

Hyperion Exploration Corp.

(HYX-V: C\$0.80)

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BUY, High Risk*

12-month target price: C\$1.65

Doing More with Less - 2011 Exit Guidance Already Met

Market Information (C\$)				
Market Cap (MM)				\$57.9
Basic Shares (MM)				54.2
F.D. Shares (MM)				72.3
52-week High/Low				\$0.77-\$1.85
3-Month Avg Daily Trading Vol				104,235
Potential Return				106%
Financial Data				
FYE: Dec. 31	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>	
Crude Oil (\$US/bbl)	\$79.51	\$92.50	\$88.00	
NYMEX (\$US/mcf)	\$4.37	\$4.35	\$4.50	
Exchange (\$US/Cdn)	\$0.97	\$0.98	\$1.02	
Oil/Liquids (bbl/d)	47	526	1,182	
Gas (mmcf/d)	0.4	2.9	4.1	
boe/d (6:1)	112	1,013	1,869	
% Natural Gas	58%	48%	37%	
Cash Flow (MM)	-\$0.2	\$8.9	\$19.1	
CFPS (FD)	\$0.00	\$0.13	\$0.26	
Net Debt YE (MM)	-\$5.1	\$12.2	\$21.1	
Valuation				
	<u>2010A</u>	<u>2011E</u>	<u>2012E</u>	
P/NAV	64%			
EV/DACF		7.8x	4.0x	
EV/Production (boe/d)		\$69,153	\$42,239	
Price/CFPS		6.2x	3.0x	
Net Debt/CF		1.4x	1.1x	

Hyperion released a brief operational update highlighted by the company's current production exceeding their 2011 exit guidance of 1,500 boe/d. The main driver behind the recent production increase was Hyperion's recent tie-in of their 2 net Pembina Cardium wells in early December. In conjunction with the production bump, the company stated that current liquids weighting is 69%, just ahead of their 67% liquids weighting guidance. On the back of their impressive Cardium well results, we feel it is important to note that Hyperion met their 2011 exit guidance despite drilling one less well than originally planned. The 6th well in their program, a Buck Lake well, 5-16, that Hyperion originally expected to drill in 2011 was previously pushed back and is now expected to be drilled in early 2012.

Financially, Hyperion's balance sheet remains strong heading into the winter with current net debt of \$10 million on an \$18 million bank line that is expected to be reviewed early in the New Year.

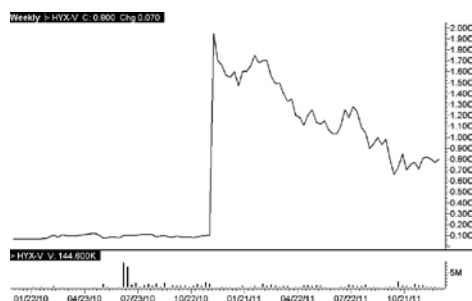
We continue to believe Hyperion offers investors inexpensive access to a strong balance sheet, increasing oil exposure, unbooked Cardium program and material production growth profile. We are maintaining our BUY recommendation and \$1.65 target price.

Highlights:

- Hyperion reported current production volumes in excess of 1,500 boe/d, higher than the previously forecasted exit guidance of the same.
- Liquids weighting in the last month of 2011 has climbed to approximately 69% with two 100% WI Pembina Cardium wells expected to contribute in the short term; we expect Hyperion to release production data from the two wells in early January 2012.
- At Pembina, Hyperion plans to drill its sixth Cardium well (0.5 net) in late December. The previous Cardium wells were stimulated with 20 stage slick water fracture programs and expectations are that this well will continue that approach. Management indicated that previous Cardium wells at the play have performed above expectations and we expect the newest well to follow this trend.
- Financially, Hyperion remains in good shape, with less than \$10 million in net debt (as of mid December) and \$18 million in bank lines which are to be reviewed in January. Given Hyperion's recent drilling results, we would not be surprised to see an increase in their borrowing capacity.
- The company plans to release their 2012 capital program and guidance in late January 2012. We are currently estimating a 2012 capital program of \$28 million resulting in over 70% production per share growth.

Source: See Note 1

HYX-V: Price/Volume Chart



Source: Thomson ONE

Company Description

Hyperion Exploration is a junior oil and gas producer offering light oil exposure through a Cardium oil focused asset base. The company is well capitalized to carry out an active drilling program that has the potential to add significant growth to both production and reserves.

