RESEARCH

OIL AND GAS

18 October 2012

RECOMMENDATION
Speculative Buy

12 month price target	**$0.48**
12 month volume	297m
12 month share low	A$0.13
12 month share high	A$0.25

ISSUED CAPITAL

ASX	JKA
Share price	$0.17
Mkt cap[1]	$42m
Ordinary shares on issue	248m
Options[2]	80m

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)

Increasing Industry Activity in Somaliland

Recent discussions with JKA management has highlighted the increasing industry activity in Somaliland with both Genel Energy (run by ex BP CEO Tony Hayward) and the highly successful LSE listed Ophir Energy acquiring permits in-country. Rumours within the industry is that Genel secured a 75% interest in SL-13 for a work commitment value of $60m which would value JKA's interest in the Odewayne block at ~$40m/$0.16/sh. JKA remains one of our top three "High Conviction" plays for 2012 and we maintain our Speculative Buy recommendation and price target of $0.48/sh.

Key Points:

- **Increasing industry activity in Somaliland:** The recent entry of ex-BP CEO Tony Hayward's company, Genel Energy (Genel) into Somaliland with estimates of 1bnboe prospective resource potential (POS of 15%) provides a compelling endorsement of JKA's acreage. The Genel block is immediately east of JKA's Odewayne block. Industry rumours suggest Genel secured a 75% interest in SL-13 for a work commitment of $60m which would value JKA's interest in the Odewayne block at ~$40m/$0.16/sh. In addition, the highly successful LSE listed Ophir Energy (market cap of ~$3.8bn) has also entered into Somaliland highlighting the increasing profile of the country as one the world's emerging hydrocarbon regions. We believe the recent industry activity will support JKA's future farmout activities.

- **Hammamet West drilling expected in Jan 2013 (15% JKA):** The Hammamet West 3 appraisal well (HW3) is expected to be spud in January 2013 following rig handover from TSX listed Sterling resources which is undertaking a two well program offshore Romania. The HW3 well will appraise the resource potential of the Abiod formation in the Hammamet West discovery (111 mmbbls oil of P50 contingent resources, 17mmbbls net to JKA).

- **Success at HW3 could add $0.40/sh unrisked:** We estimate a success at HW3 would be highly value accretive for JKA resulting in substantial upside of ~$0.40/sh unrisked (assuming a commercial discovery of 111mmbbls oil). Furthermore, given the shallow water of a potential development and close proximity to shore a discovery size of 10mmbbls to 12mmbbls is estimated to be economic. Production from HW3 could generate ~$60m net revenue/yr to JKA.

- **Potential Aje resource upgrade:** An update of the Aje project (offshore Nigeria) is expected by year end which could result in a material resource upgrade from JKA's current estimates (200mmboe gross, 10mmboe JKA share). On a valuation basis alone, we estimate JKA's 10mmboe of 2C resources (assuming they are converted to reserves) provides $100m of NPV or $0.40/sh unrisked. Production from Aje will deliver net revenue of $20m/yr to JKA.

- **Investment thesis driven by high calibre management.** JKA has high calibre management with a strong track record of delivery and a well-balanced asset portfolio with near term cashflow generation potential. JKA remains our key pick in the African oil and gas space with the key near term catalysts being: 1) Aje resource upgrade (Q4 2012) and 2) Spudding of HW3 (Jan 2013).

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.

- **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 ~$42m.

- **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 50% respectively) in assets with significant blue-sky potential and also provides JKA with optionality to fund future activities (e.g. farm-outs). The recent entry of ex-BP CEO Tony Hayward's company, Genel Energy (Genel) into Somaliland with estimates of 1bnboe prospective resource potential (POS of 15%) provides a compelling endorsement of JKA's acreage. The Genel block is immediately east of JKA's block. In addition, the highly successful LSE listed Ophir Energy (market cap of ~$3.8bn) has also entered into Somaliland highlighting the increasing profile of the country as one the world's emerging hydrocarbon regions which will support JKA's future farmout activities, in our view. Rumours within industry suggest that Genel secured a 75% interest in SL-13 for a work commitment value of $60m. If this is accurate, the see through value for JKA's 50% interest in the Odewayne block would be ~$40m/$0.16/sh.

