

Jupiter Energy (JPR)

Kazakhstan - a good place to find oil

Analyst

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Authorisation

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Recommendation

Spec Buy

Price

\$0.049

Target (12 months)

\$0.14

JPR is a small oil company operating in Kazakhstan. The company has found oil in its first two wells which are located on a very oily trend, including fields over 1 billion barrels in size. We are not suggesting that JPR has found anything as big as that, but the trend is your friend! Following a site visit to understand local working conditions, we initiate research coverage with a Spec Buy and a price target of \$0.14.

Expected Return

Capital growth **186%**

Dividend yield **0%**

Total expected return **186%**

Company Data & Ratios

Enterprise value **\$65m**

Market cap **\$74m**

Issued capital **1,511m**

Free float **73%**

12 month price range
\$0.027-\$0.083

GICS sector
Energy

Kazakhstan oil industry is on the up

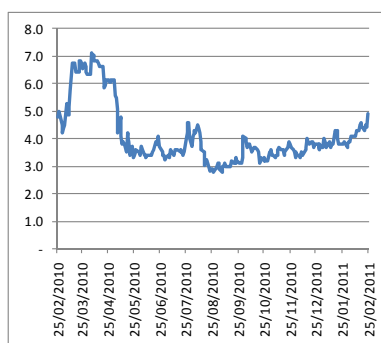
One of the most successful oil exploration regions of the world in the last couple of decades has been Kazakhstan with discoveries like Eni's Kashagan at 9-16B bbl and Chevron's Tengiz at 6-9B bbl. It may not have had the same headlines as Brazil or West Africa but this country is likely to double production to 3mmbbl/day this decade and become a Top 5 oil producer.

Jupiter is not in the big league... yet

JPR owns one block in the Mangistau basin of Kazakhstan where they have drilled two successful oil wells. Reserves are still being determined, but we think a 25mmbbl field is very likely, with upside to over 100mmbbl through exploration and license extensions. A lack of market recognition brought the well credentialed Waterford Group (backed by Russian oil money) onto the share register last year, strengthening the Board and management.

We initiate coverage of JPR with a Spec Buy recommendation and a price target of \$0.14/share. There are uncertainties about the production outlook and ultimate reserves recovery but we are excited about the outlook for the stock and the country.

Absolute Price A\$



SOURCE: IRESS

Earnings Forecast

Year end June 30	2011E	2012E	2013E	2014E
Revenue (\$m)	3.8	26.8	54.5	116.8
EBITDA (\$m)	(4.0)	8.3	24.1	67.7
NPAT - reported (\$m)	(4.3)	2.8	6.4	15.9
NPAT - underlying (\$m)	(4.3)	2.8	6.4	15.9
EPS - reported (c/sh)	(0.4)	0.2	0.4	1.1
EPS growth (%)		-	130%	149%
PER (x)	-13.7x	26.6x	11.6x	4.6x
P/OpCFPS (x)	-13.3x	51.0x	8.5x	4.4x
EV/EBITDA	-15.7x	10.7x	3.9x	1.5x
ROE (%)	-11%	7%	14%	28%

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Reasons to invest in Jupiter Energy

We believe that JPR is a very attractive investment opportunity for a number of reasons:

- Compelling valuation argument with 191% upside to our \$0.14 target and 124% upside to \$0.11 if we only value the indicative 2P reserves of 25mmbbl. Current EV is a low \$2.56/bbl.
- Excellent opportunity to participate in the strong oil industry growth of Kazakhstan.
- Strong Board of Directors supported by the Russian backed Waterford Group who took a 27% stake in the company last year.
- Highly professional management and operational team located in the oil city of Aktau on the Caspian coast.
- Full ownership, operatorship and focus on key asset of Block 31, located on a very oily trend of the Mangistau basin.
- Excellent oil discovery confirmed through two oil wells that have intersected oil columns over 100m gross with 60-69m of net pay. Oil-in-place is around 100mmbbl and we have assumed 25mmbbl recoverable. Higher recovery rates are possible through fraccing and horizontal drilling.
- Imminent testing of both oil wells following fracc tests. Flow rates may be higher than we have allowed for in our cash flow modelling.
- Longer term growth opportunities through exploration on Block 31, license extensions and good new venture opportunities in Kazakhstan through the well connected Directors and management.

Introduction to Kazakhstan

Figure 1 - Kazakhstan



Kazakhstan oil production should more than double this decade

- Kazakhstan became an independent nation in 1991, following the collapse of the FSU. It is the largest landlocked country in the world although the Caspian Sea provides an important trading route to the west. The country is governed by President Nursultan Nazarbayev who has held the post since independence. The petroleum industry is the biggest part of the economy but agriculture is also important, with over 30% of the 16m population working in the primary industries.
- The development of the country’s oil discoveries could make Kazakhstan one of the world’s top 5 oil producers within a decade. It is currently the 9th largest with 40B bbl of proven (1P) oil reserves. With production of 1.54mbpd in 2009, Kazakhstan is already a major producer and full development of giant fields like Tengiz, Karachaganak and Kashagan should more than double production this decade. Each project has capex greater than \$100B and includes companies like Chevron, Shell, ExxonMobil, Eni, BG, LukOil and State owned KazMunaiGas.
- The Government has engaged in some disputes with the Western oil companies over the terms of production agreements, most recently with regard to the Kashagan project 2007-08 and Karachaganak in 2009. The Government took action primarily because the operators demonstrated poor execution as far as costs and timelines were concerned so the Government appears to have acted with some justification, although it has been decried as a “tax grab”. Despite this, the tax regime remains relatively friendly to oil producers, particularly compared to Russia.

