

16 January 2012

Ticker	JPRL.L
Price	27p
Target Price	n/a
Downside	n/a
Market Cap	£31.3m
Index	FTSE Aim Oil & Gas
Sector	Oil & Gas
Net Cash	\$14.0m
Shares in Issue	115.9m
Next Results	March

Company Description

Exploration and Production company with acreage in Kazakhstan

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Initiation of coverage: trading below core NAV

CORP

Following successful wells drilled in 2009, 2010 and 2011, Jupiter has established a proven track record of adding value through the drill-bit. With 24.2mmbbl of independently estimated 2P reserves, the company has discovered and de-risked a material asset that we believe is worth considerably more than currently recognised by the market. Further upside exists and will be targeted during 2012.

- ▶ **Background.** Jupiter is a dual-listed E&P, backed by a proven management team and cornerstone investors, with acreage in western Kazakhstan. Since acquiring a 100% operated interest in Block 31, located in the oil-rich Mangistau sub-basin, Jupiter has drilled a series of successful wells, establishing 2P reserves of 24.2mmbbl. With substantial upside to this and long-term trial production set to get underway, the company is well positioned to add substantial shareholder value as it converts reserves into cash flow.
- ▶ **Production set to ramp up through 2012.** Jupiter is currently producing oil during a 90-day production test on the J-51 well. This will be enhanced considerably when longer-term trial production commences from two more wells that will take group production to more than 1,000bopd. By year-end, Jupiter hopes to have sufficient well capacity to produce as much as 2,000bopd, generating an annualised post tax net back of \$18m. Full development is expected to begin in 2013, with peak production of 5,000bopd forecast in 2015.
- ▶ **2P reserves set for boost.** Since the last CPR issued in May 2011, Jupiter has had several positive results that provide scope for reserves upgrades when the next update is issued (expected in late March). This includes well results from J-51 and the production test on J-52, which flowed at much higher rates than the earlier J-50 well. In addition, Jupiter will have completed the J-53 well, which, if successful, could convert an estimated 9.9mmbbl of prospective resources into 2P reserves.
- ▶ **Exploration provides material upside opportunity.** Jupiter intends to drill up to three wells during 2012, targeting 65-72mmbbl of prospective resources worth 296p/sh fully unrisks. J-53 is the lowest risk of these and is due to reach target depth imminently, and is evaluating both the main Triassic reservoir (9.9mmbbl) found in the Akkar East field, and the previously unproductive Jurassic reservoir (8-10mmbbl). Following this, Jupiter will drill J-55, targeting a new structure in the south-eastern extension area of the licence that could add 10-15mmbbl of resources and would fulfil all remaining work commitments. The final well in the 2012 exploration programme, albeit not firm, is J-54, which will target a large structure in the northern part of Block 31. Prospective resources are estimated at 37.4mmbbl; however, the structure is located on the eastern side of a major regional fault so is considered a significantly higher risk.
- ▶ **Valuation.** Our total NAV for Jupiter is 130.7p/sh, putting the stock on a 0.21x NAV multiple. Core NAV of 77.4p/sh is underpinned by the current 24.2mmbbl 2P reserve base risked at 75% to account for future financing and operational/development risk, although with experienced hands-on backers and political connections, these risks should be easily overcome. Furthermore, the low-risk corporate strategy and demonstrable track record of adding reserves provides some confidence in the upside case. We include 65mmbbl of prospective resources within risked NAV worth 53.3p/sh. Fully unrisks, our total NAV rises to 367.3p/sh (excluding the impact of future dilution).

Investment Summary

Emerging from past financing constraints, Jupiter has successfully established an upstream-focused business operating in Kazakhstan with a 100% interest in Block 31. Three wells drilled on the licence during 2009, 2010 and 2011 discovered and de-risked a material new oil field with 24.2mmbbl of 2P reserves and further upside still to target. Production tests have demonstrated commerciality and the company is progressing to trial production in 2012, ahead of full development beginning in 2013. By 2015 we estimate Jupiter could be producing 5mbopd and generating substantial cash flows, putting the company on a <1x CF multiple.

Up to three exploration/appraisal wells targeting the upside case and an updated reserve report provide near-term catalysts. Combined with a proven track record of adding value and experienced hands on backers and political connections, the current 65% discount to core NAV seems to offer a compelling entry point. M&A multiples also suggest that this valuation is unsustainably low.

Activities

- ▶ **Trial production to commence.** Trial production licences have been approved for both the J-50 and J-52 wells allowing production (subject to final permits for gas flaring) to be sold to the domestic market for up to three years. Along with crude produced from the J-51 well, oil will be sold to two local oil traders at a well head price of \$42/bbl with all transport and storage costs borne by the purchaser, earning Jupiter a netback of approximately \$25/bbl. Aggregate production is expected to reach a rate of 2,000bopd by year end from five wells (assuming both J-53 and J-55 are successful). The results from this programme will eventually support Jupiter's application for a production licence, which could be made in 2013.
- ▶ **Further resource upside.** Jupiter intends to drill up to three new exploration/appraisal wells during 2012 targeting an estimated 65-72mmbbl of prospective resources. The first of these, J-53, is currently underway and is due to reach TD imminently. It is a low risk well, targeting 9.9mmbbl of prospective resources in an updip location to the Soviet-drilled NWZ-2 well and in a fault block adjacent to where J-52 successfully encountered oil. The well will also test the shallower Jurassic play, which, while oil bearing, has yet to prove productive in Block 31. This could add a further 8-10mmbbl but would require further appraisal. The next well to be drilled after this is J-55, which will target a new structure in the south-eastern extension area of the licence and could add a further 10-15mmbbl of resources. The final well, albeit not firm, is the J-54 exploration well, which is due to be drilled in the northern part of the licence. This would be the largest structure targeted to date with 37.4mmbbl, but is located on the eastern side of a regional fault so carries a lower chance of success. Dry hole costs for exploration wells are estimated at \$2.5m.
- ▶ **Updated reserves report.** Following completion of the J-53 well an updated reserves report will be submitted to the State Reserves Committee and a CPR published. Following the positive results from the J-51 well drilled and tested in 2011, a material reserves upgrade seems likely with an announcement due in late March.

