7 November 2011

Price/Target:	**A$0.56/A$ 1.06**
Mkt Cap:	**A$65m**
Net Cash/(Debt) (FY1)	**A$13m**

Jun	2011A	2012E	2013E
PBT	(4.9)	(4.9)	3.8
EPS (A$)	(5.3)	(2.8)	2.1
DPS (A$)	0.0	0.0	0.0
P/E (x)	-	-	0.3x

STARMINE A THOMSON REUTERS COMPANY

Evolution ranked:

1st for FTSE 100 Recommendations

1st for FTSE250 Recommendations

* Analysts are ranked according to how their stock recommendations have performed relative to their industry benchmark

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The company has reviewed a draft of this research note and factual changes have been made

Jupiter Energy (JPR.AU) **Buy**

Cornerstone in Kazakhstan

Jupiter is commercialising a 24mbbl reserve base onshore Kazakhstan, boosting production from 600 b/d at end 2011 to 4,000 b/d in 2015. The increasing cash flow from operations should allow the experienced management team, backed by supportive significant shareholders to expand its portfolio and build significant value.

Jupiter's main asset is Block 31/ Block 31 extension in the prolific Mangistau basin onshore Kazakhstan. A 3D survey and successful drilling has established a 24.2m bbl 2P reserve base. The strategy is to exploit this reserve base, drilling additional wells to boost both reserves and production with production commencing at 600 b/d by end 2011 and increasing to over 4,000 b/d by 2015. The group has extended the acreage to the south east with additional exploration potential of 10-20m bbls, currently being explored with the acquisition of 3D seismic.

The company had net cash of A$9.4m at end September 2011, and raised a further $3.45m through a convertible note in October. The company has no debt other than the A$3.45m convertible.

Jupiter is backed by experienced cornerstone investors Waterford (29%) and Souyuzneftegas (9.9% with an increase up to 13% on conversion of the convertible), which both have a successful track record of early upstream investment.

News flow will come from current testing on well J 51, start of production on J-50 and J-52 wells around year end, further drilling in late 2011 (J-53) and 1H 2012 (J-55) and the results of the interpretation of the new 3D seismic over Block 31 extension.

Jupiter is currently listed in Australia, but is to be additionally admitted to trading on AIM on November 9th. The current share price of A$0.56 (equivalent to 37p/share) is a substantial discount to our target price of A$1.06 (70p/share), which is based on existing 2P reserves only. Whilst the funding requirement to develop the 2P reserves may explain part of the discount, there is substantial upside once this issue is resolved.

Year End Jun	2010A	2011A	2012E	2013E	2014E
Sales (A$m)	0.0	0.1	4.2	31.8	63.6
EBITDA (A$m)	(5.4)	(5.8)	(4.9)	3.8	18.2
EVO PBT (A$m)	0.0	(4.9)	(4.9)	3.8	18.2
EPS (A$)	0.0	(5.3)	(2.8)	2.1	10.2
DPS (A$)	0.0	0.0	0.0	0.0	0.0
Growth PBT (%)		-	-	-	+383%
Growth EPS (%)		-	-	-	+383%
P/E (x)	-	-	-	0.3x	0.1x
EV/Sales (x)	633.6x	578.5x	12.0x	1.6x	0.8x
EV/EBITDA (x)	-	-	-	13.9x	2.8x
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Jupiter Energy

