

## Exall Energy

(EE-T: C\$1.86)

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**BUY, High Risk\***

12-month target price: C\$2.40

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### Marten Mountain Continues to Deliver

Market Information (C\$)				
Market Cap (MM)				\$126.1
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				29%
Financial Data				
FYE: Dec. 31	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>	
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				
	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>	
P/NAV	128%			
EV/DACF	7.3x	7.4x	4.8x	
EV/Production (boe/d)	\$86,853	\$124,560	\$72,280	
Price/CFPS	5.8x	6.1x	3.9x	
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.

Two new Gilwood sand wells reinforced our belief that Exall's fourth quarter activity will position the company to exit the year producing double their third quarter volumes. When we combine the fact that current production sits at roughly 2,000 boe/d with the anticipation of 3 new Gilwood oil wells to be placed on stream before year end, we are confident in Exall's ability to meet their 2,250 - 2,500 boe/d 2011 exit guidance. The company's most recent Gilwood wells tested both the "A" and the "B" sand trends with the first well testing 160 boe/d from the "A" sand and the second one testing both intervals with rates of 480 boe/d and 300 boe/d for the "A" and the "B" sands respectively.

In conjunction with the anticipated production growth, we see a number of noteworthy catalysts on the horizon, most notably the recently spud seismic test well. Also adding some interest to the story is Exall's emerging Wabamun oil play where the company recently completed the drilling of their step-out exploration well. On the back of continued success in the Gilwood play and what we believe are very material near term catalysts we are maintaining our BUY rating, \$2.40 target price.

#### Operational Highlights:

- Participated in the drilling of 4 (2.68 net) oil wells with all wells being cased for oil production with two wells expected to be on production by mid-December and one well expected to be tied-in before the end of the year.
- Gilwood "A" sand well tested 160 boe/d and will produce initially at the new oil test rate. Additional Gilwood "A" and "B" sand well has been drilled and is awaiting completion operations. This well should be on production by year end.
- Exall subsequently tested both the Gilwood "A" and "B" sand trends in one well with production of 480 boe/d and 300 boe/d from the respective sands. It is expected this well can produce from the two sands concurrently.
- The company has cased their Wabamun exploration well (roughly 15 miles north-east of their discovery well) and is expecting to test the well before year end. Results from this well are expected by mid 2012.
- Recently spud Gilwood "A" sand well that will test Exall's Q1/2011 seismic program. Results are expected either late 2011 or early 2012.

#### Catalysts:

- Seismic well - A successful result from the recently spud Gilwood "A" well will enable Exall to drastically de-risk their greater Mitsue land base, significantly increase their drilling inventory and prove further repeatability.
- Wabamun play - Results from Exall's step-out Wabamun exploration well have the potential to prove up a 15 mile fairway prospective for the new oil play. Results are expected in the second quarter of 2012.

## Valuation

Driving their extremely attractive cash flow metrics is Exall's significant light oil weighting and low operating costs. We estimate under the current 2012 WTI strip Exall's cash flow netbacks will be in excess of \$45/boe, one of the best in our coverage universe. Despite their top tier netbacks, expanding resource and exposure to light oil, the company continues to lag its peer group's cash flow valuation metrics. Given the upcoming potential catalysts we see Exall's shares continuing to trend higher and eventually closing the cash flow valuation metric gap.

To arrive at Exall's \$2.40 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 6.0 times EV/DACF multiple.

### Exhibit 1: Valuation Comparison

		2011E		2012E	
		EE	Juniors	EE	Juniors
P/NAV*	%	128%	89%		
EV/DACF	times	7.4x	8.7x	4.8x	5.3x
P/CF	times	6.1x	6.7x	3.9x	4.2x
EV/boe/d	\$/boe/d	\$124,560	\$78,823	\$72,280	\$52,904
D/CF	times	1.4x	2.0x	1.2x	1.5x
D/CF w/o converts	times	1.4x	2.0x	1.2x	1.5x
Capex/Cash Flow	times	2.3x	3.2x	1.3x	1.3x

\* 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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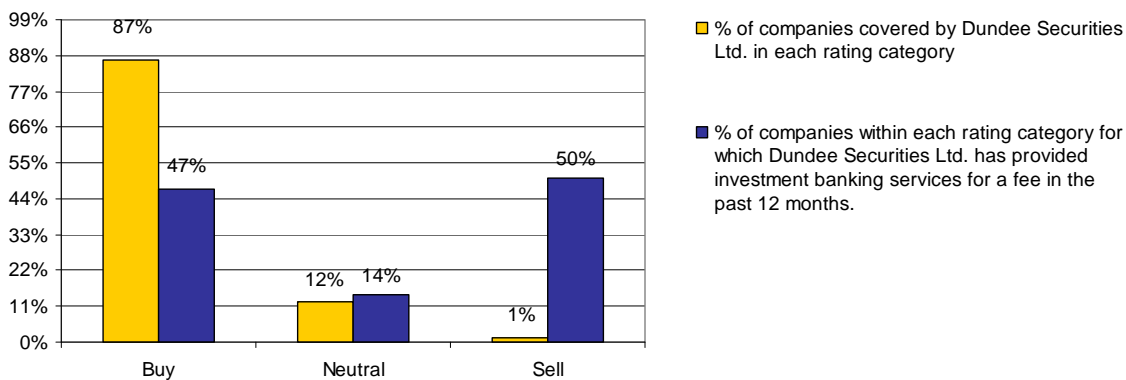
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