



Quarterly Results

Mackie Research Capital Corporation

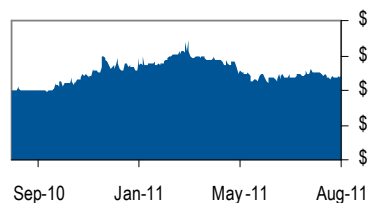
ORCA EXPLORATION GROUP – BUY

ORC'B - TSXV \$4.75
TARGET: \$7.75
PROJ. RETURN: 63.2%
VALUATION: 0.65x Risked NAV

Share Data

Basic Shares O/S (mm) 34.7
 Fully Diluted O/S (mm) 35.8
 Market Cap (\$mm) 164.8
 Enterprise Value (\$mm) 107.7
 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)

Production Increases to Record High

DETAILS – Q2/11 Results In-Line with Forecast

Production: Average Q2/11 production of 40.2 mmcf/d was slightly below our forecast of 42 mmcf/d. Production in the last ten days of June reached a record high averaged of 53 mmcf/d.

Cash flow: Cash flow during the quarter of US\$3.3 million was higher than our estimate of US\$2.6 million due to a higher realized natural gas prices sold to industrial users.

Increasing production capacity: Orca plans to complete a workover of the SS-10 well and drill a new deviated well ("SS-A") which should increase the Songo Songo field deliverability to 150 to 160 mmcf/d by the end of 2011. In 2012 Orca plans to workover the SS-5 and SS-9 wells which should increase field deliverability to 250 to 260 mmcf/d by the end of 2012.

Expanding infrastructure: The Songo Songo gas processing capacity has been re-rated from 90 mmcf/d to 110 mmcf/d. The total production infrastructure now at a restricted capacity of 102 mmcf/d. Through the additions of new gas processing units and pipeline compression, Orca hopes to increase the infrastructure capacity to 140 mmcf/d.

Onshore Italy: Orca plans to drill an exploration well in the Longastrino Block, onshore Italy in the Po Valley basin, in Q4/11.

IMPACT – Neutral

Orca continues to expand the Songo Songo field production capacity and infrastructure which should result in a steady increase in natural gas production.

A LOOK AHEAD – 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	9.0x	8.4x	7.0x	6.8x	9.9x	10.8x	16.8x	11.7x	8.2x	11.0x	8.7x

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New power construction projects could require 136 mmcf/d by the end of 2011.

TANZANIA

Orca saw a 31% increase in the demand for gas from the power generation sector in 2010, largely due to the commissioning of the 45 MW Tegata power plant in December of 2009, and an ongoing lack of rain impacting the capacity of hydro-electric generators. Demand is expected to continue growing due to new power generation projects currently under construction. Orca projects that maximum demand of gas for power generation could increase by 136 mmcf/d in 2011 and another 44mmcd/d in 2012.

The price of natural gas in Italy is currently US\$10/mcf.