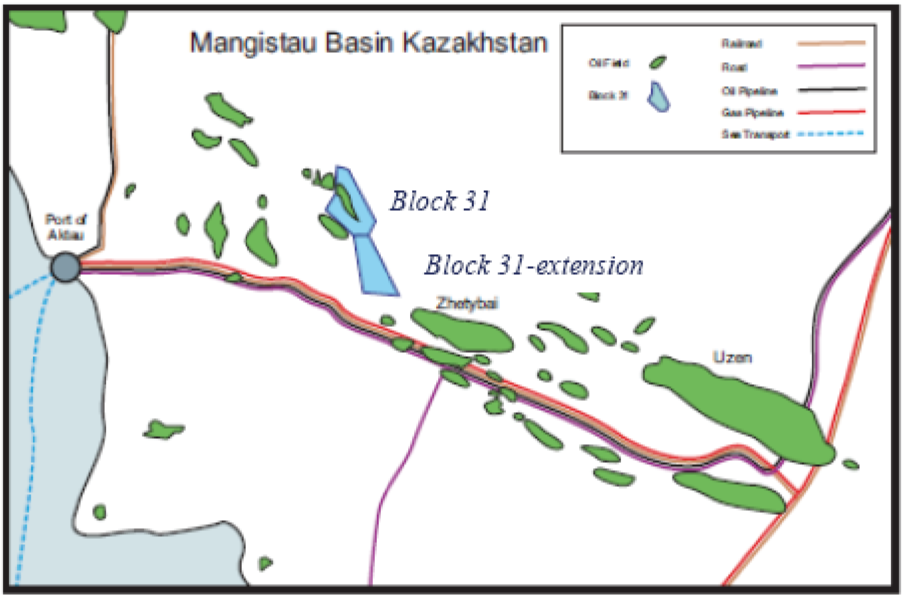
Summary

The Company is focussed on oil exploration and production in Kazakhstan and through its wholly owned Singaporean subsidiary, Jupiter Energy Pte Ltd, currently owns 100 per cent of Block 31/ Block 31 extension, exploration and production permit located in the prolific oil-rich Mangistau Basin, close to the port city of Aktau.

Mangistau Basin overview

- Onshore basin 300km by 100km in Western Kazakhstan bordering the Caspian Sea.
- The Geology consists of a Triassic NW-SE failed rift with horst and graben and a syn-rift Jurassic clastic sequence.
- Potential reservoirs are overlain by a Cretaceous to Tertiary shale cover.
- Total reserves in the basin are estimated in excess of 5bn bbls including two giant oilfields – Uzen and Zhetybai.
- The basin contains a well developed infrastructure including road, pipelines and railways.

Mangistau Basin showing location of Block 31 and infrastructure



Source: Company

Jupiter portfolio

The current portfolio consists of a 123 sq km Block 31/ Block 31 extension in the Mangistau oil basin in Western Kazakhstan, adjacent to the Akkar North and NW Zhetybai oilfields and with the southern boundary just north of the Zhetybai field.

Previous work on the licence includes a regional 2D seismic grid.

The Block 31 permit was issued in Dec 2006 and was acquired by Jupiter in June 2008. An initial 95 sq km 3D seismic survey was shot over the most prospective area of the permit and interpreted from November 2008 through to April 2009. The Company identified a range of targets as a result of the 3D program and commenced a drilling program. A further 145 sq km of 3D seismic was acquired in 3Q 2011 and interpretation of this 3D will be completed before year end.

These targets includes Middle Triassic structures similar to the adjoining Akkar North and NW Zhetybai oil fields.

The J50 well was drilled in Dec 2009 and was a commercial oil discovery, flowing 350 b/d of 42 degree API oil on a 8mm choke. The well was subsequently put on 3 month production test.

The J52 well was drilled in late 2010 and was also a commercial oil discovery (flowed 42 degree API oil at 516 b/d on 8 mm choke and 849 b/d on 12mm choke). This well was also put on a 3 month production test,

These wells are now referred to as the East Akkar oil field.

The third well in the programme – J51 - was drilled in 3Q 2011 and is currently being prepared for stimulation and testing. If successful, the company has approvals in place to start a 3 month testing programme.

Jupiter has a skilled Kazakh team with in country operations, geoscience and administrative functions centralised in Aktau (32 staff), 80km from the block;

Licence details

The exploration licence was acquired in June 2008 and expires in December 2012. It may be extended by 2x two-year terms until Dec 2016.

