at 551.6 bcf by McDaniel & Associates Consultants Ltd.

While Orca has full access to the 491 bcf gross 2P reserves, it faces both supply and demand issues which limit the current growth of revenue. In an effort to overcome supply constraints resulting from the limited processing capacity (two trains, 70 mmcf/d), during Q4/08, Orca increased capacity on the two processing trains to 45 mmcf/d each (90 mmcf/d total). In the long run, Orca has applied for authority approval to install two further trains which should move the current capacity up to 140 mmcf/d by the end of 2012. The company projects that recertification of the four train plant could reach 220 mmcf/d capacity.

Under the PSA, a maximum of 45 mmcf/d is reserved as "Protected Gas" for the national utility company, Songas which operates the 150 MW Ubungo power plant in Dar es Salaam and Wazo Hill cement plant, on a no gain/no loss basis. Orca retains the operatorship of the Songo Songo field, the gas processing plant and pipelines, and the right to develop and market all gas in excess of the Protected Gas ('Additional Gas'). Additional gas is sold to local industrial and power sectors via Orca's industrial distribution system in the Dar es Salaam area. During Q3/09, Orca supplied 6.3 mmcf/d to industrial customers at an average price of US$9.01/mcf and 27.1 mmcf/d to power sector at an average price of US$2.41/mcf.

Methodology and Assumptions

In valuing our international E&P universe, we use a standard set of assumptions. A 10% discount rate reflects our broad views on the cost of capital for the group as a whole. There are a number of other risks that must be recognized and incorporated into our valuation of individual companies, projects, regions and ultimately, our NAV. We believe that one number (the discount rate) cannot capture every nuance of risk so we apply an additional risking to each prospect and/or project on an individual basis which is captured in our EMV tables that formulate our NAV.

Our current oil price assumptions are US$79.00/b (Brent) for 2010 and US$84.00/b (Brent) long-term flat for 2011 and beyond (Exhibit 4). For natural gas prices, we have assumed that prices trade on an energy content equivalent with oil prices. Gas prices on the European continent remain linked by formulae to competing fuels, predominately oil. In the UK, historic long term gas prices are normally tied to various formulae and linked with either inflation or oil indexation.

Exhibit 4: Oil Price Assumptions

	2010E	2011E	Long Term
WTI (US$)	$80.00	$85.00	$85.00
Brent (US$)	$79.00	$84.00	$84.00
NYMEX Gas (US$/mmbtu)	$5.75	$6.00	$6.00
UK Gas ($/mmbtu)	$7.75	$7.75	$7.75
UK Gas (p/therm)	50p	50p	50p
FX Rate (US$/CAN)	$0.9500	$0.9500	$0.9500
FX Rate (US$/£)	$1.5500	$1.5500	$1.5500
FX Rate (US$/EURO)	$1.3700	$1.3700	$1.3700

Source :GMP Estimates

Our valuation approach is to calculate a core asset value for the company based predominately on its known 2P reserves and 2C contingent resources (using the PRMS reserve and resource definitions), where the 2C resources are actively moving towards commercialization, and adjusted for its net cash or debt position. We have built an economic model to estimate the NPV of the full field developments using known parameters where possible. Where these are not available, developments have been modelled based on analogous fields. We use fully diluted share capital taking into account potential options or warrants and include two years of G&A spend to capture the ongoing cost of running the company in the absence of additional funding.

We identify the potential upside for each company and classify this as our estimated Risked Net Asset Value valuation. This includes any resources that the company has and the potential for reserves upside. We have used a risked expected monetary value approach in estimating a potential value of each of the company's exploration portfolios. In some instances it has been assumed that companies will farm down their interests. Thus, we have calculated our Risked NAV based on the view of what the company's likely remaining net interest will be and have credited the company with the associated reduction in drilling costs. This approach may undervalue the companies' exploration portfolios, but we believe it is more realistic and reflects the likely risk mitigation that each company's management will carry out.

VALUATION/ESTIMATES

With a Risked Exploration Value of $13.21/sh Orca shows substantial upside from SS North and West if successful and it can develop the gas markets necessary to monetize the reserves. At this stage the risked upside for Orca Exploration's acreage is relatively low risk reflecting the robust reservoir performance, the fact that most of the reserve and resource numbers are third party audited numbers and fixed nature of the end user gas contracts are fixed. In a recent press release Orca suggested it is close to acquiring at least one additional high impact project and we feel that there is a high probability that the company's exploration/appraisal portfolio will change markedly in the coming months.

