Maison Placements Canada

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SCHACHTER ASSET MANAGEMENT INC.

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Vulcan Minerals Inc. VUL-V 0.360

Outperform

Potential Upside 122% Target Price $0.80

	2010 Forecast	2011 Forecast	2012 Forecast
Production			
Oil & Liquids b/d	n/a	n/a	n/a
Natural Gas mmcf/d	n/a	n/a	n/a
Total 6:1			
Volume Growth	n/a	n/a	n/a
Per million shares	n/a	n/a	n/a
Gross wells drilled	2	3	
Volumes Mix %			
Oil & Liquids	n/a	n/a	n/a
Natural Gas	n/a	n/a	n/a
Financials			
Cash Flow/Share	n/a	n/a	n/a
Price/Cash Flow	n/a	n/a	n/a
Gross Capex $M	$33M	$27M	n/a
Net Capex $M	$5M	$8M	n/a
Cash Flow $M	n/a	n/a	n/a
CapEx/Cash Flow	n/a	n/a	n/a
Commodity Prices (SAMI forecasts)	SAMI est	SAMI Est.	SAMI Est.
US$ WTI	$74.13	$73.75	
C$ AECO	$3.98	$4.38	

Reporting Periods

Year-end:		December 31st
Next Report	Q4	May/05/11

Shares O/S

Basic M:	55.2
Fully diluted M:	61.4

Financial Data

Market Cap $M:	$19.9
Enterprise Value $M:	$16.9

Reserve Life Index (years)

Proven:	n/a
P+P:	n/a

Net Asset Value @ 10% BT	BV $0.24
SAMI Estimate	n/a

Debt	Dec/10
Bank Debt Line $M:	$0
Bank Debt (Cash) $M:	($3)

Insider Ownership

President: Patrick Laracy 4.1M

Institutional Ownership:

Pinetree/Sheldon Inwentash	6M
Herb Abramson/Trapeze	8M

Service Providers

Bankers: ScotiaBank
Auditors: Deloitte & Touche
Engineers: Fekete Associates/RPS

Quarterly Results

	Production (b/d)			Cash Flow per Share		
	2010F	2011F	2012F	2010F	2011F	2012F
Q1	n/a	n/a	n/a	n/a	n/a	n/a
Q2	n/a	n/a	n/a	n/a	n/a	n/a
Q3	n/a	n/a	n/a	n/a	n/a	n/a
Q4	n/a	n/a	n/a	n/a	n/a	n/a
Exit						

Vulcan Minerals Inc.

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Company History & Management Info:

- Vulcan Minerals Inc. was originally formed in 1995 by President Patrick Laracy as a mineral exploration company. It later obtained petroleum leases in Newfoundland and Labrador. VUL focused on mining until 2003 when it obtained rights to key blocks in W. Nfld. when the majors returned the leases to the Crown. Exploration drilling commenced in 2004/2005. VUL may spin out mineral assets in 2011 and will change its name to an energy-related one. The company has 7 full time and 2 contract employees.

  Management: Pres & Chairman - Patrick Laracy CFO – Dawn Bishop Business Mgr/IR – Gerri MacNeil

Core Areas:

- VUL has a large land spread onshore Newfoundland and one large block of land offshore Labrador. Newfoundland has a successful offshore industry (Jeanne d'Arc Basin-Wildrose, Hibernia–3Bb of OOIP and 6.6Tcf of gas) but is in early stages of exploration onshore. There have been many oil seeps found in Western NL but only recently have wells been drilled into the deeper horizons that may hold economic prospective resources.
- Vulcan has two very meaningful relationships that add significant value via technical capability and financial capacity. A deal with SDCM (a $B French private company) controlled by the Bouygues family has farmed in on its key plays (via Investcan Energy) and will fund the majority of the current activity. In addition, the company is partnered with the provincial energy crown corporation, Nalcor Oil & Gas, on a key natural gas play at Bay St. George.