Valuation and Target Price - Continues to trade at a discount

Given Hyperion's conservative 2010 reserve bookings, we continue to believe the company offers investors a low risk entry point into the Cardium oil play combined with material production and reserve upside potential. Given the company's 2011 Cardium drill program, we believe a significant lift to Hyperion's 2011 reserve report will be warranted.

We calculate our \$1.65 target price using a combination of our risked Roll-Up valuation methodology (displayed in Exhibit 1), and a 5.0 times 2012E EV/DACF.

Exhibit 1: Valuation Comparison

		2011E		2012E	
		HYX	Juniors	HYX	Juniors
P/NAV*	%	64%	83%		
EV/DACF	times	7.8x	8.5x	4.0x	5.1x
P/CF	times	6.2x	6.4x	3.0x	3.9x
EV/boe/d	\$/boe/d	\$69,153	\$75,934	\$42,239	\$50,541
D/CF	times	1.4x	1.8x	1.1x	1.4x
D/CF w/o converts	times	1.4x	1.8x	1.1x	1.4x
Capex/Cash Flow	times	3.7x	3.3x	1.5x	1.5x

* Year End 2010E Futures NAV

Source: Company Reports, Dundee Securities

Exhibit 2: Risked Roll-up Summary

Upside NAV Potential Program	IP Rate (boe/d)	Reserves / well (mboe)	# of Wells (Net #)	Futures NPV/well (\$mm)	Futures Total NPV (\$mm)	Risk Factor (%)	Total Value/Share (\$/share)	
Pembina Cardium Oil (High Rate Well)								
	2011	275	215	2.8	\$4.3	\$12.1	80%	\$0.17
	2012	275	215	2.8	\$4.3	\$12.1	80%	\$0.17
Pembina Cardium Oil (Base Case Well)								
	2011	175	140	0.0	\$2.4	\$0.0	80%	\$0.00
	2012	175	140	0.0	\$2.4	\$0.0	80%	\$0.00
Buck Lake Cardium								
	2011	175	155	1.2	\$2.6	\$3.1	80%	\$0.04
	2012	175	155	1.8	\$2.6	\$4.7	80%	\$0.07
Garrington Cardium								
	2011	180	190	2.0	\$1.8	\$3.6	80%	\$0.05
	2012	180	190	2.0	\$1.8	\$3.6	80%	\$0.05
Niton Cardium								
	2011	175	140	0.0	\$2.4	\$0.0	80%	\$0.00
	2012	175	140	1.5	\$2.4	\$3.6	80%	\$0.05
2010 Futures NAV							\$1.25	
2011/2012 Upside Potential							\$0.59	
Potential Value at End of 2012							\$1.84	
Total Remaining Inventory Value - less 2011/2012 locations							\$0.89	
Full Development Potential Value							\$2.73	

Source: Company Reports, Dundee Securities

Key Risks to Target Price

Volatile commodity prices, rapidly increasing operating and/or service costs, access to oilfield equipment, unexpected changes in reserves and/or production, loss of key employees, changing Government regulations, environmental costs pertaining to reclamation or clean-up activities, geopolitical events causing volatility in commodity prices, disruptions at major facilities, limited liquidity in the capital markets, and integration risk given the large number of acquisitions in the sector.

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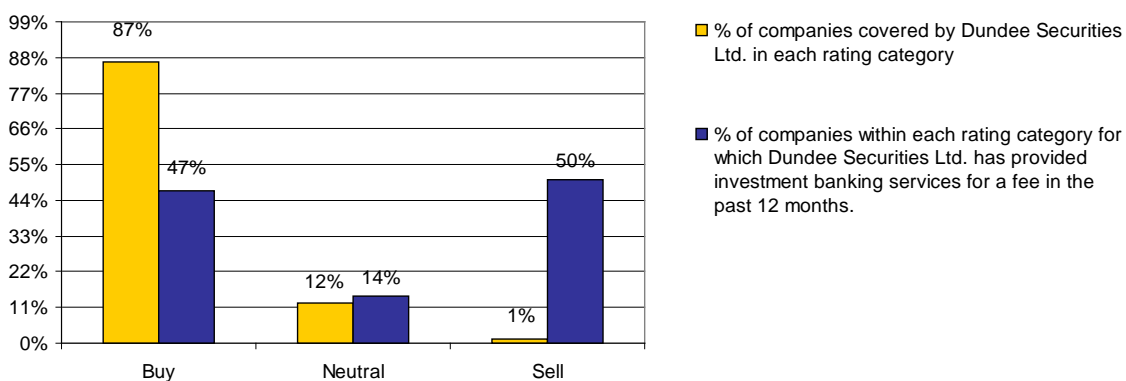
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