Kazakhstan fiscal regime

The Kazakh fiscal regime for oil has four levels of taxation:

- Mineral Extraction Tax (5-18% based on volumes) but only half the tax if the output is sold domestically.
- Economic Export Rent of 7-32% linked to the price of oil. It’s calculated net of opex and transport costs.
- Income Tax, currently 20% but reducing to 15% by 2014 and;
- Excess Profit Tax. A marginal tax from 10-60% when the ratio of annual income to annual deductions increases from 1.25x to 1.7x.
- In addition, oil producers have a Domestic Market Obligation to sell up to 20% of output at prices 1/3rd of world oil prices.

The effective tax rate will obviously depend on a range of factors but is in the 50-70% range. While high, it is better than the Russian or Indonesian fiscal regimes which effectively take 80-90% tax.

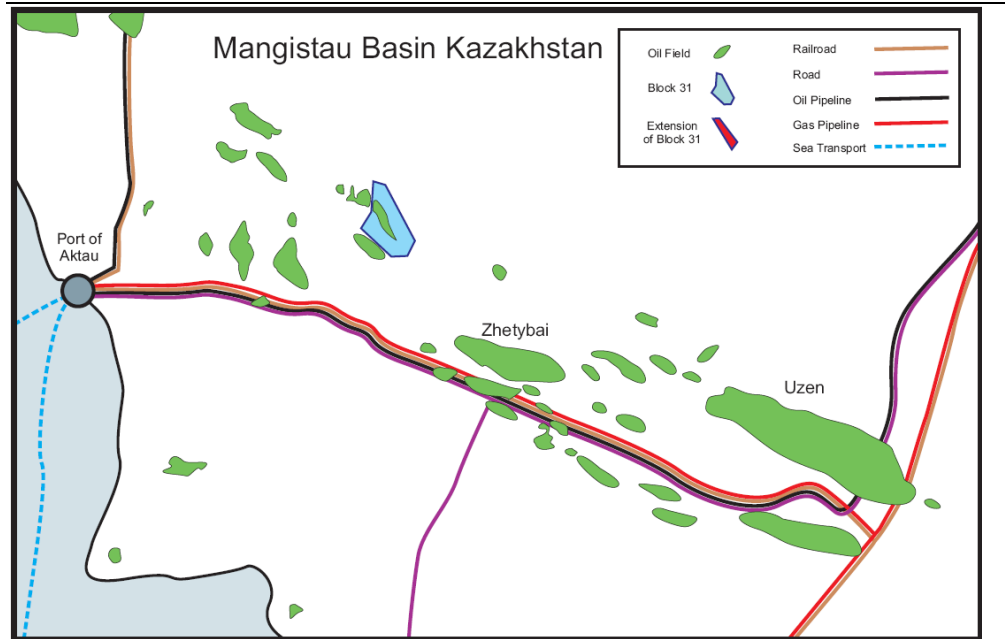
Jupiter’s neighbourhood is impressive

Oil reserves of the Mangistau basin exceed 6 billion barrels

The Mangistau basin is host to a number of oil discoveries as shown on the map below. The largest fields include Uzen at 1.35B bbl and Zhetybai of around 500mmbbl, both in production since the 1960s. The aggregate oil reserves of the Mangistau basin are more than 6B bbl. The map in Figure 2 shows the major pipelines but a large network of smaller pipelines and pumping stations exist as well.

The Mangistau area is essentially a desert with annual rainfall of about 100mm pa. The port city of Aktau exports over 300,000bbl/day, and there are plans for new pipeline capacity.

Figure 2 - Mangistau area Kazakhstan



SOURCE: COMPANY DATA

JPR’s Block 31 is immediately north of the undeveloped NW Zhetybai field and to the east of the 23mmbbl North Akkar field. The main oil reservoirs are arenaceous (sandy) carbonates of mid-Triassic age plus some oil in a younger sandstone. Reservoir quality is generally poor to average with porosity of 5-15% and low permeabilities (5-20mD).

The company has some knowledge of the production history from the North Akkar field, which commenced in 1992. The better wells, which are located closest to Block 31 are believed to have experienced initial well production of 300-500bopd and a 5-10% annual decline rate. The oil wells are well away from the oil-water-contact (OWC) which is much lower on the structure to the south-west. JPR believes water cut has remained low throughout the production history of North Akkar. Anecdotally, the company is also encouraged to hear that when fracking of the North Akkar wells was undertaken in 2004, some wells produced at higher levels than they had at the beginning of operations many years earlier.