The work commitment was a 3D seismic programme and five wells. The Company has fulfilled all its work commitments to date.

In September 2011 the Kazakhstan Oil & Gas Ministry extended the area of Block 31 from 59 sq km to 123 sq km (Block 31 extension).

Following successful drilling, the company can apply for a 25 year production licence over an identified field, whilst retaining parts of the block under the exploration licence.

During the Exploration Period, a trial production licence can be issued and can run for 3 years (unlike test production which has a maximum 3 month term), and subject to additional government approvals, some of the production during this phase can be sold in foreign markets where crude prices are significantly higher than the domestic market.

During the Production Licence period, the split between export and domestic sales is set at 80% export and 20% domestic although a higher % for export sales can be achieved, again subject to government approval.

Reserves

Following the drilling of the J-50 and J-52 wells, an updated independent reserves report by Senergy concluded in May 2011 that the 2P recoverable reserves from the Triassic reservoirs were now estimated at 24.2 million barrels of oil.

The thicker than expected oil column encountered in the J-51 well could have potential positive indications for reserves, but until production testing is complete it is too early to call.

Prospective resources

The summary of the Senergy experts report of May 2011 is shown below.

Summary of Reserves & Resources (Triassic) – m bbls

Reserves	STOIIP	Recoverable
P50	104.6	24.2
Resources		
P50	42.8	9.9

Source: Senergy

In addition to these reserves/resources, local Kazakh consulting firm Reservoir Evaluation Services LLP identified a further 37.4m bbls of prospective resources in the northern sector of Block 31.

Finally, Jupiter believes that there could be an additional 10m bbls of resources in Jurassic reservoirs in Block 31, but commercial production from this horizon has yet to be established.

Additional upside in the new extension area is yet to be determined although it is expected that the J-55 well will be drilled in this new area during 1H 2012, subject to the interpretation of the recent 3D seismic identifying a suitable prospect.

Completion of the current drilling and testing programme is essential before adjustments are made to the Senergy numbers in the table above, but there is clearly considerable upside to these numbers in due course.

Production

A trial production licence (TPL) was approved by the Kazakh Central Development Committee at the end of September 2011 for wells J50 and J52.

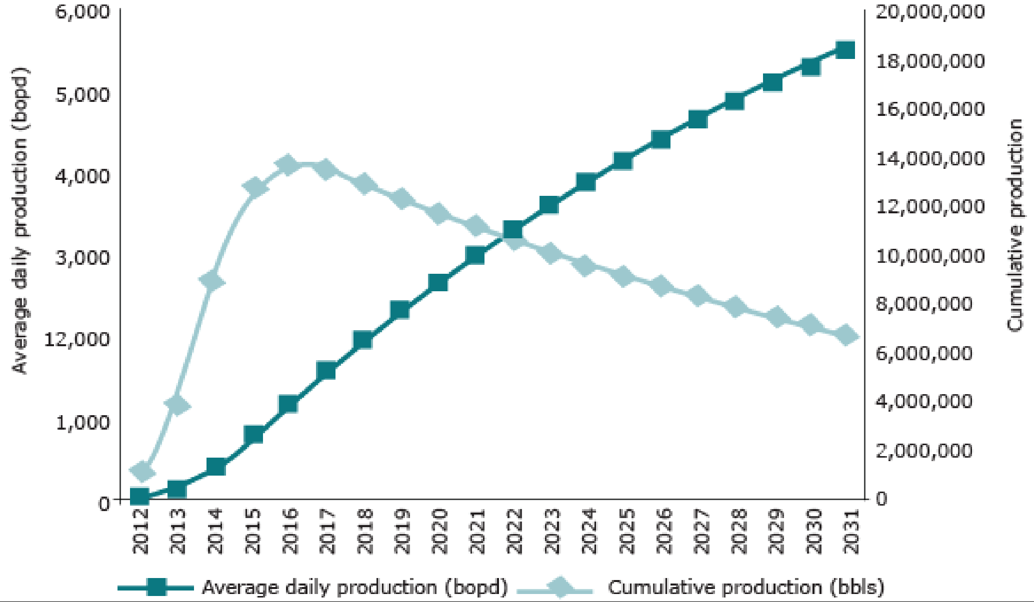
These approvals should allow the company to put these wells into production from the Triassic reservoir by end 2011, subject to local approvals and transport agreements.

