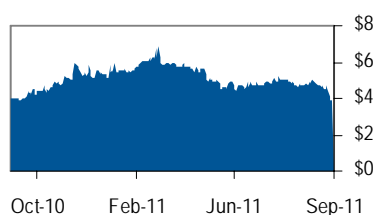


ORCA EXPLORATION GROUP – BUY

ORC'B - TSXV \$3.90
TARGET: \$7.75
PROJ. RETURN: 98.7%
VALUATION: 0.65x Risked NAV

Share Data

Basic Shares O/S (mm)	34.7
Fully Diluted O/S (mm)	35.7
Market Cap (\$mm)	135.3
Enterprise Value (\$mm)	78.2
Net Debt (W.C.) (\$mm)	-57.1
Dividend	N/A
Yield	N/A
Next Reporting Date	November

**Short-term Technical Target**

\$4.00, next support level. ORC.b has rolled over in the short-term.

Corporate Profile

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

Upcoming Events

Spudding La Tosca-1 well (Q4/11)

Spudding SSW exploration well (2H/12)

Government Considers New Onshore Pipeline**DETAILS – Record Production and Capacity Expansion**

Orca provided an operational update on its Songo Songo project in Tanzania.

Record Production: After the re-rating of the gas processing facilities from a capacity of 90 mmcf/d to 110 mmcf/d, production of Additional Gas (net gas) in August 2011 increased to an average of 57 mmcf/d. Note that the total production infrastructure is restricted to a capacity of 102 mmcf/d due to the limits of the onshore pipeline. In order to accelerate the delivery of natural gas to Dar es Salaam, the Government of Tanzania has indicated that it will complete a looping (twin) of the existing 200 km onshore pipeline from Songo Songo to Dar es Salaam. No time line was provided as to when the expansion would be completed.

Drilling: In November, Orca plans to drill the SSA development well and complete a workover on the SS-10 well in order to increase the deliverability of the Songo Songo field. Orca is also in discussions to source a jack-up rig to drill the Songo Songo West Exploration prospect (552 bcf resource unrisks) expected to spud in Q2/12.

IMPACT – Positive- Production At Record Level

The new onshore pipeline would substantially expand production capacity from a current 102 mmcf/d to 200 mmcf/d. With the limited hydro power capacity and expansion of natural gas fired power capability, demand for gas should continue to grow.

Action – BUY On Strong Demand For Natural Gas

With the limited hydro power capacity, demand for Additional Gas should remain strong for the balance of the year. Cash flow will be reinvested into the drilling of the SS-A delineation well and the re-completion of the SS-10 well in Tanzania and the La Tosca-1 exploration well onshore in Italy. We maintain our **BUY** recommendation and our \$7.75 target.

Production Growth	FYE Dec 31	Q1/10A	Q2/10A	Q3/10A	Q4/10A	2010A	Q1/11A	Q2/11A	Q3/11E	Q4/11E	2011E	2012E
Oils & Liquids	bbl/d	-	-	-	-	-	-	-	-	-	-	-
Natural Gas	mmcf/d	34.9	33.0	40.1	37.0	36.9	37.1	40.2	48.0	48.0	43.4	47.0
Boe/d	6:1	5,817	5,500	6,683	6,167	6,150	6,183	6,700	8,000	8,000	7,228	7,833
Production Growth	%	3%	-5%	22%	-8%	29%	0%	8%	19%	0%	18%	8%
Cash Flow (US\$)		Q1/10A	Q2/10A	Q3/10A	Q4/10A	2010E	Q1/11A	Q2/11A	Q3/11E	Q4/11E	2011E	2012E
Cashflow (US\$)	\$mm	4.3	4.9	6.1	7.3	21	4.95	3.29	4.66	6.61	19.51	24.77
Cashflow/FD Share	\$/share	0.1	0.16	0.20	0.20	0.65	0.13	0.09	0.13	0.18	0.52	0.67
EV/DACF	multiple	7.6x	7.1x	6.0x	5.8x	8.6x	9.4x	14.6x	10.1x	7.0x	9.5x	7.5x

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Figure 1: Detailed History and Forecast

