JACKA RESOURCES LTD

PATERSONS THE AUSTRALIAN STOCKBROKER

RESEARCH NOTE

Update on Recent Developments

Investment Highlights

We maintain our SPECULATIVE BUY recommendation on JKA with an upgraded price target of $0.34/sh. Since our recent initiation note, progress has been made on a number of fronts which significantly de-risks our investment thesis for JKA and on this basis we have conservatively increased our valuation. This progress includes: today's announcement of the waiver of pre-emption rights on the Aje field in Nigeria which allows for JKA to move ahead with its acquisition; COE's recent farmout of the Bargou permit to the experienced and industry respected Dragon Oil which we believe substantiates the technical merits of appraising the Hammamet West oil discovery and paves the way for drilling of HW-3 in mid-2012. Further, the recent increase in JKA's share price to the +15cent level suggests that a large portion of the JKA options will be exercised at 15cents, providing funds to meet the initial US$9m tranche 1 payment for the Aje acquisition, thereby reducing risks associated with meeting short-term capital commitments.

- **Deadline passes for JV pre-emption in OML 113.** JKA today announced that the deadline had passed for existing partners in the OML 113 JV to exercise their rights to pre-empt the sale of a direct interest in the permit from Providence Resources Plc to JKA. The company had previously announced it had acquired a 5% NRI in the Aje Oil Field, located in OML 113 in Nigeria for a total cost of US$16m. This allows for JKA to complete the acquisition, which will provide a substantial development-staged asset and net resources of 10mmboe at an attractive cost of US$1.60/boe. A two phase development is proposed which could see a ~25mmbbl fast-track oil development commence production in 2013 followed by a larger full-field development in 2016 targeting the remaining liquids and a significant gas resource.

- **COE farms out a 55% of the Bargou permit to Dragon Oil.** The recently announced farmout of a 55% interest in the permit significantly de-risks JKA's interest, given the technical substantiation provided by Dragon Oil's entry into the Hammamet West project and allows for drilling of the HW-3 appraisal well to proceed in mid-2012. Dragon Oil will earn a 55% interest in the project from COE by funding 75% of the costs of HW-3 (estimated at US$26.6m) plus past costs if the well is successful. The Hammamet West field is a significant oil discovery with base case P50 contingent resources estimated at 111mmbbls (16.6mmbbls net to JKA). Development of the field is contingent on testing whether a planned horizontal well can deliver commercial rates from the naturally fractured carbonates. Dragon Oil is a A$4.2bn oil and gas operator with significant experience in developing challenging reservoirs and brings considerable technical and operational capabilities to the JV.

- **Strategic agreement over the Ruhuhu Basin.** JKA aims to shortly finalise a PSA over the entire Ruhuhu basin onshore Tanzania covering some 8,400km^2 of prospective acreage. Its successful work-up and farmout of the permit should provide a key growth opportunity for the company.

- **Interpretation of WA-399P 3D seismic a key catalyst.** Operator Apache completed the acquisition of 3D seismic over the Gazelle prospect in early 2011 and processing is expected to be completed in the Dec Q 2011.

25 October 2011

12mth Rating		**SPECULATIVE BUY**
Price	A$	0.17
Target Price	A$	0.34
12m Total Return	%	106.7

RIC: **JKA.AX**		BBG: **JKA AU**
Shares o/s	m	92.7
Free Float	%	100%
Market Cap.	A$m	15.3
Net Debt (Cash)	A$m	-4.1
Net Debt/Equity	%	na
3m Av. D. T'over	A$m	0.11
52wk High/Low	A$	0.23/0.07
2yr adj. beta		0

Valuation:		
Methodology		NPV
Value per share	A$	0.34

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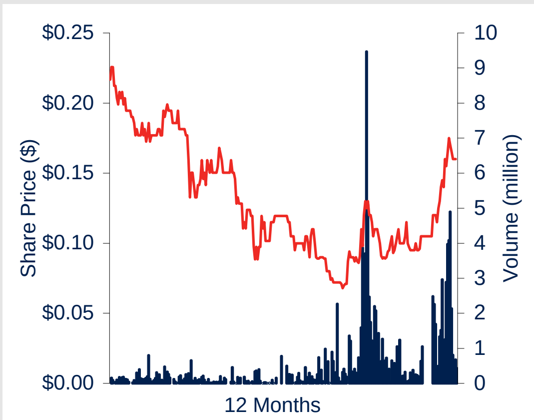
Disclosure: Patersons Securities Limited acted as lead underwriter to a rights issue in April 2011 which raised A$4.6m. It was paid a fee for these services.

12 Month Share Price Performance



Performance %	**1mth**	**3mth**	**12mth**
Absolute	36.8	44.4	-34.7
Rel. S&P/ASX 300	37.7	68.2	-21.7

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Valuation

We maintain our SPECULATIVE BUY recommendation for JKA with an upgraded price target of $0.34/sh. JKA is an emerging oil and gas explorer which is steadily assembling an attractive portfolio of Assets across Africa which now includes ~30mmboe in contingent resources via its Hammamet West and Aje interests. It has a demonstrated ability to secure assets and management's track record in Africa provides valuable technical knowledge and strategic access to projects. Our valuation has been upgraded to account for a higher POS on Hammamet West (upgraded to 30% from 20%), given the funding of HW-3 and endorsement via Dragon Oils' farm-in.