Production is expected to be around 600 b/d, initially sold to the domestic market from the wellhead.

Over time, the intention is to sell the majority of oil produced from the Block 31 Contract into the export market once Jupiter has elected to seek approval to move from the exploration licence phase to the production phase.

With the completion of the 5-well drilling programme, the company expects oil output to rise from the 600 b/d to 2000 b/d by end 2012. This increased production would require some surface facilities – pipelines and tanks, although at this stage the company is not looking at on-site processing, this being carried out at a third party site.

Forecast production profile (b/d)

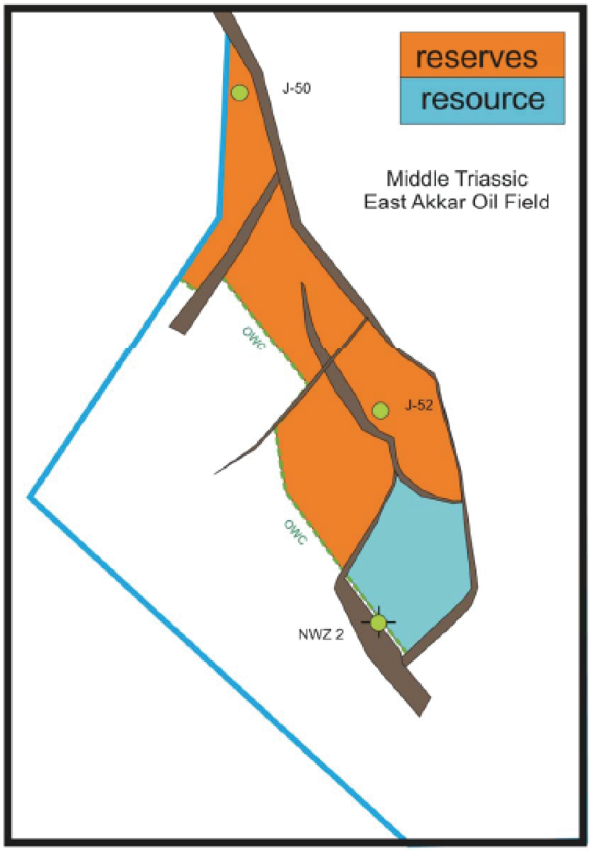


Source: Company

By 2015 the company plans to have around 10 producing wells with peak production of 4,000 b/d.

The production profile above is based on an initial production rate of 400 b/d per well from 10 wells with a 5% annual decline rate, producing the 24.2m bbls reserves over a 20 year field life.

Map of Block 31 East Akkar field development area



Source: Company

Exploration/Appraisal

Jupiter has drilled three out of its five commitment wells. The third well- J51- has been drilled and reached TD. The results suggest that the net oil column in the well is thicker than in the J50 or J52 wells. The well is to be stimulated and tested over the next three months, with stabilised flow rates expected before the end of the year.

The company expects to start drilling the J53 commitment well in late 2011 and the last commitment well (J-55) in 1H12.