Orca Exploration Group Inc.**ORC.B**

Share Data		Market Value			Stock Price			Target Price		
Basic Shares (mm):	34.7	Market Cap. (mm)	\$	135.3	Close:	\$3.90	Target:	\$7.75		
Diluted Sh. (Treasury):	35.7	Enterprise Value (mm)	\$	78.2	High:	\$7.14	Return:	63.2%		
Fully Diluted (mm):	37.2	Net Debt (W.C) (mm)	\$	(57.1)	Low:	\$3.71	Risked NAV	0.65x		
Production		2008A	2009A	2010A	Q1 11A	Q2 11A	Q3 11E	Q4 11E	2011E	2012E
Oil & Liquids	bbl/d	-	-	-	-	-	-	-	-	-
Natural Gas	mmcf/d	23.7	28.5	36.9	37.1	40.2	48.0	48.0	43.4	47.0
Boe/d	6:1	3,945	4,756	6,150	6,183	6,700	8,000	8,000	7,228	7,833
Production Growth	%	(45%)	21%	29%	0%	8%	19%	0%	13%	8%
Percentage Natural Gas	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cash Flow & Earnings (US\$)		2008A	2009A	2010A	Q1 11A	Q2 11A	Q3 11E	Q4 11E	2011E	2012E
Cash Flow	\$ mm	10.3	13.3	23.1	4.9	3.3	4.7	6.6	19.5	24.8
Cash Flow /FD Share	\$/share	\$0.33	\$0.43	\$0.72	0.13	0.09	0.13	0.18	0.52	0.67
CF Per Share Growth	%	14%	30%	66%	(36%)	(33%)	41%	42%	(27%)	27%
\$/Barrel of Oil Equivalent (US\$)		2008A	2009A	2010A	Q1 11A	Q2 11A	Q3 11E	Q4 11E	2011E	2012E
Revenue	\$/boe	24.12	21.59	22.43	22.48	24.42	22.55	22.55	22.60	22.02
Operating Costs	\$/boe	1.03	1.62	2.17	1.84	1.94	1.50	1.50	1.67	1.50
G&A	\$/boe	8.52	5.96	4.92	4.99	5.72	4.08	4.08	4.65	4.20
Cash Flow	\$/boe	7.13	7.69	10.29	8.89	5.40	6.33	8.98	7.39	8.66
Valuation Metrics (C\$)		2008A	2009A	2010A	Q1 11A	Q2 11A	Q3 11E	Q4 11E	2011E	2012E
FD Cash Flow Multiple		11.8x	9.1x	5.5x	7.3x	11.0x	7.8x	5.5x	7.4x	5.9x
EV/DACF Multiple		11.1x	7.6x	8.6x	9.4x	14.6x	10.1x	7.0x	9.5x	7.5x
EV/Production	C\$/mboe/d	19.8	16.4	12.7	12.7	11.7	9.8	9.8	10.8	10.0
EV/boe reserves	C\$/boe	0.96	0.96	1.04						
Commodity Price		2008A	2009A	2010A	Q1 11A	Q2 11A	Q3 11E	Q4 11E	2011E	2012E
Industrial	US\$/mcf	\$11.97	\$8.36	\$8.76	\$9.42	\$10.28	\$9.40	\$9.40	\$8.75	\$9.40
Power	US\$/mcf	\$2.37	\$2.40	\$2.64	\$2.62	\$2.64	\$2.63	\$2.63	\$2.63	\$2.63
Exchange Rate	US\$ per C\$	1.06	1.14	0.98	1.00	1.00	1.00	1.00	1.00	1.00
Capex and Capital Structure		2008A	2009A	2010A	Q1 11A	Q2 11A	Q3 11E	Q4 11E	2011E	2012E
Capex	US\$ mm	38.0	5.3	3.4	1.4	1.6	8.8	8.8	35.0	10.0
Capex/Cash Flow	%	370%	40%	15%	27%	48%	188%	132%	179%	40%
Weighted Average Basic	mm	29.3	29.4	30.6	34.7	34.7	34.7	34.7	34.7	34.7
Dilutive Shares	mm	31.0	31.0	32.3	37.2	37.2	37.2	37.2	37.2	37.2
Market Cap	C\$ mm	114.3	114.7	119.4	135.3	135.3	135.3	135.3	135.3	135.3
Enterprise Value	C\$ mm	104.0	97.0	66.0	79.5	78.2	82.3	84.5	98.6	83.8
Year-end Net Debt (WC)	C\$ mm	(10.2)	(17.7)	(53.4)	(55.8)	(57.1)	(53.0)	(50.8)	(36.7)	(51.4)
Net Debt/Cash Flow		na	na	na	na	na	na	na	na	na
Net Asset Value Estimate					Reserve Estimate 12/31/2010		Concession Lands (000's acres)			
(C\$ thousands)					(mboe)		Gross			
Reserves (P + P)*	278				Proven	82%	61,539	Tanzania	54	51
Net Debt (W.Capital)	(57)				Probable	18%	13,590		54	51
Other Assets	-				P+P		75,129			
Other Liabilities	-									
Net Asset Value	335									
NAV/Share	\$9.65				Reserve Life Index					
NAV/FD Share	\$9.38				Production					
Risked Exploration (C\$)	\$434				2011	2012				
Risked NAV/share (C\$)	\$12.51				Proven	23.3	21.5			
Risked NAV/FD share (C\$)	\$12.02				P+P	28.5	26.3			

Source: Company reports, Mackie Research Capital

RISKS TO TARGET

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.

RELEVANT DISCLOSURES APPLICABLE TO: ORCA EXPLORATION GROUP

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