

28 November 2011

## Hyperion Exploration Corp.

HYX : TSX-V : C\$0.82

**BUY** ↑  
**Target: C\$2.25** ↑

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**COMPANY STATISTICS:**

52-week Range: C\$0.47 - 2.10  
 Forecast Return %: 174.4  
 Market Cap (M): C\$44.4  
 Shares Out (M): 54.2  
 Enterprise Value (M): C\$45.0  
 FYE: 31-Dec  
 Last quarter reported: Q3/11  
 Website: www.hyperionexploration.com

**EARNINGS SUMMARY:**

FYE Dec	2009A	2010A	2011E	2012E
Total				
Production (boe/d):		112	1,045	1,900
CFPS fd:		C\$(0.11)	C\$0.22	C\$0.45
EV/DACF:		(36.5)	4.3	2.4
EV/BOEPD:		C\$80,933	C\$42,159	C\$31,479

**SHARE PRICE PERFORMANCE:**

Source: Interactive Data Corporation

**COMPANY DESCRIPTION:**

Hyperion Exploration is a junior oil and natural gas producer with assets in Alberta and British Columbia. The company focuses primarily on the Cardium light oil horizon. It was formed through the recapitalization of Triple 8 Energy on July 23, 2010 and is currently listed on the TSX-V under the symbol "HYX".

All amounts in C\$ unless otherwise noted.

**Energy -- Oil and Gas, Exploration and Production****HYPERION LIVES UP TO THE HYPE;  
Q3 BEATS FORECASTS****Event**

Hyperion released Q3/11 earnings this morning beating both our production and cash flow estimates. Production averaged 1,050 BOE/d and was 54% oil-weighted; we had forecast 950 BOE/d with a 45% oil weighting. This resulted in cash flow per fully diluted share of \$0.05, being ahead of our estimate of \$0.04 and the only other Bloomberg estimate of \$0.03.

The production beat is attributed to the success of their Garrington and Buck Lake Cardium activity, with wells performing significantly ahead of type curves. The company provided IP30 rates with the slickwater frac'ed Garrington well producing 498 BOE/d, the foam-based frac producing 282 BOE/d, above the 194 BOE/d type curve. The first Buck Lake well had an IP30 of 374 BOE/d, also ahead of its 176 BOE/d type curve. The strong results dwarfed the \$3.19 per BOE impact of non-recurring operating costs in the quarter.

Hyperion's two pad-drilled Pembina Cardium wells are currently being completed and are expected to be brought on production in mid-December. We are expecting these to be the company's best, likely pushing exit rates above the company's reiterated guidance of 1,500 BOE/d.

**Impact**

Positive. Hyperion's existing Cardium wells have lived up to the hype and, as a result, we have modestly increased our production estimates for Q4/11 and 2012. The company is catalyst rich in the near term, with Pembina well results and another Buck Lake well set to be drilled in Q4, a likely bank line increase in January, and a third-party reserve report.

**Recommendation**

We are revising our Speculative Buy rating to a BUY, as corporate production has now averaged over 1,000 BOE/d (this was previously cited as the only reason for the SPECULATIVE rating), and increasing our target price to C\$2.25 (previously C\$2.00). Our target remains based on a 5.5x 2012E EV/DACF multiple.

Hyperion currently trades at (\$31,479 per BOE/d) a steep 38% discount to our Junior coverage universe on an EV/BOE/d basis, and at (2.4x EV/DACF) a 47% discount on an EV/DACF basis, making HYX a table-pounding BUY at this level.

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## Q3/11 RESULTS VERSUS ESTIMATES

Hyperion beat our production estimates by 10% while delivering a higher oil weighting, resulting in cash flow per share of \$0.05 versus our \$0.04 estimate (only one other estimate was in Bloomberg, at \$0.03). The cash flow beat was even more impressive considering the \$3.19 per BOE in one-time operating costs that related to an unexpected billing delay from a partner in Q1/11.

The high rate production result at Garrington (which is subject to higher royalty rates) also caused royalties to exceed our estimate, though we forecast this to decrease through our forecast horizon as the 5% Crown royalty incentives on new wells reduce the overall burden.

Lastly, the quarter also included a one-time non-cash write-down related to the Paradise property for \$3.2 million that was incurred in the quarter as the company recognized an impairment under IFRS.

