

Exall Energy

(EE-T: C\$1.88)

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BUY, High Risk*

12-month target price: C\$2.60 (was \$2.40)

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Catalyst Comes to Fruition - Seismic Program Works

Market Information (C\$)				
Market Cap (MM)				\$122.7
Basic Shares (MM)				62.2
F.D. Shares (MM)				67.8
52-week High/Low				\$1.02-\$2.50
3-Month Avg Daily Trading Vol				51,864
Potential Return				44%
Financial Data				
FYE: Dec. 31	2010A	2011E	2012E	
Crude Oil (\$US/bbl)	\$79.51	\$92.50	\$88.00	
NYMEX (\$US/mcf)	\$4.37	\$4.35	\$4.50	
Exchange (\$US/Cdn)	\$0.97	\$0.98	\$1.02	
Oil/Liquids (bbl/d)	760	1,113	2,001	
Gas (mmcf/d)	0.7	0.8	1.6	
boe/d (6:1)	877	1,244	2,275	
% Natural Gas	13%	11%	12%	
Cash Flow (MM)	\$10.0	\$20.3	\$32.7	
CFPS (FD)	\$0.18	\$0.30	\$0.48	
Net Debt YE (MM)	\$14.2	\$28.9	\$38.4	
Valuation				
	2010A	2011E	2012E	
P/NAV	125%			
EV/DACF	7.3x	7.2x	4.7x	
EV/Production (boe/d)	\$86,853	\$121,835	\$70,791	
Price/CFPS	5.8x	5.9x	3.8x	
Net Debt/CF	1.4x	1.4x	1.2x	

Source: See Note 1

EE: Price/Volume Chart



Source: Thomson ONE

Company Description

Exall Energy is a light oil focused junior producer with operations in the Mitsue area of Alberta. The company has a strong growth profile, excellent balance sheet and experienced technical management team.

What we have been calling Exall's major near term catalyst has come to fruition. Through their most recent step-out Gilwood well; Exall has proven their early 2011 3D seismic program is effective in identifying the Gilwood channel sand in the greater Mitsue area. While no test rates were provided, we believe there are two major positives from the press release: 1) their test well was successful in identifying the Gilwood oil trend, resulting in the massive de-risking of their Gilwood play and 2) the test well also identified a 10 meter porous oil saturated interval in the Upper Wabamun zone, further validating the emerging Wabamun play on Exall's newly expanded land base.

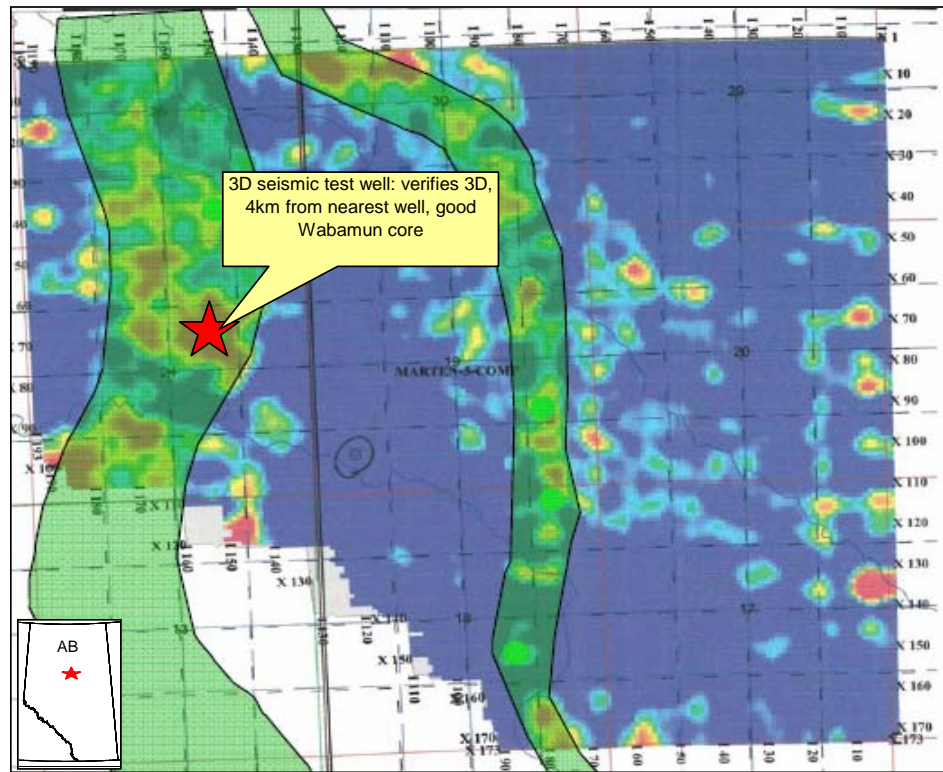
While the test well does not have an immediate impact on Exall's base production, the well did enable the company to identify 12 additional Gilwood locations, significantly de-risk an additional 5 locations, and commit to their 244 square km follow-up 3D seismic program.