Jupiter has drilled two successful oil wells on Block 31

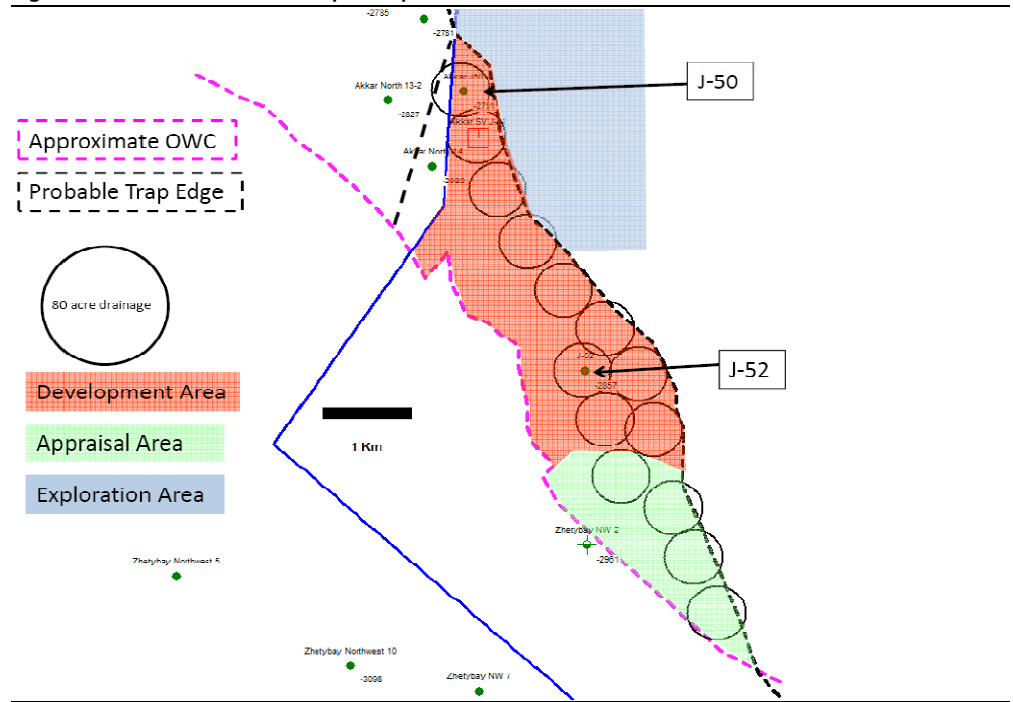
JPR acquired Block 31 in 2008. The license is for 6 years plus two renewal periods of 2 years each. A production license when issued, is for up to 25 years.

The company has drilled two wells on Block 31 which found oil. The J-50 well was a low risk target as it was drilled very close to the license boundary of the North Akkar field to the west (See Figure 3). It tested at a stabilised flow rate of 360bopd (42°API), so is similar to the producing wells of the North Akkar oil field. The top of the Triassic reservoir was found at 2,939m and had a gross oil column of 110m, with 69m net pay. The company is awaiting a Trial Production License in order to commence operations, hopefully granted in March 2011.

The J-52 well was drilled late 2010, about 3.8km to the SE of J-50. The well found oil in the Triassic reservoir, intersected at 2,994m. The oil column is 104m thick with net pay of 60m, so very similar to J-50. J-52 also found oil in an overlying sandstone, over a 29m interval (called the Z sand) at 2,853m with +5m of net pay. The company plans to fracc all the oil zones to enhance productivity prior to production testing, with an application for a Trial Production License to follow.

J-50 well tested 42° API oil at 360bopd before fracking

Figure 3 - Block 31 oil field development plan



SOURCE: COMPANY DATA

The North-West Zhetysbay-2 (NWZ-2) to the south of J-52 was drilled by the Soviets in 1969 and tested oil from a sandstone of 35m thickness and 30m net pay, interpreted to be the same Z sand as in J-52. The deeper Triassic reservoirs were intersected below the OWC so did not contain any oil at this location.

The license to the SW of Block 31 has drilled at least three wells with oil. The block is owned by a local company and has not yet gone into field development.

Production plans

Flow rates of 500bopd would be a good outcome from fracing

JPR is planning to fracc its two discovery wells to enhance productivity. The fracing is scheduled for March 2011. Flow rates of 500bopd per well would be a good outcome according to JPR. If the results are good on the Z sand of J-52, NWZ-2 will also be fraced.

Trial Production Licences will allow oil production for an extended period, which will enable better forecasts for production and reserves. An appropriate field development program will then be undertaken. The company may also drill a horizontal well to see if this is the optimum well for this type of oil reservoir.

Reserve and Resource estimates

Senergy Australia undertook an independent reserve estimate for the J-50 area in early 2010, including a resource estimate for the J-52 area prior to drilling. JPR subsequently commissioned AGR Group to do a resource assessment for the large fault block to the north of J-50 and the company has its own assessment of the potential Z sand reservoirs, which could be of Upper Triassic or Jurassic age.

