



Baraka Energy & Resources

Baraka Energy & Resources undervalued on Statoil investment in Southern Georgina Basin

TEASER

With stakes in two permits within a highly prospective unconventional petroleum basin that has been compared to the highly productive Bakken Shale in North America and the entry of Norwegian state oil major Statoil, Baraka Energy & Resources is well exposed to the expected high levels of exploration activity.

INTRODUCTION



Fig 1. Location of Baraka Energy & Resources' permits

Baraka Energy & Resources (ASX: BKP) is poised to see a major surge in exploration activity on and near its Southern Georgina Basin unconventional oil and gas assets in the Northern Territory.

This will be fuelled by Norwegian state oil major Statoil's US\$210 million (A\$198.8 million) farm-in to joint venture PetroFrontier's permits that will be larger than previous foreign investments into Australian shale gas if fully realised.

Under this deal, which has been approved by the Foreign Investment Review Board, Statoil will earn up to 65% interest in EP 103 and EP 104 (PetroFrontier 100%), EP 127 and EP 128

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(Baraka 25% and PetroFrontier 75%) as well as exploration permit applications EPA 213 and EPA 252 (PetroFrontier 100%) under a three phase farm-in.

While not a direct beneficiary of the farm-in, Baraka will be a part of all decisions made throughout this farm-in period in relation to its 25% interests in both EP 127 and EP 128 as well as the 75% stake it holds in the 75 square kilometre area around the Elkedra-7 well in EP 128.

Share Price: A\$0.015

Issued Shares: 2,075.65 million

Market Cap: A\$31.13 million

Cash: A\$3.36 million

EV: A\$27.77 million

ANALYSIS

Statoil's investment in the Southern Georgina Basin is decidedly bullish for Baraka as it represents a major show of confidence in the prospectivity of PetroFrontier and Baraka exploration permits.

The deal underwrites the drilling of wells in all the permits including EP 127 and EP 128, ensuring that exploration will continue and that drills will turn in the quest to unlock the riches of the Basin.

Indeed, Statoil has flagged that it could drill 10-20 wells by 2017 and has described the Southern Georgina as a “potentially highly prospective play at low cost, with high risk but also with significant upsides”.

The farm-in also renders Baraka as very attractively leveraged to drilling success of the JV with Statoil funding exploration given it is retaining its holding in the JV's.

While Baraka holds net Southern Georgina Basin acreage of about 2 million acres – for a current EV/acre of about US\$12.885/acre, Statoil is taking stakes in about 8.45 million net acres (including the two exploration permit applications), equating to its investing about A\$23.54 per acre.

This values Baraka's acreage at about A\$47 million, or about \$0.024 per share.

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On this basis, there is valuation upside for Baraka of 1.93 x current valuation or around \$0.024 - \$0.027 per share.

However, if comparisons with other companies operating primarily in unconventional basins in Australia are taken into account on an EV/acre basis: New Standard Energy (ASX: NSE) standing at about A\$42/acre and Buru Energy (ASX: BRU) at about A\$74/acre, then the upside equation looks even stronger for Baraka.

Taken together, this demonstrates that the value ascribed to Baraka's assets by the Statoil farm-in is substantially higher than it is currently valued, providing BKP holders with significant upside potential.

Statoil's farm-in will also be larger than previous foreign investments into Australian shale gas once it is fully realised.

UK gas giant BG had last year formed an A\$130 million joint venture with Drillsearch Energy (ASX: DLS) to explore for and develop shale gas in the Cooper Basin while Mitsubishi Corporation and ConocoPhillips have made A\$152.4 million and US\$109.5 million (A\$107.4 million) deals with Buru Energy and New Standard Energy respectively.

MANAGEMENT TEAM

Collin Vost is the company's Chairman and has been involved in public companies for the past 30 years and has served on the board of several mostly junior resource companies. He is currently a director of both Cervantes Corporation and JV Global.

Justin Vost was appointed a non-executive director of the company in March 2011. He has experience in mining, manufacturing and capital markets. He is currently a director of both Cervantes Corporation and JV Global.

Dr Ray Chang is Director-Manager of Chinese Division and brings a wealth of technical experience to Baraka's board of Directors. He holds a Bachelor of Science, PH D and Diplomas in Metallurgy and Gemmology. Dr Chang has over 39 years of experience including the Atomic Energy Commission in Taiwan, University of Calgary in Canada, University of WA and Curtin University of Technology in Australia and Zhejiang University and Yantat Electronics (Shenzhen) Ltd Co in China.

