GMP Securities Griffiths McBurney

Sean Barr, CFA
seanb@gmpsecurities.com
403-543-3587

Associate: Holly Smart
hsmart@gmpsecurities.com
403-695-1403

November 28, 2011

Hyperion Exploration Corp.[1] (HYX-V) BUY

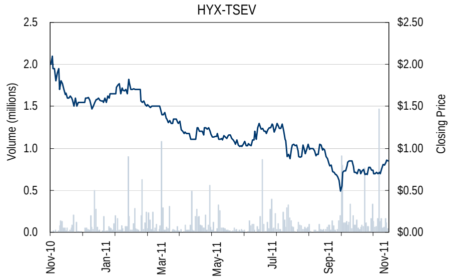
Last: $0.82 Target: $1.30↑

WHAT'S CHANGED	NEW	OLD
Rating	NC	BUY
Target	$1.30	$1.20
Production 2011E (boe/d) 6:1	975	950
Production 2012E (boe/d) 6:1	NC	1,700
CFPS 2011E (f.d.d.)	NC	$0.17
CFPS 2012E (f.d.d.)	NC	$0.37

SHARE DATA	
Shares o/s (mm, basic/f.d.)	54.2/71.4
52-week high/low	$2.40/$1.03
Market capitalization (mm)	$44
Enterprise value (mm)	$45
Net debt (mm) – Q3/11A	$0.6
Dividend yield	Nil
Projected return	59%

FINANCIAL DATA	2010A	2011E	2012E
Oil & NGLs (mb/d)	0.0	0.5	1.2
Natural Gas (mmcf/d)	0.4	2.7	2.9
Total (mboe/d) 6:1	0.1	1.0	1.7
Equivalent growth	nm	768%	74%
WTI (US$/b)	79.51	91.50	85.00
HHUB (US$/mmbtu)	4.38	4.15	4.50
FX rate (USD/CAD)	0.97	1.02	1.00
EPS (f.d.)	($0.22)	($0.07)	$0.08
CFPS (f.d.d.)	($0.04)	$0.17	$0.37
Net Debt (mm)	($5.1)	$12.7	$21.8
Debt/CF	nm	1.5x	1.0x
P/CF		4.9x	2.2x
P/CF (d'adj'd)		6.8x	3.1x

Fiscal year ending December 31



Q3/11 results, which are expected to be a precursor to strong year-end growth

Good Q3/11 results with strong year-end growth on track

Hyperion (HYX) announced its Q3/11 results this morning. Average production for the quarter was 1,050 boe/d which was ahead our forecast of 950 boe/d. Production increased slightly relative to Q2, and high impact early Q4 Cardium drilling results are expected to deliver strong year-end growth (with an unchanged exit rate target of 1,500 boe/d, 43% above Q3/11 levels). Cash flow for the quarter was $2.5 million ($0.05/share) which was slightly ahead of our forecast of $2.4 million ($0.04/share) and HYX also maintained a clean balance sheet with minor net debt of $0.6 million at quarter-end, leaving the company well financed to continue executing upon its active H2/11 capital program.

High impact Cardium drilling results highlight Q3/11 activity levels

Although activity levels were initially delayed by extended spring break-up conditions, drilling momentum has since picked up and was highlighted by high impact Cardium drilling success at Garrington and Buck Lake. In early October HYX announced initial three-day rates of 418 boe/d and 1,444 boe/d, respectively, at Garrington and 624 boe/d at Buck Lake, and we also note that the 30-day rates announced this morning remain above the expected type curves. HYX also has two recently completed wells at Pembina with results expected in the next few weeks, and these could provide additional high impact catalysts before year-end.

Minor changes to our estimates

HYX continues to target average production of 950 boe/d for the year with an exit rate of 1,500 boe/d. There are minor changes to our forecasts, and we are confident that HYX remains on track for strong year-end and 2012 growth.

Attractive relative valuation

HYX is trading at 2.2x (3.1x debt adjusted) our 2012 estimate compared to the small cap peer group average of 2.9x (4.1x debt adjusted).