The following table is a summary of the reserve and resource estimates published by JPR over the last year. Senergy is preparing an updated reserve estimate following the successful J-52 well, so estimates will change. The recovery factors are in the 20-30% range due to the low porosity and permeability. This may improve through fracing and horizontal drilling programs.

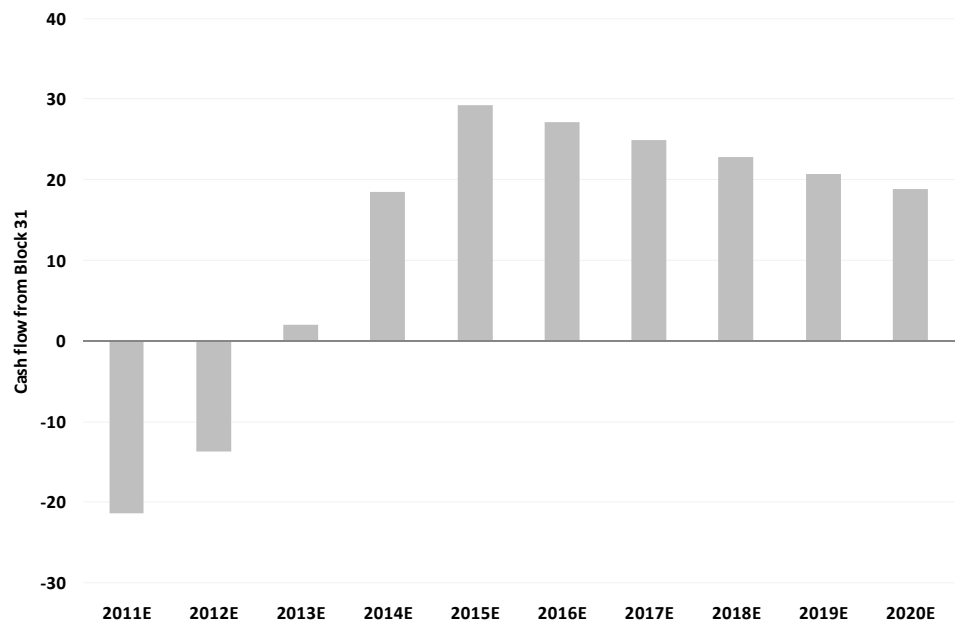
Figure 4 - Reserves and Resources Block 31 (mmbbl)

J-50	1P	2P	3P	Comments
OIIP in Mid-Triassic	21.4	31.0	43.0	
Recovery factor	26%	28%	31%	Independent assessment by Senergy
Reserve	5.5	8.6	13.4	Could increase if fracking is successful
J-52	1P	2P	3P	
OIIP in Mid-Triassic	24.6	52.0	92.0	
Recovery factor	20%	23%	27%	Independent assessment by Senergy
Reserve	4.8	12.2	24.5	Pre-drill estimate, to be revised
Z sandstone	1P	2P	3P	
OIIP in Upper Triassic?	20.0	35.0	50.0	
Recovery factor	20%	26%	30%	JPR internal was 22 mmbbl for 2C
Resource	4.0	9.0	15.0	After J-52 drilling, revised down
North of J-50			3C	
OIIP in Mid-Triassic			200.0	Undrilled fault block to the north
Recovery factor			30%	Independent assessment by AGR Group
Resource			60.0	Exploration target
Total	1P	2P	3P +	3C
OIIP	66.0	118.0	385.0	
Recovery factor	22%	25%	29%	
Reserve & resource	14.3	29.8	112.9	Even low case is a decent number

SOURCE: COMPANY AND SOUTHERN CROSS EQUITIES ESTIMATES

Cash flow projections

Figure 5 - Block 31 Cash flow (A\$m)



SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

We have modelled JPR's oil field on the basis of a 25mmbbl development

We have modelled JPR's Block 31 oil field in Kazakhstan on the basis of a 25mmbbl development. This is not yet a proven reserve and will require further appraisal drilling but is within the range of the indicative 1P of 14.3mmbbl and 2P reserves of 29.8mmbbl, as shown in Figure 4. Essentially we have taken the 2P reserves of J-50 and J-52 plus half the company's reserve estimate for the Z-sandstone.

Based on the existing oil discoveries, the company plans to have 14 vertical production wells drilled over the next 4 years with an average starting production rate of 500bopd and an annual decline rate of 5%.

We have assumed a lower initial production rate of 450bopd per well, despite the encouraging results at the neighbouring North Akkar field and the fact that the reservoir appears a good candidate for fracing. However, until JPR has demonstrated the results from fracing their own wells, we are erring on the cautious side.