Exhibit 5: Risked Net Asset Value

Country	Property/Prospect	Gross Resource (mmboe)	Working Int. (%)	Overall COS (%)	Value/BOE (US$)	Net Risked Resources (mmboe)	Risked NAV (US$ mm)	US$/sh (FD)	C$/sh (FD)	'10 Risked NAV (C$/sh)	Unrisked NAV (C$/sh)
Producing Assets											
Tanzania	SS Main (Proved Producing)	42.3	100%	100%	$ 3.46	42.3	146	4.55	4.33	4.33	4.33
						42.3	146		4.33		
Risked Upside											
Tanzania	SS Main (Proved Non Prod.)	22.7	100%	80%	3.46	18.1	62	1.93	1.83	1.83	2.32
Tanzania	SS Main (Probables)	17.0	100%	80%	3.46	13.6	46	1.43	1.36	1.36	1.74
Tanzania	SS West	75.0	100%	30%	1.71	22.5	35	1.08	1.03	1.03	3.78
Tanzania	SS Main (Possibles, Contract ext)	56.8	100%	50%	1.71	28.4	46	1.43	1.36	1.36	2.86
Tanzania	SS North	68.6	100%	60%	1.71	41.2	68	2.12	2.02	2.02	3.46
						123.8	257		7.60		
	Gross Resources Total	282.3				166.0	404	12.55	11.93	11.93	18.49
Fully Diluted Shares Outstanding (mm)		32.15									
USD:CAD Exchange Rate		0.95									

Notes

Estimates of Reserves and Resources are provided by third party engineering firms, management and GMP securities

Overall COS = Chance of success after taking all risks into consideration including geological risk, political risk, etc

Value/BOE is calculated from a field model in the specific fiscal regime of the host country after government take, all capex and costs have been removed, and the time value of money is applied

Risked NAV is equivalent to Expected Monetary Value (EMV). Risked NAV = (Reward*C.o.S.) - [Capital at Risk*(1-C.o.S.)]

Fully diluted shares outstanding = shares at period end + options + all dilutive securities

Cost % = the difference (if any) in costs paid versus working interest. Of relevance when farm-outs or farm-ins occur

Source: Orca Exploration, GMP Estimates

The valuation for Orca is very robust and is based on its long life producing Songo Songo gas field. Our core NAV of C$4.54/sh consists of the proved producing reserves currently supplying the gas market in Dar es Salaam. This more than underpins the current stock price of C$3.85/sh which equates to a P/NAV multiple of 0.85x. Our 2P NAV is $8.37/sh, or about double the current share price with limited additional expenditure required for drilling and processing facilities.

Orca continued to grow its cash flow through 2009 into 2010 at a time when many of its peers faced dramatically reduced cash flows due to the fall in oil prices. Orca trades at 3.3x 2011 EV/DACF, ~0.85x our proved producing NAV and ~0.46x our proved plus probable reserves NAV (risked). In addition, there is substantial additional upside from Songo Songo North and West. In the near term, with a limited capex program, we expect limited near-term catalysts. We believe Orca represents solid value, however, and given the lack of exploration or financing risk ahead of a deal, we believe this is a stock that can be held for longer term appreciation.

Exhibit 6: Net Asset Value

Net Asset Value Breakdown				
	MMBOE	US$/BOE	US$MM	C$/sh
Production Assets	42.3	3.46	146.4	4.79
Cash/(Net Debt)			12.4	0.40
Other items incl G&A			(20.1)	(0.66)
Core NAV	42.3	3.28	139	4.54
Price to NAV (%)				*85%*
Option Proceeds			10.1	0.33
Risked Upside	123.8	2.08	257.1	8.42
Risked NAV	166.0	2.44	406	C$ 13.29
Price to Risked NAV (%)				*29%*
			Current Stock Prices	C$ 3.85
			Unrisked	C$ 25.36

Notes

Reserves evaluated by McDaniel and Associates Ltd. as of December 31st, 2008.

Long term Brent flat price is US$84.00 and UK Gas price is US$10.00/mmBtu.

All asset values are NPV10 After Tax and in USD unless noted.

Two years of G&A are deducted to ensure 'going concern' costs are captured.

