ASX Announcement Baraka Work Program 2014

6th January 2014

Baraka Disputes Statoil's 2014 work program on EP127 and EP128
In Georgina Basin, Northern Territory

Baraka Energy & Resources Ltd (ASX:BKP) (Baraka)
Statoil Australia Theta B.V. (Operator)
Petrofrontier (PFC) - previous Operator

Baraka announces that it has given notices to the Operator and PFC disputing the validity of the 2014 work programs on each of the Permits EP127 and EP128 that will require to be resolved by arbitration under the relevant Joint Operating Agreement (JOA) for each permit. Baraka holds a 25% participating interest in each JOA, with Statoil holding 60% and PFC 15%. Statoil has farmed into PFC's interests on condition that it fund PFC's share of exploration costs.

The Operating Committee (OCM) under each JOA approved the 2014 work programs by a majority vote, with Baraka abstaining. If, contrary to Baraka's notice disputing their validity, the work programs are valid work programs under each JOA, Baraka has given notice to the Operator and PFC that it will not contribute to their cost and that Baraka elects to dilute its 25% participating interest in each JOA.

The extent of any dilution will be nil if, as Baraka maintains, the relevant 2014 work programs are not valid. However, it would remain to be resolved what revised 2014 work programs might then be proposed by the Operator.

If the 2014 work programs are valid, then Baraka's participating interest at the end of the programs will be determined by a formula that is the same in each JOA.

Baraka is seeking expert accounting advice on the likely outcome of application of the dilution formula if the work programs are held to be valid. This is expected to take approximately 4-6 weeks and Baraka will release this information as soon as it is available and considered by the board.

Baraka has taken these steps so as not to risk any breach of the JOA's. If the work programs are valid, Baraka will remain a party to the JOAs with a reduced share.

The disputed 2014 work programs proposed by the Operators are outlined below with Baraka's comments for the information of the shareholders.

P. 08 6436 2350 • F. 08 9367 2450 • PO Box 255 SOUTH PERTH WA 6951 • E. info@barakaenergy.com.au • ABN 80 112 893 491

EP127 "OzBeta - 1"

A vertical test well is proposed to be drilled in approximately May of 2014 depending on weather conditions on this permit, close to the border of EP104, held by the Operator 80% and PFC 20%, and would take approximately 28 days, to an approximate depth of 1300m. The purpose of this well would be to test 3 potential pay zones within the structures and formations in that area and particularly targeting a 40-50m section expected within the Thorntonian Limestone formation. This same formation produced the 32m intersection in Owen 3 on EP104 seeped oil and showed extensive florescence throughout. This area of EP127 is close to or incorporated in the Toko Syncline on the South Eastern border of EP127 and the permit stops on the Queensland border. A well of similar status is planned to be drilled just over the northern border of EP127 in EP104 by the Operator and PFC, and that one of the possible outcomes would be to "de-risk the south eastern corner of licence EP104" in which Baraka has no economic interest.

EP128 "OzDelta – 1"

Is the second vertical test well and is proposed to be drilled in approximately July of 2014, once again close to the border of EP103, held by the Operator 80% and PFC 20%, This test well will be drilled down to approximately 900m and is not considered to have any potential for the Thorntonian formation, but possibly in an oil window. A well of similar status is to be drilled by the Operator and PFC close to and over the southern boundary of EP128 into EP103 controlled 80% by the Operator and 20% PFC. The target of interest is the Arthur Creek Hot Shale and possibly a section above the shale.

EP128 "OzEpsilon – 1"

Is the third vertical test well and is proposed to be drilled in approximately August 2014, down to approximately 800m and is in the North East section of EP128,closer to EP(A)132. This test well is to examine the target formation to the North of the licences and possibly define the basin to the North and any oil window, as well as test for maturity.

Subject to the success of the vertical well on EP127 to be drilled in May of 2014, the Operator proposes to return to that well and carry out a Completion and Test of "OzBeta-1" in September 2014, after finalizing the vertical "OzDelta-1" and "OzEpsilon-1" test wells in July and August of 2014.