BUY recommendation, increased $1.30 target price

HYX delivered good Q3/11 results with production and cash flow both ahead of expectations. Furthermore, with continuing positive operational momentum from the Cardium oil drilling program HYX remains on track for strong year-end growth, and overall we maintain our positive outlook on the company going forward. We have increased our target price based on the continued positive Cardium performance, and we believe HYX remains attractive at current levels.

GMP Securities
Griffiths McBurney

Sean Barr, CFA
seanb@gmpsecurities.com
403-543-3587

Associate: Holly Smart
hsmart@gmpsecurities.com
403-695-1403

GOOD Q3/11 RESULTS WITH STRONG YEAR-END GROWTH ON TRACK

Solid Q3/11 growth, with a strong forecast year-end production ramp-up on track

HYX reported its Q3/11 results this morning. Average production for the quarter was 1,050 boe/d, which included 572 b/d of oil and NGLs and 2.9 mmcf/d of natural gas, and was ahead of our estimate of 950 boe/d (504 b/d and 2.7 mmcf/d). Production increased slightly relative to Q2 due to initial production in late September from the two new wells at Garrington, and high impact early Q4 Cardium drilling results are expected to deliver strong year-end growth (with an unchanged exit rate target of 1,500 boe/d, 43% above Q3/11 levels).

Cash flow also slightly ahead of expectations

HYX also reported solid financial results in Q3/11, and more importantly cash flow is also expected to ramp-up along with the increasing volumes in Q4/11. The company reported a net loss of $2.4 million ($0.04/share) and cash flow of $2.5 million ($0.05/share), compared to our forecasts of $0.2 million (nil) and $2.4 million ($0.04/share), respectively. Net income was impacted by a $3.2 million impairment of a minor non-core asset at Paradise in Northeast B.C. (and we note this asset is being marketed for disposition). HYX's liquids weighting increased to 54% in Q3 which supported the better financial results, and with increasing Cardium volumes expected in Q4/11 that weighting is expected to increase to 67% by year-end. While cash flow was slightly ahead of expectations, it was impacted by elevated operating costs of $12.79/boe ($14.39/boe including transportation). It is important to note these costs were impacted by $3.19/boe (including transportation) of one-time items related to prior period adjustments, otherwise the cost performance would have actually been better than our forecast. The company is forecasting operating costs including transportation of $12.20/boe for 2011.

Q3/11 results versus GMP Forecasts

	Q3/11	GMP Q3/11 Estimates	% Variance
Production			
Oil & NGLs (b/d)	572	504	13.6%
Gas (mmcf/d)	2.9	2.7	7.0%
Total (boe/d)	1,050	950	10.5%
Cash Flow ($mm)	$2.5	$2.4	4.2%
CFPS (basic)	$0.05	$0.04	4.2%

Source: Company reports, GMP

HYX maintained a clean balance sheet at the end of Q3/11

With the increased Cardium drilling activity levels HYX had capital expenditures of $11.4 million in the quarter compared to $1.9 million in Q2/11. As a result HYX exited Q3/11 with minor net debt of $0.6 million or ~0.1x annualized Q3 cash flow. HYX remains comfortably within its $24 million credit facility, leaving the company well financed to execute an active drilling program in Q4/11.

