

Orca Exploration Group Inc. (ORC.B-T, \$4.35)

Thursday, April 22, 2010

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Rating: **SECTOR OUTPERFORM**
 Target Price: **\$5.50**
 Return: **26.4%**
 52 wk Perf: **89.1%**
 Risk Profile: **SPECULATIVE**

OR While delays in gas plant expansion have pushed out the timing for expected material cash flow increases to late 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.

No Surprise At Year End - Several Catalysts Coming

Event: Q4/09 financial and operating results released.

Impact - Neutral: Financial results were on track with our expectations.

- **Forecasts** – We have made only minor revisions to our forecast.
- **Target Price, Ratings** – We have maintained our target price of \$5.50 and our rating of Sector Outperform.

Issues:

- Q4/09 CFPS of \$0.15 (diluted \$0.15) was in line with our expectations. Additional gas sales in the quarter (i.e. to Orca's interest) averaged 33.8 mmcf/day, the highest quarterly production in the Company's history.
- 2P reserves were 490.2 bcf at the end of 2009, down only 0.2% as positive revisions largely offset production despite no wells or G&G work being conducted.
- In January Orca signed a PSC with respect to an exploration licence in a yet to be named location. Ratification by the energy ministry is required before work can commence on the block, after which the Company will announce the details. Given the Company's stated strategy, we expect the block may hold material potential for oil prospects with the likelihood of drilling within two years.
- The Songo Songo rating may be increased from 90 mmcf/day to 105 mmcf/day in early 2011 with all of the increment being attributed to Additional Gas and Orca.

Valuation: Our target price of \$5.50 reflects a price to diluted 2011F CFPS ratio of 5.6x (basic 5.6x). This premium multiple is supported by the extensive reserves that allow the Company the opportunity to materially increase production as markets develop, and maintain production at these peak levels until 2026.

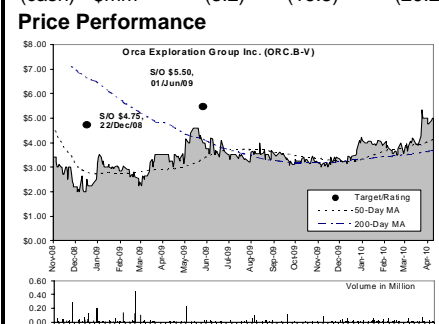
Catalysts: 1) Ratification of the recently signed exploration PSC; 2) Approval to run the gas plant at the rerated 105 mmcf/day would allow increases in production and marketed natural gas; 3) Commitment by Songas to expand the Songo Songo gas plant, expected by early 2011, which could lead to an increase to 200 mmcf/day.

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 in Q3/11.

Forecast Risk	High
Financial Risk	Moderate
Valuation Risk	High
Political Risk	Moderate
52-Week High/Low	\$5.43/\$3.00
Dividend/Yield	\$0.00/0.0%
Shares O/S (mm)	29.5 (basic) 32.3 (F/D)
Market Capitalization	\$128.3 million
Net Debt (Cash)	-\$16.8 million
Enterprise Value	\$111.5 million
Cash	\$14.5 million
C\$ unless noted otherwise	
Daily Volume	18,300

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

Forecast	2008A	2009F	2010F
Gas (Indust.) - mmcf/d	4.0	5.7	8.6
Gas (Power) - mmcf/d	19.6	22.8	26.7
Total - mmcf/d	23.7	28.6	35.2
Total - boe/d	3,944	4,759	5,874
Cash Flow - \$mm	9.8	12.7	22.1
CFPS - diluted	\$0.32	\$0.40	\$0.75
Cap. Ex. - \$mm	7.7	9.5	7.0
Net Debt (cash) - \$mm	(3.2)	(16.8)	(29.2)



Source: Haywood Securities & Capital IQ

Please see rating structure, important disclosures, risk profile parameters, disclaimers, and notes on pages 9-12 of this report.



Orca Exploration Group Inc. TSX-V:ORC.B Price \$4.35 Rating: Sector Outperform
Dividend: \$0.00 Yield: 0.0% Implied All-in Return: 26% Target: \$5.50

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.