Valuation summary

Our total NAV for Jupiter is 130.7p/sh, putting the stock on a 0.21x NAV multiple. Core NAV of 77.4p/sh is underpinned by the current 24.2mmbbl 2P reserve base risked at 75% to account for future financing and operational/development risk, although with experienced hands-on backers and political connections, these risks should be easily overcome. Furthermore, the low-risk corporate strategy and demonstrable track record of adding reserves provides some confidence in the upside case. We include 65mmbbl of prospective resources within risked NAV worth 53.3p/sh. Fully unrisks our total NAV rises to 367.3p/sh (excluding the impact of future dilution).

Risks

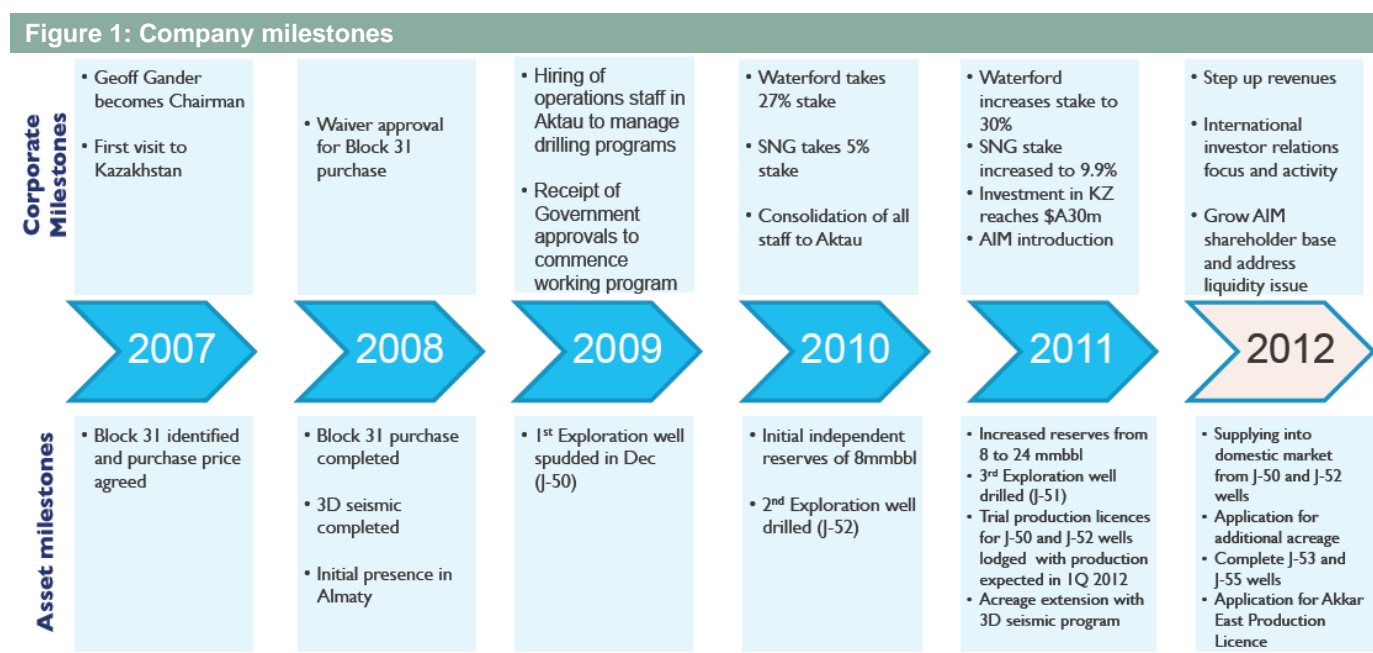
Exploration and production companies by their very nature are relatively high risk, facing many areas of common risk including commodity prices, geological, financial, regulatory, legal, political and security. Specific risks include:

- ▶ **Geological and technical.** Having acquired good quality 3D data and drilled and tested three wells to date, Jupiter has made significant progress in delineating the Akkar East field, establishing 2P reserves of 24.2mmbbl. As such we consider remaining geological risks in the Triassic reservoirs to be low and believe that reserve estimates for the field are likely to be revised higher. That said, the company has had limited success in proving the commercial potential of the shallower Jurassic reservoirs, which are productive elsewhere in the Mangistau basin and this remains a key area of uncertainty.
- ▶ **Financing.** Jupiter reported a cash balance of \$11.7m (\$8.25m net debt) at the end of September 2011, leaving the company well funded to meet near-term capex requirements. That said, by Q2 2012 we estimate that Jupiter will require additional capital to fund its final commitment well and continue development of the Akkar East field and exploration of the surrounding area. In aggregate, we understand that a further \$40m may be required by the end of 2013 to reach positive free cash flow. Depending on market conditions there is no guarantee that Jupiter will be able to raise this money, although given the company's success to date and the backing by the Waterford Group and Soyuzneftegas, we consider this risk to be low.
- ▶ **Political, legal and security.** While Kazakhstan has been politically stable since independence 20 years ago, civil unrest has increased recently with a number of protests (including striking oil workers in the city of Zhanaozen located 200km from Aktau in the Mangistau region), armed attacks and bombings reported. Whether there is a connection and an overall root cause remains unclear, leading to some uncertainty ahead of parliamentary elections held on 15 January 2012, although the result is not in doubt and is unlikely to have any material impact on the oil and gas industry apart from personnel changes in government ministries. That said, rule of law has been a problem at times for the sector with the state forcing participation in some of the giant oil and gas fields on favourable terms and expropriating licences where commitments have not been fulfilled. With 24.2mmbbl, Block 31 is expected to remain under the radar and the company is sufficiently well connected to deal with any minor issues such as permitting, which at times can be slow. In addition, Jupiter has been particularly focused on establishing local content provision and is entirely staffed in country by Kazakhstani, aiding communication with both industry participants and the government. Jupiter is also ahead of schedule with its work commitments, creating some goodwill.