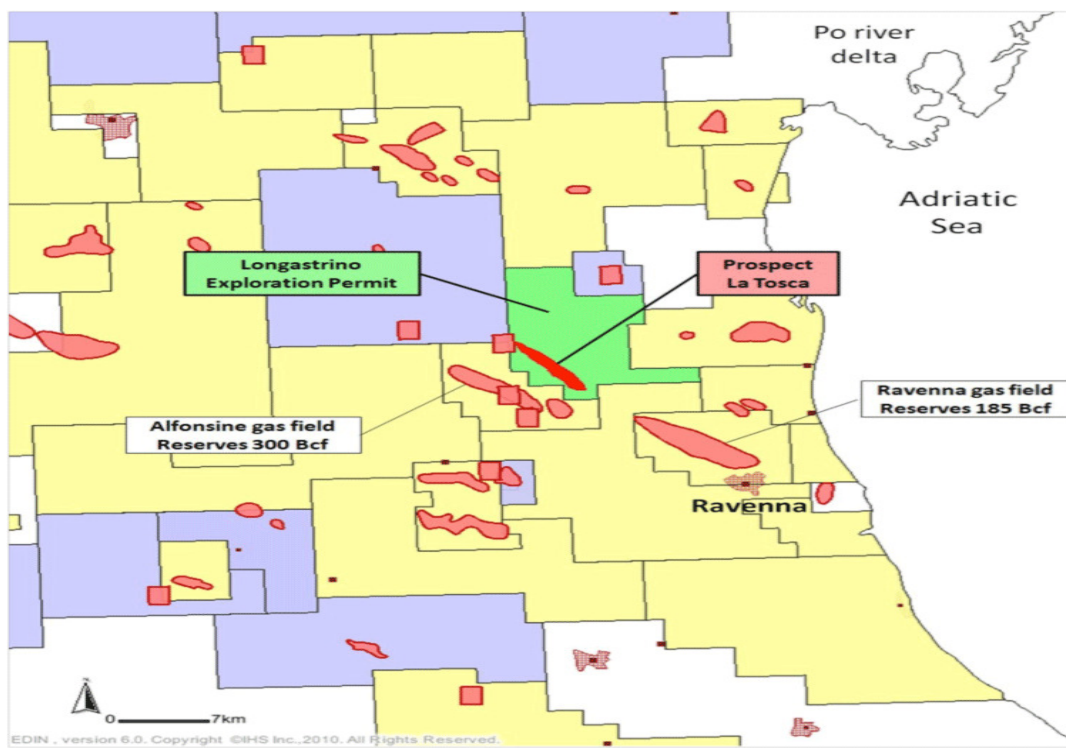
ITALY

Longastrino Permit, Onshore Italy

Orca entered into an agreement with Northern Petroleum (UK) Ltd. to farm-in on the Longastrino Block in the Po Valley Basin, onshore Italy (Figure 1). Orca will earn 70% interest by drilling the first well and an additional 5% if the well is tested. Orca must pay 100% of the costs of the first well, up to €4.3 million for drilling and €1.3 million for testing, and has also agreed to pay back costs in relation to the well of €0.6 million.

The permit is surrounded by several large natural gas fields, including the Alfonsine Field (300 bcf) and the Ravenna field (185 bcf). The prospect has been defined by 3D seismic and is located just 2km to the northeast of the Alfonsine gas field. While the primary reservoir is located at a depth of approximately 1,600 metres, the La Tosca-1 well will be drilled to a total depth of approximately 2,500 metres in order to test a deeper secondary target. The surrounding production infrastructure has spare capacity and first production could be achieved within 18-24 months of a discovery. The price of natural gas in Italy is currently over US\$10/mcf.

Figure 1: Longastrino Exploration Permit and Surrounding Blocks



Source: Company reports

Elsa Field, Offshore Italy

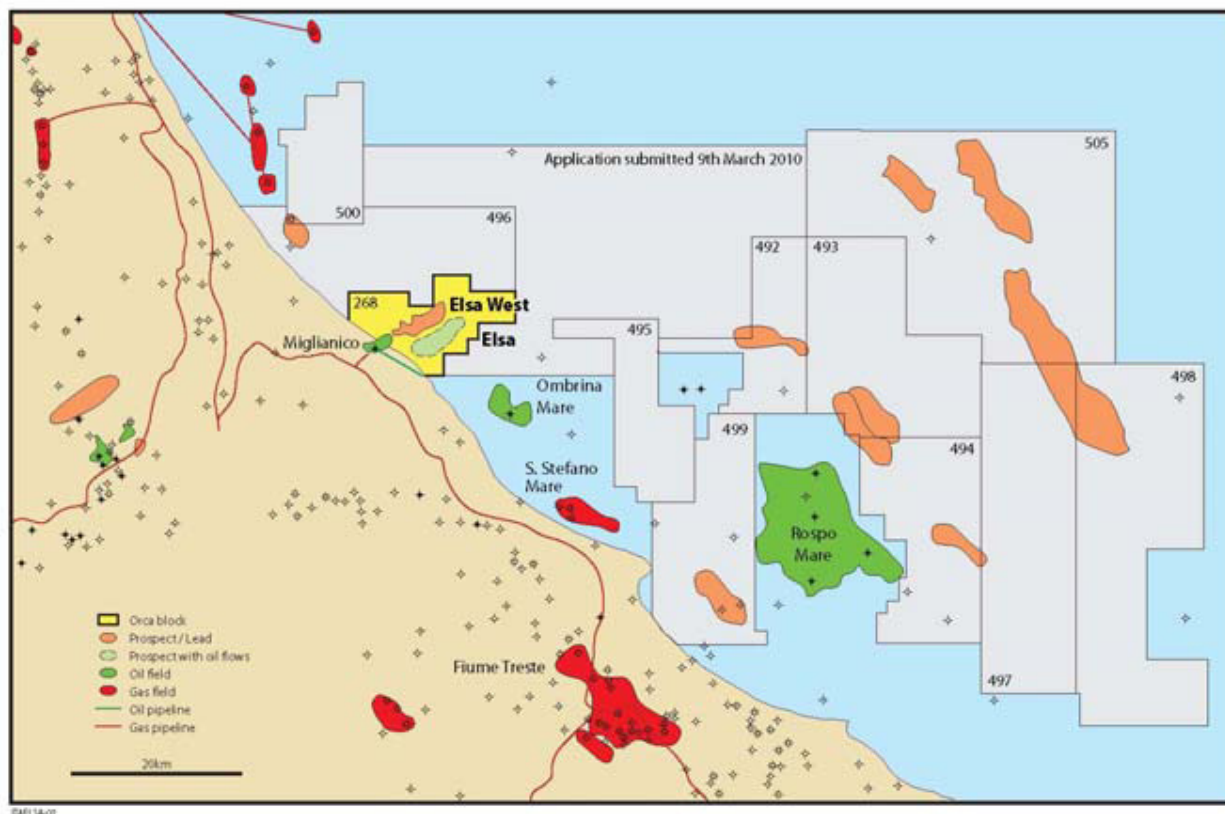
On May 31, 2010, Orca announced an agreement with Petroceltic International plc (Petroceltic) to farm-in on the Central Adriatic B.R268.RG Permit (Elsa Block) located offshore Italy. Under the terms of the agreement, Orca is obliged to fund 30% of the Elsa-2 appraisal well to earn a 15% working interest 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 farm-in agreement also provides Orca the opportunity to participate at its 15% working interest in 11 additional Petroceltic licences (Figure 2).