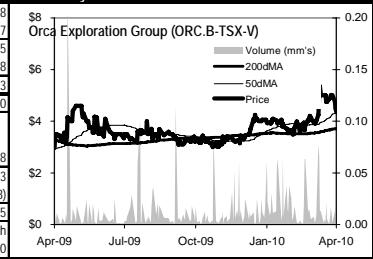
Investment Highlights

- 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, unrisks 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\$)

Class A (multi-voting: 20 votes/sh)	1.8
Class B	27.7
Shares O/S	29.5
Options	9.5%
Fully Diluted	32.3
Liquidity (shs/day: 90d MA)	18,300
D&O % Owned (B/F/D)	22%/28%
D&O % Voting	63%
Trapezoid ownership (mm)	5.8
Market Capitalization	115%
Net Debt (09-Dec)	(16.8)
Enterprise Value	100%
Last Financing (Jun 07)	2.5 mm shs @ \$13.80/sh
52 wk H/L	\$5.43/ \$3.00

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)	2008A	2009F	2010F	2011F	% Chg '11/'10
Revenue	23.8	25.3	31.2	36.1	23%
Cash Flow	9.8	12.7	23.0	28.0	82%
CFPS Basic (USD\$)	\$0.33	\$0.43	\$0.78	\$0.95	81%
CFPS Basic (CDN\$)	\$0.35	\$0.49	\$0.83	\$0.99	69%
CFPS Diluted (CDN\$)	\$0.35	\$0.47	\$0.83	\$0.99	76%
Consensus (USD\$)	(9.5)	3.3	9.9	12.8	198%
EPS Basic (USD\$)	(\$0.32)	\$0.11	\$0.33	\$0.43	204%
EPS Basic (CDN\$)	(\$0.34)	\$0.13	\$0.36	\$0.45	174%
EPS Diluted (CDN\$)	(\$0.34)	\$0.13	\$0.36	\$0.45	174%
Consensus (USD\$)	7.7	9.5	7.0	7.0	-26%
Capital Expenditures - E&D	0.8x	0.7x	0.3x	0.2x	-59%
Reinvestment Ratio	7.7	9.5	7.0	7.0	-26%
Capital Expenditures - incl. acq.	(3.2)	(16.8)	(30.9)	(51.2)	n/a
Net Debt (Working Capital)	n/m	n/m	n/m	n/m	n/a
Net Debt/CF					

Netbacks (US\$/boe)	2008A	2009F	2010F	2011F	% Chg '11/'10
Revenue	\$16.48	\$14.58	\$16.09	\$17.86	10%
Operating Costs	\$1.02	\$1.62	\$0.82	\$0.79	-49%
Net Operating Revenue	\$15.46	\$12.96	\$15.27	\$17.07	18%
Cash Flow	\$6.76	\$7.30	\$10.43	\$12.16	43%
D&D	\$3.78	\$2.33	\$2.50	\$2.62	7%
Earnings	(\$6.60)	\$1.91	\$4.48	\$5.57	135%

Cash Flow Sensitivity	CFPS 2010F	CFPS 2011F	% Chg CFPS 2010F	% Chg CFPS 2011F
Industrial Price (\$0.25/mcf)	\$0.015	\$0.020	1.9%	2.2%
Power Price (\$0.25/mcf)	\$0.017	\$0.016	2.1%	1.7%
Add'l Gas - Ind. (1.0 mmcf/d)	\$0.079	\$0.161	10.1%	17.0%
Add'l Gas - Pow. (1.0 mmcf/d)	\$0.022	\$0.021	2.8%	2.3%

Valuation Parameters	2008A	2009F	2010F	2011F	% Chg '11/'10
Price/CF (in CDS)	12.4x	9.3x	5.2x	4.4x	-16%
Target Price/CF (in CDS)	15.7x	11.7x	6.6x	5.6x	-16%
DACF			4.3x	2.8x	-35%
Target DACF			5.8x	4.0x	-30%
EV/boe/d	\$28,265	\$23,423	\$18,437	\$17,665	-21%
Target EV/boe/d	\$36,866	\$30,550	\$24,047	\$23,040	-21%
Prod (boe)/mm shs	133.7	161.3	205.0	213.9	27%
2P boe Reserves/sh	2.8	2.8			
Recycle Ratio (2P)	8.8x	3.8x			

Assumptions	2008A	2009A	2010F	2011F	% Chg '11/'10
WTI (US\$/bbl)	\$99.75	\$62.09	\$76.00	\$78.00	3%
FIX (US/CD)	\$0.94	\$0.88	\$0.94	\$0.95	1%

Undeveloped Land (net acres)	2007A	2008A	% Chg '08/'07	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.

