

## **29 July 2008**

### **FOURTH QUARTER ACTIVITIES REPORT – JUNE 2008**

Jupiter Energy Limited (ASX: JPR) presents the following report on activities for the three months ending 30 June 2008. Also included in this report are details of any significant subsequent events that have taken place in July 2008.

#### **Activities:**

The 4<sup>th</sup> quarter was a productive one for Jupiter Energy Limited (ASX: JPR). The Company reported in its March 2008 quarterly report that settlement on its initial planned acquisition, exploration Block 31, was expected to be completed before 30 June 2008. As part of the settlement process, JPR needed to complete a capital raising of at least \$A6 million and receive all the final paperwork from the Kazakh Government associated with the transfer of 100% ownership of Block 31 from Zher Munai & K LLP (Zher Munai) to JPR.

During May 2008, members of JPR and Indian Ocean Capital Pty Ltd (IOC) undertook a road show and on 19 May 2008 the Company announced that it had successfully raised \$7.6m through the issue of 100m shares at \$0.075 per share and 100m JPROA listed options at \$0.001 per option. With the capital raising successfully completed and therefore funding of the Block 31 working program in place, JPR moved to settle on the permit and on June 25 2008 the Company announced that it was the new owner of Block 31.

#### **Background on Block 31:**

The permit is located in the Zhetybai-Uzen step of the Mangistau Basin. The Basin is extremely well located in terms of access to existing oil infrastructure (road, port and pipelines) and the area has already produced some 5.3 billion barrels of oil. Most of the discoveries are contained within the Zhetybai-Uzen step itself with the two biggest fields being Uzen and Zhetybai which produce from both the Jurassic and the Triassic. Block 31 is on the same trend as Uzen and Zhetybai, consists of two parts, covers an area of over 100 sq km and is located adjacent to two existing producing oil fields which have potential reserves of c 50 million barrels of oil (mmbbls). Adjoining the northern tip of Block 31 is Akkar North (Akkar N). Akkar N was, until recently, much like Block 31 in that its prospectivity was purely based on 1970's and 1980's 2D seismic data. Its current owners completed 3D seismic on the block in 2007, identified a target on an area that borders Block 31 and with their drilling program have now developed an oil producing field with proven and probable (2P) reserves of 14 mmbbls.

The JPR Board is confident that on completing the interpretation of the Block 31 3D seismic, a range of targets will also be identified. The fully funded work program that will follow on from

the seismic will see JPR drill at least one exploration well and it is expected that drilling will commence during the first quarter of 2009.

### **Update on Block 32:**

As outlined in the subsequent events section of the March 2008 quarterly, on 11 April 2008, the Company announced that it had signed an agreement with Zher Munai and Biskra Holdings Limited (Biskra) whereby Biskra and Zher Munai will work with the relevant Kazak Government authorities to secure additional exploration acreage in the Mangistau basin on behalf of JPR.

The extension being sought is an area of approximately 25 square kilometers which is situated between JPR's initial exploration permit, Block 31, and the existing North West Zhetybai oil field. The new area, known internally as Block 32, has been identified as a result of reviews by the Company of historic Soviet seismic data which the Company believes indicate that Block 32 has similar characteristics to the Akkar N oil field outlined above.

The key terms of the consulting agreement with Biskra and Zher Munai are:

- The maximum term of the agreement will be 270 calendar days or such other period as is agreed between the parties;
- The term will begin as soon as settlement on Block 31 has been completed;
- All fees associated with securing 100% of Block 32 will be borne by Biskra and Zher Munai; and
- If the extension (Block 32) is granted to JPR within the term of the agreement, JPR will pay Biskra (or its nominee) a fee of \$US3.5 million and this amount will cover all the costs incurred by Biskra and Zher Munai in gaining the extension plus a success fee to Biskra.

The Board believes that this extension to the existing permit will give JPR the ability to access a drillable horstal feature in the underlying Triassic of a similar size or bigger to the Akkar North field and with follow up 3D seismic the Company should be able to better identify and drill this target as part of the planned Block 31 work program.