Source: Orca Exploration, GMP Estimates

We have based our current valuation of Orca Exploration based on the proved producing and non producing reserves and are setting our 12 month price target of C$6.90/sh based on the company's core NAV and the Songo Songo Main proved but non producing reserves (Exhibit 7). With an expected return of ~79% we are initiating with a BUY recommendation on Orca Exploration based on the long term solid floor in its share price which reflects only a portion of its booked proved reserves. We look to the management team to add additional exploration opportunities to provide significant growth catalysts for the shares beyond our C$6.90/sh price target.

Exhibit 7: Orca Exploration's Target Price

Target Price Calculation	
Orca Exploration Group	C$/sh
Production Assets	4.79
Cash/(Net Debt)	0.40
Undeveloped Assets	-
Other Items incl G&A	(0.66)
Core NAV	4.54
Risked Upside - Included from EMV Sheet	
SS Main (Proved Non Prod.)	2.03
Option Proceeds	0.33
Sum of Parts	6.90
TARGET PRICE	6.90
Share Price	3.85
Expected Return	79.2%
USD:CAD Exchange Rate	0.95

Notes:
Target set off the Proved Reserves for SongoSongo
(producing and non-prod)

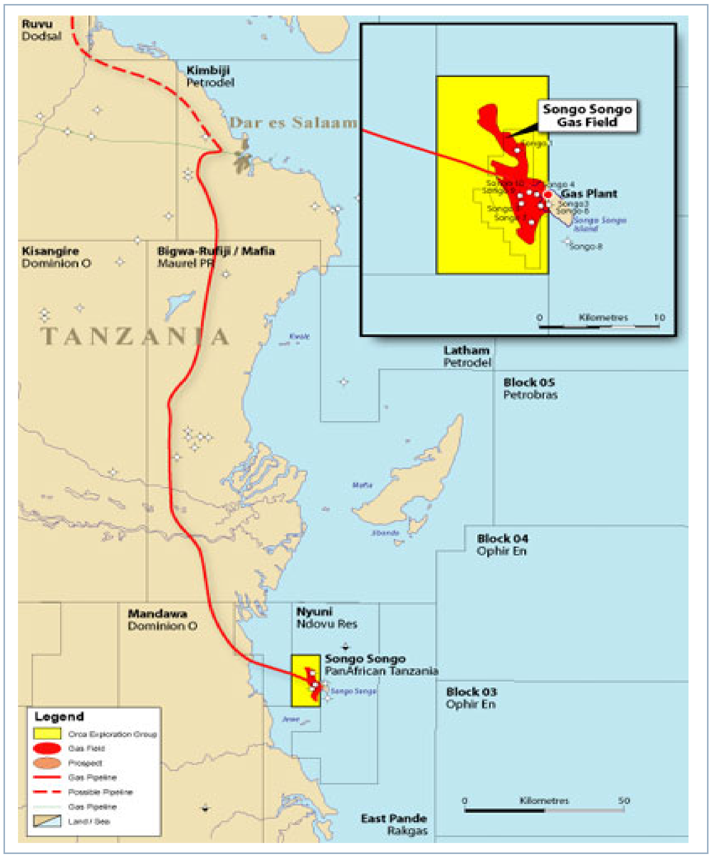
Source: Orca Exploration, GMP Estimates

Asset Overview

Tanzania

Orca is one of the key gas players in East Africa, specifically in Tanzania. Orca operates upstream and downstream activities out of the Songo Songo gas field offshore Tanzania ~200 km south of Dar es Salaam under the Production Sharing Agreement (PSA) with the Tanzania Petroleum Development Corporation (TPDC). Gas produced from the field is processed through a gas plant on Songo Songo Island, and then transported to the Dar es Salaam area via a 25 km 12" offshore pipeline and a 207 km 16" onshore pipeline. (Exhibit 8)