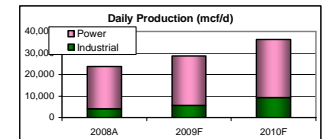
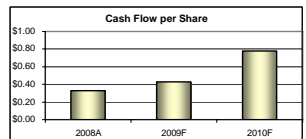
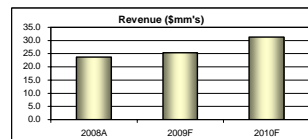
Production	2008A	2009F	2010F	2011F	% Chg '11/'10
Gas - Industrial (mcf/d)	4,030	5,742	9,225	10,225	11%
Gas - Power (mcf/d)	19,631	22,811	27,049	27,635	2%
Total (mcf/d)	23,661	28,553	36,274	37,860	4%
Total (boe/d)	3,944	4,759	6,046	6,310	4%

Reserves (bcf)	2007A	2008A	2009A	% Chg '09/'08	RLI - 2009
Independent Engineers:	McDaniel	McDaniel	McDaniel		
Proved Producing	247.6	253.5	300.7	19%	
Proved Non-Prod & PUDS	60.9	135.9	84.2	-38%	
Total Proved	308.6	389.4	384.9	-1%	36.9
Probable	165.0	102.0	105.3	3%	10.1
2P	473.6	491.4	490.2	0%	47.0
3P (includes Possible)	780.7	832.1	338.6	-59%	32.5
2P (6.1, mmboe)	78.9	81.9	81.7	0%	

Songo Songo West - Resource Est (McDaniel)	P90 (Bcf)	P50 (Bcf)	Mean (Bcf)	P10 (Bcf)
Unrisks	178.6	449.8	551.6	1,145.6
Risks			280.6	
Chance of success (based on risk/unrisks volume)			52%	

Reserve Metrics	2008A	2009F	2010F	Resource Estimate for Songo Songo
PUD/Proved	20%	35%	22%	McDaniel's
Proved/2P	65%	79%	79%	
Res. Repl. Cost (2P)	\$4.86	\$1.76	\$3.44	
3-year average	\$1.68	\$2.10	\$3.93	
Res. Repl. Cost (incl. FDC, 2P)	n/a	n/a	n/a	
3-year average	n/a	n/a	n/a	
Times Prod. Replaced (2P)	8.6x	3.1x	0.9x	

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



Consensus	Potential Upside
Average Target	\$5.89 35%
No. Analysts	
Sector Outperform	3
Sector Perform	0
Sector Underperform	0
Total	3

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

Analyst: Alan Knowles, CFA, CMA - aknowles@haywood.com, 403-509-1931
 Robert Iverach, riverach@haywood.com, 403-509-1966

Source: Haywood Securities & Bloomberg





Investment Thesis

Orca presents the unique opportunity to invest in a small cap international junior that has 0.83 tcf of 3P reserves to its interest. The Company has been diligently and steadily adding to its customer base over the past several years resulting in an increase in expected future sales volumes. 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 2009 posted a reserve life index of 47 years on a 2P basis and 79 years on a 3P basis. While increases have been slower than originally expected, the recent expansion of the gas plant, increases in installed gas powered electrical generation and construction of CNG facilities will facilitate the expansion of production capability, and hence sales, over the next several years.

