DJ Carmichael

RESEARCH

OIL AND GAS

12 November 2012

RECOMMENDATION
Speculative Buy

12 month price target	**$0.59**
12 month volume	297m
12 month share low	A$0.13
12 month share high	A$0.25

ISSUED CAPITAL

ASX	JKA
Share price	$0.20
Mkt cap[1]	$50m
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

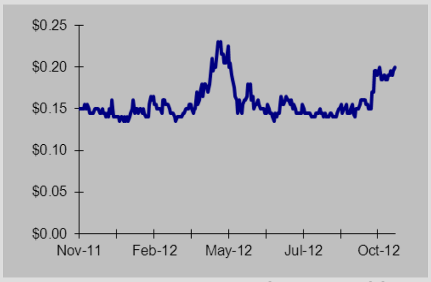
Source: JKA

MAJOR SHAREHOLDERS

Contango Asset Mgmt	6%

Source: IRESS

12 MONTH PERFORMANCE



Source: IRESS

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Jacka Resources Ltd (JKA)

US$50m Farm-out of Odewayne Block to Genel Energy

JKA has announced that it has signed a farm-out agreement with global energy company Genel Energy (Genel) for its Odewayne Block in Somaliland. The farm-out transaction implies a see-through value of $30m/$0.12/sh to JKA and highlights management's ability to build and monetise a high quality asset portfolio in a short period of time. JKA remains one of our top three "High Conviction" plays for 2012 and we maintain our Speculative Buy recommendation with a materially increased price target price target of $0.59/sh (previously $0.48/sh).

Key Points:

- **Farm-out of Odewayne Block, Somaliland to Genel:** We believe the farm-out terms are highly value accretive with JKA to be carried on a significant work program which includes 1,500kms of 2D seismic and the drilling of an exploration well whilst also retaining a material 30% interest in the Odewayne block. The work program is estimated to be ~US$50m (however the farm-out value is uncapped) and in return, Genel will earn a 50% interest in the permit with JKA and Petrosama holding 30% and 20% interests respectively.

- **See through value of $30m/0.$0.12/sh leads to material valuation upgrade.** The farm-out transaction implies a see-through value of $30m/$0.12/sh to JKA. We have not previously carried any value in our price target for JKA's share for the Odewayne Block given the frontier nature of the acreage. Hence we have upgraded our price target materially to $0.59/sh to incorporate the farm-out to Genel.

- **Deal demonstrates management's ability to monetise assets in short timeframe.** 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.

- **High quality JV partner, compelling endorsement of Odewayne block.** The entry of LSE listed Genel (market cap of ~$3.7bn) which has production of over 40kbopd and cash of ~$1bn, provides a compelling endorsement of JKA's Odewayne Block. JKA has secured a world class JV partner in Genel which has ex-BP CEO Tony Haywood at the helm. Genel is one of the top two independent UK-listed E&P companies by 2P reserves. **Genel believe the resource potential of its Somaliland permits (next door to JKA's) could be 1bnboe.**

- **Significant near term catalysts.** The Hammamet West 3 appraisal well (HW3) is expected to be spud in January 2013 and we estimate a success could add ~$0.40/sh unrisked. In addition, a material resource upgrade of the Aje field, offshore Nigeria is expected by year end which we believe will be highly value accretive.

- **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 one of our high conviction plays for 2012 and offers unique leverage to the prolific East African Rift basins.

US$50m Farm-out of Odewayne Block, Somaliland to Genel Energy

JKA has announced that it has signed a farm-out agreement with LSE listed global energy company Genel Energy (Genel) for its Odewayne Block in Somaliland. As highlighted in our recent research note on JKA (18 October 2012) there has been increasing industry activity in Somaliland with both Genel (run by ex BP CEO Tony Hayward) and the highly successful LSE listed Ophir Energy acquiring permits in-country.

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.

We believe the farm-out terms are highly value accretive with JKA to be carried on a significant work program which includes 1,500kms of 2D seismic and the drilling of an exploration well whilst also retaining a material 30% interest in the Odewayne block. The work program totals ~US$50m and in return (however the farm-out value is uncapped and could be substantially more), Genel will earn a 50% interest in the permit with JKA and Petrosama holding 30% and 20% interests respectively. Under the original farm-in agreement with Petrosoma (announced 2 April 2012), JKA holds an option to acquire 80% equity (original 50% plus an additional 30%) on the Odewayne block by funding the minimum work program in exploration phases III and IV which both JKA and Petrosama will be free-carried. This has enabled JKA to exercise its option of acquiring 80% equity in the Odewayne block of which, 50% has been farmed-out to Genel leaving JKA with a material 30% interest.