Figure 6 - Block 31 production and financial summary (A\$m)

	Unit	2011E	2012E	2013E	2014E	2015E	2016E
Oil (WTI)	US\$/bbl	88	88	90	91	93	95
Cumulative wells		1	2	4	8	14	14
Decline rate	%	0%	0%	-5%	-5%	-5%	-5%
Production per well	bopd	450	450	428	406	386	367
Total production	000 bbl	49	329	624	1,186	1,972	1,878
Production per day	bopd	135	900	1,710	3,249	5,401	5,131
DMO revenue	\$m	0	2	4	9	16	16
Export revenue	\$m	4	25	50	107	183	179
Total revenue	\$m	4	27	54	117	199	194
Total operating cost	\$m	(2)	(13)	(23)	(41)	(68)	(67)
Cost per barrel	\$/bbl	50	40	36	35	35	36
EBITDA	\$m	1	14	32	76	131	127
D&A	\$m	(0)	(2)	(4)	(8)	(13)	(12)
EBIT	\$m	1	12	28	68	118	115
Tax expense	\$m	-	(3)	(14)	(45)	(77)	(75)
Effective tax rate	%	0%	30%	50%	66%	65%	65%
NPAT at Project level	\$m	1	8	14	23	41	40
CAPEX	\$m	(19)	(12)	(10)	(21)	(28)	(3)
Free cash flow	\$m	(18)	(2)	8	10	26	49

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

There is another conservative aspect of the model that investors should note. We have assumed that 20% of the field's output is sold under the Kazakhstan Domestic Market Obligation (DMO) which requires oil producers in the country to sell 20% of their output to local refineries at 1/3rd of the Brent oil price. It is not clear whether JPR will be obliged to sell this amount of oil at such a heavily discounted price, as the local refineries are fully supplied and Block 31 is a small oil field in the scheme of Kazakhstan. However, our numbers assume full DMO.

As mentioned in the introduction, the tax regime in Kazakhstan has four levels of taxation with sliding scales of tax depending on production volumes and prices. As shown in the summary table above, an effective tax rate in the 60% is very high, and we may have over-estimated the level of taxation for this relatively small oil field. However, we again prefer to err on the conservative side when calculating the cash flows and value when there still are uncertainties.

Valuation and sensitivities

Our valuation of JPR is \$0.14/share. As shown in Figure 7 below, this is based on the assumption that a 25mmbbl oil development is undertaken, as per the cash flow modelling in Figure 6. Field life is anticipated to be about 25 years.

We have valued the contingent resources at a low \$1/bbl because the level of uncertainty is high. This is effectively the exploration upside, which could represent up to \$0.30/share if we use an NPV of \$6/bbl. If we ignore this upside, JPR is still valued at \$0.08/share or 67% above the current share price.

Figure 7 - JPR Valuation

2011E valuation	Gross mmbbl	Net mmbbl	NPV (\$m)	\$/bbl	\$/sh
Block 31 likely reserve (2P+2C)	25.0	25.0	173	6.90	0.11
Block 31 contingent resources (3C)	85.0	85.0	85	1.00	0.06
Total Reserves & Resources	110.0	110.0	258	2.34	0.17
(Net debt) / cash			9.0		0.01
Corporate costs			(45)		(0.03)
Equity value			222		
NoSh (diluted)			1,539		
Total			0.14		

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

The EV per barrel is \$2.56

Another way of looking at the valuation is to calculate the EV per barrel. With a current EV of \$64m this is \$7.44/bbl on the certified 2P reserves of 8.6mmbbl but a much lower \$2.56/bbl if our estimate of 25mmbbl is closer to the mark.

A 10% change in the oil price changes the valuation by 25%

As JPR's valuation is subject to a number of uncertainties, we have calculated a range of sensitivities for the company. The oil price is an obvious uncertainty in the current market, and our base case of US\$90 long term (real) may appear conservative when spot prices are above US\$100. This stock is quite sensitive to future oil prices with a 25% change to the valuation for a 10% change in the oil price.

A 10% change in well productivity changes the valuation by 15%

The sensitivity to the well productivity is perhaps surprisingly high and quite exciting in our view. Our base case uses 450bopd per well although un-fracked wells have done about 350bopd in the area and the company has been confident enough to predict an average of 500bopd. It will be very important to see how the fraccs of J-50 and J-52 perform in the next month or two.

If we use a reserves estimate of 20mmbbl rather than 25mmbbl, it would reduce our valuation to \$0.12/share.

The final sensitivity we performed looks at excluding the DMO. This is another potentially important upside to the valuation.

Figure 8 - Valuation sensitivities

	NPV (\$m)	\$/share
Base case	222	0.14
Oil price + 10% (Base uses US\$90 long term)	264	0.17
Oil price - 10% (Base uses US\$90 long term)	147	0.10
Initial well productivity 500 bopd (Base uses 450bopd)	249	0.16
Initial well productivity 400 bopd (Base uses 450bopd)	170	0.11
Reserves 20mmbbl (Base uses 25mmbbl)	187	0.12
No Domestic Market Obligation (Base uses 20%)	248	0.16

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

The ambitions of the Waterford Group suggests additional opportunities in Kazakhstan

An AIM listing would raise the equity needed to develop Block 31

Longer term plans

JPR is presently focused on the development of its known oil discoveries for the next year. However, the relatively small size of Block 31 at 63km² and the ambitions of the Waterford Group indicate that the company will seek additional opportunities in Kazakhstan. This may start with enlargement of the existing licence to the east where acreage is free and a potential extension of the J-52 oil field may exist. It could also involve a joint development with the private owner of the NW Zhetybai oil field to the SW if a deal can be agreed.