The company has yet to draw on its \$24 million credit facilities with the production beat, although there was a working capital deficit of \$0.6 million.

**Figure 1: Q3/11 actual results versus estimates**

	Q3/11A	Q2/11A	% Chg	Q3/10A	% Chg	Q3/11E	Var. from est
<b>Financial</b>							
Net Revenue (\$mm)	\$4.4	\$4.0	11%	\$0.2	2,257%	\$3.8	18%
Cash Flow (\$mm)	\$2.5	\$2.2	14%	-\$0.5	(598%)	\$1.9	29%
CFPS (diluted)	\$0.05	\$0.05	(7%)	(\$0.00)	(1,586%)	\$0.04	29%
Capex (\$mm)	\$11.4	\$2.1	452%	\$4.8	137%	\$22.8	(50%)
Net Debt (surplus) (\$mm)	\$0.6	-\$8.3	(107%)	-\$5.8	(111%)	\$12.5	(95%)
Debt to Cash Flow (annualized)	0.1x	-1.0x	(106%)	2.9x	(98%)	1.6x	(96%)
<b>Production</b>							
Oil/NGLs (bbls/d)	572	442	29%	28	1,943%	430	33%
Gas (mmcf/d)	2,866	3,004	(5%)	123	2,230%	3,118	(8%)
BOE/d (@6:1)	1,050	943	11%	49	2,064%	950	10%
<b>Realized Prices By Product*</b>							
Oil & NGLs (\$/bbl)	\$84.68	\$87.86	(4%)	\$69.59	22%	\$80.93	5%
Gas (\$/mcf)	\$3.89	\$4.23	(8%)	\$2.99	30%	\$3.96	(2%)
<b>Netbacks (\$/BOE)</b>							
Revenue	\$57.05	\$55.20	3%	\$47.75	19%	\$50.01	14%
Royalties	(\$12.05)	(\$8.11)	49%	(\$1.88)	540%	(\$6.95)	73%
Operating costs	(\$12.79)	(\$10.82)	18%	(\$37.87)	(66%)	(\$10.75)	19%
Transportation costs	(\$1.59)	(\$1.38)	16%	\$0.00	n.a.	(\$1.38)	16%
Operating netback (incl hedging)	\$30.61	\$34.89	(12%)	\$8.00	283%	\$30.93	(1%)

Source: Company reports, Canaccord Genuity estimates

## HYPERION'S CARDIUM CONTINUES TO CRUSH THE CURVE

Hyperion provided IP30 rates for its two Garrington wells (100% w.i.); the one that was completed using a multi-stage slickwater frac continues to outperform the water-based foam frac (with IP30 rates of 498 BOE/d and 282 BOE/d, 89% oil, respectively). Slickwater outperformance is consistent with other companies' findings in the area; we expect all completions to be done using slickwater going forward. Although the completion methods

have returned varying results, both wells are significantly outperforming the type curve of 194 BOE/d with an 84% oil weighting.

The 4-16 Buck Lake well (60% w.i.) is also producing well above type curve with an IP30 rate of 374 BOE/d (58% oil) versus the 176 BOE/d (92% oil) type curve. Despite the gassier nature of the well, the liquids alone still top estimates. A second Buck Lake well from the same pad is planned to be spud in December or early January, and should be put on production in the first quarter.

The company's next two Pembina wells have both been drilled and are currently being completed. Hyperion's existing wells in the area have been the company's best to date, and we eagerly anticipate results from their latest effort. They are expected to be put on production in mid-December, and a successful effort should vault the company over its 1,500 BOE/d exit guidance, in our opinion.

## CATALYST RICH IN THE NEAR TERM

Hyperion has a number of upcoming catalysts that could provide further movement on the stock. These include the results from the two Pembina wells, a bank line increase in early January 2012 guidance, and their year-end reserve report.

## ESTIMATE REVISIONS

We have slightly increased our production estimates for Q4/11 and 2012, while reducing our capex estimate for this year. As a result of the higher proportion of production coming from the strong Garrington wells, we have increased our royalty assumptions going forward, although we expect production from Crown lands that qualify for the 5% royalty incentive to keep average royalties lower than the 21.8% they were in Q3/11.

The capex trim relates to contingent capital the company previously included for its share of a to-be-constructed partner-operated processing facility at Buck Lake that is no longer expected to be built this year.