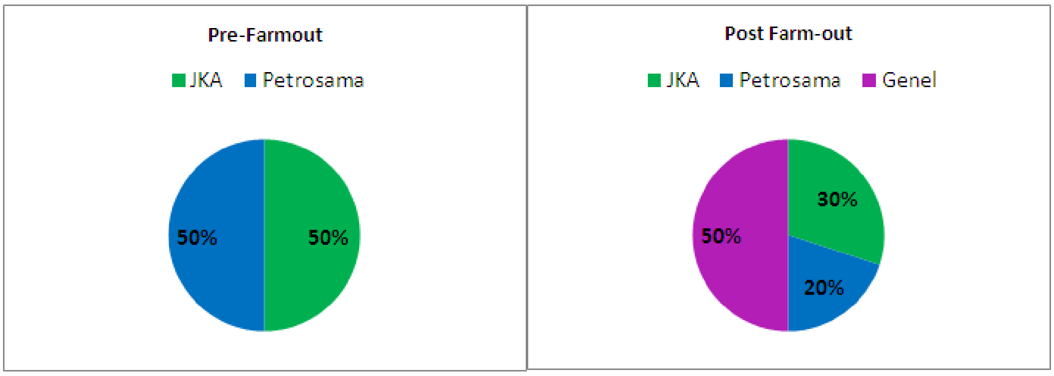

Figure 1: Odewayne Block equity interests *Source: JKA, DJC*

The key terms of the farm-out, which is subject to government approval will see Genel earn a 50% interest in the block by:

1. Paying a pro-rata share of back costs of ~ US$0.7 million to JKA.
2. Carrying JKA and Petrosoma through the minimum work program in phases III and IV of the PSA, including 1,500 km 2D seismic and the drilling of an exploration well.
3. Paying for all PSA related expenditure in exploration phases III and IV.

The airborne gravity and magnetics survey has commenced while the 2D seismic acquisition program is expected to start in 1Q 2013.

Farm-out Values JKA's Interest at $30m/$0.12/sh

The farm-out transaction implies a see-through value of $30m/$0.12/sh to JKA. We have not previously carried any value in our price target for JKA's share for the Odewayne Block given the frontier nature of the acreage and the minimal technical work executed to delineate the resource potential. We believe this highlights the significant blue-sky potential of the Odewayne Block from Genel's perspective given the attractive farm-out terms on which Genel was willing to finalise a transaction despite the early stage nature of the permit.

The farm-out to Genel significantly reduces JKA's near term funding requirements with the third period minimum work program consisting of studies, gravity survey and 500 kms of 2D seismic which JKA previously had to fund to earn its 50% interest estimated at ~$5m. This capital can now be deployed into other value accretive activities such as new venture acquisitions.

World Class Partner in Genel Energy

JKA has secured a world class JV partner in Genel which has ex-BP CEO Tony Haywood at the helm. Genel is listed on the LSE with a market cap of ~$3.7bn and is the largest oil producer in the Kurdistan Region of Iraq. It is one of the top two independent UK-listed E&P companies by 2P reserves, with an estimated unrisked resource base of 1.4 billion barrels of oil equivalent – including proved and probable reserves of 356 million barrels and has ~$1bn in cash.

Genel had oil production of 41,000 barrels a day in the first half of 2011, and this is expected to more than double by the end of 2013. Genel has been on an aggressive acquisition trail in Africa and has secured exploration permits in the emerging hydrocarbon provinces of Morocco, Cote d'Ivoire, S. Malta and Somaliland. We believe Genel will bring a significant amount of exploration, development and operating expertise to the Odewayne JV.