GMP Securities
Griffiths McBurney

Sean Barr, CFA
seanb@gmpsecurities.com
403-543-3587

Associate: Holly Smart
hsmart@gmpsecurities.com
403-695-1403

Hyperion Energy – Quarterly results

	Q3/11	Q2/11	Sequential % Change	Q3/10	Year/Year % Change	9 months Sep-11	9 months Sep-10	Year/Year % Change
Financial								
Cash Flow ($mm)	$2.5	$2.2	13.5%	($0.5)	nm	$5.5	($0.7)	nm
CFPS (basic)	$0.05	$0.05	(7.2%)	($0.06)	nm	$0.12	($0.18)	nm
Net Income ($mm)	($2.4)	($0.1)	nm	($0.8)	nm	($3.6)	($1.0)	nm
EPS (basic)	($0.04)	($0.00)	nm	($0.10)	nm	($0.08)	($0.27)	nm
Net Debt ($mm)	$0.6	($8.3)	nm	($5.8)	nm	$0.6	($5.8)	nm
Operating								
Production								
Oil & NGLs (b/d)	572	442	29.4%	28	nm	432	12	nm
Gas (mmcf/d)	2.9	3.0	(4.6%)	0.1	nm	2.7	0.0	nm
Total (boe/d)	1,050	943	11.4%	49	nm	877	20	nm
Prices								
Oil & NGLs ($/b)	$84.68	$87.86	(3.6%)	$69.59	21.7%	$84.90	$67.58	25.6%
Gas ($/mcf)	$3.89	$4.23	(8.0%)	$2.99	30.1%	$4.06	$3.03	34.0%

Source: Company reports

HIGH IMPACT CARDIUM DRILLING RESULTS HIGHLIGHT Q3/11 ACTIVITY LEVELS

Positive Cardium well performance continues

Although activity levels were initially delayed by extended spring break-up conditions, drilling momentum has since picked up and was highlighted by high impact Cardium drilling success at Garrington and Buck Lake. In the third quarter, HYX drilled 3 (2.6 net) wells and and has another 3 (2.6 net) wells planned for Q4/11. As a reminder, in early October HYX released initial results from this Cardium drilling program, and below we provide a review of these wells drilled to date (and this morning's release included some additional data points as well).

Garrington: The initial results at Garrington featured two strong wells, with the 9-27 well (stimulated using slick water fracs) delivering a three-day IP rate of 1,444 boe/d (89% oil) and the 8-27 well (stimulated using water-based foam fracs) delivering a three-day IP rate of 418 boe/d (82% oil). This initial experimentation with completion techniques has steered HYX towards utilizing slick water fracs going forward, and we also note both of these wells continue to perform ahead of expectations. In the release HYX provided updated data that highlighted 30-day IP rates of 498 boe/d (89% oil) and 282 boe/d (89% oil), respectively, for these two initial Garrington locations. These wells are performing ahead (+157% and +45%) of the area type curve (30-day rate of 194 boe/d) which speaks to the quality of these results and could provide stronger than expected reserve bookings.

Buck Lake: HYX also previously announced a positive initial result at Buck Lake with the 4-16 well (60% WI) delivering a three-day IP rate of 632 boe/d. There is now sufficient data to highlight a 30-day IP rate of 374 boe/d (58% oil), which again is above (+113%) the area type curve (30-day rate of 176 boe/d). The second 60% WI well (5-16) is scheduled to spud by year-end which would be expected to provide Q1/12 production additions with success.

Pembina: The next operational focus for HYX has been at Pembina where two Cardium oil wells (100% WI) have been drilled so far in Q4/11, with completion and tie-in operations ongoing (with results expected in the next few weeks). For reference, the company's area type curve highlights an expected

GMP Securities
Griffiths McBurney

Sean Barr, CFA
seanb@gmpsecurities.com
403-543-3587

Associate: Holly Smart
hsmart@gmpsecurities.com
403-695-1403

30-day average rate of 275 boe/d, so expectations are high for these next two wells (and we would expect initial production performance to be disclosed by year-end.

Hyperion Exploration – Initial Cardium Production Results

Area	Well (WI%)	Status	7 Day Avg (1)	14 Day Avg (1)	30 Day Avg (1)	30 day type curve (2)
Garrington	8-27 (100%)	Producing	413 boe/d 86% oil	310 boe/d 89% oil	282 boe/d 89% oil	194 boe/d 84% oil
	9-27 (100%)	Producing	1,008 boe/d 88% oil	744 boe/d 89% oil	498 boe/d 89% oil	
Buck Lake	4-16 (60%)	Testing	595 boe/d 66% oil	483 boe/d 65% oil	374 boe/d 54% oil	176 boe/d 92% oil
	5-16 (60%)	Spud in Q4/11	-	-	-	
Pembina	4-24 (100%)	Currently Completing/ Equipping	-	-	-	275 boe/d 92% oil
	5-24 (100%)	Currently Completing/ Equipping	-	-	-	

(1) Average for periods based on field data after first new oil produced

(2) Hyperion's estimated production type curve in each area based on actual performance of local and relevant wells

Source: Company reports

MINOR CHANGES TO OUR ESTIMATES, STRONG H2/11 GROWTH REMAINS ON TRACK

HYX continues to target a 1,500 boe/d exit rate

There was no change to 2011 guidance with the release, as HYX continues to target average production of 950 boe/d for the year with an exit rate of 1,500 boe/d, 43% above Q3/11 levels.