We are not expecting further production results from the company's second Wabamun exploration well until the second quarter but believe the oil saturation in their Gilwood seismic well further de-risks the play. As a result of this positive news we are reiterating our BUY recommendation and increasing our target price to \$2.60 from \$2.40.

Highlights:

- Seismic test well successfully identified the Gilwood "A" channel-type anomaly validating the effectiveness of 3D seismic on the play.
- The well, located 4km north of their nearest Gilwood oil well is expected to be completed and tested in the New Year but has successfully identified oil saturated reservoir quality Gilwood channel sand in two locations on the anomaly.
- Due to the now proven effectiveness of the 3D seismic program Exall has identified 12 follow-up locations in addition to the 5 locations the test well significantly de-risked.
- Confirmation of the effectiveness of 3D seismic on the play has resulted in the company committing to a much larger, 244 square kilometer 3D seismic program through the later part of this year and into next.
- Providing further validation on the emerging Wabamun oil play, the company cored the seismic well in the Upper Wabamun and discovered 10 meters of strong residual oil saturation.
- We continue to look towards results from Exall's step-out Wabamun exploration well as the next major catalyst. We believe this well has the potential to prove up a 15 mile fairway prospective for the new oil play. Results are expected in the second quarter of 2012.

Exhibit 1: Marten Mountain Gilwood 3D Seismic Map



Source: Dundee Securities

Valuation

To arrive at Exall's \$2.60 target price we use a combination of our estimated NAV (both Futures and Base) and a 2012E EV/DACF multiple. We are currently utilizing a 135% P/NAV and a 7.0 times EV/DACF multiple.

Exall continues to diverge from its peer group on a cash flow valuation basis despite having some of the lowest operating costs and highest corporate netbacks in our coverage universe. With continued positive news flow, and an increasing drilling inventory targeting the highly economic Gilwood sand formation, we expect that Exall's share price will appreciate and ultimately close 2012 the cash flow valuation discount the company currently exhibits. With the cash flow generating ability of their asset base we ultimately believe Exall should trade at a premium to their peers.

Exhibit 2: Valuation Comparison

		2011E		2012E	
		EE	Juniors	EE	Juniors
P/NAV*	%	125%	83%		
EV/DACF	times	7.2x	8.5x	4.7x	5.0x
P/CF	times	5.9x	6.4x	3.8x	3.9x
EV/boe/d	\$/boe/d	\$121,835	\$75,679	\$70,791	\$50,402
D/CF	times	1.4x	1.8x	1.2x	1.4x
D/CF w/o converts	times	1.4x	1.8x	1.2x	1.4x
Capex/Cash Flow	times	2.3x	3.3x	1.3x	1.5x

* Year End 2010E Futures NAV

Source: Dundee Securities

Key Risks to Target Price

Volatile commodity prices, rapidly increasing operating and/or service costs, access to oilfield equipment, unexpected changes in reserves and/or production, loss of key employees, changing Government regulations, environmental costs pertaining to reclamation or clean-up activities, geopolitical events causing volatility in commodity prices, disruptions at major facilities, limited liquidity in the capital markets, and integration risk given the large number of acquisitions in the sector.

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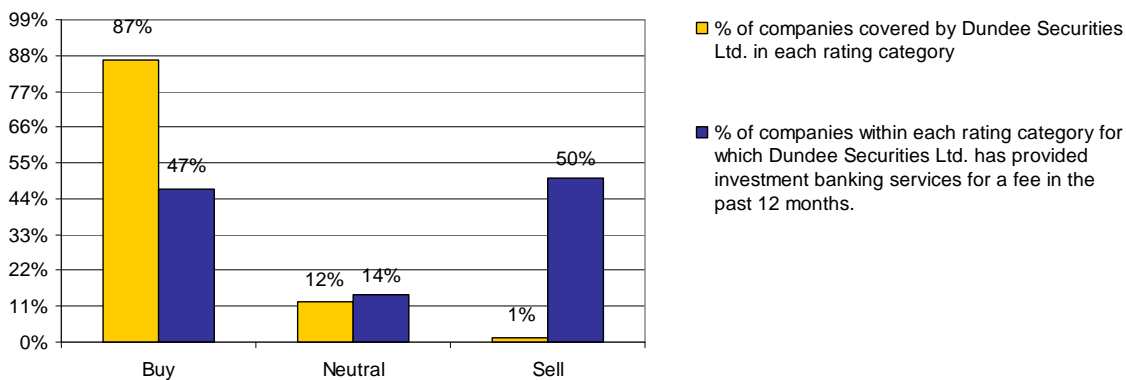
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