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GEORGINA BASIN - BACKGROUND

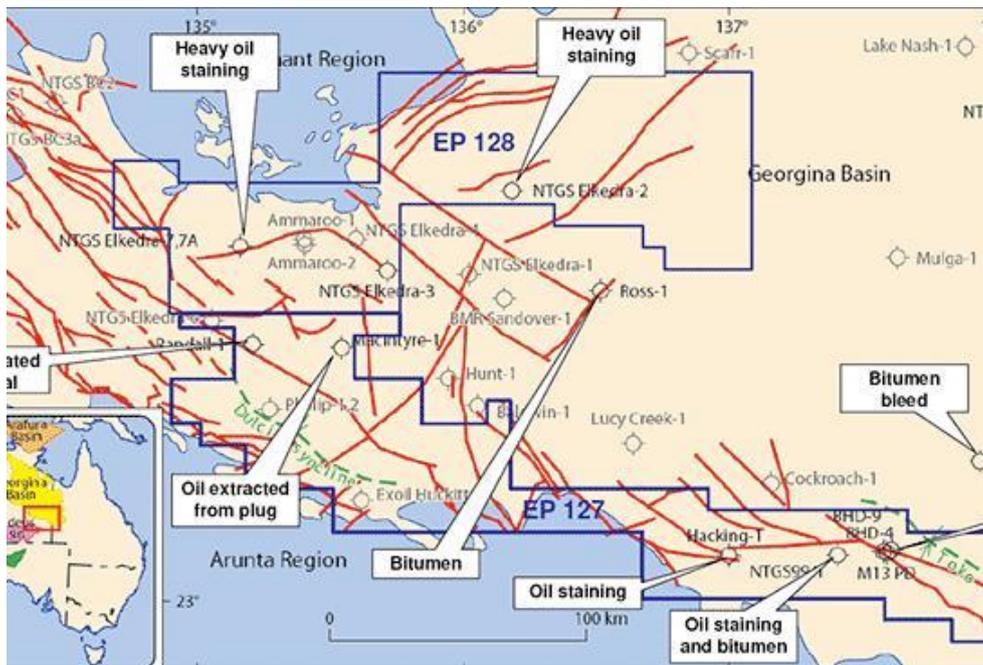


Fig 2. Hydrocarbon Indicators in EP 127 and EP 128

The Georgina Basin is a region of proven oil potential and represents one of the few remaining virtually unexplored, hydrocarbon, and onshore sedimentary basins in the world.

Part of a large intracratonic basin situated in central Australia comprised of Proterozoic, Paleozoic and Mesozoic sediments, the Southern Georgina Basin has been assessed to host high quality source beds and potential conventional and unconventional reservoir rocks.

Its main source rock interval is the hot shale at the base of the Arthur Creek Formation of Middle Cambrian age that can be mapped throughout the Southern Georgina Basin.

The Georgina Basin is also makes up part of the Centralian Superbasin, comprising the Amadeus, Georgina and Wiso sub-basins.

During the Cambrian era, the Central Australian plate was on the subtropical waters on the fringes of the Rodinia supercontinent. In this period, the organic-rich Arthur Creek black marine shales were deposited, particularly in the Dulcie and Toko troughs.

Similar Cambrian marine shales are the source rocks in the extremely productive fields of East Siberia, Oman and the Tarim Basin in China.

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These shales range in maturity from dry gas to oil and are thought to be analogues to the prolific Bakken shale that stretches across Montana and North Dakota.

The thickness in this shale can be more than 40 metres in some areas, thicker than the shales in the Bakken, with total organic carbon levels measured ranging from 0.5% to 10% and up to 16%.

Early exploration in the Georgina Basin consisted of stratigraphic holes or wells whose location was based on surface geological mapping. This included a number of wells drilled in the 1950s and 1960s, culminating in the Ethabuka-1 well in Queensland which flowed 240,000 cubic feet of gas per day on test.

Subsequent drilling in the early 1980s was restricted to the stratigraphic drilling program undertaken by the Northern Territory Geological Survey (“NTGS”).

In the late 1980’s to early 1990s, Pacific Oil and Gas explored areas in the Dulcie and Toko Synclines with the first serious attempt to acquire a regional seismic grid and drill wells based on its results. Some 750 kilometres seismic data were collected and 10 wells were drilled. The seismic lines were 5 to 30 kilometres apart, however most wells, recorded poor to moderate oil shows.

In total, 29 historic wells were drilled that demonstrated good quality source rocks, seals and reservoirs though none were developed.

However, advancements in drilling technologies, namely the use of horizontal and multi stage stimulation technology has made similar basins become significant oil and gas producers and the Georgina is now considered to be the most prospective undeveloped basin in the Northern Territory with a number of companies planning to start exploration work.

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SOUTHERN GEORGINA BASIN



Fig 3. MacIntyre-2H drilling

Baraka and PetroFrontier had significant early success in EP 127 last year with the MacIntyre-2 vertical well reporting elevated hydrocarbon shows throughout the target Basal Arthur Creek formation with sustained and peak levels generally two to three times greater than those seen in the vertical pilot hole at Baldwin-2Hst1.