- **Trading on a ~70% EV/2C discount to its peers.** JKA continues to trade at a steep discount to its peers on an EV/Contingent Resource/Reserve multiple which we do not think is warranted given the quality of its management, assets and Joint Venture partners. Furthermore, JKA's 2C resource volumes of 27mmbbls are heavily weighted towards liquids (~80%).

- **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 and Apache. The entry of Genel and Ophir Energy into Somaliland further supports our view.

Increasing Industry Activity in Somaliland

In April 2012, JKA announced it had entered into an agreement with Petrosoma Ltd to acquire a 50% interest and become operator of the Odewayne block which is located in the south west of Somaliland and covers an area of 22,000km^2. The geology on the block is estimated to be analogous to the prolific producing basins of Yemen where 9.8bnboe have been discovered or are to be discovered. The prospectivity of the block is highlighted by multiple oil seeps with nine confirmed as light sweet crude/condensate similar to Yemen fields. The addition of the Odewayne block provided JKA with a material interest to a frontier rift basin with significant blue-sky exploration potential and a competitive in-country operational advantage provided by JV partner Petrosama.

Figure 1: Odewayne Basin, Somaliland *Source: JKA*

Industry activity has heated up recently with Genel Energy (Genel) acquiring a permit immediately to the East. Rumours within industry suggest that Genel secured a 75% interest in SL-13 for a work commitment value of $60m. If this is accurate, the see through value for JKA's 50% interest in the Odewayne block would be ~$40m/$0.16/sh. Genel is run by ex-BP CEO Tony Hayward who is building an impressive portfolio of producing and exploration assets with an estimated 75,000bopd average production expected to be delivered in 2012. Genel has been aggressive in its acquisition trail targeting elephant size fields. In its latest investor presentation, Genel believes its Somaliland block has prospective resource potential of 1bnboe.

In addition, the highly successful LSE listed Ophir Energy (market cap of ~$3.8bn) has entered into Somaliland highlighting the increasing profile of the country as one the world's emerging hydrocarbon regions. The recent entry of both Genel and Ophir Energy into Somaliland provides a compelling endorsement of JKA's acreage. We believe the recent industry activity will support JKA's future farmout activities.

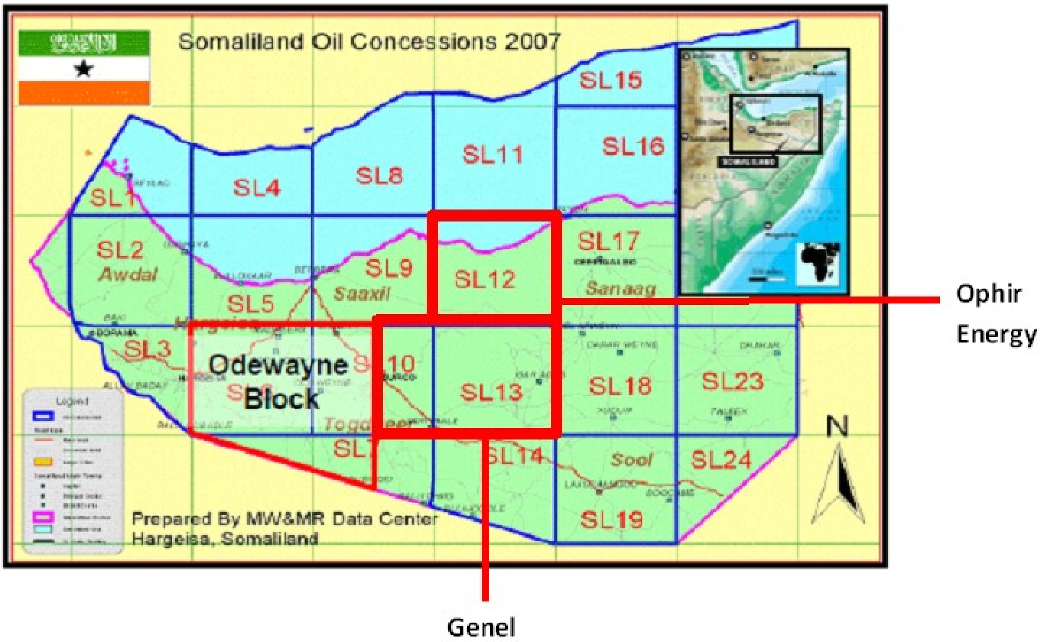

Figure 2: Somaliland Acreage (JKA, Genel, Ophir) *Source: JKA, DJC*

Hammamet West-3 Drilling to Commence January 2013 (15% JKA)

Drilling of the HW3 appraisal well, located in the Bargou block, offshore Tunisia is expected to commence in January 2013 following the rig handover from TSX listed Sterling Resources which is undertaking a two well program offshore Romania. The HW3 well will target an estimated P50 (base case) contingent resource of 111mmbbls oil (17mmbbls net to JKA) and has an expected drilling time of 42 days to target depth (~3,100m). The primary target will be the Abiod formation which is a proven producer in the region with the nearby Mammoura field (12kms from HW3) delivering 20,000bopd (facility constrained).