Highlights and Future Catalysts

- **Q4/09 CFPS of \$0.15 (diluted \$0.15) was in line with our expectations. Additional gas sales in the quarter (i.e. to Orca's interest) averaged 33.8 mmcf/day, the highest quarterly production in the Company's history.**
- **Expected demand increases of 4.0 mmcf/day in Q2/10** from Tanzania Portland Cement Company for its Wazo Hill cement plant in Q2/10 on restarting Kiln 2 after a refurbishment; **plus an additional 2.0 mmcf/day in 2012 on the restart of Kiln 3.**
- **TANESCO is planning to add 100 MWs of power generation in 2011, taking the total in country amount to 289 MWs, which will increase natural gas demand by 20 mmcf/day, all of which would be Additional Gas.**
- **In January 2010 Orca signed a Production Sharing Contract with respect to an exploration licence in a yet to be named location.** The exploration licence must first be ratified by the energy ministry before work can commence on the block, after which the Company will announce the details. After ratification the Company will have related work commitments on the block. We view this event as very positive, especially given the Company's previously stated objective to:
 - add significant, high potential exploration prospects to its inventory;
 - that are preferably oil targets;
 - located in a proven hydrocarbon basin, more specifically in either Africa, the Middle East or southern Europe;
 - that could be drilled within two years of entry.
- **Expand the throughput capacity of the Songo Songo gas processing plant to 105 mmcf/day from 90 mmcf/day, possibly by early 2011.** Songas will likely allow this rerating to be undertaken in early 2011 assuming approval for a larger expansion (below) is received within the timelines noted. The capacity was increased in Q1/09 to 90 mmcf/day from 70 mmcf/day. In 2009 the gas plant peak was 85 mmcf/day. Pursuant to the contract obligations Orca is obliged to provide up to 45 mmcf/day of Protected Gas, to be utilized primarily for power generation. To the extent Protected Gas is not utilized in a particular year to the maximum, the reserves are shifted to Additional Gas and Orca. In 2009 Protected Gas consumed was 35.7 mmcf/day, also the highest year for Protected Gas, meaning the difference of 3.4 bcf is transferred to the Associated Gas account.
- **Expand the throughput capacity of the processing plant to 144 mmcf/day, potentially by the end of 2012.** This is a large project which would require Songas to finance the addition of two new gas trains at the facility, plus additional pipeline compression. Songas is currently





contemplating receiving approval from EWURA (the energy regulator) and securing the necessary financing by Q1/11 which could the project operational by the end of 2012. **Twinning the onshore pipeline could ultimately expand the potential to 200 mmcf/day which may be required by 2015 or 2016 given current estimates.** The six existing Songo Songo wells are capable of producing 217 mmcf/day which equates to 172 mmcf/day of Additional Gas to Orca's account.

- **Songo Songo West exploration prospect could be drilled in Q3/11.** Orca is contemplating the contracting of a drilling rig in concert with another operator in the area thus reducing each company's exposure to high mobilization and demobilization costs. This exploration prospect is viewed as a geological look alike to Songo Songo with a best case estimated gas initially in place of 724 bcf, which is 46% of the size of Songo Songo. McDaniel, in its assessment of recoverable resource, assumed a 50% chance of success for this exploration well.

Orca - Songo Songo West Prospective Recoverable Resource (bcf)					
Zone			Neocom.	Cenoman.	Total
Unrisked					
	Low	P90	170.1	8.5	178.6
	Best	P50	418.1	31.7	449.8
	High	P10	1,027.9	117.7	1,145.6
Mean					
	Unrisked		505.2	46.4	551.6
	Risked		264.4	16.2	280.6
	Implied COS		52%	35%	51%

Independent Engineers: McDaniel. Released 08-09-30

Source: Orca and Haywood Securities

No Surprise in Q4/09

CFPS was \$0.15 (diluted \$0.15) in Q4/09, an increase of \$0.01 from the previous quarter and \$0.08 or 114% from Q4/08. The average sales price was \$3.66 per mcf in both of the last two quarters. The industrial sales price, which is market driven based on oil prices, was \$9.51 in Q4/09, up from \$9.01 in the previous quarter whereas the power related price, which has been relatively static the whole year, averaged \$2.42 in Q4/09 and \$2.40 for all of 2009.

Gas sales volumes were consistent in the last two quarters, averaging 33.8 mmcf/day in Q4/09 and 33.4 mmcf/day in Q3/09. These two quarters represent the two highest production quarters in the Company's history. Production is comprised of an industrial and a power component, both of which are subject to seasonal influences through the year. Looking at the average for the entire year, production increased 21% to average 28.6 mmcf/day compared to 23.7 mmcf/day in 2008. Industrial sales were up 43% to average 5.7 mmcf/day and power sales increased 16% to average 22.8 mmcf/day. Industrial sales represented 20% of the total in 2009 compared to 17% in 2008.