Exhibit 8: Songo Songo - Dar es Salaam pipeline

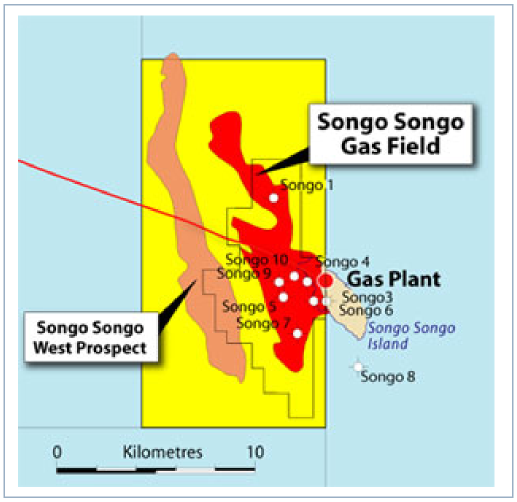


Source: Orca Exploration

Songo Songo

The Songo Songo discovery block has six operating wells with field deliverability of ~210 mmcf/d. The well interventions undertaken in 2007 successfully added 25 mmcf/d from the SS-9 well and tested 50 mmcf/d from the SS-10 well. In addition to its six producing wells on the Songo Songo Island, Orca plans to drill an appraisal well in the northern part of the field and an exploration well 2 km west of the existing field. New 2D seismic has identified a promising prospect which has been designated as Songo Songo West (SSW). Independent engineering firm McDaniel & Associates Consultants Ltd. estimated unrisked mean recoverable resources of Songo Songo West at 551.6 bcf. (Exhibit 9)

Exhibit 9: The Songo Songo West Prospect



Source: Orca Exploration

CONCLUSIONS AND RECOMMENDATION

We are initiating coverage on Orca Exploration with a BUY recommendation and a C$6.90/sh target price based off of its current core NAV of C$4.54/sh and the company's proved non producing booked reserves (C$2.03/sh).

Underpinned by its long term gas supply agreement from its Songo Songo gas field in Tanzania Orca has been able to build out its core business and establish new markets for its incremental gas supply into the Tanzanian market. With plans to establish 140 mmcf/d of capacity over the next several years there is significant scope for the company to continue to monetize its existing gas discoveries and to successfully explore its high quality exploration acreage.

Given Orca's proven management team and its history of creating shareholder value in Africa, its outstanding position in the Tanzanian gas markets and its exploration upside in Tanzania, we feel the stock will comfortably outperform over the long term. We also note that we expect Orca Exploration to evolve going forward and likely emerge as one of the dominant developers and explorers in Sub Saharan Africa.

FINANCIAL SUMMARY

Orca Exploration Group ORC/B CN

Analyst: Toby Pierce +44 20 7647 2822 Associate: Jamal Orazbayeva +44 20 7647 2821

Recommendation	**BUY**		
12-month target price	C$ 6.90		
March 9, 2010			
(In US$ unless otherwise stated)			

Current price	C$ 3.85	
Total projected return	**79%**	

Share Information			
Market cap ($mm)			$118
Shares O/S – basic (mm)			29.5
Shares O/S – float (mm)			23.1
Shares O/S – f.d. (mm)			32.1
52-week range		C$ 2.00	C$ 4.75

Valuation			
Risked Net asset value			C$ 13.29
Price/NAV			0.3x
Enterprise value ($mm)			$101
EV/2009E production ($k/boe/d)			$21.2
EV/P+P reserves ($/boe)			$1.23
Return on equity (%)	6.2%	15.1%	16.3%
Return on capital employed (%)	6.2%	15.2%	16.4%

Oil & Liquids Production (b/d)	**2009E**	**2010E**	**2011E**
First quarter	0	0	0
Second quarter	0	0	0
Third quarter	0	0	0
Fourth quarter	0	0	0
Annual	0	0	0

Natural Gas Production (mmcf/d)	**2009E**	**2010E**	**2011E**
First quarter	21.4	27.9	29.9
Second quarter	25.3	29.6	31.1
Third quarter	33.4	38.1	39.6
Fourth quarter	33.8	34.6	36.1
Annual	28.6	32.6	34.2

Total Production (boe/d) - 6:1	**2009E**	**2010E**	**2011E**
First quarter	3,574	4,657	4,991
Second quarter	4,223	4,934	5,184
Third quarter	5,569	6,350	6,600
Fourth quarter	5,639	5,772	6,022
Annual	4,759	5,434	5,704
% crude oil & liquids	0%	0%	0%
Production growth	20%	14%	5%

Reserves - 6:1		**(at December 31, 2008)**	
Equivalent reserves (mmboe)	Oil	Gas	Total
Proved	0.0	64.9	64.9
Proved + probable	0.0	81.9	81.9
% Proved producing	0%	0%	0%
% Proved	0%	79%	79%
% Crude oil & liquids			0%
Reserve life – P+P (yrs)	0	57	57
Finding Costs - including future development capital		1 Year	3 Year
Proved F&D costs ($/boe)		n/a	1.0
P+P F&D costs ($/boe)		0.6	1.0
Proved + Probable replacement ratio		(7.1)	7.1

Comments

Orca Exploration Group Inc. is a TSX listed company focused on the exploration, production, development and marketing of natural gas in Africa. One of the key gas players in Tanzania, Orca operates upstream and downstream activites out of the offshore Songo Songo gas field. To diversify its East African portfolio the company expanded its exploration activites to Uganda.

