

Bankers Petroleum Ltd.

BNK : TSX : C\$1.17

BUY

Target: C\$2.50

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Energy -- Oil and Gas, Exploration and Production

ANNOUNCES RESERVE INCREASES

Event

Bankers released updated reserves today, for the year-end 2008. The Patos Marinza field was evaluated by RPS Energy Canada Ltd., while the Kuçova field was evaluated by DeGolyer and McNaughton Canada Ltd.

The company's proved reserves at the end of 2008 increased 23% to 62.6 million barrels from 50.8 million barrels at the end of 2007. Proved plus probable reserves increased 22% to 179.3 million barrels, from 147.1 million barrels at the end of 2007. Meanwhile, proved, probable and possible reserves increased 26% to 302.6 million from 240.6 million barrels in 2007. F&D costs were US\$4.46/b for P reserves and US\$1.80/b for 2P reserves. Please see Figure 1 for a summary and year-over-year changes of the company's reserves.

Figure 1: Bankers' 2008 year-end reserves

Total Albania	Reserves (Mbbbl)			F&D Costs (US\$/b)
	2008	2007	% Δ	
Proved				
Developed Producing	19,500	13,986	39%	
Developed Non-Producing	0	0		
Undeveloped	43,100	36,821	17%	
Total Proved	62,600	50,807	23%	\$4.46
Probable	116,683	96,248	21%	
Total Proved plus Probable	179,283	147,055	22%	\$1.80
Possible	123,343	93,505	32%	
Total Proved plus Probable plus Possible	302,626	240,560	26%	\$0.97

Note - F&D costs were calculated by Bankers using estimated expenditure costs. Expenditures for 2008 have not yet been finalized.

Source: Company reports

Of note, the original oil-in-place estimate for the Patos Marinza field has increased 140% to 4.7 billion barrels. The original oil-in-place estimate for Kuçova remains at 297 million barrels, and changes to its P, 2P and 3P reserves were minimal as the field was evaluated in September 2008 and there is no production at this field yet.

Based on the company's and the third-party reserve engineer's calculations, the NPV of its proved reserves (after-tax and discounted at 10%) was US\$233.4 million, which represents only a slight increase from a value of US\$230.6 million associated with its reserves in 2007. However, its internally evaluated NPV for its 2P reserves increased 40% to US\$1,007.7 million, up significantly from an NPV of US\$720.1 million in 2007. Please see Figure 2 for a summary of the net present values associated with Bankers' reserves.

Figure 2: The net present value of Bankers' 2008 reserves

(US millions)	NPV		
	2008	2007	% Δ
Proved			
Developed Producing	\$101.0	\$93.4	8%
Developed Non-Producing	\$0.0	\$0.0	
Undeveloped	\$132.4	\$137.2	-3%
Total Proved	\$233.4	\$230.6	1%
Probable	\$774.3	\$489.5	58%
Total Proved plus Probable	\$1,007.7	\$720.1	40%
Possible	\$532.9	\$289.0	
Total Proved plus Probable plus Possible	\$1,540.6	\$1,009.1	53%

Note - The NPV estimates in the above table are internal estimates by Bankers Petroleum and third-party reserve engineers. NPV is after-tax, based on a 10% discount rate.

Source: Company reports

Impact

Positive. The increase in reported reserves at the end of 2008 underscores the immense potential of Bankers' heavy oil fields, and a higher NAV.

Action

We currently have a BUY rating on Bankers and a 12-month target price C\$2.50.

Valuation

Our target price approximates our current proven NAV per share of US\$1.98 only. Significant potential upside exists to our valuation following successful execution of its EOR development plans.

Investment risks

Investors need to be aware of the risks inherent in the oil and gas industry, which comprise risks to our target price and rating for Bankers Petroleum. Without limitation, these risks include:

Reserve and resource risks: Bankers Petroleum currently provides third-party reserves evaluation on its producing assets according to Canadian NI 51-101 standards. While the availability of third-party estimates lowers the risks associated with the company's petroleum reserves, we note that any such calculations remain dependent on long-term oil pricing, geological assumptions made, and the company's ability to produce said reserves.

All other resource estimates used are based on Bankers' internally generated data, and thus carry a higher risk level than third-party estimates. There are also risks associated with replacement of reserves required to sustain the long-term growth of the company.

Development risk: The company's value lies predominantly in the development and production of oil and gas projects that carry completion risk. Delays in the development schedule or increases in capital requirements, for example, may negatively impact our suggested valuation. Similarly, faster development than anticipated, or lower capital expenditures than expected, may positively impact our suggested valuation of the company. Access on favourable terms to oilfield services, equipment and labour could also materially impact our valuation of Bankers.

Country risk: The company's exploration, producing and potential properties are located in Albania. The company's operations and financial results, and hence our valuation of the company, could be adversely, or positively, affected by events beyond its control taken by the current or future governments in that country with respect to policy changes regarding taxation, regulation, and other business environment changes.

Economic risk: Our suggested valuation is impacted by our long-term price assumptions for oil. We have indicated the impact of price on our valuation using three price scenarios. Volatility in crude oil and natural gas prices could materially affect the company's financial performance and, therefore, the accuracy of our estimates for Bankers.

Our net present value calculation assumes a discount rate of 12% on after-tax cash flows for proven and probable reserves (2P), and a discount rate of 15% on estimated incremental after-tax cash flows from EOR potential. Our discount rate assumptions are intended to reflect recent increases in the equity risk premium for the market; however, different discount rate assumptions could materially change our net present value calculation.

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Site Visit: An analyst has not visited the company’s material operations in Albania.

Price Chart:*



Date	Analyst	Rating	Target Price
1) 10/16/07	RK	Hold	1.56
2) 11/06/07	RK	Buy	2.40
3) 11/09/07	RK	Buy	3.60
4) 01/18/08	RK	Buy	4.05
5) 03/10/08	RK	Buy	4.95
6) 03/27/08	RK	Suspended	
7) 11/11/08	TP	Buy	3.25
8) 12/17/08	TP	Buy	2.50

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 4 February 2009)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	339	60%	31	31%
Speculative Buy	68	12%	53	53%
Hold	135	24%	24	24%
Sell	23	4%	26	26%
	565	100%		

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Bankers Petroleum Ltd.	1A, 2, 3, 4, 5, 7, 11 (John Zaozirny)

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