DJ Carmichael

RESEARCH

OIL AND GAS

21 November 2012

RECOMMENDATION
Speculative Buy

12 month price target	**$0.57**
12 month volume	297m
12 month share low	A$0.13
12 month share high	A$0.25

ISSUED CAPITAL

ASX	JKA
Share price	$0.21
Mkt cap[1]	$52m
Ordinary shares on issue	248m
Options[2]	90m

1 Undiluted *Source: IRESS*
2 Various dates and strike prices

DIRECTORS

Scott Spencer	Chairman
Richard Aden	Exec Director
Justyn Wood	Technical Director
Brett Smith	Non-Exec Director
Stephen Brockhurst	Non- Exec Director

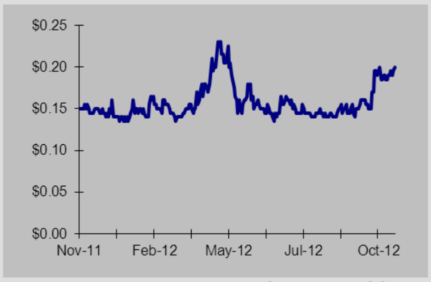
Source: JKA

MAJOR SHAREHOLDERS

Contango Asset Mgmt	6%

Source: IRESS

12 MONTH PERFORMANCE



Source: IRESS

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Jacka Resources Ltd (JKA)

Fully Funded for High Impact Catalysts

JKA has announced it has completed an options underwriting agreement which has raised $10m and importantly ensures JKA is fully funded for its high impact forward program. We believe the funding has removed a key headwind to JKA's share price and provides investors exposure to a significant amount of near term catalysts which could add over $0.70/sh unrisked to JKA's share price. JKA remains one of our top three "High Conviction" plays for 2012 and we maintain our Speculative Buy recommendation with a price target of $0.57/sh (previously $0.59/sh).

Key Points:

- **Fully funded for high impact catalysts:** JKA has announced it has completed an options underwriting agreement which has raised $10m and importantly ensures JKA is fully funded for its high impact forward program. Post the funds raised, JKA will have ~$14m cash with an estimated forward commitment program until the end of 2013 of $12.8m.

- **Catalysts could add over $0.70/sh unrisked.** On a success basis, we estimate the near term catalysts could provide substantial share price upside for investors (over $0.70/sh). These include 1) Aje field resource upgrade (Dec-12, upside of 10c/sh), 2) Drilling of Hammamet West 3 (Feb-13, upside of 34c/sh), 3) Aje-5 development drilling (Jul-13, upside of 14c/sh) and 4) Drilling of exploration well in WA-399-P (3Q-13, upside of 17c/sh).

- **Structured to minimise equity dilution.** The options underwriting agreement has been structured to minimise equity dilution resulting in our price target remaining largely unchanged at $0.57/sh (previously $0.59/sh) whilst providing a substantial increase to JKA's cash balance from ~$4m to ~$14m.

- **Farm-out of Somaliland undervalued by the market.** In our view, the recent farm-out of JKA's Odewayne Block in Somaliland to Genel Energy has not been priced into JKA's share price. We believe the key reason for the market's neutral reaction to such a highly value accretive transaction (implied see through value to JKA of $30m/$0.12/sh) was the perceived near term funding risk. This risk has now been removed and we believe the significance of the farm-out will start to be appreciated by the market resulting in share price momentum.

- **Farm-out of Ruhuhu block, Tanzania Next?** We believe once the approval for the Ruhuhu block is finalised (Dec-12), JKA will be in an attractive position to farm-out some of its interest to fund the exploration phase of the work program. This is supported by the phenomenal success offshore Tanzania (Ophir Energy and BG) and global oil and gas companies including Total and Tullow acquiring acreage onshore Tanzania.

- **Investment thesis driven by high calibre management.** JKA remains one of our high conviction plays for 2012 highlighted by a high calibre management team while also providing exposure to a high quality portfolio of assets.

Fully Funded for High Impact Catalysts with Upside of over $0.70/sh

JKA has announced it has completed an options underwriting agreement which has raised $10m and importantly ensures JKA is fully funded for its high impact forward program. **Post the funds raised, JKA will have ~$14m cash with an estimated forward commitment program until the end of 2013 of $12.8m**. We believe the funding has removed a key headwind to JKA's share price. In addition, given the recent farm-out of its Odewayne Block in Somaliland to Genel Energy (which in our view has not been priced into JKA's share price) and a number of key near term catalysts, we believe there is significant upside to JKA's share price.

