

EMERGING EQUITIES INC.

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February 7, 2012

Exall Energy Corporation

EE: TSX

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“Nice Bump in Light Oil Reserves just the Beginning”

Recommendation: **STRONG BUY**

12 Month Target: **\$3.15**

Operations	Q3-2011A*	2011E	2012E	Market Data
Oil & NGL - BOPD	879	1,123	2,275	Last Price (February 6, 2012) \$1.85
Natural Gas - MCF per Day	707	667	1,350	52 Week High \$2.50
BOE per Day 6:1	997	1,235	2,500	52 Week Low \$0.95
Reserves (P+P) - MMBOE's***	n/a	4.57		
Net Undeveloped Land (acres)	n/a	135,688		
Financials - \$MM				Share Capital - MM
Revenue (Net of Royalties)	\$16.6	\$27.8	\$58.6	Shares Outstanding - Basic 62.2
Net Earnings	\$4.7	\$8.1	\$20.2	Shares Outstanding - FD** 67.7
Cash Flow	\$12.4	\$21.1	\$46.8	
DACF	\$12.4	\$22.2	\$48.5	Capitalization - \$MM
Net Debt	\$24.2	\$26.8	\$42.9	Est. Net Debt - December 2011 \$26.8
Capital Expenditures (excl. A&D)	\$34.9	\$46.2	\$65.9	Market Value \$115.0
Net Asset Value*** - FD**	n/a	\$2.28		Enterprise Value \$141.9
EPS - FD**	\$0.07	\$0.12	\$0.30	
CFPS - FD**	\$0.19	\$0.31	\$0.69	
DACF per share - FD**	\$0.19	\$0.33	\$0.72	
Market Valuations				
P/E - Basic	17.4x	14.1x	5.7x	
P/CF - FD**	8.8x	5.5x	2.7x	
P/DACF - FD**	9.1x	5.7x	2.6x	
Net Debt/Cash Flow	2.0x	1.3x	0.9x	
EV per avg. BOE/PD - \$M	\$133.5	\$114.9	\$63.2	
EV/DACF	8.1x	6.4x	3.3x	

*-*Q3 2011A is for nine months ended September 30, 2011*
***FD share calculations assume all options and warrants.*
****Reserves – AJM Petroleum Consultants December 31, 2011, net debt of \$32.0 MM, land @ \$100/acre*
-Market and Enterprise Values are based on total basic shares outstanding.
-Net Debt includes all debt and working capital.
-DACF is debt adjusted cash flow.
-Oil price assumptions adjusted for corporate differential and natural gas liquids pricing.
-Expected Market Valuations based on EE-T closing price February 6, 2012. Actual Market Valuations based on weighted average historical EE-T stock price.



Chart: www.globeinvestor.com

Drilling Success Continues

In our November 22, 2011 initial report on Exall Energy Corporation ('Exall' or 'the Company'), we stated that the Company has "All the Ingredients to be a Top Tier Light Oil Producer". Although it is still in the early stages of its 2012 capital program, initial signs are very encouraging. On January 18, 2012, Exall announced a strategic and significant light oil discovery drilled on a 3D seismic channel anomaly in its Marten Mountain, Mitsue, Alberta operating area. The Gilwood A Sand discovery tested at 777 Boe/d (net 513 Boe/d) of 41 degree API sweet oil with small amount of solution gas.

Positive 2012 Reserve Update

As a result of this successful well, Exall retained AJM to undertake an independent evaluation of its oil and gas reserves effective December 31, 2011. The highlights of the AJM report are:

- a 41% jump in 2P reserves with an 11.0 year reserve life index (4.9 years on proven reserves),
- the NPV of the 2P reserves jumped 65% from 2010 to \$167.1 million, equating to \$2.46 per share fully diluted before tax, 10% discount rate,

Reserve Update Excludes Recent Gilwood Success

The results of the recent Gilwood light oil discovery noted in the January 18, 2012 press release were not included in the AJM's estimate of total proved reserves as the well was not on production at year end 2011. This well represents 389.0 MBoe of 2P reserves with an \$18.4 million value (10% NPV before tax). Exall anticipates that the inclusion of this well in the proved category as of January 31, 2012 will move two probable locations to the proved undeveloped category. This should be confirmed by a new AJM reserve report by the end of February 2012. Exall's booked reserves reflect very limited drilling to date with substantial unbooked reserve potential. The execution of the major 3D seismic program and subsequent further drilling success will lead to a major boost to the Company's year-end 2012 reserves. We would not be surprised to see close to as double in Proved reserves and Probable reserves by the end of this year.

2012 Should be a Banner Year

Exall has a very strong capital program set for 2012 with a major 3D seismic program and with two drilling rigs active all year. The Company plans to drill 8 to 16 Gilwood wells adding a risked 600-1,200 Boe/d net. As a result (and hopefully no serious forest fires this year in their area), we continue to expect the Company to produce an average 2012 rate of 2,500 Boe/d (this figure may be slightly lower depending on the timing of when new wells come on production) and exit the year at 3,000 Boe/d.

In summary, 2012 will be an exciting year for Exall for several reasons; production will continue to be 90% weighted to light oil which could average \$100/bbl, the major 3D seismic program should identify numerous new Gilwood locations, and importantly, continued drilling successes will prove the Gilwood trend extends well north and east of where most of the Gilwood has been produced and booked to date. Emerging Equities Inc. is reiterating its **STRONG BUY** recommendation and 12 month target price of **\$3.15**, which translates to **4.4x our 2012E DCAF**, based on \$0.72 per share fully diluted, and a **4.9x EV/2012E DCAF**.

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	<u>Potential Return</u>	<u>Risk</u>	<u>Ratings Distribution</u>
STRONG BUY:	30% or more	Medium	100%
STRONG SPECULATIVE BUY	30% or more	High	0%
SPECULATIVE BUY:	20% or more	High	0%
BUY:	20% or more	Medium	0%
HOLD:	10% or more	Medium	0%
REDUCE:	10% or less	Medium	0%
RESTRICTED:	Involved in Investment banking		

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	<u>Yes or No</u>
At the date of the Research Report, does the Analyst hold a position in the stock?	No
Has the Analyst received, directly or indirectly, compensation in exchange for expressing the specified recommendations?	No
The Analyst certifies that the views expressed in this report are his own.	Yes
Is EEI a market maker for the Company or income trust?	No
Does Emerging Equities beneficially own more than 1% of any class of the issuer's common stock (as of the most recent month end)?	No
Does any director, officer, employee of EEI or member of their household serve as a director or officer or advisory capacity to the issuer? (If so, list name):	No

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(EE: TSX)

Yes or No

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Has EEI provided the issuer with non-investment banking securities-related services in the past 12-months? No

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Has the analyst viewed the material operations of the issuer? If so, explain: No

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