Company Overview

Recent history

Jupiter Energy is a dual-listed (ASX and AIM) exploration and production company with acreage in the oil rich Mangistau basin located in western Kazakhstan. It has a 100% working interest in Block 31, which was acquired in June 2008 for \$10m in cash and shares from Zher Muna & K LLP (a local Kazakhstan company). Jupiter has drilled three wells on the licence since December 2009, making a series of contiguous discoveries now known as Akkar East with 24.2mmbbl of 2P reserves according to the latest CPR (completed prior to full results from J-52 and the drilling of J-51). A trial production permit has been awarded and subject to final permits to flare gas first oil is due to commence in Q1 2012. Volumes are expected to increase as more wells are drilled, with full development likely to be sanctioned in 2013. Significant additional resource potential has been identified and up to three exploration and appraisal wells are due to be drilled in 2012 targeting this upside.



Source: Jupiter Energy

Not always an upstream company

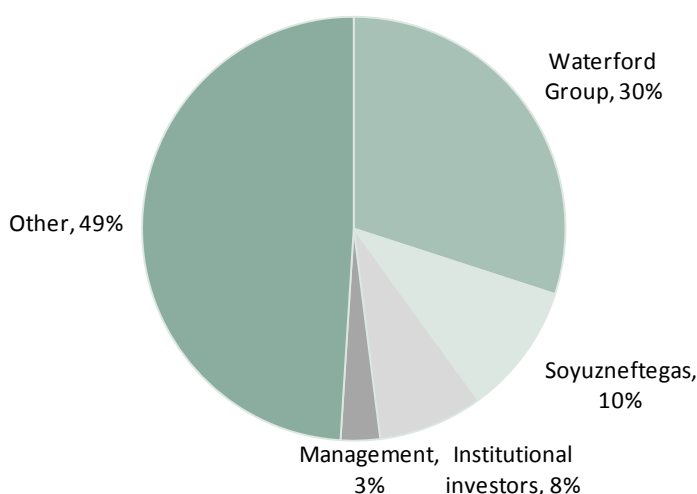
Prior to acquiring its oil and gas interests in Kazakhstan, Jupiter was contemplating the development of a biofuels company with operations in Malaysia. Falling oil prices in 2006 and expected difficulties raising the funding necessary to support the project led the board to decide to sell its interests and look for new opportunities. The company raised \$4.8m of new equity in 2007 having decided to pursue oil and gas projects in Kazakhstan and recruited a number of technical and local staff to operate the new venture.

Past funding and future requirements

Following the acquisition of Block 31, further fundraisings in 2009, 2010 and 2011 raised \$45.45m in new capital (\$42m in equity and \$3.45m in convertible debt),

enabling Jupiter to fund 3D seismic acquisition and drill four new wells proving up a sizeable resource base and establishing first production. In addition the licence area has been extended twice, adding additional prospective acreage, and an existing well was re-entered. Against a back drop of challenging capital markets Jupiter brought in the Waterford Group as a cornerstone investor, who could also provide hands-on advice, with a 30% shareholding, while Soyuzneftegas has also built up a 10% interest.

Figure 2: Shareholders



Source: Jupiter Energy

Jupiter is funded for all current activity with cash balances at the end of 2011 estimated at cA\$5m following heavy investment during the final quarter of the year. This will be supplemented by revenues from the J-50, J-51 and J-52 wells; however, additional capital is believed to be required to complete the planned work programme in 2012 and to bring the field into full development. Total capex for 2012-14 is estimated at \$40m.

Management

Geoff Gander, Chairman/CEO

Mr Gander joined Jupiter in 2005 and has played an active role in developing the company overseeing its transition from a biofuels to an E&P company in 2007. In addition to his roles as CEO and Chairman, Geoff is also responsible for corporate development, investor relations and operational leadership. He has been involved with listing and running of public companies since 1994 and has a degree in commerce.

Alastair Beardsall, Non-Executive Director

Mr Beardsall has been involved in the oil industry for more than 30 years having started his career with Schlumberger in 1980. In 1992 he began working for independent upstream companies and has held various roles within exploration, development and production functions. From 2003 to 2009, he was Executive Chairman of Emerald Energy and helped grow the company from a market cap of less than £8m to a valuation of £532m when it was acquired by Sinochem

Resources. Alastair is currently Executive Chairman of Sterling Energy and works closely with the Waterford Group.

Baltabek Kuandykov, Non-Executive Director

Mr Kuandykov has extensive experience in the oil and gas industry in the CIS region. He was previously President of Kazakhoil (predecessor of the Kazakh State oil company KazMunaiGaz) and has worked in a senior capacity for Kazneftegazrazvedka and was president of Kazakhstancaspishelf. Baltabek 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. Mr Kuandykov is currently President of Meridian Petroleum, a privately held Kazakh oil & gas company, and is a well respected consultant to Chevron Overseas Petroleum on CIS projects. He was also 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 for \$2bn.