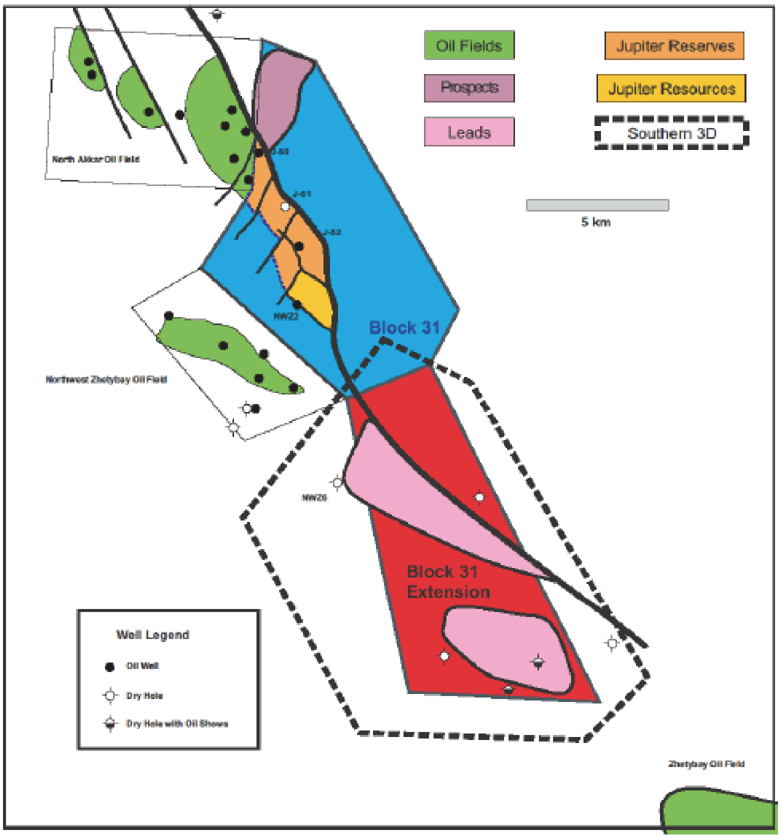
An additional 5 appraisal wells could be drilled giving a total of 10.

An old soviet well - NWZ-2 well - was drilled in 1969 and logged 30m of net sand in the Jurassic. In October 2009 Jupiter re-entered the well for production testing. The Company also tested the Jurassic structure in the J52 well but failed to flow oil at commercial rates. Further testing will be carried out in future wells that encounter the same Jurassic formation in an effort to prove up Jurassic reserves.

The Block 31 extension is likely to contain significant exploration upside.

145 sq km 3D seismic, acquired in late September 2011 should be interpreted by late 2011 and the company anticipates that at least 2 leads could firm up into drillable prospects with prospective resources of 20m bbls.

Map of block 31 and 31 extension showing leads and prospects



Source: Company

Finance

- Jupiter has raised A$14.1m in the period 2008-10 through a number of equity issues
- In the year to June 2011, the company raised A$27.9m
- In September 2011 the company issued a A$3.45m convertible to Souyuzneftegas with a conversion price of A$0.75, a 50% premium to the then price.
- Proceeds are to be used to complete the current drilling programme and fund the AIM admission.
- (Note that the company undertook a 15:1 share consolidation in August 2011.)

Capex

Exploration/appraisal well costs are in the range of A$5m-6m, whilst development wells are expected to cost around A$3.5m each.

We estimate the cost to drill and complete for production a total of 10 wells for production to achieve the 4000 b/d target in 2015 would require capex of up to A$40m, with some of this being funded from production cash flow.

Cashflow

The forecasts are based on the start-up of production in early 2012 and ramping up to the target of 4000 b/d by 2015.

Initial production is expected to be sold into the domestic market (sold at the well head), and likely to realise a price in the $35-40/bbl range in the current market (we have assumed $40/bbl in our forecasts).

Once a production licence has been approved, we would expect the bulk of production to be sold for export, with realised prices in the range of world market price less $10/bbl (we have assume Brent less $10/bbl in our forecasts).

Therefore, by late 2013 we would expect around 80% of production from the Akkar East field to be sold at world market prices and around 20% at domestic prices.