The funds raised will be allocated to the following activities which provide investors high leverage to major near term catalysts including:

1. Finalisation of Ruhuhu Block, Tanzania (December 2012).
2. Potential Aje field resource upgrade (December 2012).
3. Mobilisation of rig for Hammamet West-3 (December 2012).
4. Drilling of Hammamet West-3 (February 2013).
5. Seismic studies in Somaliland with operator Genel Energy (April 2013).
6. Drilling of Aje-5 development well, offshore Nigeria (July 2013).
7. Potential spudding of exploration well offshore Australia (Exmouth Basin), WA-399-P (3Q 2013).

As highlighted above, investors will be exposed to a significant number of high impact catalysts which could add over $0.70/sh unrisked. However, we note that the unrisked upside we have estimated for the drilling of Aje-5 assumes the Joint Venture executes a full field development (200mmboe gross, 10mmboe JKA share). An outline of the allocation of funds and upside potential is detailed in the table below.

Activity	Cost $m	Potential Upside	Timing	Notes
Aje field resource upgrade	0	0.10	Dec-12	Assume 40% resource upgrade to Aje field which is currently ~200mmboe (10mmboe JKA share).
Drilling of Hammamet West-3	6	0.34	Feb-13	Unrisked upside to low case contingent resource estimate of ~17mmbbls JKA share. Total well cost is $8m JKA share with $2m sunk cost to date.
Aje-5 development drilling	3	0.14	Jul-13	Unrisked upside of full-field development of Aje assuming 2P reserves of ~200mmboe.
Drilling of exploration well in WA-399-P	1.8	0.17	3Q-2013	Unrisked upside of 37mmbbl prospect (~6mmbbl JKA share).
Working capital and other costs	2	-0.01	2013	Estimated corporate costs for 2013.
Total	**12.8**	**0.74**		

Figure 1: Allocation of funds and share price upside *Source: DJC Estimates*

Structured to Minimise Equity Dilution

The options underwriting agreement has been structured to minimise equity dilution resulting in our price target remaining largely unchanged at $0.57/sh (previously $0.59/sh) whilst providing a substantial increase to JKA's cash balance from ~$4m to ~$14m.

JKA has received firm commitments from investors to underwrite 50 million options with an exercise price of $0.20/sh and expiry date of 31 December 2012 to raise a total of $10m. In return, JKA will issue an additional 50 million new options with a strike price of $0.35/sh and expiry date of 1 February 2015 (options will be quoted on the ASX in January 2013).

Farm-out of Somaliland Undervalued by the Market

In our view, the recent farm-out of JKA's Odewayne Block in Somaliland to Genel Energy has not been priced into JKA's share price. We believe the key reason for the market's neutral reaction to such a highly value accretive transaction which has an implied see through value to JKA of $30m/$0.12/sh (representing over 50% of JKA's market cap) was the perceived near term funding risk. This risk has now been removed and we believe the significance of the farm-out will start to be appreciated by the market resulting in share price momentum, in our view.

We believe the farm-out agreement, which has been signed within a year of JKA acquiring its interest in the Odewayne Block highlights management's ability to build and monetise a high quality asset portfolio in a short period of time. Furthermore, the entry of LSE listed Genel (market cap of ~$3.7bn), provides a compelling endorsement of JKA's Odewayne Block and adds to the growing list of high quality Joint Venture (JV) partners of JKA which includes Vitol, Chevron, Dragon Oil and Apache.

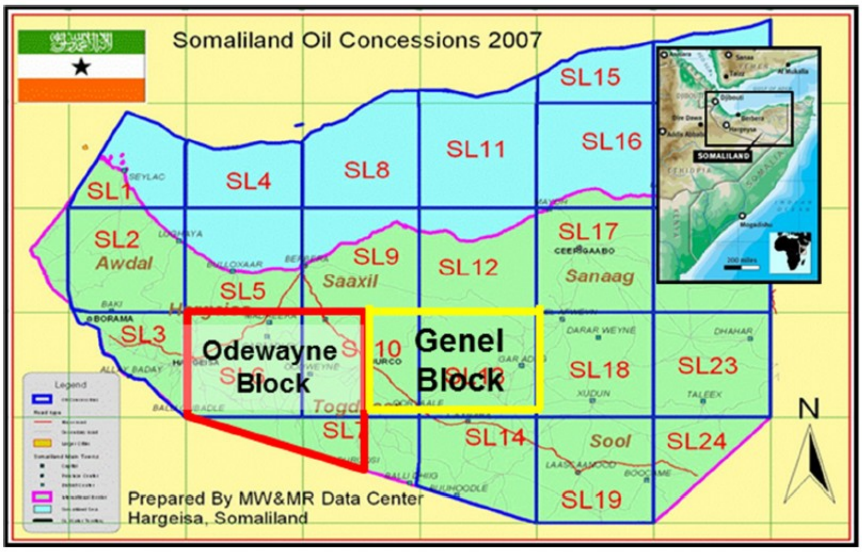

Figure 2: Odewayne Block *Source: JKA, DJC*

Farm-out of Ruhuhu block, Tanzania Next?