Scott Mison, Company Secretary/Executive Director

Mr Mison holds a Business degree, a major in Accounting and Business Law and is a member of the Institute of Chartered Accountants and Chartered Secretaries. Prior to joining Jupiter he was Associate Director of Capital Investments Partners, a corporate advisory firm specialising in providing a range of investment banking services for small-cap emerging listed companies.

Asset Overview

Kazakhstan

The Republic of Kazakhstan is the ninth-largest country in the world and is located in central Asia, bordering Russia, Turkmenistan, Uzbekistan, Kyrgyzstan and China, extending from the Caspian Sea in the west to the Atlay Mountains in the east. The climate is relatively arid with warm summers and cold winters. Since independence in 1991 Kazakhstan has pursued moderate policies establishing stable relations with both its neighbours and the West, enabling it to attract significant investment in the natural resource industry.



Source: Google

The political system is dominated by the Nur Otan party, which won 95.5% of the vote during elections held in April 2011. President Nazarbayev, who has led the country since independence, recently called for fresh elections, which were held on 15 January 2012, in polls set to establish a multi-party Parliament. The move, designed to improve democracy and promote modernisation, comes in response to international criticism and regional civil unrest, despite Kazakhstan's own economic prosperity and past stability.

The Kazakh economy has been the key reason behind this stability, with surging commodity prices driving economic growth, which has averaged more than 7% per annum during the past 10 years. The energy sector currently accounts for 13% of GDP and 57% of industrial output, and is the largest component of the economy, and while efforts have been made to diversify the economy, the scale of the resource base means this dominance is likely to continue. According to the BP Statistical Review, Kazakhstan has the world's 9th largest oil reserves (40B bbl) and currently produces 1.8mmbopd (ranked 17th), while gas reserves are also significant (1.8TCM and current production of 33.6BCM in 2010).

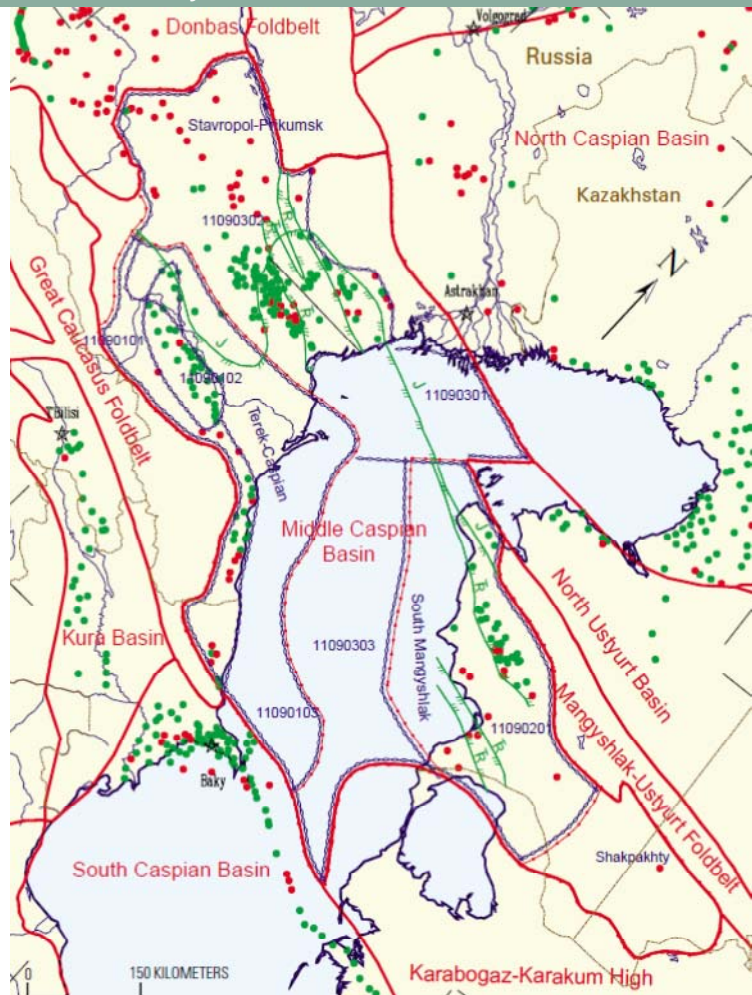
The oil and gas industry in Kazakhstan has gone through a number of changes during the past ten years, increasing the role played by state owned KazMunaiGaz and establishing strict local content requirements. Fiscal terms have also been altered with PSAs abandoned in favour of joint ventures and a number of new taxes introduced. While this upheaval has had negative implications, appetite to invest in the sector remains strong with multi-billion dollar

investments by oil majors in the Karachaganak and Kashagan fields good examples. Chinese, Indian and Russian firms have also been very active and are expected along with KazMunaiGaz, to be the main market participants in the country going forward.

Oil and gas prospectivity in western Kazakhstan

The majority of Kazakhstan's oil and gas reserves (c70%) are located in western Kazakhstan and include giant fields such as Darkhan, Karachaganak, Kashagan, Kurmangazy, Tengiz and Uzen among others. The most prolific basin in the region is the North Caspian, where most of these fields are found in Devonian to Permian aged pre-salt carbonate reefs and structural traps. The basin is also prospective in shallower Jurassic and Cretaceous clastic reservoirs in traps formed by salt diapirism, although these fields tend to be smaller in size.