Capital expenditures in Q4/09 were negative \$0.3 million. Orca reached an agreement in April 2010 with a third party contractor involved in the drilling of the SS 10 well in 2007 resulting in the Company not having to pay \$1.1 million of costs previously accrued, which costs were reversed in the quarter. Capital expenditures for the year totalled. During the year Orca spent \$1.2 million to connect ten new industrial customers taking the total to 35.

At the end of 2009 Orca had a working capital balance of \$16.8 million, which includes a cash balance of \$14.5 million. Orca has a \$3.0 million overdraft facility which is currently undrawn.





Orca Exploration - Quarterly Summary (US\$000's, except per share amounts that are US\$/share)						ORC.B - TSXV			
	Q4/08	Q1/09	Q2/09	Q3/09	Q4/09	% Chg vs. Q4/08	12 Mo '09	12 Mo '08	% Chg 12 mo
Oil and Gas Revenue	6,371	4,443	5,501	7,536	7,837	23.0%	25,317	23,782	6.5%
Cash Flow	1,968	1,467	2,514	4,267	4,446	125.9%	12,674	9,751	30.0%
% Chg - Prev Qtr	-48%	-25%	71%	70%	4%				
% Chg - Prev Yr	-27%	-39%	55%	13%	126%				
CFPS Basic	\$ 0.07	\$ 0.05	\$ 0.09	\$ 0.14	\$ 0.15	115.3%	\$ 0.43	\$ 0.33	30.3%
Diluted	\$ 0.06	\$ 0.05	\$ 0.08	\$ 0.14	\$ 0.15	141.7%	\$ 0.41	\$ 0.31	32.3%
% Chg Dil'd - Prev Qtr	-50%	-17%	60%	75%	4%				
% Chg Dil'd - Prev Yr	-29%	-38%	60%	17%	142%				
Net Earnings (Loss)	12	-168	379	1,569	1,564	12933.3%	3,324	-9,523	n/a
EPS Basic	\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.05	\$ 0.05	12983.8%	\$ 0.11	\$ (0.32)	n/a
Diluted	\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.05	\$ 0.05	13114.6%	\$ 0.11	\$ (0.31)	n/a
% Chg - Prev Qtr	-100%	n/a	n/a	400%	0%				
% Chg - Prev Yr	-100%	n/a	n/a	67%	n.m.				
Capital Expenditures	1,274	1,891	1,729	1,993	-327	-125.7%	5,286	7,734	-31.7%
Net Debt (Working Capital)	(3,246)	(9,154)	(9,939)	(12,147)	(16,835)	418.6%	(16,835)	(3,246)	418.6%
<i>Net Debt/Cash Flow (Annualized)</i>	n/a	n/a	n/a	n/a	n/a		n/a	n/a	n/a
Production									
Natural Gas - mcf/day									
Industrial	4.3	4.0	6.7	6.3	5.9	38.3%	5.7	4.0	42.5%
Power	23.4	17.4	18.6	27.1	27.9	19.6%	22.8	19.6	16.2%
	27.6	21.4	25.3	33.4	33.8	22.5%	28.6	23.7	20.7%
Total - boe/day	4,603	3,574	4,223	5,569	5,638	22.5%	4,759	3,944	20.7%
% Gas	100%	100%	100%	100%	100%		100%	100%	
Q/Q % Change	1%	-22%	18%	32%	1%				
% Industrial	15%	19%	27%	19%	17%		20%	17%	
% Power	85%	81%	73%	81%	83%		80%	83%	
Commodity Prices - net of hedges									
Gas (US\$/mcf)									
Industrial	\$ 10.07	\$ 7.91	\$ 7.02	\$ 9.01	\$ 9.51	-5.6%	\$ 8.36	\$ 11.98	-30.2%
Power	\$ 2.37	\$ 2.39	\$ 2.36	\$ 2.41	\$ 2.42	2.2%	\$ 2.40	\$ 2.37	1.3%
Weighted Average	\$ 3.56	\$ 3.42	\$ 3.60	\$ 3.66	\$ 3.66	2.7%	\$ 3.60	\$ 4.01	-10.2%
% Chg - Prev Qtr	-16%	-4%	5%	2%	0%				
% Chg - Prev Yr	1%	1%	-35%	-14%	3%				

Source: Orca Exploration Group and Haywood Securities

Reserves Static Year Over Year

Orca did not drill any wells or conduct any geological or geophysical studies in 2009. As a result the Company's reserves changed minimally in the year, with technical and other revisions largely offsetting production of 10.4 bcf resulting in a net decline of only 1.2 bcf on a 2P basis. This marks the first year that the positive revisions (in years without drilling) have not resulted in a net positive change in the year end reserves balance, which we believe speaks to the high quality of this asset base.