### **North West Zhetybai Oil Field:**

On 30 June 2008, the Company announced that JPR had signed a Memorandum of Understanding (MOU) which set out the terms upon which JPR proposed to acquire a 50% interest in the North-West Zhetybai field (NWZ). The acquisition would be made through JPR's 100% owned Singapore subsidiary, Jupiter Energy (NWZ) Pte Ltd and would be in collaboration with the Share Investment Fund Verniy Activ (SIF Verniy Activ).

NWZ is located to the southwest of JPR's initial exploration acreage (Block 31) and assuming JPR's extension application for Block 32 is successful, the combination of Block 31, Block 32 and NWZ will form a contiguous 150 sq km area in the oil rich Mangistau Basin.

NWZ was discovered in 1984 and based on 2D seismic shot at that time, an initial 7 wells were drilled. 3 wells flowed free oil from 5 zones and there were shows and log anomalies in the 4 other wells. Based on this 1980's 2D seismic, government recorded reserves (1P) for NWZ are listed at 4.5 million barrels of oil (mmbbls) but the current owner has recently completed 3D seismic on the field and believes that there are proven plus probable (2P) reserves of 14 mmbbls. It is important to note that neither of these 1P and 2P figures include the three Jurassic zones above the massive Triassic sandstones and it is JPR's view that proven plus probable plus possible (3P) reserves stand at 36 mmbbls. The expectation is to have 8 operating wells on the field, each producing c 500 barrels per day, thus providing production capacity of 4,000 barrels a day by the end of 2009, assuming all regulatory approvals are in place in that same timeframe.

As outlined above, the purchase of a 50% share in NWZ, when combined with Block 31 and Block 32 (assuming a successful extension application for Block 32) will give JPR a significant footprint in the Mangistau Basin.

#### Material terms of the MOU:

The material terms of the MOU are as follows:

- The purchase price for 50% of the NWZ field is \$US26,000,000;
- Both JPR and SIF Verniy Activ will each commit to a 1 year work program with a budget of \$US12,000,000 with both parties funding \$US6,000,000 each;
- The total funds required to be raised by JPR will be \$US32,000,000 with \$A20,000,000 coming via an equity raising;
- The objective of the work program will be to drill two development wells as well as fund the re-entry and completion of existing wells on the NWZ field. The results of this activity will be used to obtain an independent assessment of the proven reserves of the field;
- Once the reserves are confirmed and an updated value is placed on the NWZ field, JPR will have the right to negotiate to purchase the remaining 50% of the field from SIF Verniy Activ. If JPR elects not to purchase the remaining 50%, SIF Verniy Activ may seek an alternative buyer. If an alternative buyer is found, JPR will still have the right to make a best and final offer for the remaining 50% of the field it does not own.
- The day to day management of NWZ will be agreed and documented under a joint working program, with both SIF Verniy Activ and JPR providing the resources to manage the field. Ole Udsen will act as Managing Director and work closely with JPR Director Erkin Svanbayev and JPR Technical Consultant Keith Martens to ensure the objectives of the work program are achieved.
- The transaction is subject to due diligence, JPR shareholder approval and JPR raising the required funds to enable the transaction to proceed.

#### Debt Funding:

JPR has been in discussions with a number of national and international finance organisations offering a range of possible funding packages to complete a purchase of this type. Funding options include debt and/or equity and the Board looked at several proposals. On 15 July 2008 the Company announced that it had agreed indicative terms with Macquarie Bank Limited (MBL) whereby MBL would provide JPR with up to \$50m in debt to support the NWZ transaction as well as future acquisitions by JPR in Kazakhstan.

Initially MBL will provide a \$A20m debt facility to support the proposed acquisition by JPR of a 50% interest in NWZ. Of the \$A20m, an initial tranche of \$A6m will be immediately made available to assist in funding the acquisition of 50% of NWZ and a further \$A6m will be advanced to fund JPR's share of a 12 month working program on the NWZ field. A further \$A8m will then be made available on the successful completion of the NWZ working program.