Ultimately, we expect JPR to apply for new licences elsewhere in the Mangistau basin and in other parts of Kazakhstan, as the cash flows grow. In the long term, the company may seek opportunities in the neighbouring countries as the Board and management team have excellent knowledge and experience of the region.

Funding

JPR had \$9m of cash at the end of December 2010, which is enough to undertake the fracking and well completions on J-50, J-52 and NZW-2 plus overheads for the next six months. Some cash flow will be established through the Trial Production License on J-50 and J-52. However, JPR wants to proceed with a field development in 2011 and beyond, so will need to raise further equity.

The company is seeking a listing on the AIM market in the UK, which is probably a better market than the ASX for a company active in Kazakhstan. Australian investors are typically risk averse to countries that they are not overly familiar with. An AIM listing would raise the equity funds needed to develop the oil discoveries on Block 31, which we estimate would cost about \$30-\$50m.

SWOT analysis

We can identify many strengths and opportunities for JPR, while the weaknesses and opportunities are less pronounced. The biggest issue from an Australian perspective is the perception that Kazakhstan is one of the “Stans” and therefore risky. Our visit to Kazakhstan in late January 2011 made a favourable impression with regards to political and social stability, general standard of living and state of infrastructure. While the Kazakh oil industry is subject to a high level of bureaucracy, the company’s staff are very capable of running an oil company in this part of the world. There is a quietly confident mood among all the Kazakhs that we met, and the oil industry is a big part of the future wealth of this country.

Figure 9 – SWOT analysis

Strengths	Weaknesses
Oil discovery with geology well understood	Modest size of Block 31
Value proposition	Limited cash / need for equity raising
Board experience & contacts	Single asset company
Local management	Market perception of Kazakhstan
Major shareholder - Waterford Group	
Opportunities	Threats
Reserves upside	Kazakh regulatory changes
License extensions	Oil price collapse
In-country expertise	

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Board and Management

The Board of JPR changed last year as the Waterford Group took a 27% interest in the company. This was achieved through a 13% placement at 2.7¢, two converting loan agreements (subsequently converted into shares at 2.7¢) and the underwriting of a 1 for 3 rights issue at 2.7¢. The total amount raised was \$16.7m.

The Waterford Group appointed Alastair Beardsall and Baltabek Kuandykov as Directors to the Board, while Geoff Gander has stayed on as Executive Chairman. The MD David Thorpe subsequently left the company and Company Secretary Scott Mison has been appointed to the Board.

The Waterford Group has also been instrumental in attracting key personnel to JPR's Aktau operating office such as Henry Wolski as VP Exploration & Production, a Canadian with 25 years experience in the FSU and a fluent Russian speaker (Kazakhstan has both Russian and Kazakh as official languages). Kazakh personnel such as Mr Erkin Svanbayev (Government Affairs), Ms Sanym Bissenaliyeva (Finance), Ms Galina Belova (Legal) and Mr Izbergin Kubekbayev (Chief Geologist) were all impressive members of staff. JPR also retains the services of Keith Martens as consulting geologist who was instrumental in identifying the opportunity in Block 31.

The Waterford Group has attracted key personnel to JPR's operations

Waterford Group

Waterford was formed in 1995 and is a substantial investor in fledgling and start-up companies and those looking for development capital. Waterford's primary focus is the resource sector. Waterford will establish long term relationships with companies and, if required, offer its active assistance for projects, particularly at critical points of their development.

Since its incorporation, Waterford has been successful in raising finance, managing asset portfolios and directly investing in countries within the Former Soviet Union (including Kazakhstan), the Middle East and South America; primarily in the oil & gas upstream sector and gold exploration and production. Waterford has been an investor in many publically traded companies, including Dana Petroleum Plc (LSE), Sibir Energy Plc (LSE:AIM), Nobel Resources Plc (Ireland), Vanguard Petroleum (Australia), EuroSov Petroleum Plc (LSE), Anglo-Siberian Oil Plc (LSE:AIM), First Calgary Petroleums Ltd (TSX & LSE:AIM), Emerald Energy Plc (LSE) and Thistle Mining Corporation (TSX). Waterford's current investments include Petroceltic International Plc (LSE:AIM), Sterling Energy Plc (LSE:AIM), Aladdin Oil & Gas (Norway), Jupiter Energy Ltd (ASX) and a number of unlisted investments.

Company Description

JPR is an oil company with a single asset in Kazakhstan. Block 31 in the Mangistau basin is 100% owned and has drilled two successful oil wells to date. Reserves for the first well have been independently certified by Senenergy Australia at 8.6mmbbl and certification is being prepared for the second well, which had 12.2mmbbl as a pre-drill estimate for the Mid-Triassic. JPR estimates that a younger Z-sandstone may hold 9mmbbl.