**Orca Exploration - Reserves Summary - (Gross Before Royalties)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>'08/'07</u>	<u>'09/'08</u>
Independent Engineers	McDaniel	McDaniel	McDaniel	McDaniel	McDaniel		
As At	05-12-31	06-12-31	07-12-31	08-12-31	09-12-31		
Reserves Balance							
Additional Gas (bcf)							
Proved Producing	179.8	219.5	247.6	253.5	300.7	2%	19%
Proved Undeveloped	60.7	46.3	60.9	135.9	84.2	123%	-38%
Proved	240.6	266.0	308.6	389.4	384.9	26%	-1%
Probable	79.4	149.0	165.0	102.0	105.3	-38%	3%
2P	320.0	415.0	473.6	491.4	490.2	4%	0%
Possible			307.1	340.7	338.6	11%	-1%
3P			780.7	832.1	828.8	7%	0%
Total (6:1) (mmboe)							
Proved Producing	30.0	36.6	41.3	42.3	50.1	2%	19%
Proved Undeveloped	10.1	7.7	10.2	22.7	14.0	123%	-38%
Total Proved	40.1	44.3	51.4	64.9	64.2	26%	-1%
Probable	13.2	24.8	27.5	17.0	17.6	-38%	3%
2P	53.3	69.2	78.9	81.9	81.7	4%	0%
Possible			51.2	56.8	56.4	11%	-1%
3P			130.1	138.7	138.1	7%	0%
Engineering Value - Additional Gas (\$USmm)							
5% Proved	103.1	154.9	256.8	371.9	355.9	45%	-4%
2P	141.2	241.7	371.6	453.0	432.9	22%	-4%
3P			556.7	691.8	648.7	24%	-6%
10% Proved	67.7	109.0	182.7	257.6	247.7	41%	-4%
P+P	83.8	158.7	254.9	298.6	291.1	17%	-3%
3P			342.0	400.7	381.1	17%	-5%

Source: Orca Exploration Group and Haywood Securities

At the end of 2009, Orca's 2P reserves totalled 490.2 bcf, a decrease of 0.2% year over year net of production. 3P reserves decreased 3.3 bcf to 828.8 bcf at the end of 2009. Current year reserve replacement costs, given the low level of capital expenditures, but also the nominal additions to reserves (from positive revisions), are \$3.44 per boe on a 2P basis. The three year average is similar at \$3.93 per boe.

The operating netback in the year was \$2.21 per mcf or \$13.26 per boe. The recycle ratio is robust on either a current or three year basis, being 3.9x and 4.2x, respectively.



**Orca Exploration - Reserve Background Analysis**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>'08/'07</u>	<u>'09/'08</u>
Replacement Cost (\$/boe)							
Proved - 1 yr.	\$ 0.47	\$ 1.20	\$ 6.41	\$ 0.52	\$ 5.36	-92%	933%
P+P - 1 yr.	\$ 0.51	\$ 0.36	\$ 4.86	\$ 1.76	\$ 3.44	-64%	96%
Proved - 3 yr. Average	\$ 0.14	\$ 0.25	\$ 2.58	\$ 2.38	\$ 2.75	-8%	15%
P+P - 3 yr. Average	\$ 0.13	\$ 0.27	\$ 1.68	\$ 2.10	\$ 3.93	25%	87%
Capex (\$000's)	5,648	6,043	53,717	7,734	5,286	-86%	-32%
<i>Note: Future Capital Costs at year end 2004 have not been released and have been excluded from all years to provide for consistency in the calculation between years.</i>							
Recycle Ratio (Operating Netback/Replacement Cost)							
Proved - 1 yr.	27.3	13.5	2.1	30.1	2.5	1312%	-92%
P+P - 1 yr.	25.5	44.5	2.8	8.9	3.9	216%	-57%
Proved - 3 yr. Average Repl Cost		17.4	5.3	5.6	3.5	6%	-38%
P+P - 3 yr. Average Repl Cost		33.5	7.5	6.5	4.2	-13%	-35%
Operating Netback (\$/boe)	\$ 12.90	\$ 16.17	\$ 13.65	\$ 15.60	\$ 13.26	14%	-15%
Reserve Life Index (years)							
Proved	98.2	55.0	39.9	45.1	36.9	13%	-18%
P+P	130.7	85.8	61.3	56.9	47.0	-7%	-17%
Q4 Production (boe/day)	1,118	2,209	3,530	3,944	4,759	12%	21%
Times Production Replaced (Reserves Replacement Ratio)							
Proved	29.3	6.3	6.5	10.4	0.6	59%	-95%
P+P	27.4	20.6	8.6	3.1	0.9	-64%	-71%
Reserves Per Share Outstanding (boe/share)							
Proved	1.7	1.7	1.7	2.2	2.2	26%	-1%
P+P	2.3	2.6	2.7	2.8	2.8	4%	0%
Units O/S (000's)	23,264	26,774	29,614	29,614	29,494	0%	0%