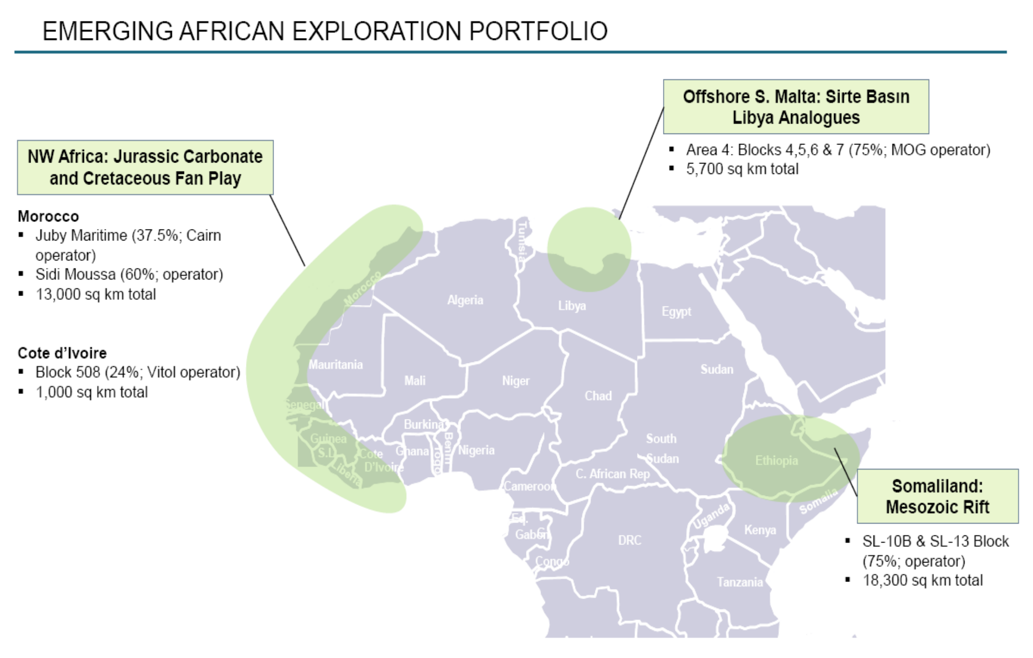

Figure 2: Genel's African Exploration Portfolio *Source: Genel*

Elephant Hunting in Somaliland: One Billion Barrel Potential

In our recent research note on JKA (18 October 2012) we highlighted the increased industry activity in Somaliland with both Genel and the highly successful LSE listed Ophir Energy (market cap of ~$3.8bn) securing permits in-country. In our view, this was a significant endorsement of Somaliland as one the world's emerging hydrocarbon regions. In addition, JKA's early entry into Somaliland highlighted JKA's ability to identify and secure positions in high quality assets before the major oil and gas companies.