The company has indicated that it expects net backs of around $20/bbl for oil sold into the domestic market, based on pricing at the current levels.

After the issue of the convertible by Souyuzneftegas (details above), we estimate the company has around A$13m of cash. Sufficient to complete its current work programme, which is for A$9.9m of committed capex including A$5.8m with respect to J51 and J53 wells.

We estimate that the company will require funds of up to A$40m in 2012/13 to fund the ongoing drilling programme and production facilities to achieve its production growth targets and reach cash flow neutrality.

The board has indicated that it is exploring the opportunity to undertake an equity fundraising with a view to accelerating the development plans and broadening the shareholder base.

We would expect the company to reach "self-sufficiency" with cash flow from operations covering the capex requirement for field development beyond 2013 providing;

1. Production rates reach the strategic goals set out.
2. The majority of production is sold into the export market and achieves higher prices.

Valuation

Summary of NAV plus risked EMV of Jupiter

	Gross recoverable resource	Jupiter interest	Risking	NPV/bbl	Risked value A$m	A$/ share
Block 31 2P reserves	24.2	100%	100%	8.0	194	1.06
Block 31 prospective resources	9.9	100%	25%	8.0	20	0.11
Total						1.17

Source: EvoSecurities, Company

Based on $90/bbl long term. Number of shares 116m fully diluted

The valuation of the company is relatively straight forward with an established 2P reserve base which is shortly to come on stream. Based on a $90/bbl long term oil price, with an 80:20 split between export and domestic production/pricing, we conservatively arrive at an NPV/bbl of $8.

This values the 2P reserve base at just over A$1/share (70p).

Adding in the risked prospective resources takes the Core plus risked EMV to $1.17/share (76p).

Note that the valuation does not take into effect the potential dilution as a result of raising the additional finance beyond the production cash flow to fund the up to A$40m required to develop the existing 2P reserve base.

Major shareholders

116m shares in issue

0.87m unlisted options (Dec 2012 at prices between A$1.50 and A$2.77)

2.3m performance based rights

- Waterford Petroleum (WPL) 29.7%
- Soyuzneftegas (SNG) 9.9% (13% if convertible exercised into 4.6m shares at A$0.75)
- Management 3%

Strategy

- To maintain 100% equity position in the Block to maximise value options.
- Explore potential resources and add new reserves.
- Develop growing reserve base into production.
- To grow production using cost effective drilling and stimulation techniques.
- Grow production to a stage where the capex programme is self- funded from production and allow the company to add to its portfolio.
- Continue to build in country operating capability using experienced Kazakh staff.
- Expand portfolio in proven oil trend and other areas.
- Exit strategy could be a disposal to a strategic investor.

Management

Geoff Gander (Chairman/CEO)

Geoff graduated from the University of Western Australia in 1984 where he completed a Bachelor of Commerce Degree. He has been involved in the listing and running of public companies since 1994. Geoff was appointed as a Director of Jupiter Energy Limited on 27 January 2005 and is currently responsible for Group Corporate Development, Group Investor Relations and overall Operational Leadership.

Alastair Beardsall (NXD)

Alastair has been involved in the oil industry for 30 years. In 1980 Alastair started work with Schlumberger, the oil-field services company, and from 1992 he began working for independent exploration and production operators, with increasing responsibility for specific exploration, development and production ventures. Between September 2003 and October 2009, Alastair was Executive Chairman of Emerald Energy plc during which time Emerald grew, from a market capitalisation of less than £8 million, until in October 2009 Emerald was acquired by Sinochem Resources UK Limited, for £7.50 per share in a transaction that valued Emerald at £532 million. Alastair is currently Executive Chairman of Sterling Energy Plc

Baltabek Kuandykov (NXD)