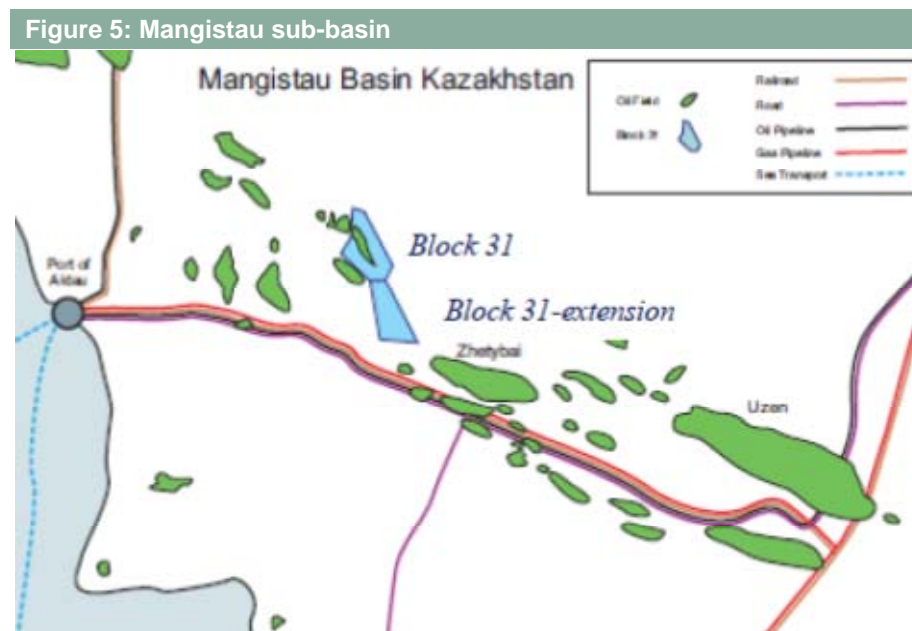
Figure 4: Sedimentary basins



Source: USGS

The Mangistau basin, which is located to the south, is also highly prospective with more than 40 discoveries made to date, although with the exception of Uzen (3.6B bbls) and Zhetybay (1.0B bbls) fields have tended to be smaller. The main reservoir interval is Jurassic clastic sandstones similar to those found in the North Caspian basin, but hydrocarbon bearing in anticlinal traps found on a structural

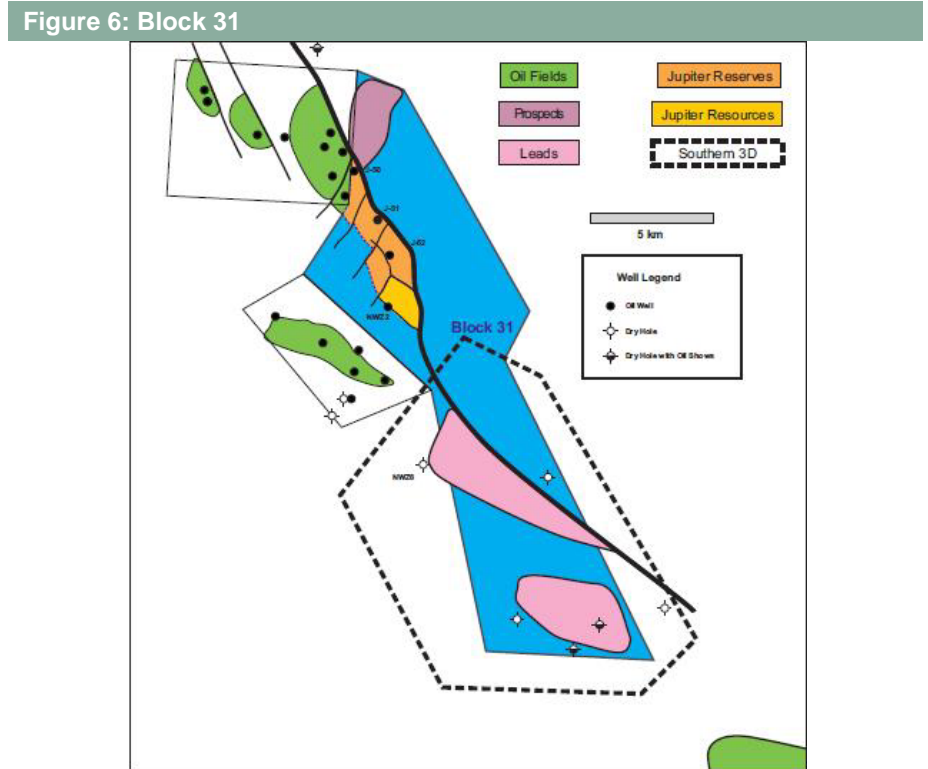
terrace on the northern sub-basin margin. This is where Block 31 is located, however, in this location the main play is in Triassic carbonate reservoirs.



Source: Jupiter Energy

Block 31

Block 31 is located in a central area of the Mangistau sub-basin on trend to existing discoveries and bordering the 23mmbbl Akkar North field (to the North) and the 21mmbbl North West Zhetysai field (to the West). Prior to the acquisition of Block 31 by Jupiter in 2008 only limited exploration had taken place on the licence area, including a sparse 2D seismic regional survey and the drilling of one well. The NWZ-2 well, which was drilled by the Soviets in the late 1960's or early 1980s, encountered oil shows in the Jurassic, but was not further appraised at the time, despite flow tests that recovered 17bopd without acid treatment or pumps. It is likely that the field was considered too small when larger fields were being discovered elsewhere. Importantly, the results provided encouragement to Jupiter that the licence was prospective and warranted further evaluation using modern technology.



Source: Jupiter Energy

Since acquiring Block 31 Jupiter has been very active, shooting two extensive 3D seismic surveys covering the entire acreage position, drilling three new wells and re-entering the existing NWZ-2 well. Results so far have been very positive, establishing 24.2mmbbl of 2P reserves in what is now known as the Akkar East field and identifying several other structures that may be prospective. Further reserves upgrades seem likely with the next report due in March.