Minor changes to our estimates

There are only minor changes to our forecasts as the Q3/11 results were generally in line with expectations. For 2011 we have increased our average production slightly to 975 boe/d from 950 boe/d and this results in forecast CFPS (f.d.d.) of $0.17 (unchanged) and year-end net debt of $12.7 million or 1.5x cash flow (unchanged). For 2012, we continue to forecast average production of 1,700 boe/d and this results in forecast CFPS (f.d.d.) of $0.37 (unchanged) and year-end net debt of $21.8 million or 1.0x cash flow (previously $21.9 million or 1.1x cash flow). We also note that forecast net debt levels in 2011 and 2012 are both within the $24 million bank line.

SEGMENTED TARGET VALUATION APPROACH

We continue to use a segmented valuation approach to derive our target price to encompass HYX's base cash flow and its Cardium oil resource opportunity. We utilize a conservative base cash flow component plus risked upside potential from the company's Cardium exposure.

The base cash flow component is unchanged at $0.80/share and is based on a 3.1x debt adjusted cash flow multiple valuation. This is below the small cap group average (excluding resource valuations) of

GMP Securities
Griffiths McBurney

Sean Barr, CFA
seanb@gmpsecurities.com
403-543-3587

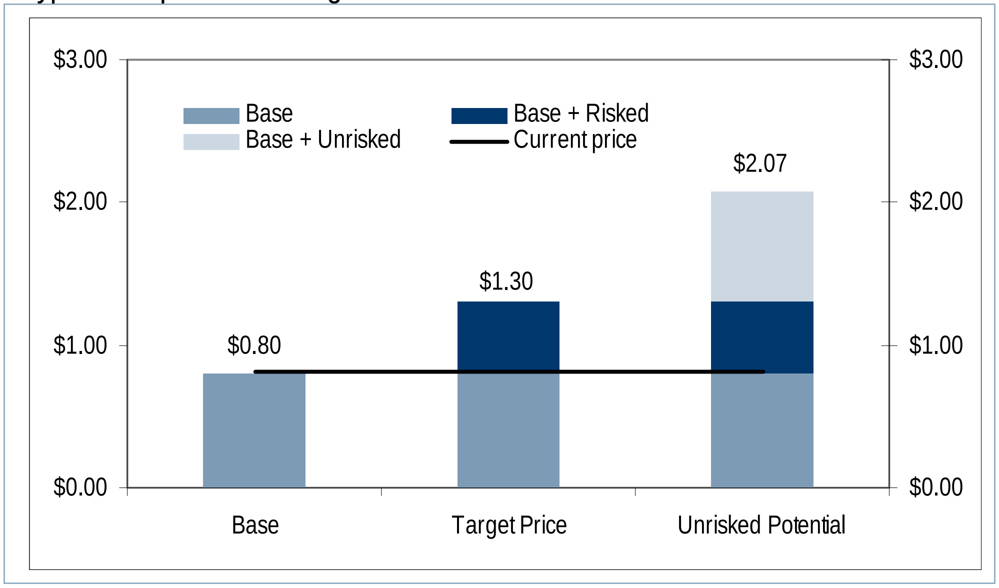
Associate: Holly Smart
hsmart@gmpsecurities.com
403-695-1403

4.2x given the company's earlier stages of operations, but we could see HYX meriting an improved valuation over time as development progresses on its resource-focused opportunity base.

