Concept Select Report (CSR) Submitted

The concept select report (CSR) for the Phase 1 development has been submitted to the North Sea Transition Authority (NTSA). The CSR sets out the preferred development concept, ranked against other potential development options, and includes a detailed description of the subsurface interpretation, planned development wells, production forecasts and facilities, gas transportation routes to markets, and commercial and economic aspects of the development as HHR heads towards production.

The selected development concept consists of six production wells from two wireline capable Normally Unmanned Installation (NUI) platforms at Anning and Somerville. These platforms will then connect subsea to third party infrastructure for onward transportation and processing to entry into the UK gas network.

Next stages

HHR will now move the development of the Anning and Somerville gas fields into the "Concept Define" stage with Front End Engineering and Design (FEED) expected to commence in the coming months, together with preparations for project financing of the Phase I development.

United Kingdom (UK) Oil and Gas Windfall Tax

The UK government has introduced a temporary windfall tax on oil and gas producers, on any profits occurring after the 26 May 2022, that will increase the ring fence corporation tax from 30% to 55%, while the supplementary charge will remain at 10%. The tax will be removed after 31 December 2025 after oil and gas prices return to "historically more normal prices". See Appendix 4 for detail.

We note our modelling on the Phase 1 development does not have HHR paying cash tax until FY28, so there is no impact on our forecasts or valuation assuming the windfall tax concludes in December 2025. See our initiation for detail on tax calculations.

Valuation

We have lifted our valuation for HHR from A$0.118 to $0.135 reflecting the higher multiples HHR's comparative companies are trading at.

It is based on the blend of:

- our Phase 1 project valuation at first gas (A$0.128), and
- a FY24 valuation (discounted back to today) of A$0.141, based on a similar multiple that comparative company multiples for 2C contingent resources and 2P reserves (~US$5.00/boe) are trading and recent acquisition multiples.

If we run our Phase 1 base case valuation at higher assumed gas prices of 60 pence/therm and 70 pence/therm (base case 50 pence/therm), our **Phase 1 base case valuations lift from A$0.128 to A$0.169 and A$0.21.**

We note that our valuation pays no recognition to the 139 Bcf of 2C gas resource in the Phase 2 development plan, or the 344 Bcf of un-risked 2U prospective resource in the Phase 3 development plan.

Hartshead Resources (HHR) is the 100% owner and operator of Seaward Production License P2607 which is comprised of five blocks in Quads 48 and 49 on the United Kingdom Continental Shelf, in the Southern Gas Basin. The License contains multiple gas fields, some of which have been only partially developed. There are also several exploration prospects.

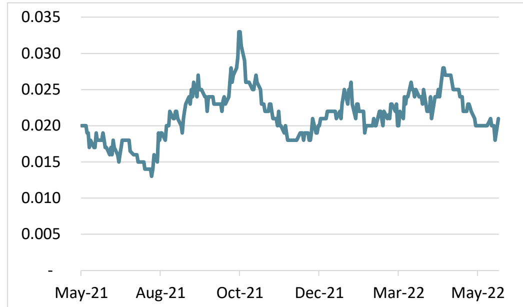
See our initiation "A responsible and safe European energy business in the making"

Stock	HHR.ASX
Price	A$0.021
Market cap	A$39m
Valuation	A$0.135 (Previously A$0.118)

Company data	
Net cash (Dec 2021)	$4.7m
Shares on issue	1,854.8m

Next news	
3 months	Development concept identified
3 months	Host for gas transmission and processing identified
3 months	Revised competent persons report and resources for Phase 1

HHR Share Price (A$)