The first sub surface activity undertaken by Jupiter was the re-entry of the NWZ-2 well, which occurred in November 2009. Results were encouraging, with logs indicating that 30m of reservoir had been intersected in Jurassic aged sands. Oil samples were recovered but no production test was undertaken and the well was suspended pending the outcome of exploration elsewhere on the licence.

The first new well drilled by Jupiter was J-50 and was designed to test a separate fault to NWZ-2 that was anticipated to be an extension of the Akkar North field. The well, drilled in late 2009, intersected 55m of net oil pay across a 120m gross Triassic reservoir section. Initial estimates of 2P reserves were 8.6mmbbl (31.0mmbbl STOIP). Following acid treatment and fracing a long-term production test flowed at 435bopd with volumes peaking at 600bopd over a three-month period. Oil from this formation is light 42°API but waxy so requires heating.

Following this, Jupiter drilled the J-52 well, which is located 3.8km southeast of J-50 and 2km north of NWZ-2. The well encountered 60m of net pay in a 104m gross reservoir interval in the Middle Triassic and a further 9m of net pay in the Lower Jurassic Z sand. A three-month production test on the Middle Triassic zone flowed at a stabilised 750bopd, with volumes ranging from 516bopd to 849bopd during the period and delivering a material improvement on the J-50 well. Following results from J-52, Senergy upgraded 2P reserves for the Middle

Triassic to 24.2mmbbl (104.6mmbbl STOIP). A subsequent test of the Jurassic reservoir indicated that while the zone was oil bearing it may not be viable for commercial production (possibly due to a poorly designed fracc).

The final well completed by Jupiter was J-51, which was drilled in a separate, but non-sealing, compartment 2km southeast of J-50 and 1.7km northwest of J-52. The results announced in October 2011 showed that, while the Jurassic interval was not oil bearing at this location, several oil bearing zones were intersected in the Middle Triassic with a combined 83m of net pay in a 123m gross column. A three-month production test commenced in late November and has established a stabilised flow rate of 630bopd, confirming the excellent results in J-52.

The forward programme

2012 is set to be another busy and important year for Jupiter, with trial production set to commence shortly from the J-50 and J-52 wells, providing more material cash flows and a platform that will support transition to full development of the Akkar East field as volumes grow. In addition, up to three new wells are planned to be drilled in 2012 as the company seeks to expand the reserve base.

The first of these wells is the J-53 well, which was spudded on 25 November 2011 and is expected to take 60 days to reach target depth of 3,200m. The primary objective is the Middle Triassic reservoir and prospective resources are estimated at 9.9mmbbl. A secondary Jurassic target will also be intersected providing 8-10mmbbl of upside to this. Once target depth has been reached a smaller service rig will be mobilised to complete and test the well. Together with results from J-51 an updated reserve report will be submitted to the State Reserves Committee in February 2012 and a new CPR will be published. If the Jurassic reservoir proves productive in this area, Jupiter may go back and test the NWZ-2 well.

In the meantime, trial production licences have been awarded for both the J-50 and J-52 wells allowing production (subject to final permits allowing gas flaring) to be sold to the domestic market for up to three years. Along with crude produced from the J-51 well, oil will be sold to two local oil traders at a well head price of \$42/bbl with all transport and storage costs borne by the purchaser, earning Jupiter a netback of approximately \$25/bbl. Aggregate production is expected to reach a rate of 2,000bopd by year end from five wells (assuming J-53 and J-55 are successful).

The final firm activity for 2012 is the J-55 exploration well, which will target a separate structure to the southeast of the Akkar East field on acreage awarded to Jupiter last year. Prospective resources for the Middle Triassic are estimated in the 10-15mmbbl range with the probability of success considered relatively high due to evidence of oil encountered in the in an old Soviet well drilled down-dip.

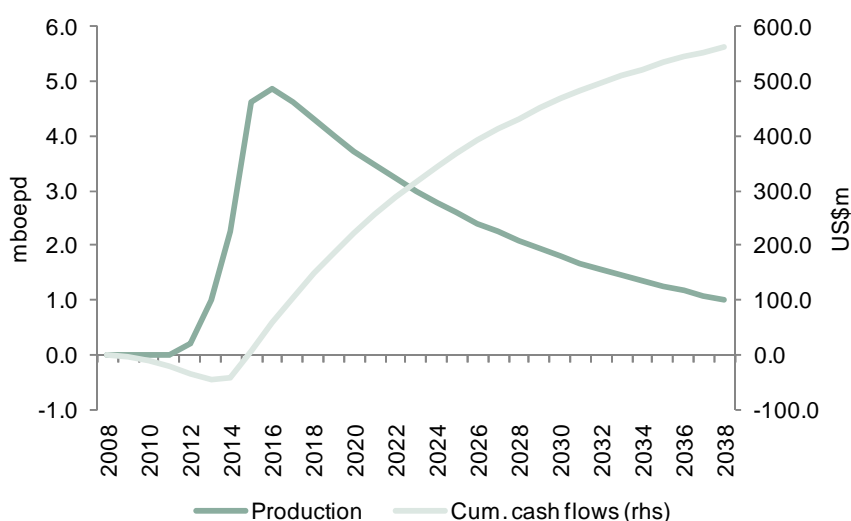
Slightly more uncertain is the final well (J-54) in the 2012 programme, which will be drilled in the northern part of Block 31. This will target the largest structure to date with 37.4mmbbl of prospective resources in Middle Triassic reservoirs; however, unlike J-54 and the Akkar East wells, it is being drilled on the eastern side of a major regional fault so carries a lower probability of success.