Source: Orca and Haywood Securities

Orca Exploration - Reserves Reconciliation

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Natural Gas (bcf)					
Proved					
Opening	171.2	240.6	265.8	308.6	389.4
Extensions, Additions	0.0	0.0	0.0	0.0	0.0
Technical Revisions	71.9	30.0	50.5	89.5	5.9
Production	-2.5	-4.8	-7.7	-8.7	-10.4
Closing	240.6	265.8	308.6	389.4	384.9
Probable					
Opening	84.2	79.4	149.3	165.0	102.0
Extensions, Additions	0.0	0.0	0.0	0.0	0.0
Technical Revisions	-4.8	69.9	15.7	-63.0	3.3
Closing	79.4	149.3	165.0	102.0	105.3
Proved + Probable					
Opening	255.4	320.0	415.1	473.6	491.4
Extensions, Additions	0.0	0.0	0.0	0.0	0.0
Technical Revisions	67.1	99.9	66.2	26.5	9.2
Production	-2.5	-4.8	-7.7	-8.7	-10.4
Closing	320.0	415.1	473.6	491.4	490.2
Revisions as % of Opening	26.3%	31.2%	15.9%	5.6%	1.9%
Production as % of Opening	-1.0%	-1.5%	-1.9%	-1.8%	-2.1%
Reserve Life Index (years)					
Proved	96	55	40	45	37
Proved + Probable	128	86	62	56	47

Source: Orca Exploration Group and Haywood Securities





Valuation

Our target price of \$5.50 reflects a price to diluted 2011F CFPS ratio of 5.6x (basic 5.6x). This premium multiple is supported by the extensive reserves that allow the Company the opportunity to materially increase production as markets develop, and maintain production at these peak levels until 2026.





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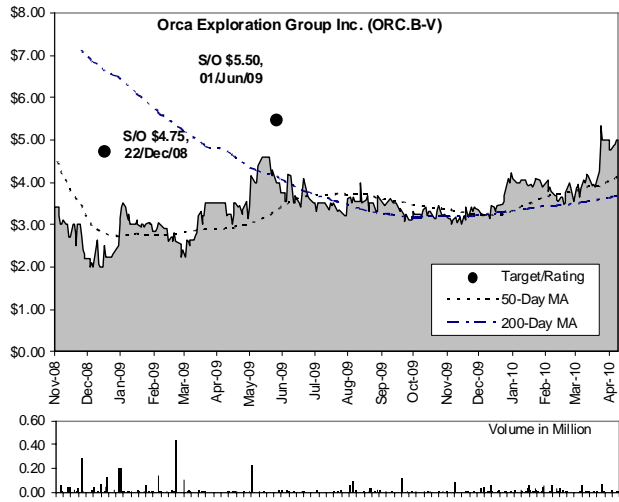
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	%	#	(TTM)
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S/U	2.1%	3	0.0%
T	1.4%	2	0.0%
UR (S/O)	7.1%	10	10.5%
UR (S/P)	3.5%	5	0.0%
UR (S/U)	0.7%	1	0.0%
dropped (TTM)	34.0%	48	10.5%





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