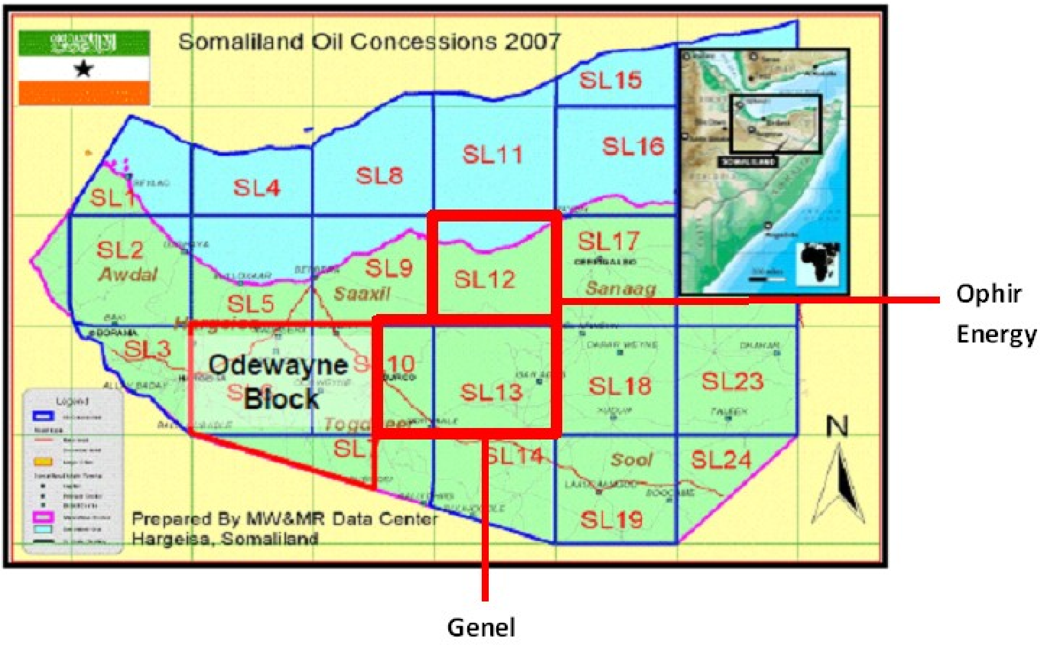

Figure 3: Somaliland Acreage (JKA, Genel, Ophir) *Source: JKA, DJC*

Given Genel's and Ophir's large market caps (~$3bn+), we would not expect either company to enter Somaliland unless they believe the resource potential is significant enough to make a material difference to their balance sheet. This has been confirmed by Genel in its recent investor presentation where **Genel believe the resource potential of its Somaliland permits (next door to JKA's) could be 1bnboe. A discovery anywhere near this size in the Odewayne block would be company-changing for JKA.**

Genel plans to commence a gravity and magnetic survey in December 2012, followed by a 2D seismic programme in 1Q 2013 with an exploration well planned for 2H 2014.

Background to Odewayne Block

The Odewayne block 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 which confirms an active petroleum system. The Odewayne block is located 120km from Berbera which is a deepwater port built by the British providing access to a key global oil supply route.

The addition of the Odewayne block (announced April 2012) 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 4: Odewayne Basin, Somaliland *Source: JKA*

Hammamet West-3 Success Could Add $0.40/sh

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. We believe this will be a significant catalyst for JKA.

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 JV has conducted a number of subsurface studies using 3D seismic to identify regions of best fracture development within the Abiod which will be incorporated to select the optimum well design.

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. **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).**

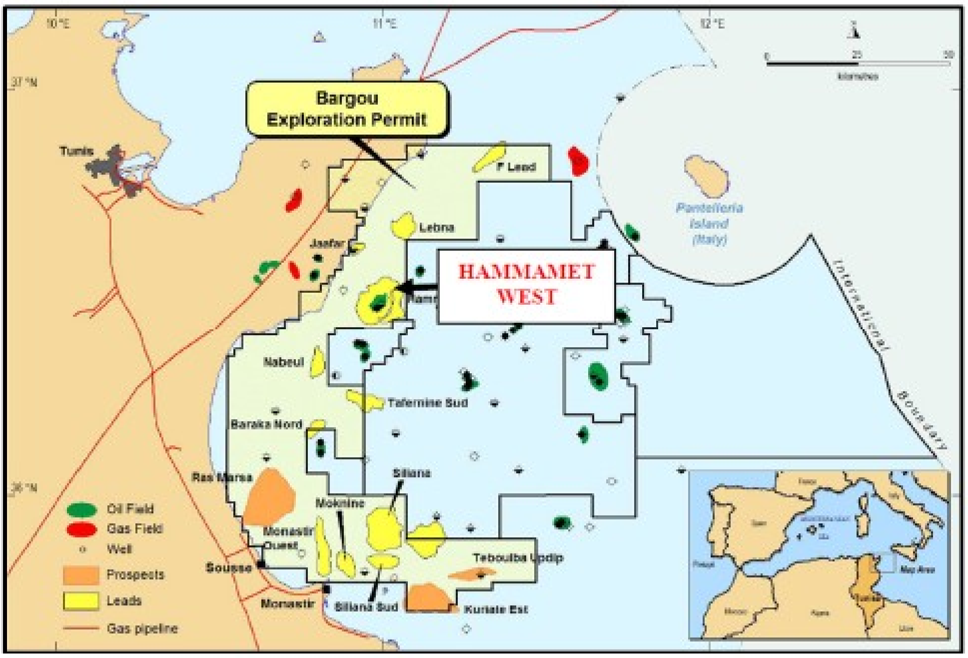

Figure 5: Hammamet West *Source: JKA*

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.

Material Aje Resource Upgrade Expected by Year End

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. First production is expected in mid-2013 following the drilling of Aje-5 which will be put on extended production test (EPT). The timing of the EPT is dependent on procuring a suitable FPSO and subsea equipment. Production from Aje will deliver net revenue of $20m/yr to JKA.