We then estimate the company's unrisked Cardium potential to be $1.26/share, but with the continued positive well performance validating HYX's opportunity base we are lowering the assumed risk factor and now incorporating 40% of that upside potential (previously 30%) to drive an incremental $0.50/share (previously $0.40/share) in value. Together this drives an increased $1.30 target price (previously $1.20), and on a combined basis this implies a 4.3x debt adjusted target multiple which is still conservative compared to the peer group average of 6.1x.

One of the key highlights for HYX remains its attractive valuation relative to the peer group, particularly given its Cardium light oil focus. HYX is trading at 2.2x (3.1x debt adjusted) our 2012 estimate compared to the small cap peer group average of 2.9x (4.1x debt adjusted), a sizeable discount that we believe creates a good buying opportunity at current levels.

Hyperion Exploration – Target Valuation



Source: Company reports, GMP estimates

Recommendation

HYX delivered good Q3/11 results with production and cash flow both ahead of expectations. Furthermore, with continuing positive operational momentum from the Cardium oil drilling program HYX remains on track for strong year-end growth, and overall we maintain our positive outlook on the company going forward. We have increased our target price based on the continued positive Cardium performance, and we believe HYX remains attractive at current levels. **We reiterate our BUY recommendation and are increasing our target price to $1.30 from $1.20, which indicates potential upside of 59% from current levels.**

Sean Barr, CFA
seanb@gmpsecurities.com
403-543-3587

Associate: Holly Smart
hsmart@gmpsecurities.com
403-695-1403

[1] GMP Securities L.P. and/or any of its group affiliated companies has, within the previous 12 months, provided paid investment banking services or acted as underwriter to the issuer.
[2] GMP Securities L.P. and/or any of its group affiliated companies, is a market maker for the securities of the issuer.
[3] non-voting
[4] subordinate-voting
[5] restricted-voting
[6] multiple-voting
[7] The analyst who prepared this report has viewed the material operations of this issuer.
[8] The analyst who prepared this research report owns this issuer's securities.
[9] limited voting
[10] GMP Securities L.P. owns 1% or more of this issuer's securities.
* The analyst is related to a member of the Board of Directors of [name of company], but that individual has no influence in the preparation of this report.
**[Other disclosure]

Each research analyst and associate research analyst who authored this document and whose name appears herein certifies that (1) the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed herein that are within their coverage universe and (2) no part of their compensation was, is or will be, directly or indirectly, related to the provision of specific recommendations or views expressed herein.
GMP Analysts are compensated competitively based on several criteria, including performance assessment criteria based on quality of research. The Analyst compensation pool is comprised of several revenue sources, including, sales and trading and investment banking.
GMP policies do not allow the issuer to pay any expenses associated with a visit to its material operations by the Analyst.
GMP Securities L.P. prohibits any director, officer, employee or Canadian agent of GMP from holding any office in publicly traded companies or any office in private companies in the financial services industry.

All relevant disclosures required by IIROC Rule 3400 may be obtained by calling your Investment Advisor. GMP's recommendation statistics and research dissemination policies can be obtained at www.gmpsecurities.com or by calling your investment advisor.

The GMP research recommendation structure consists of the following categories:
FOCUS BUY. Small cap stocks (defined as stocks with less than $500 million market capitalization) in this category have a total return potential (including dividends payable) of greater than 25% and large cap stocks a greater than 20% total return potential, as well as superior qualitative and timing characteristics.
BUY. These stocks will have 15% or greater (small cap) or 10% or greater (large cap) total return potential.
SPECULATIVE BUY. These stocks will have a 30% or greater total potential return and they will have a speculative component which could be material to the return expectations.
HOLD. Small cap stocks ranked Hold will have a total return potential of 0% to 15%; large cap stocks ranked Hold will have a total return potential of 0% to 10%; and stocks that have a speculative component which could be material to the return expectations ranked HOLD will have a total return potential of 0% to 30%.
REDUCE. Companies ranked Reduce have a negative potential total return.
FOCUS REDUCE. Companies ranked Focus Reduce have a significant negative potential total return and materially compromised qualitative and timing characteristics.
Note: Analysts have discretion within 500 basis points of the upper and lower limit of each rating to determine the recommendation.