Orca's cash flows are not significantly exposed to oil price volatility as a result of negotiating fixed prices and pricing floors with its customers.

Market Multiples	**2009E**	**2010E**	**2011E**
Discretionary cash flow multiple	8.7x	5.0x	4.0x
Debt-adjusted multiple	7.3x	3.5x	3.3x
Earnings multiple	25.9x	9.9x	7.5x
Target multiple	15.6x	9.0x	7.1x
Debt-adjusted target multiple	16.9x	9.2x	7.3x

Net Income	**2009E**	**2010E**	**2011E**
Net income* ($mm)	$4.2	$11.5	$14.7
EPS (basic)	$0.14	$0.39	$0.50
EPS (f.d.)	$0.14	$0.37	$0.48
*from continuing operations			
Cash Flow	**2009E**	**2010E**	**2011E**
Cash flow ($mm)	$13.8	$25.2	$30.9
CFPS (basic)	$0.47	$0.85	$1.05
CFPS (f.d.)	$0.47	$0.81	$1.02

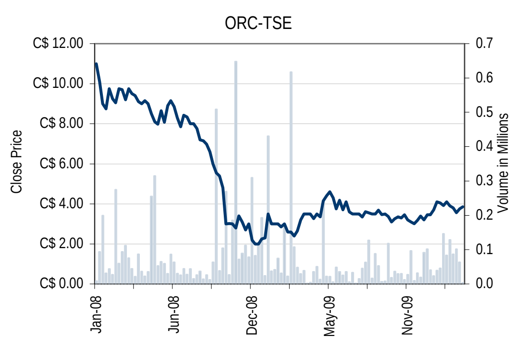
Capital Expenditures & Debt	**2009E**	**2010E**	**2011E**
Capital expenditures ($mm)	$11.0	$6.0	$48.0
Year-end net debt* ($mm)	($12.4)	($31.6)	($14.6)
Year-end net debt/cash flow	0.9x	1.3x	0.5x
*Excl. Unrealized Fin. Derivatives			

Commodity Prices	**2009E**	**2010E**	**2011E**
Brent (US$/bbl)	$62.04	$79.00	$84.00
UK North Sea Gas (US$/mmbtu)	$4.16	$5.75	$6.00

Netbacks ($/boe)	**2009E**	**2010E**	**2011E**
Revenue	$19.19	$24.55	$26.98
Net royalties	($3.98)	($5.10)	($5.61)
Operating costs	($1.67)	($1.95)	($1.95)
Operating netback	$13.53	$17.50	$19.43
Cash flow netback	$7.73	$12.74	$14.90

Management Team	**Prior Companies**
Peter R. Clutterbuck	BP Group
Nigel A. Friend	KPMG, Enron Europe
James N. Smith	PanOcean Energy Corporation
Pierre Raillard	Single Buoy Moorings

Reserve Engineer	**Total Debt Capacity**
McDaniel and Associates Consultants Lt	$0 mm
Auditors	
KPMG LLP	



MANAGEMENT

Orca's experienced Board of Directors and senior management team are the previously successful PanOcean team.

W. David Lyons, Non-Executive Chairman

Mr Lyons obtained a law degree from Queen's University and has been in oil and gas since the early 1980s. He was President and CEO of Pan-Ocean Energy and its precursors Ocelot Energy and PanAfrican Energy. Mr Lyons was instrumental in Ocelot's shift from a Canadian oil and gas concern to an international explorer and developer.

Peter R. Clutterbuck, President and Chief Executive Officer

Mr Clutterbuck's 35 years in upstream oil and gas were largely spent with BP in the Middle East, North Sea and Alaska. He has managed independents in Asia, South America and the former Soviet Union and is on the board of the Society of Petroleum Engineers in London. Mr Clutterbuck has a master's degree in Engineering from Cambridge University.