Development concepts for full development

As a shallow onshore field, full development of the Akkar East field should be relatively simple and low cost, allowing Jupiter to convert reserves into production and cash flows quickly. In addition to the existing inventory of wells drilled (including those planned in 2012) a further six production wells are planned to support a 2015 production target of 4,000bopd (400bopd per well). Based on the flow rates achieved with the J-51 and J-52 wells this seems conservative, suggesting peak production could be substantially higher, particularly if deviated wells are successful. The independent resource report produced by Senergy also indicates this, estimating that a 12 well development could deliver 6,000bopd (500bopd per well).

In our valuation we assume peak production of 5,000bopd from 10 wells with a decline rate of 7% to fit a 25yr field life. We understand a 5% decline rate is considered more typical for the region (Senergy uses 10%) and would reduce the field life to 20 years; however, applying this does not have a material impact on the economics of the development (compared to our forecast). Jupiter has also achieved higher than normal IP rates (due to more effective completions) so a higher decline rate may be realistic in the short term. If the J-53 well is successful additional well count will be required increasing peak production beyond 5,000bopd. The recovery factor assumed by Senergy is 23%.

Figure 7: Akkar East production and cash flows



Source: finnCap

Including sunk costs, full field development of the Akkar East field is expected to be c\$65m (\$2.7/bbl in F&D costs) including \$12m required for group production facilities. Vertical development wells are assumed to be \$4m each (compared to \$5m for successful exploration wells) and are expected to require a workover every two to three years. Assuming 80% of oil is exported the Akkar East field should be self financing by the end of 2013.

Fiscal terms

Kazakhstan operates a tax/royalty regime for upstream oil and gas projects, such as Block 31. Exploration contracts are awarded for six years and can be extended twice for two year periods. Block 31 was issued in December 2006 and will run to 29 December 2016. The specific terms of the contract are negotiated with the government but must adhere to conditions in the model subsoil use contract. Failure to fulfil work commitments agreed with the government risks termination of the contract. For Jupiter, the work programme is currently ahead of schedule and requires the drilling of two more exploration wells by 2013, which will be fulfilled by J-53 and J-55.

Once a discovery has been made the company can apply to test the well for up to three months, selling oil produced to the domestic market, which is typically at prices of less than 50% of international benchmarks. Once sufficient data has been acquired an application can be made with the Kazakh Central Development Committee for trial production licences, allowing individual wells to be put on more permanent production. These licences have a three-year duration, and while oil produced is sold exclusively to the domestic market (in some cases oil can be exported), it helps generate revenue while topsoil infrastructure is constructed for full development. Jupiter has trial production licences (but is awaiting flaring permits) for both the J-50 and J-52 wells, while the J-51 well is currently undergoing a 90-day testing programme.

During the exploration phase 50% of acreage must be relinquished, although licence extensions can be applied for in contiguous areas offering more potential. Jupiter has successfully applied for new acreage on two occasions, although while the new acreage is considered part of the existing licence, it carries additional work commitments. In Jupiter's case it agreed to shoot new 3D seismic. At the end of the exploration period a production licence may commence and typically run for 25 years, allowing the contractor to export 80% of production to international markets.

The fiscal terms applicable to upstream licences are relatively complex comprising of unofficial pricing controls (due to domestic supply requirements), direct production taxes, indirect taxes, bonuses and profit taxes. Crude exported is subject to the highest tax based on both production volumes (mineral extraction tax (MET)) and price (rent export tax). Volumes sold to the domestic market achieve a much lower price but are only subject to the MET, which is also charged at a lower rate than for crude exported. Indirect taxes include a liquidation fund, property tax and a custom export duty. In addition, corporation tax is charged at 20% (declining to 15% in 2014) after allowing for depreciation at 20% (declining balance), with a further excess profits tax also chargeable once aggregate income exceeds annual tax deductions by 25%.

Valuation

Our total net asset valuation for Jupiter is 130.7p/sh and is based on a 77.4p core NAV and an 53.3p risked NAV. Core NAV includes 93.9p for 2P reserves risked at 75% to account for remaining financing and development risks. Overall, we consider these risks low due to the backing of the Waterford Group and Soyuzneftegas and political connections. Apart from prospective resources included within risked upside (J-53 and Jurassic), we do not include any reserves upside despite believing this is likely. Our valuation per barrel for the Akkar East field is derived from the development concept discussed on page 12 and the fiscal terms applicable to Block 31 using the macro assumptions on page 15 and a 10% discount rate.

To arrive at core NAV we adjust our valuation of the Akkar East field for financial items including 1p for net debt, working capital and options and -17p for PV of G&A. Adding back PV of G&A to core NAV provides a reasonable first estimate at a take out valuation and would suggest Jupiter is worth in the region of 94.6p/sh. On a per barrel basis (2P) this equates to \$7.5/bbl, which is a little higher than other deals completed in recent years but entirely reasonable, we believe, given higher oil prices.

In the upside case we include 20.6p/sh (risked at 50%) for the Middle Triassic prospective resources targeted by the J-53 well. De-risking this to the same level of 2P reserves and upgrading to core NAV would increase our base valuation by 27% to 97.9p in a success case. The Jurassic sands and exploration targets in the southern extension area and in the northern part of the licence add a further 32.7p risked (217.5p unrisked). Fully unrisked our total NAV increases to 367.3p/sh and suggests a total upside of more than 10x is possible, although future equity issuance will dilute this.