The entry of LSE listed Dragon Oil (market cap of ~£3bn) to the JV provides significant operational capability and enhances the credibility of the permit. Dragon oil is an international oil and gas exploration and production company quoted on both the London and Irish stock exchanges. The company has reserves of 639mmbbls of oil and condensate and 1.6tcf gas with its primary producing asset in the Caspian Sea, offshore Turkmenistan.

The HW-3 well lies in relatively shallow water (50m to 100m) and is close to shore which should minimise future development costs (estimated to be ~$5/bbl). As a result of its low development cost, JKA estimate a discovery size of 10mmbbls to 12mmbbls would be commercial. Two exploration wells drilled on the block encountered hydrocarbons with the Hammamet West 1 (HW1) well encountering an 8 metre oil column in the Birsa formation and >30 metres of hydrocarbons in the Ain Grab/Fortuna formations in 1967. A follow up well (Hammamet West 2) was drilled in 1990 and encountered 3 zones of movable oil over a 192 metre section in the Abiod formation. The Hammamet West oil discovery is a large anticlinal structure.

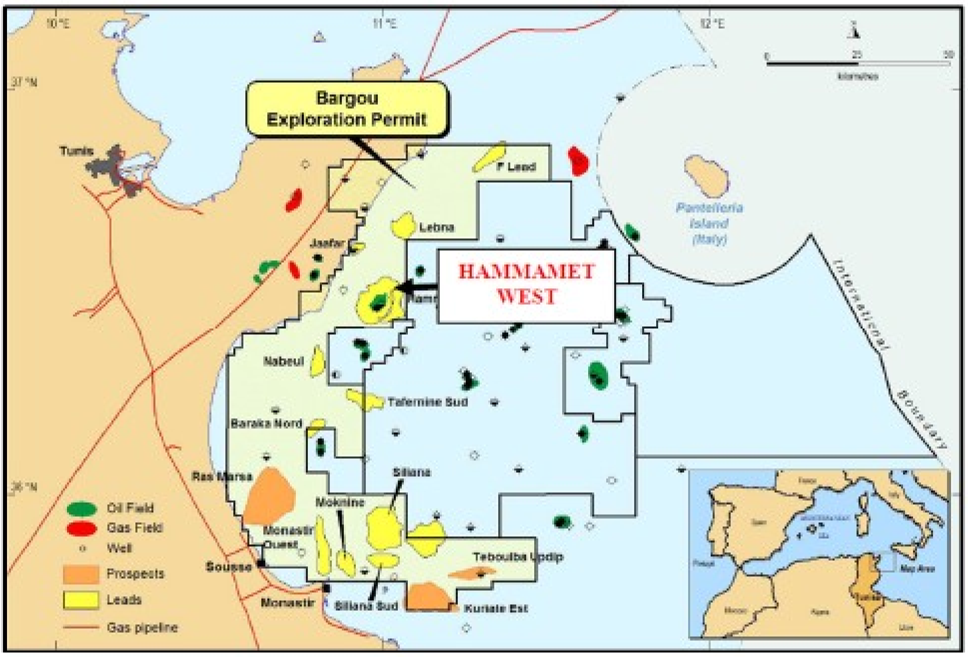

Figure 3: Hammamet West *Source: JKA*

The HW3 well will appraise the resource potential of the Abiod formation in the Hammamet West discovery. The well will intersect the reservoir with a slightly deviated pilot hole to confirm the depth to the top of the Abiod reservoir and appraise potential upside. A horizontal section will then be drilled through the Abiod reservoir and tested to assess the commerciality of the discovery and delineate the resource potential which is currently estimated at 475mmbbls (P50 oil in place) and 101 mmbbls oil of P50 contingent resources (15mmbbls net to JKA). A secondary target in HW3 is the Birsa sandstone which is estimated to hold 33mmbbls oil in place with 10mmbbls oil P50 contingent resource (1.5mmbbls net to JKA). We estimate a success at HW3 would have a transformational impact on JKA resulting in substantial upside of ~$0.40/sh unrisked (assuming a commercial discovery of 111mmbbls oil).