Figure 1: Base Case Valuation

Valuation	A$m	A$/sh
Exploration and Appraisal	64	0.35
Corporate	(5)	(0.03)
Cash - estimated	4	0.02
Debt	0	0.00
Total @ 10% Discount Rate	**63**	**0.34**
Price Target		**0.34**

Source: Patersons Estimates

Our exploration and appraisal valuation is based on a risked assessment of JKA's key assets as detailed below:

Figure 2: Risked Exploration and Appraisal

Country	Field / Prospect	Permit	Interest	Status	Gross Unrisked Resource			POS	Value		Risked Value		Unrisked Upside	
			%		Oil (mmbbl)	Gas (bcf)	Equiv (mmboe)	%	(US$/bbl)	(US$/mcf)	(A$mm)	($ ps)	(A$mm)	($ ps)
Nigeria	Aje - Assumed Volumes	OML 13	5.0%	A	143	850	285	50%	5.00	0.50	29	0.15	57	0.31
Tunisia	Hammamet West - Contingent Resource	Bargou PSC	15.0%	E	111		111	30%	5.00	0.50	25	0.13	83	0.45
Australia	Gazelle - Prospective Resource	WA-399	15.0%	E	39.0	20.0	42.3	15%	12.00	0.50	11	0.06	70	0.38
Sub total					**293**	**870**	**438**				**64**	**0.34**	**210**	**1.13**

Source: Patersons Estimates

We have valued Aje based on reported net volumes of 14.2mmboe at an equivalent unrisked value of $5/boe and risked JKA's net interest at 50%, which we believe is reasonable at this stage given the project has been declared commercial. We have valued the Hammamet West prospect on a similar basis but increased our POS to 30%.

Our valuation is on a diluted basis, assuming that the Oct 31 options are exercised into an additional 46.3m shares at 15cents to facilitate the Aje Tranche 1 payment of US$9m. Given the inclusion of the Hammamet West prospect in our valuation we have assumed an additional 47m shares are issued at 15cents to raise $7m, taking the total diluted shares on issue to 185.7m. We have not allowed for the tranche 2 Aje payment of US$7m on the 30th April 2012, given that this payment will likely be post FID, at which time we would anticipate the share price should better reflect the underlying portfolio value. In addition, JKA's net 14mmboe provides a bankable resource, as evidenced by the €42m bond facility Providence issued against its interest in the project. With Vitol as the likely offtaker, trade finance is also a financing option.

It is worth noting our unrisked valuation of +$1/sh which could be achieved via the successful delivery of the Aje and Hammamet West projects and a successful result at Gazelle, inline with our valuation assumptions. We note that there is significant upside potential that has not been captured in our valuation from the work-up of the Ruhuhu Basin permit, additional exploration upside in OML 113 and Bargou permits and the real potential for the addition of further new ventures.

Please refer to our JKA note dated the 6th October 2011 for full background details on the company and its assets.

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Risks

Exploration Risk – While exploration risk is standard for the industry, JKA's lack of existing production makes it sensitive to exploration risk. This is applicable to planned drilling in WA-399P and future exploration of its Ruhuhu Basin, OML 113 and Bargou permit areas. In addition to the risk of drilling a dry-hole additional risks include less than favourable results seismic interpretation and farmout of key projects including its Ruhuhu acreage which we view as a key catalyst.

Appraisal Risk – JKA has significant contingent resources via its interest in the Hammamet West field and it s HOA to acquire interest in the Aje field. The results of the HW-3 appraisal well will have a significant bearing on the decision to develop the field and on the recoverable resource volumes. However at current pricing we would argue that there is minimal downside risk with significant upside to be potentially realised as a result of the program. With minimal public information available on the Aje field, the progress of the project to reach FID presents a key risk for JKA.

Development Risk – While this is a standard industry risk, with no existing production and a large contingent resource to be brought into production JKA faces risk in progressing its projects to FID and in unforseen delays and cost over-runs in reaching first production.

Funding Risk – Funding presents one of the largest challenges for JKA given its small market cap, current market conditions and short term commitments. In its favour JKA has assembled a quality team and is steadily building a quality asset portfolio which is arguably undervalued and likely to attract improved market value.

Looking Ahead

Looking ahead JKA has a number of material short term catalysts, as detailed below. While the timing of some of the catalysts is uncertain at this stage, these will provide key events fro JKA. The closing of the Aje deal will allow for considerable more detailed information to be released with time and will de-risk as further details are provided regarding the development concept, timeline, resource/reserve estimates and potential project value become available.

- Closing of the Aje Acquisition – mid-November 2011.
- Release of updated prospective resources for WA-399-P - Dec Q 2011.
- Award of PSA for Ruhuhu Basin in Tanzania – Dec Q 2011.
- Potential FID for Phase 1 Aje Development – March Q 2012.
- Drilling of HW-3 – 1H 2012.
- Drilling of the Gazelle prospect – 2H 2013.
- 1st Oil at Aje Phase 1 development - 2H 2013.

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Recommendation History

Date	Type	Target Price	Share Price	Recommendation	Return
06 Oct 11	Research Note	0.30	0.13	SB	
	Current Share Price		0.16		23.1%

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