#### Material terms of MBL's Indicative Terms Sheet:

The material terms of the indicative Terms Sheet signed with MBL are as follows:

- The immediate draw down will be \$A6m that will be used, in conjunction with the planned equity raising of \$A20m, to fund the acquisition of 50% of NWZ;
- A further \$A6m will be advanced to fund JPR's share of the agreed 12 month working program on NWZ;
- A further \$8m will be advanced on the successful completion of the 12 month working program;
- A further \$A30m will also be available to JPR to assist in the further development of NWZ and/or to assist in further acquisitions of oilfields in Kazakhstan; and
- The facility is subject to MBL completing technical and financial due diligence on the transaction and JPR completing its planned equity raising of \$A20m.

#### Planned Development of NWZ:

The initial development of NWZ will be determined by the agreed NWZ working program. The program will have several components including the re entering of 4 of the initial wells drilled on the field by the Soviets as well as the drilling of two new wells. At the completion of the program, an independent review of the field will be carried out to determine upgraded 1P, 2P and 3P reserves and JPR will also submit its proposed production plan for NWZ to the government for sign off, prior to going into production in late 2009. The expectation is to have 8 operating wells on the field, each producing c 500 barrels per day, thus providing production capacity of 4,000 barrels a day as soon as the production licence is granted.

At the time of the announcement of the proposed NWZ transaction, JPR Chairman Geoff Gander said, "The purchase of 50% of North West Zhetybai represents a major opportunity for Jupiter Energy. We understand the technical attributes of the field extremely well. JPR's Technical Consultant Keith Martens has already had the opportunity to review a range of technical data on the field, from a variety of sources, and based on his findings, the Board believes that the field has all the signs of being a company maker. Our due diligence will enable us to firm up what we anticipate might be the expected reserves and will also give us the time to ensure we have all the necessary approvals and waivers from the Kazakh authorities to complete the transaction. We have learnt a great deal about the administrative processes in Kazakhstan during the acquisition of Block 31 and I hope that the processes required to finalise this transaction will run smoothly as a result of the successful Block 31 experience."

#### Equity Funding:

JPR is now working with the Company's financial advisors, Indian Ocean Capital Pty Ltd, and has recently completed a roadshow to Australia and overseas where interest in the project was encouraging notwithstanding the current state of the global equity markets. Once due diligence on NWZ has been completed and a funding package has been agreed, a Notice of Meeting will be completed and mailed to shareholders, outlining the proposed transaction, the funding approach and all the relevant resolutions that shareholders will need to consider to approve the transaction.

#### **Subsequent Events:**

As outlined above, the Company announced the commencement of its road show covering NWZ on 4 July 2008 and the indicative terms surrounding the MBL debt facility on 15 July 2008. No other significant events have occurred in July 2008.

**Capital Structure:**

As at 30 June 2008, the Company had 356,796,189 listed shares (trading as JPR) and 300,000,000 listed options (trading as JPROA). The Company also has approximately 40.6m unlisted options, 30m of which are management options that vest over the next two years and are subject to performance hurdles. These options, should they vest, have an exercise price of 8 cents and will expire on 31 December 2011.

Cash reserves/receivables of the Company as at 30 June 2008 stood at approximately \$6.0m.

**Summary:**

The past 3-4 month period has seen JPR begin to achieve a number of key milestones and move towards fulfilling its initial vision target of establishing itself as an oil producer in one of the most oil rich countries in the world. The Board work during the 1<sup>st</sup> quarter of 2008/09 to complete the North West Zhetybai acquisition and commence 3D seismic on exploration Block 31.

If shareholders have any questions regarding this fourth quarter report, they can contact myself via phone on 0417 914 137 or via email – [geoff@highway1.com.au](mailto:geoff@highway1.com.au)

Geoff Gander  
Executive Chairman

**ENDS**