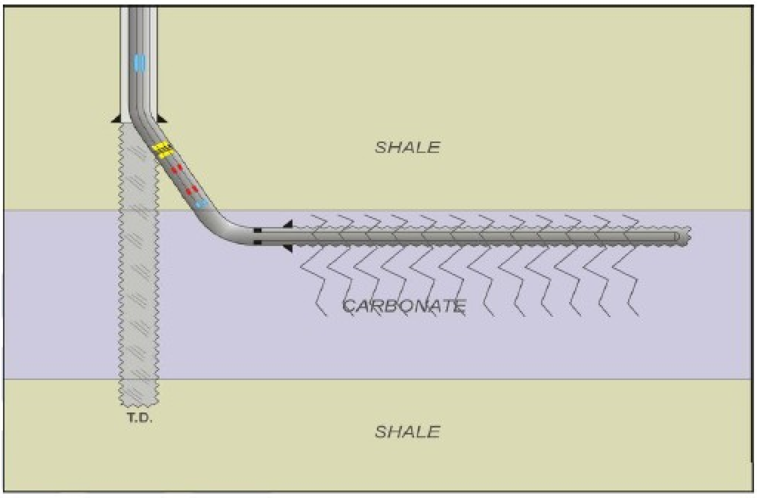

Figure 4: HW3 well drilling concept *Source: JKA*

The gross drilling and testing costs of the HW3 appraisal well is ~$US27m (US$8m net to JKA). The key risk will be reservoir quality and well deliverability with surrounding Abiod development wells producing at ~5,000boepd. JKA estimate a commercial flow rate would be ~2,500boepd.

A development concept for HW has been completed by Worley Parsons which includes an unmanned platform and a pipeline to shore for oil and gas to be processed before being exported to relevant markets.

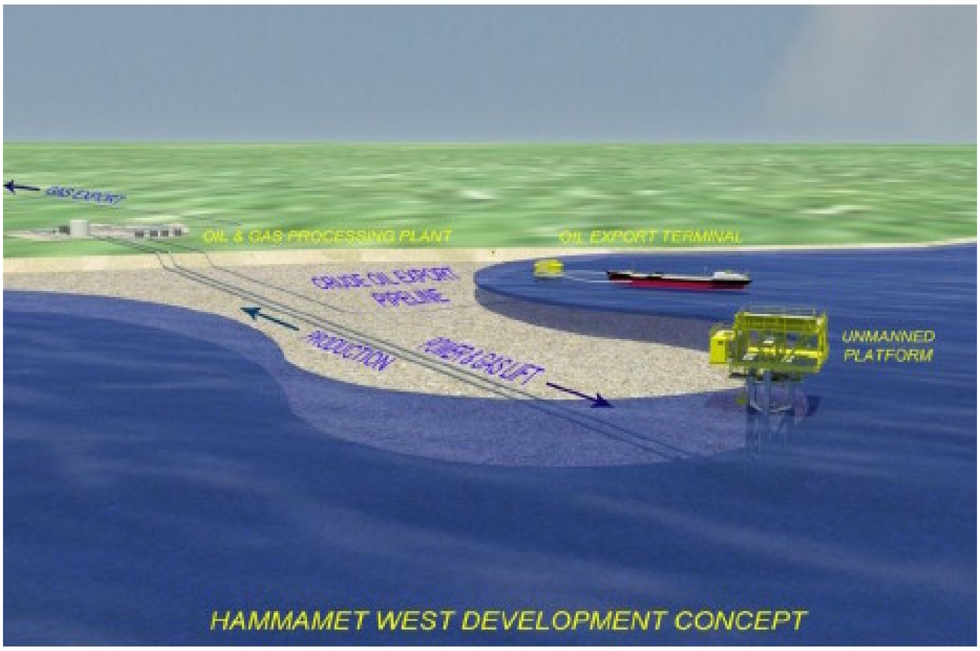

Figure 5: Hammamet West Development Concept *Source: JKA*

Disclosure RCAN1071

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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