The oil is mainly found in mid Triassic reservoirs of low to average quality, and neighbouring oil fields show low recovery factors of the oil in place but long life, low decline rates for these types of wells.

Investment Strategy

The company is expecting to enhance its first two oil wells through fracking and prepare a field development plan based on the results of these tests. The reservoir appears well suited to fracking which will maximise productivity and reserves recovery. Further enhancements are possible through horizontal production wells. Enhanced recovery factors from oil-in-place of about 100mmbbl plus extensions of the existing license to the east represent future growth options in the short to medium term.

Longer term, the company will use its cash flow from Block 31 to expand into new licenses in Kazakhstan. The Board and management of JPR are very well connected and will look to grow the company from the current modest base.

Valuation

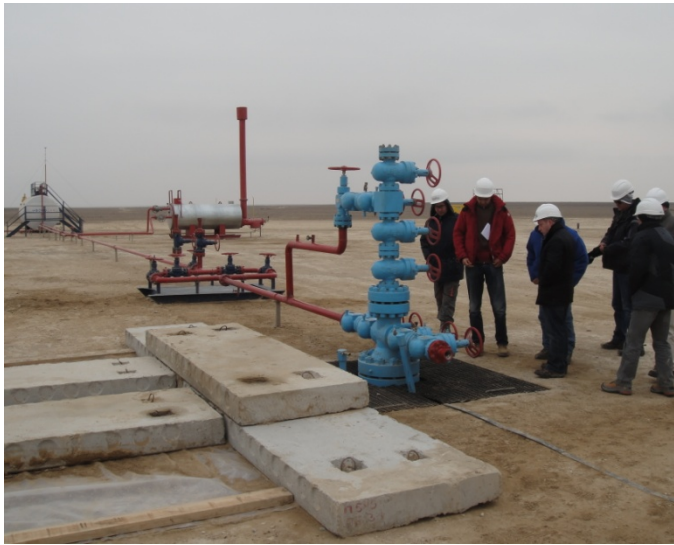
Our valuation of JPR is \$0.14/share. This is based on the assumption of a 25mmbbl oil field worth \$0.11/share plus resource potential of 85mmbbl currently valued at \$1/bbl or \$0.06/share. Cash of \$9m represents \$0.01/share while corporate overheads deduct \$0.03/share.

Risks

JPR faces normal oil and gas industry risks, and has some more specific issues:

- Prices for oil are inherently volatile, and strongly linked to the world economy and market conditions. JPR is highly leveraged to oil prices.
- Project execution is always a risk, and to manage a project in Kazakhstan as an Australian company presents some challenges. However, the local operating office and staff appear very well qualified to do the job.
- Kazakhstan political risks exist although perception is much higher than the reality. Regulatory and administrative issues such as procurement need to be managed properly.
- Operational and environmental risks are high in the oil and gas industry, with high safety standards required to avoid explosions, fires, oil spills etc. The Mangistau basin is primarily an oil producing region with no competing land use as it is a desert.
- Financing issues exist as JPR does not have the balance sheet or cash flow to fund the development of Block 31. JPR is planning to list the company's shares on the UK AIM market which will raise equity for the development.

Figure 10 - J-52 oil well Block 31 Kazakhstan



SOURCE: SOUTHERN CROSS EQUITIES

Figure 11 - J-52 oil facilities Block 31 Kazakhstan



SOURCE: SOUTHERN CROSS EQUITIES

Figure 12 - Drill pipe at J-50 site, with North Akkar field in distance



SOURCE: SOUTHERN CROSS EQUITIES

Figure 13 - NWZ-2 Block 31, with drilling rig in distance on private license to the south.