JKA expects to finalise the approval of the Ruhuhu block, (100% JKA) in December 2012. The Ruhuhu Basin is located onshore in South West Tanzania and is truncated to the west by the Lake Malawi Basin of the modern East African Rift (EAR). The Nyasa Basin is believed to contain TOC rich sediments similar to those of the genetically related Albertine graben in western Uganda, where one billion barrels of oil reserves have been proven since 2006.

As was the case with JKA's Odewayne Block in Somaliland (before the farm-out to Genel Energy) we currently hold no value for the Ruhuhu block in our valuation. This is due to JKA's interest in the block not yet finalised and the frontier nature of the acreage. However, we believe once the Ruhuhu block is finalised JKA will be in an attractive position to farm-out some of its interest to an international oil company to fund the exploration phase of the work program. This is supported by the phenomenal success offshore Tanzania by international oil and gas companies such as Ophir Energy and the BG Group. In addition, global oil and gas companies including Total and Tullow have acquired acreage onshore Tanzania.

Figure 3: Ruhuhu Block *Source: JKA*

Investment Thesis

Our investment thesis for JKA includes the following:

- **High quality management:** The cornerstone of any successful company is high quality management. Key management of JKA are ex-Hardman Resources Ltd which was acquired by Tullow Oil plc during 2006/2007 for $1.5bn. The team has a significant competitive advantage in East Africa given they were pioneers of first oil in the East African Rift and have an existing network of contacts within the region. Management has demonstrated the ability to leverage off its experience in Africa by building a high quality asset base in a short timeframe. In addition, we believe the farm-out of the Odewayne block within a year of its acquisition highlights management's ability to build and monetise a high quality asset portfolio in a short period of time

- **High Quality and well balanced asset portfolio**: We believe JKA has built a high quality and well balanced asset portfolio comprising lower risk/near term cashflow potential assets (Hammamet West, Tunisia and the Aje oil field, offshore Nigeria) and blue-sky exploration potential highlighted by frontier acreage in the prolific East African rift (Ruhuhu Basin, Tanzania and the Odewayne block, Somaliland).

- **Material cashflow generation potential in the near term.** A potential development of Hammamet West (assuming appraisal success) could generate ~$60m/year net revenue while Aje could generate net revenue of $20m/year resulting in total revenue of ~$80m net to JKA. This would be material to JKA given its current market cap of ~$50m.

- **High equity interest in emerging East African rift basins.** The entry of JKA into the emerging East African rift basins in Tanzania and Somaliland provides investors with exposure to high equity interests (100% and 30% respectively) in assets with significant blue-sky potential and also provides JKA with optionality to fund future activities (e.g. farm-outs). This has been demonstrated by the recent farm-out to Genel Energy of the Odewayne block, Somaliland, which provides a compelling endorsement of JKA's acreage.

- **Additional high quality asset acquisitions and farm-outs expected.** Management has demonstrated its ability to identify high quality assets and be able to monetise these in a short timeframe. We expect further value accretive transactions to be delivered in the near term which will include high quality asset acquisitions and attractive farm-out agreements.

- **High Corporate Appeal:** Notwithstanding the intense industry focus on East Africa due to recent corporate activity and the high exploration success of major oil companies, JKA is building a portfolio of strategic assets which is highly attractive to large cap oil and gas companies, in our view. This view is supported by the JV partners JKA is currently working with such as Vitol, Chevron, Dragon Oil, Apache and Genel Energy.

Disclosure RCAN1080

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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The Author of this report made contact with **Jacka Resources Ltd** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released **Jacka Resources Ltd**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions
SPECULATIVE BUY – 10% out-performance, but high risk
BUY – 10% or more out-performance
ACCUMUATE – 10% or more out-performance, buy on share price weakness
HOLD – 10% underperformance to 10% over performance
SELL – 10% or more underperformance
Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

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