The Operator then proposes to "Plug & Abandon" McIntyre 2H in November 2014. The apparent reasoning being that McIntyre 2H fractures (Fraccing) hit pre existing waterways with formation water containing H_2S and there is no reason to believe that lower permeability hydrocarbon layers will start producing when high permeable water bearing fractures have been activated despite McIntyre 2H producing some of the highest quality gas, and wet gas readings, from the previous drilling program. The Operator has previously stated their goal is Oil and or Wet Gas within the basin as a priority.

Baraka requested that the "Hagen Member" contained in the south western area of EP127 and just north of the Dulcie Syncline, written up by Ryder Scott as having substantial potential for conventional targets, be considered in the 2014 program, but this was rejected by the Operator because of poor seismic testing, (which was carried out many years ago), top seal and migration risks and because of faulting in the area.

Both EP127 and EP128

The work programs for both EP127 and EP128 have been developed by the Operator as part of an overall campaign for the exploration of the entire area of EP103, EP104, EP127 and EP128 and the factors governing the exploration of EP127 and EP128 have been subsumed by considerations that apply to the entirety of all four permits. All four permits straddle a huge area of 50,000 square kilometres. Baraka recommends that each of EP127 and EP128 be evaluated on their respective merits as the JOAs require. Baraka has no economic interest in EP103 and EP104.

It should also be noted that all wells on EP127 and EP128 are currently planned to be plugged and abandoned on completion, as all wells are only for data collection and testing by the Operator to consider future exploration programs in the basin as a whole.

In addition it should be noted that the Operator has brought forward the minimum permit work commitments from 2015 for both EP127 and EP128 into the 2014 work program, as well as the plugging and abandoning of McIntyre 2H, which is not required until the end of the permit expiration. Baraka has been advised by the Operator that this is justifiable for technical and economical reasons, principally to reduce the costs of drilling and completion contractors for the entire program and all permits including EP103 and EP104.

Decision of Baraka to dispute the work programs

Baraka disputes that the 2014 proposed work programs for each of EP 127 and EP 128 are valid work programs under each JOA. Although it could be argued by the Operator that the work programs are necessary to satisfy the minimum work commitments under the permits, it was open to the Operator to seek amendments, exemptions and or extensions to delay drilling until further work had been carried out to improve the prospects of exploration success.

Baraka is not satisfied that the proposed work programs are technically or economically prudent, nor that they are reasonable or fair, involving costly drilling in questionable locations, with data collection for the aggregate area of four permits as the principal aim of the programs. Baraka considers that the programs are not in accord with the intention of the parties under either of the JOAs, and are detrimental to the interests of Baraka and its shareholders.

The 2014 proposed work programs as budgeted by the Operator for both permits EP127 and EP128 have a total cost of $26.6m including Plugging and Abandoning all 3 wells, (Including McIntyre 2H for $1.1m), Geological and Geophysical evaluation and special studies of $988,000, exploration administration of $1,298,000 and parent company overheads of the Operator of $382,000.

Baraka's 25% of these costs for both permits would be approximately $6.65m for both permits for the 2014 period.

The breakdown of total costs on an individual permit basis are $12,554,000 for EP 127 and $11,288,000 for EP 128 with evaluation, administration and overhead costs of $2,761,000 spread across both permits

Funding

Commitment by Baraka to both of the 2014 proposed work programs would require Baraka to raise another $4m above its total current assets and cash. If successfully raised from the market, this could require the issue of some additional 1 billion shares, resulting in a severe dilution of shareholders assets.

The cost of $6.65m for Baraka's contribution, essentially for testing and data collection of 3 wells with no possibility of production, with most costs having been front end loaded into the 2014 year, is an excessive amount for a junior partner, and the only contributing partner apart from the Operator.

Settlement of the disputes

Baraka will endeavour to discuss an amicable early settlement of its dispute with Statoil. If discussions are unsuccessful and, contrary to Baraka's position, dilution will take place on either permit in accordance with the formula as applied in the final solution.

Baraka will remain entitled to participate in any new exploration or other wells on any diluted basis and will keep the market fully informed in regards to the progress of all issues.

Collin Vost
Chairman