Net Asset Value									
Field/prospect	Country	Licence	Gross unrisked reserves (mmboe)	Working interest (%)	Risk factor (%)	NPV (US\$/boe)	Risked NPV (US\$m)	Risked NPV (p/sh)	Unrisked NPV (p/sh)
- Akkar East	Kazakhstan	Block 31	24.2	100.0%	75%	10.0	180.2	93.9	125.2
Core development NAV			24.2	100.0%	75%	10.0	180.2	93.9	125.2
Financial adjustments							-31.8	-16.6	-16.6
Core NAV			24.2	100.0%	75%	8.2	148.4	77.4	108.7
Appraisal activities									
- Triassic (J-53)	Kazakhstan	Block 31	9.9	100.0%	50%	8.0	39.5	20.6	41.2
- Jurassic	Kazakhstan	Block 31	8.0	100.0%	33%	5.0	13.1	6.8	20.8
Risked appraisal NAV			17.9	100.0%	42%	6.9	52.6	27.4	61.9
Exploration activities									
- Northern prospect (J-54)	Kazakhstan	Block 31	37.4	100.0%	10%	8.0	29.8	15.5	155.2
- Extension area (J-55)	Kazakhstan	Block 31	10.0	100.0%	25%	8.0	19.9	10.4	41.5
Risked exploration NAV			47.4	100.0%	13%	8.0	49.7	25.9	196.7
Risked NAV			65.3	100.0%	21%	7.4	102.4	53.3	258.7
Total NAV			89.5	100.0%	36%	7.8	250.8	130.7	367.3

Source: finnCap

Total NAV sensitivity to commodity prices and discount rate							
	Oil prices (\$/bbl)						
GBP/sh	60	70	80	90	100	110	120
8%	48.9	73.1	97.6	115.9	134.2	152.9	170.8
9%	49.8	73.9	98.5	116.7	135.1	153.8	171.7
10%	50.5	74.7	99.3	117.5	135.8	154.6	172.4
11%	51.3	75.4	100.0	118.2	136.6	155.3	173.2
12%	52.0	76.1	100.7	118.9	137.3	156.0	173.9
13%	52.6	76.8	101.3	119.6	137.9	156.7	174.5
14%	53.2	77.4	101.9	120.2	138.5	157.3	175.1
15%	53.8	78.0	102.5	120.8	139.1	157.8	175.7

Source: finnCap

Macro assumptions					
	Unit	2011A	2012E	2013E	2014E
Brent	US\$/bbl	96.5	109.2	105.1	100.5
US\$/GBP	x	1.59	1.58	1.55	1.55
A\$/US\$	x	1.01	0.97	0.98	0.98

Source: finnCap

Financials

Income Statement			
m	2011A	2012E	2013E
Revenue	0.0	0.0	0.0
Cost of sales	0.0	0.0	0.0
Other income	0.0	0.0	0.0
Administration	-4.0	-4.8	-4.9
Exploration write-off	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0
Operating profit	-4.0	-4.8	-4.9
Net interest	0.1	-0.3	-0.5
FX	-0.9	0.0	0.0
Exceptional items	-0.1	0.0	0.0
Pre-tax profit	-4.9	-5.1	-5.4
Taxation	0.0	0.0	0.0
Net income	-4.9	-5.1	-5.4
Exceptionals	-0.1	0.0	0.0
Clean net income	-4.8	-5.1	-5.4
Shares average	91.9	115.9	115.9
Shares diluted	91.9	123.5	123.5
EPS (Normal) - GBp	-3.3	-2.8	-3.0
EPS (Diluted) - GBp	-3.3	-2.6	-2.8
Clean EPS (Normal) - GBp	-3.3	-2.8	-3.0
Clean EPS (Diluted) - GBp	-3.3	-2.6	-2.8

Source: Company reports, finnCap estimates

Cash Flow			
m	2011A	2012E	2013E
Operating profit	-4.0	-4.8	-4.9
DD&A /Exploration WO	0.0	0.0	0.0
Other	0.3	2.0	9.2
Operating Cash flow before interest/tax	-3.6	-2.8	4.3
Interest	0.1	-0.2	-0.5
Tax	0.0	0.0	0.0
Operating Cash flow after interest/tax	-3.6	-3.0	3.8
Chg. Working Cap	-0.9	0.0	0.0
Capex	-0.3	0.0	-5.9
Exploration	-8.3	-15.6	-8.8
Capex other	-0.8	-0.5	-0.7
Asset purchases (sales)	0.0	0.0	0.0
Free Cash flow before financing	-13.9	-19.1	-11.6
Equity issue:	26.6	0.0	0.0
Change in Debt	0.0	3.5	0.0
Free Cash flow after financing	12.7	-15.6	-11.6
Currency translation	-0.1	0.0	0.0
Change in cash	12.6	-15.6	-11.6

Source: Company reports, finnCap estimates

Balance Sheet			
m	2011A	2012E	2013E
Total current assets	15.9	0.3	-11.3
Cash	14.0	-1.7	-13.3
Accounts receivable	1.4	1.4	1.4
Other	0.5	0.5	0.5
Total fixed assets	25.8	41.6	56.5
Tangible fixed assets	0.4	0.4	6.3
Intangible fixed assets	25.3	40.9	49.7
Other	0.1	0.3	0.5
Total assets	41.7	41.9	45.1
Total current liabilities	0.6	0.7	0.7
Trade creditors	0.5	0.7	0.7
Other	0.1	0.1	0.1
Long term liabilities	0.2	3.8	4.0
Convertible debt	0.0	3.5	3.5
Other L-T debt	0.0	0.0	0.0
Other	0.2	0.4	0.6
Total liabilities	0.8	4.6	4.7
Net assets	40.9	37.3	40.4

Source: Company reports, finnCap estimates

NOTES

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