Results at Baldwin-2Hst1 have also been positive with total gas recorded averaging 240 units over the entire horizontal section, commonly peaking above 1,000 units with maximum recorded values over 2,500 units.

Heavier hydrocarbons have also been recorded throughout the horizontal section with conventional gas ratio analysis indicating the target shale contains wet gas.

While Baraka has no stake in PetroFrontier's Baldwin-2Hst1 or Owen-3H wells, their proximity to its own acreage means that any success at the two wells will de-risk its acreage by reinforcing the prospectivity of the Basal Arthur Creek formation.

Baraka and PetroFrontier have drilled the horizontal section of MacIntyre-2H and have placed a multi-stage open hole completion string awaiting the arrival of the stimulation equipment.

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A success at Macintyre-2H will go a long way towards proving up the prospectivity of the Southern Georgina Basin and open up funding options for Baraka.

This will be especially valuable in meeting its share of costs for any exploration that Norwegian oil and gas giant Statoil decides to carry out on EP 127 and EP 128 in 2013, which Baraka holds 25% stakes.

More recently, the Owen-3H well has added further encouragement after oil seeps and extensive florescence were noted in cores cut from the well.

Owen-3H's location on the EP104 eastern boundary is directly north of Baraka's EP 127, which covers the entire Southern boundaries of PetroFrontier's EP103 and EP104.

This gives Baraka some confidence that the south-eastern areas of EP 127 could display similar or identical results if and when any drilling programs are carried out there.

EP 127 also has the potential to hold conventional oil targets within the Hagen Member, where a number of wells have recorded good oil shows.

These include the Elkedra-7, Randall-1 and Phillip-2 wells.

Core analysis have showed permeability up to 3 darcies and porosities of between 8% and 14%.

Statoil Farm-in

Under the first phase of the farm in, Statoil will contribute half of a US\$50 million exploration program that will be carried out from the rest of this year to 2013.

Decisions on drilling locations and seismic, which will be made partly to ensure work commitments for the permits are met, will be made subject to results from the current drilling and stimulation program.

Statoil will then have the option to acquire a 25% stake in the permits by reimbursing PetroFrontier for its US\$25 million contribution and committing to proceed with Phase 2.

Under Phase 2, the Norwegian major will contribute \$US80 million of a joint US\$100 million exploration program to earn a further 25% of PetroFrontier's working interests.

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Statoil will also have the option to become the operator of the permits during this phase, which stretches from 2014 to 2015.

Finally, Statoil will fund a US\$80 million joint exploration program in the third phase – currently expected in 2016 – to earn the remaining 15% working interests.

Throughout this farm-in period, Baraka will be part of all decisions made, in relation to expenditures, to its 25% interests in both EP 127 and EP 128. It will also pay for its share of costs in the permits and the 75% stake it holds in the 75 square kilometre area around the Elkedra-7 well in EP 128.

Statoil is the world's 13th largest oil and gas company with a market capitalisation of about US\$76 billion and operations in 36 countries around the world. The fully integrated petroleum company has 40 years of experience from oil and gas production on the Norwegian continental shelf and is 67% owned by the Norwegian Government.

Gas discovered in the Southern Georgina Basin could be piped to Darwin for export given that the Palm Valley to Darwin pipeline is running at just 20% capacity.

Other options include domestic gas sales as well as sales to the liquefied natural gas projects that are currently under construction or planned in Gladstone, Queensland, or possibly Darwin.

INDONESIA

Baraka continues to maintain its office and presentation in Jakarta and is adjusting its assessment of projects and possible participation in projects to the changing rules and regulations currently being announced by the Indonesian regulators.

The company's cautious approach will continue until it finds the quality projects it requires, on terms and conditions acceptable to Baraka.

ANALYSIS

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Catalysts – 12 months

- Test results following completion and flow testing of MacIntyre-2H
- Regional support from completion & flow testing results of Baldwin-2Hst1 and Owen-3H
- Further joint venture decisions on drilling more wells in EP 127 or EP 128.

Valuation Guide

Including the two exploration permit applications, Statoil is taking stakes in about 8.45 million net acres, equating to its investing about US\$24.85 per acre.

This compares with Baraka's current EV/acre of about US\$12.85/acre, providing BKP holders with significant upside potential.

On this basis, there is valuation upside for Baraka of 1.93 x current valuation or around \$0.024 - \$0.027 per share.

However, if comparisons with other companies operating primarily in unconventional basins in Australia are taken into account on an EV/acre basis: New Standard Energy (ASX: NSE) standing at about A\$42/acre and Buru Energy (ASX: BRU) at about A\$74/acre, then the upside equation looks even stronger for Baraka.

Opportunities for early commercialisation may also exist in the conventional oil targets in the Hagen Member in EP 127, where a number of wells such as Elkedra-7, Randall-1 and Phillip-2 have which recorded good oil shows.

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Fig 4. MacIntyre-2H drilling

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