Four wells have been drilled on the field, all of which encountered hydrocarbons. Following a successful appraisal program in which two wells were flow tested (Aje-1 and Aje-2); the JV partners have deemed the field to be commercial. JV partners include YFP (Operator, 25%), Chevron (Technical Advisor, 33.75%), Vitol (24.06%) and Panoro Energy (12.19%). JKA has a 5% working interest.

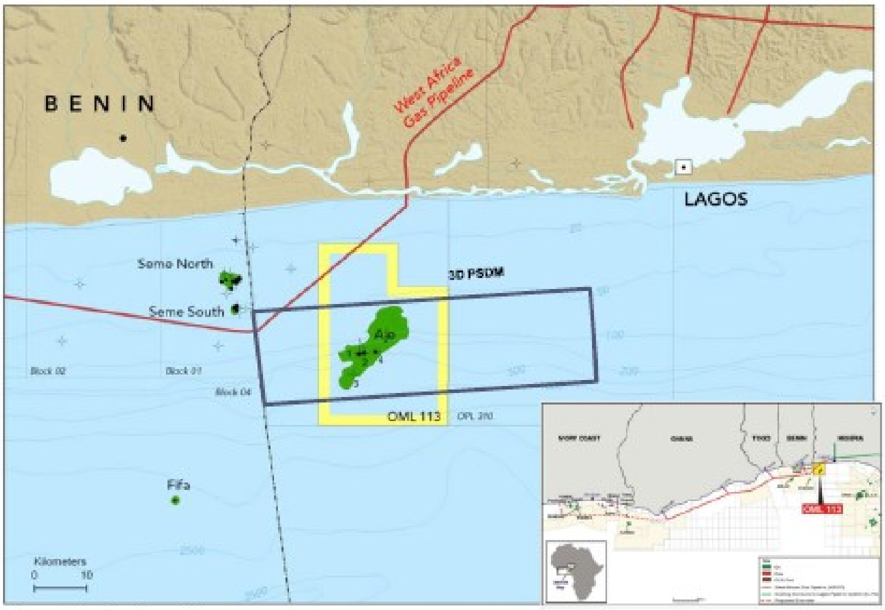

Figure 6: Aje Field, offshore Nigeria *Source: JKA*

Valuation Upgraded to $0.59/sh (Previously $0.48/sh)

Jacka Resources Ltd (JKA)	$0.20	
Valuation	**A$m**	**A$/ sh**
Aje Field	60	0.24
Hammamet West	67	0.27
Odewayne Block	30	0.12
Other	0	0.00
Corporate	(14)	(0.05)
Est Cash	4	0.02
Debt	0	0.00
Total	**147**	**0.59**
Price Target		**0.59**

Figure 7: JKA Valuation *Source: DJC Estimates*

We have increased our price target for JKA by 23% to $0.59/sh (previously $0.48/sh) to incorporate the value of the Odewayne block farm-out to Genel. Our key assumptions are the following:

- We have not previously carried any value in our price target for JKA's share for the Odewayne Block given the frontier nature of the acreage and the minimal technical work executed to delineate the resource potential. However, the farm-out to Genel implies a see-through value of $30m/$0.12/sh to JKA which we have now incorporated in our price target.

- We have used a $/boe metric of $10 to value the contingent resources from the Aje field and Hammamet West discovery.

- We have applied a Probability of Success (POS) of 60% to the Aje field and 40% to the Hammamet West discovery. As Aje has been fully appraised and deemed commercial with Chevron/Vitol as technical advisor we have confidence in the future development of this project. However, we have still applied a risking of 60% as the final development concept and costs are not finalised and JKA will need to secure funding post project sanction. We have risked Hammamet West more heavily as the discovery will require further appraisal to define the resource size and commercial potential.

- We have not assumed any equity dilution at this stage. Given JKA's closing price on 9 November 2012 was $0.20/sh and there are 71.3m listed options (JKAO) with a strike price of 20c/sh on issue (expiring 31/12/12), we believe there is a high probability these options will be exercised which has the potential to provide additional funding of ~$14m with JKA's key near term commitment being the HW-3 well ($8m net to JKA). In addition JKA will receive US$0.7m from the farm-out to Genel and finished the September 2012 quarter with $4m cash.

We would like to highlight that substantial upside exists in our valuation and if both the Aje field development and the Hammamet West discovery are a success, JKA's valuation on an unrisked basis would increase substantially to over $1.00/sh.

Disclosure RCAN1077

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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