**Figure 2: Estimate revisions**

(\$M unless otherwise stated)	2011E			2012E		
	Current	Prior	% Change	Current	Prior	% Change
Capital Expenditures	\$28	\$33	-15%	\$33	\$33	0%
<b>Production</b>						
Oil/NGLs (bbls/d)	589	532	11%	1,318	1,224	8%
Gas (mmcf/d)	2,738	2,747	0%	3,493	3,308	6%
BOE/d (@6:1)	1,045	990	6%	1,900	1,775	7%
Net Revenue	\$18	\$16	8%	\$36	\$33	10%
Cash Flow	\$10	\$9	6%	\$24	\$23	6%
Cash Flow Per share - diluted	\$0.22	\$0.20	9%	\$0.45	\$0.42	7%
Net Debt	\$6	\$12	-49%	\$15	\$22	-31%
Debt to Cash Flow	0.6x	1.3x	-52%	0.6x	1.0x	-39%

Source: Canaccord Genuity estimates

**RECOMMENDATION**

We are revising our Speculative Buy rating to a BUY, as corporate production has now averaged over 1,000 BOE/d (this was previously cited as the only reason for the SPECULATIVE rating), and increasing our target price to C\$2.25 (previously C\$2.00). Our target remains based on a 5.5x 2012E EV/DACF multiple.

Hyperion currently trades at (\$31,479 per BOE/d) a steep 38% discount to our Junior coverage universe on an EV/BOE/d basis, and at (2.4x EV/DACF) a 47% discount on an EV/DACF basis, making HYX a table-pounding BUY at this level with several near-term catalysts for share appreciation in the coming weeks and months.

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**APPENDIX: IMPORTANT DISCLOSURES**

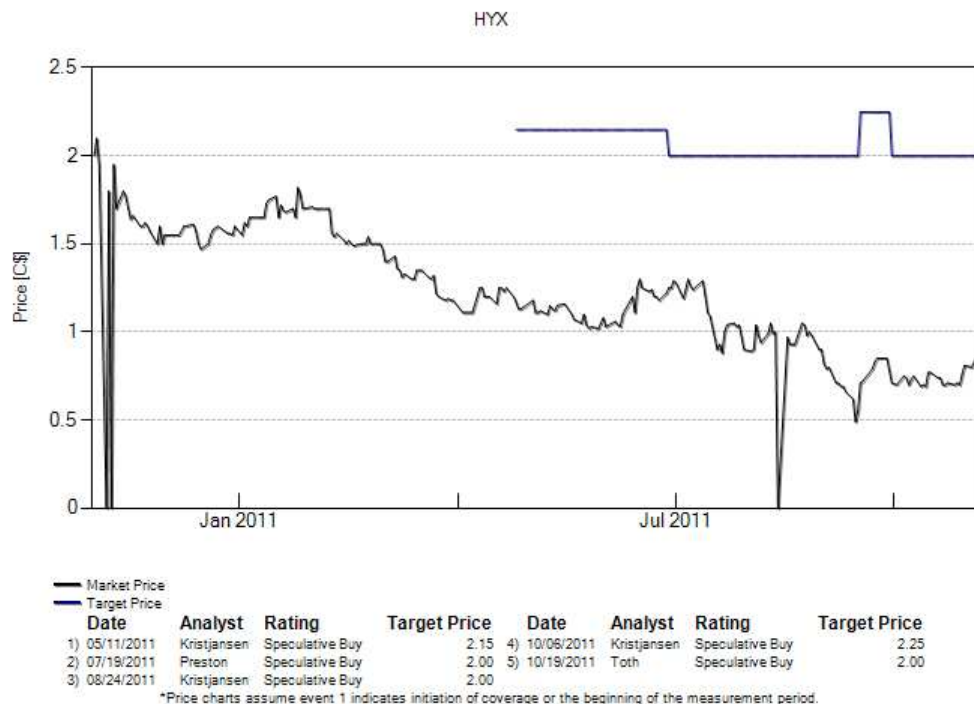
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**Site Visit:**

An analyst has not visited Hyperion Exploration Corp.'s material operations.

**Price Chart:\***



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(as of 4 November 2011)

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	#	%	#	%
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Speculative Buy	83	10.6%	68.7%	
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	781	100%		

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