SOURCE: SOUTHERN CROSS EQUITIES

Table 1 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS					
Year ending 30 Jun	Unit	2011E	2012E	2013E	2014E	Year ending 30 Jun	Unit	2011E	2012E	2013E	2014E
Revenue	\$m	4	27	54	117	VALUATION					
Operating expense	\$m	(8)	(18)	(30)	(49)	Reported NPAT	\$m	(4)	3	6	16
EBITDA	\$m	(4)	8	24	68	Underlying NPAT	\$m	(4)	3	6	16
Depreciation	\$m	(0)	(2)	(4)	(8)	Reported EPS	c/sh	(0.4)	0.2	0.4	1.1
EBIT	\$m	(4)	6	20	60	EPS growth	%			130%	149%
Net interest expense	\$m	0	0	0	1	PER	x	-13.7x	26.6x	11.6x	4.6x
PBT	\$m	(4)	6	20	61	OpCFPS (ex. abnormals)	c/sh	(0.4)	0.1	0.6	1.1
Tax expense	\$m	-	(3)	(14)	(45)	Price/OpCFPS	x	-13.3x	51.0x	8.5x	4.4x
NPAT (underlying)	\$m	(4)	3	6	16	DPS	c/sh	-	-	-	-
Abnormal items	\$m	-	-	-	-	Yield	%	-	-	-	-
NPAT (reported)	\$m	(4)	3	6	16	EV/EBITDA	x	-15.7x	10.7x	3.9x	1.5x
CASH FLOW						PROFITABILITY RATIOS					
Year ending 30 Jun	Unit	2011E	2012E	2013E	2014E	EBITDA margin	%	-105%	31%	44%	58%
OPERATING CASHFLOW						EBIT margin	%	-113%	23%	37%	51%
NPAT	\$m	(4)	3	6	16	Return on assets	%	-10%	5%	8%	13%
Add: non-cash items	\$m	0	2	6	10	Return on equity	%	-11%	7%	14%	28%
Change in working capital	\$m	(0)	(3)	(4)	(9)	Dividend cover	x	-	-	-	-
Operating cashflow	\$m	(4)	1	9	17	LIQUIDITY & LEVERAGE					
INVESTING CASHFLOW						Net debt (ND) / (cash)	\$m	4	15	19	28
Net PP&E	\$m	(19)	(12)	(10)	(21)	ND / E	%	11%	37%	40%	44%
Exploration & evaluation	\$m	-	-	(5)	(5)	ND / (ND + E)	%	10%	27%	28%	30%
Other	\$m	-	-	-	-	ASSUMPTIONS					
Investing cash flow	\$m	(19)	(12)	(15)	(26)	Year ending 30 Jun	Unit	2011E	2012E	2013E	2014E
FINANCING CASHFLOW						Oil price	US\$/bbl	87.5	87.5	90.0	90.6
Share capital	\$m	18	-	2	-	AUD / USD		0.98	0.94	0.90	0.80
Short term investments	\$m	-	-	-	-	SUM-OF-PARTS					
Dividends paid	\$m	-	-	-	-	2011E valuation					
Interest-bearing debt	\$m	5	17	13	28	Gross mmbbl	Net mmbbl	NPV (\$m)	\$/boe	\$/sh	
Financing cash flow	\$m	24	17	15	28	Block 31 likely reserve (2P+2C)	25.0	25.0	173	6.90	0.11
Change in cash	\$m	(0)	7	8	19	Block 31 contingent resources (3C)	85.0	85.0	85	1.00	0.06
BALANCE SHEET						Total Reserves & Resources	110.0	110.0	258	2.34	0.17
Year ending 30 Jun	Unit	2011E	2012E	2013E	2014E	(Net debt) / cash			9.0		0.01
ASSETS						Corporate costs			(45)		(0.03)
Cash	\$m	1	8	16	35	Equity value			222		
Accounts receivable	\$m	1	8	16	35	NoSh (diluted)			1,539		
Oil & gas properties	\$m	19	29	35	48	Total					0.14
Exploration & evaluation assets	\$m	22	22	25	27	VALUATION SENSITIVITIES					
Short term investments	\$m	-	-	-	-	OIL PRICE					
Other	\$m	0	0	0	0		US\$/bbl	A\$m	A\$/sh	% diff	
Total assets	\$m	44	68	93	146	Base	87.5	222	0.14		
LIABILITIES						-10%	Low	78.8	166	0.11	-25%
Accounts payable	\$m	0	3	5	12	+10%	High	96.3	277	0.18	25%
Tax payable	\$m	0	1	3	6	EXCHANGE RATE (long term)					
Borrowings	\$m	5	23	36	63		AUD/USD	A\$m	A\$/sh	% diff	
Provisions	\$m	0	0	0	0	Base	0.80	222	0.14		
Other	\$m	1	1	1	1	+0.1	Low	0.90	157	0.10	-29%
Total liabilities	\$m	7	28	45	82	-0.1	High	0.70	304	0.20	37%
SHAREHOLDER'S EQUITY						WACC (post tax)					
Share capital	\$m	63	63	65	65		%	A\$m	A\$/sh	% diff	
Retained earnings	\$m	(28)	(25)	(18)	(2)	Base	12%	222	0.14		
Reserves	\$m	2	2	2	2	Low	13%	208	0.14	-6%	
Total equity	\$m	37	40	48	64	High	11%	236	0.15	7%	
Weighted average NoSh	m	1,199	1,511	1,511	1,511	EPS SENSITIVITIES					
						OIL PRICE					
							2011E	2012E	2013E	2014E	
						US\$87.5/bbl	Base	(0.4)	0.2	0.4	1.1
						-10%	Low	(0.4)	0.1	0.2	0.6
						+10%	High	(0.3)	0.3	0.6	1.5
						EPS	Low	9%	-68%	-43%	-40%
							High	-9%	68%	43%	40%
						PER	Low	-126.0x	819.4x	202.8x	77.4x
							High	-150.7x	158.9x	80.8x	33.2x

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 0% and +15% on a 12 month view

Reduce: Expect -15% and 0% total return on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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Disclosure: Johan Hedstrom's travel expenses to Kazakhstan were covered by JPR.



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