Key Impact Plays / Black Gold Wealth Creation:

- At **Parsons Pond** (Western Newfoundland) VUL has 3 onshore permits (425 sq km) with interests from 7-12% with Nalcor Oil and Gas (operator, WI 67%). VUL is working on a 3-well exploration program following up on surface oil seeps. Total depth is to 3,250 metres. The first well is to be tested shortly. The second well in the program Finnegan #1 reached total depth and a test program is being evaluated for natural gas. The third well in the program Darcy #1 is to be spudded in early 2011. The big upside could come from the oil potential which is 40 degree API (oil seeps) and the 3P potential is 17-150MB OOIP.
- In **Bay St. George,** VUL (Investcan 50%) has 3 petroleum permits covering 236k acres targeting a natural gas play, an analogue to the McCully field. An injectivity testing program has successfully been done on the two completed wells (Robinson #1, depth 3,560 metres) and Red Brook #2, 1,965 metres). The information will help to design the appropriate frac technique and then test the natural gas bearing zones. They will need to mobilize fracing equipment from Western Canada when equipment is available during spring breakup. If this phase is successful, further delineation drilling will occur to scope out the size of the resource. If significant, a monetization could occur via use of the natural gas to create electricity (displacing bunker fuel) which would prove economically successful. A seismic program to determine the size of the feature and to define other drilling targets was recently completed. If successful this could be the first project to be brought on production with a possible launch date in 2012. The size of the prize could be 3P resources of 200BCF–1Tcf and up to 20MB of recoverable oil at Flat Bay.
- **Labrador offshore,** on the EL1107 license VUL (Investcan 70%, VUL 30%) has a very high-impact exploration natural-gas play on a large block of land in the Hopedale Basin. This fairway has had limited drilling recently, but in the 1970's five significant liquids-rich natural gas discoveries were made (4.2Tcf). Test results from 2 of those wells had IP rates of 20mmcf/d and 500 boe/d of condensate, and the other 28mmcf/d and 170 boe/d of liquids. It is the smallest company among the land holders in the area (work commitment of $9.6M) which has drawn attention and work-commitment bids by Chevron ($46.5M) Husky ($10.1M) and Husky/Suncor ($120.1M). The JV partners completed a major $8.2M seismic program to define drilling opportunities and then farm-out the expensive drilling to a large player. By funding the 2D seismic program, Investcan earned 20% of VUL's ownership. VUL now holds a 30% working interest. If the seismic indicates attractive drilling opportunities and a successful farm-out, any success could be a major home run for the company. However, the lead time to drill bit activity could be very long. The 3P prize could be many Tcf's.

Recent Operational & Financial Results:

- VUL this month will complete a small FT raising $300K selling 667K shares at $0.45. In 2011, they may need to raise $5-10M to meet their capex budget.
- **Our 12-month stock target of $0.80 is derived from a discount to the >$1/share of drilling and seismic activity being undertaken on VUL's lands during 2010 and 2011. With any material success with the drill bit the leverage to the upside is multiples of this target.**
- **VUL will see spending $60M over the next 2 years (2010 and 2011) on their lands of which it will only pay $13M. For a market cap of <$20M this is a big bang from other JV dollars. With even moderate success, our target may prove very conservative.**

Balance of Evidence

Growth Drivers	Limits to Growth
▪ Creative and financial partnership with very large and successful French family familiar with the oil & gas industry. The Bouygues family has brought financial and technical support to the JV. ▪ A partnership with the provincial energy company provides focus to move joint projects forward.	▪ Getting equipment into operational areas is expensive and securing windows when the equipment is not used in Western Canada is difficult. ▪ Costs are higher in Newfoundland due to lack of on-shore infrastructure. VUL needs a material success with the drill bit to attract further growth capital.

Analyst Disclosure

Company Name	Trading Symbol	*Exchange	Disclosure Code	Recommendation
Vulcan Minerals Inc.	VUL	V		O

Performance Ranking:

Current Price to Target next 12 Months

O	Out Perform	**> 25%**
M	Market Perform	**15-25%**
U	Under Perform	**< 15%**
U.R.	Under Review	**T** Tender to Offer

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