Baltabek is currently President of Meridian Petroleum, a privately held Kazakh oil & gas company. He was formerly President of Nelson Resources Limited, the oil development and production company operating in Kazakhstan which was listed on the Toronto Stock Exchange until its acquisition by Lukoil in 2005. Mr Kuandykov has considerable experience in the oil and gas industry in the region, having served as President of Kazakhoil (predecessor of the Kazakh State oil company KazMunaiGas) and is a well respected consultant to Chevron Overseas Petroleum on CIS projects. He also worked in a senior capacity for Kazneftegazrazvedka and was president of Kazakhstancaspishelf. Mr Kuandykov also has extensive government experience in Kazakhstan, having served as Deputy Minister of Geology, Head of the Oil and Gas Directorate at the Ministry of Geology, and was Deputy Minister of Energy and Fuel Resources

Scot Mison (NXD, Company secretary)

Mr Mison holds a Bachelor of Business degree, major in Accounting and Business Law, is a Member of the Institute of Chartered Accountants in Australia and Chartered Secretaries Australia. Mr Mison commenced his career at a large international accounting firm and has since worked with a number of listed companies that operate in the resource sector.

Conclusion

Jupiter has access to low risk 2P reserves and an increasing production profile. Production increases should generate cash flow to fund further exploration in the areas.

Jupiter is currently listed in Australia, but is to be additionally admitted to trading on AIM on November 9th. The current share price of A$0.56 (37p/share) is a substantial discount to our target price of A$1.06 (70p/share), which is based on 2P reserves only. Whilst the funding requirement to develop the 2P reserves may explain part of the discount, there is substantial upside once this issue is resolved.

Jupiter Energy (JPR.AU)

Rating	Price Target	Price	Market Cap	Net Cash	EV
Buy	A$1.06	A$0.56	A$65m	A$13m	A$51m

Year End Jun	2010A	2011A	2012E	2013E	2014E
P&L(A$m)					
Sales	0.0	0.1	4.2	31.8	63.6
Operating Profit	(5.4)	(5.8)	(4.9)	3.8	18.2
EVO PBT	0.0	(4.9)	(4.9)	3.8	18.2
EPS (A$)	0.0	(5.3)	(2.8)	2.1	10.2
DPS (A$)	0.0	0.0	0.0	0.0	0.0
Cash flow(A$m)					
Operating cash flow	(5.4)	(5.8)	(4.9)	3.8	18.2
Interest and tax paid	0.0	0.0	0.0	0.0	0.0
Capex and acquisitions	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Share issues	0.0	0.0	0.0	0.0	0.0
Other items	5.4	18.4	3.7	(12.7)	(13.9)
Change in net cash	0.0	12.6	(1.2)	(8.9)	4.3
Balance Sheet(A$m)					
Closing net cash	1.3	14.0	12.8	3.8	8.1
Net assets	0.0	0.0	0.0	0.0	0.0

Year End Jun	2010A	2011A	2012E	2013E	2014E
Growth					
Sales	-78%	+55%	+6,444%	+650%	+100%
Operating profit	-	-	-	-	+383%
EPS		-	-	-	+383%
DPS					
Operating Ratios					
Operating margin		-8,909%	-116%	+12%	+29%
Effective tax rate	0%	0%	35%	35%	35%
Leverage					
Net debt/Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt/EBITDA	0.2x	2.4x	2.8x	-	-
Operating profit/Net interest	53.4x	-			
EPS/DPS					

Year End Jun	2010A	2011A	2012E	2013E	2014E
Valuation					
P/E	-	-	-	0.3x	0.1x
EV/Sales (x)	633.6x	578.5x	12.0x	1.6x	0.8x
EV/EBITDA	-	-	-	13.9x	2.8x
Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Disclosures