The Elsa-2 appraisal well's goal is to confirm the potential of the reservoir, estimated at approximately 400 million barrels of OOIP.

Large resource upside: 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. Management's internal median estimate is that the field could contain approximately 400 million barrels of original oil in place.

Timing of Elsa-2 uncertain: In June, 2010, in response to Gulf of Mexico oil spill, the Italian environment minister proposed a drilling embargo on wells located within five miles of the coast and within 12 miles of marine parks. Unfortunately, the Elsa structure straddles the five-mile restriction. The decree has not been passed into law and it is unclear whether the ban applies to existing permits. As a precaution, Petroceltic has applied to suspend the licence until the proposed law is clarified. It is worth noting that in October 2010, the European Parliament voted against a moratorium on deep sea drilling and the US lifted its ban on deep-water drilling. Given that the Elsa field is located in shallow waters (~34 metres) and that EU and US have decided to allow deep water drilling, it is hopeful that the Italian government will lift its drilling embargo.

Figure 2: Elsa and Surrounding Block



Source: Company presentations

Figure 3: 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)	\$	164.8	Close:	\$4.75			Target:	\$7.75
Diluted Sh. (Treasury):	35.8	Enterprise Value (mm)	\$	107.7	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		14.3x	11.0x	6.6x	8.9x	13.4x	9.5x	6.7x	9.1x	7.1x
EV/DACF Multiple		13.7x	9.5x	9.9x	10.8x	16.8x	11.7x	8.2x	11.0x	8.7x
EV/Production	C\$/mboe/d	27.3	22.6	17.5	17.4	16.1	13.5	13.5	14.9	13.7
EV/boe reserves	C\$/boe	1.32	1.32	1.43						
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	139.2	139.7	145.4	164.8	164.8	164.8	164.8	164.8	164.8
Enterprise Value	C\$ mm	128.9	122.0	92.0	109.0	107.7	111.8	113.9	128.1	113.3
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)										
Reserves (P + P)*	278	(mboe)			Gross Net					
Net Debt (W.Capital)	(57)	Proven	82%	61,539	Tanzania	54	51			
Other Assets	-	Probable	18%	13,590		54	51			
Other Liabilities	-	P+P		75,129						
Net Asset Value	335									
NAV/Share	\$9.65									
NAV/FD Share	\$9.38									
Risked Exploration (C\$)	\$434									
Risked NAV/share (C\$)	\$12.51									
Risked NAV/FD share (C\$)	\$12.02									
		Reserve Life Index								
				Production						
				2011	2012					
		Proven		23.3	21.5					
		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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2. Within the last 3 years, Mackie Research Capital Corporation has received compensation for investment banking and related services from the subject issuer.

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