Nigel A. Friend, Vice President and Chief Financial Officer

Mr Friend's involvement in Orca's project in Tanzania dates from 2002. He is a Chartered Accountant having trained with KPMG and worked in a group at Enron Europe that invested in international oil and gas plays.

James N. Smith, Vice President Exploration

Mr Smith's has oil and gas exploration experience in Africa and the Middle East. He worked with Chevron and developed onshore and offshore oil assets in Gabon for Pan-Ocean Energy.

Pierre Raillard, Vice President Operations, Tanzania

Mr Raillard has a chemical engineering degree and has worked extensively on Orca's project in Tanzania. He has significant experience in operations and project management and held roles with Perenco, Kelt Oil & Gas and Total Austral.

John Patterson, Non-Executive Director

Mr Patterson's 25-plus years in oil and gas includes roles with Dome Petroleum and NOVA and he has experience in acquisitions, financings and tax planning. He is President of Nexen Energy Services and is a Chartered Accoutant.

David W. Ross, Company Secretary

Mr Ross is an expert is international and tax law and is a partner at Burnett Duckworth & Palmer in Calgary.

RISKS

Beyond the typical risks associated with commodity price and US dollar exchange risks, there are several factors that might affect a company exploring for and/or producing oil and gas in the international arena (outside North America), including:

- Geologic and engineering risks associated with the finding and ultimate recovery of oil and gas reserves in the quantities estimated which in turn determine the company’s value.

- Dry holes during the exploration phase can severely limit not only the company's current prospects but also their ability to leverage into new ventures and/or their ability to access additional capital.
- Ability to secure drilling and completion services in a timely manner and/or at a competitive rate.
- Capital and operating cost inflation which can erode the economics of a project, potentially reducing the return to shareholders.
- Current conditions of capital markets may have a material impact on the company's ability to move forward if financing is needed. High levels of debt through project financing are a standard method of financing development projects and ability to access debt markets and the macro assumptions used by the finance providers can have a material impact on a company's ability to move forward, realise value and/or face potential equity dilution and/or realise full value through an industry sale process.
- Sector rotation risk and market movements and the funds flow associated with reallocation of capital. Additionally, liquidity risk can affect all companies especially during aggressive market movements.
- Loss of key employees is a major concern for all E&Ps as the specific skill sets required for individual positions can make the recruiting and retaining of select individuals difficult.
- Changes to existing oil and gas fiscal regimes could defer foreign investment, increase government take and reduce the company's net asset value attributable to a specific project.
- Infrastructure risk and access to infrastructure can be a potential risk. This can lead to delays in the sale of energy products to international and local markets and can increase operating costs (such as when trucking is used, for example).
- Geopolitical and security risks are an issue in many countries and can disrupt operations and activities for a considerable length of time or, in extreme situations, result in the loss of property and assets.
- While in most instances international oil prices are closely correlated, ability to access international markets may impact crude oil realizations in some jurisdictions. International gas prices are determined by a number of factors including inter-alia, different linkages (time lags and energy ratios) to crude oil prices, other competing fuels, coal and electricity and potential requirements to supply local markets at rates well below international price levels. Ability to commercialize gas reserves to a ready market can have a significant impact on potential valuations.

Companies mentioned

Company name	Reuters code	Required disclosures

Company disclosures

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4 subordinate-voting

5 restricted-voting

6 multiple-voting

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8 the analyst who prepared this research report owns this issuer's securities.

9 limited voting

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GMP Securities
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FOCUS BUY. Small cap stocks (defined as stocks with less than $500 million market capitalization) in this category have a total return potential (including dividends payable) of greater than 25% and large cap stocks a greater than 20% total return potential, as well as superior qualitative and timing characteristics.
BUY. These stocks will have 15% or greater (small cap) or 10% or greater (large cap) total return potential.
SPECULATIVE BUY. These stocks will have a 30% or greater total potential return and they will have a speculative component which could be material to the return expectations.
HOLD. Small cap stocks ranked Hold will have a total return potential of 0% to 15%; large cap stocks ranked Hold will have a total return potential of 0 to 10%; and stocks that have a speculative component which could be material to the return expectations ranked HOLD will have a total return potential of 0% to 30%.
REDUCE. Companies ranked Reduce have a negative potential total return.
FOCUS REDUCE. Companies ranked Focus Reduce have a significant negative potential total return and materially compromised qualitative and timing characteristics.
Note: Analysts have discretion within 500 basis points of the upper and lower limit of each rating to determine the recommendation.

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