Analyst details

Keith Morris - Research Analyst

AMEC⦿	Nautical Petroleum◆⦿	Saipem⦿	Falkland Oil & Gas⦿
Cape⦿	Petrofac⦿	President Petroleum◆⦿	Desire Petroleum⦿
Faroe Petroleum⦿	Sterling Energy◆⦿	Subsea 7 S.A.⦿	Rockhopper⦿
Green Dragon Gas◆⦿	Wood Group⦿	Petrolatina◆⦿	Greka Drilling Ltd.◆⦿
Hunting PLC⦿	Hamworthy⦿	Circle Oil◆⦿	
Kentz Corp Ltd◆⦿	Technip⦿	Argos Resources◆⦿	
Lamprell⦿	SBM Offshore⦿	Borders & Southern⦿	

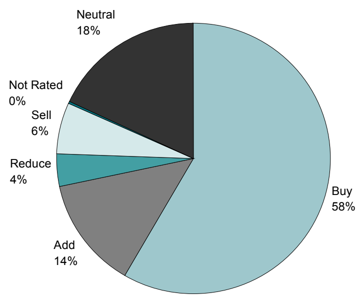
Richard Griffith - Research Analyst

Afren⦿	RDS⦿	Salamander Energy⦿	Cairn⦿
BG Group⦿	SOCO International⦿	BP⦿	Cove Energy⦿
Gulf Keystone⦿	Tullow Oil⦿	ENI⦿	Dominion Petroleum⦿
Petroceltic⦿	Bowleven⦿	Total⦿	Tower Resources◆⦿
Premier Oil⦿	Heritage Oil⦿	Repsol⦿	

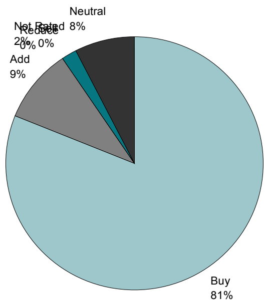
Key: ◘ Analyst has financial interest, ▣ Analyst has material interest, ✱ Analyst is a director, ◈ Analyst has a business interest, ◆ EVO Securities is broker and/or advisor and has in the last twelve months acted as broker and/or advisor or provided investment banking services, for which it has received compensation within the next three months, ◇ EVO Securities is no longer broker and/or advisor, but has in the last twelve months acted as broker and/or advisor or provided investment banking services, for which they have received compensation or are expecting compensation within the next three months, ⦿ EVO Securities makes markets in the company, ✚ EVO Securities has shareholdings in the Company in excess of 5%, ✖ The Company has shareholdings in Evolution Group plc in excess of 5%

There is no recommendation history table as this is an initiation of coverage

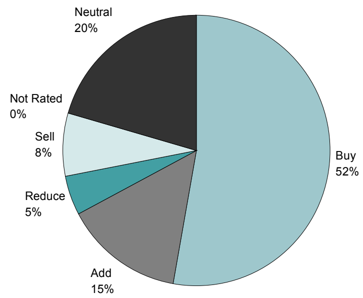
% of recommendations
(all stocks)



% of recommendations
(corporate stocks)



% of recommendations
(non-corporate stocks)



Equity research recommendation guide

Absolute basis, expected performance over the next 12 month period.

Buy: 10% or greater increase in share price	Sell: 10% or more decrease in share price
Add: 5-10% increase in share price	Reduce: 5-10% decrease in share price
Neutral: +5% / -5% variation in share price	

The following Evolution research teams adopt a sector relative approach to recommendations: Banks, Property, Gold

Sector* relative basis, expected performance over next 12 months

Buy: Stock expected to outperform the sector and be among most attractive in sector

Neutral: Stock expected to perform in-line with the sector and may increase / decrease in value but remain less attractive than Buy-rated stocks / more attractive than Sell-rated stocks

Sell: Stock expected to underperform the sector and may increase / decrease in value but be among the least attractive in the sector

(*A sector comprises stocks covered by one or more analysts which share a common industry and which together constitute those analysts' coverage universe)

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Evolution sole Lead Manager and Distributor

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- Coupon of 7.5% payable semi annually
- Provided additional choice for retail investors
- Allowed Provident Financial to diversify its funding

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