Source: FactSet

David Fraser
david.fraser@mstaccess.com.au

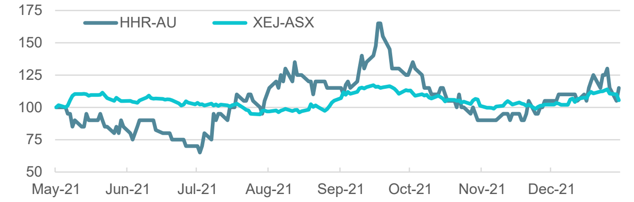
Financial data table

Hartshead Resources — HHR-AU

Year end 30 June

MARKET DATA	A$		
Price	**A$**		**0.021**
52 week high / low	A$	0.033	0.013
Valuation	**A$**		**0.135**
Market capitalisation	**A$m**		**39.0**
Shares on issue (basic)	m		1,854.8
Options & perfomance shares	m		129.5
Potential diluted shares on issue	**m**		**1,984**

12 month relative performance versus S&P/ASX 200 Energy Index



INVESTMENT FUNDAMENTALS		FY21	FY22E	FY23E	FY24E
EPS Underlying	¢	(1)	(0.4)	(0.4)	(0.4)
EPS Reported	**¢**	**(0.6)**	**(0.4)**	**(0.4)**	**(0.4)**
P/E Underlying	x	n/m	n/m	n/m	n/m
P/E Reported	**x**	**n/m**	**n/m**	**n/m**	**n/m**
Dividend	**A¢**	**0.0**	**0.0**	**0.0**	**0.0**
Payout ratio	%	0%	0%	0%	0%
Yield (Y/E/ spot)	**%**	**0.0**	**0.0**	**0.0**	**0.0**
Free cash flow	**$m**	**(1)**	**(8)**	**(9)**	**(9)**
Free cash flow per share	¢	(0)	(0)	(0)	(0)
Price to free cash flow	x	n/m	n/m	n/m	n/m
Year end share price / Spot	**A$**	**0.016**	**0.021**	**0.021**	**0.021**
Year end shares	m	1,850	2,140	2,276	2,276
Potential Diluted shares	m	1,850	2,264	2,400	2,400
Market cap (Y/E / Spot)	**$m**	**30**	**45**	**48**	**48**
Net debt /(cash)	$m	(7)	(8)	(11)	(2)
Enterprise value	**$m**	**23**	**37**	**37**	**46**
EV/EBITDAX	x	n/m	n/m	n/m	n/m
Net debt / Enterprise Value	**x**	**(0.3)**	**(0.2)**	**(0.3)**	**(0.0)**

Contingent and Prospective Resources (Bcf)				
Phase 1	**License**	**1C**	**2C**	**3C**
Anning	49/17b	95	130	160
Somerville	49/17b	160	194	220
Combined	**49/17b**	**255**	**324**	**380**
Phase 2	**License**	**1C**	**2C**	**3C**
Lovelace	49/6c, 49/1	14	39	70
Hodgkin	48/15c	35	100	387
Combined			**139**	
Phase 3	**License**	**1U**	**2U**	**3U**
Exploration Prospects	49/17b	143	344	719
Total 2C plus 2U			**807**	

Valuation based on North Sea recent M&A tranction multiples	Base case		
M&A Transaction multiple (US$/boe)	3.00	5.00	7.00
Phase 1 2C contingent resources (MMboe)	55.9	55.9	55.9
Exit value (US$m) (FY24)	168	279	391
A$m	234	391	547
A$ per share (FY24)	**$0.10**	**$0.17**	**$0.24**

Valuation based on Phase 1 project (First Gas in FY25)	
Cash flows (Project Value) (£m)	691
Less project net debt (£m)	(269)
Project equity value FY24 (£m)	**422**
Sell down	50%
HHR share of project equity post farm-out (£m)	211
Equity value per share FY24 (£)	0.09
Equity value per share FY24 (A$)	**0.16**
Cost of equity (Ke)	10%
Discounted back to today (A$)	**$0.13**

PROFIT AND LOSS (A$m)		FY21	FY22E	FY23E	FY24E
Sales	**$m**	**0**	**0**	**0**	**0**
Operating costs	$m	(5)	(5)	(5)	(5)
EBITDAX	**$m**	**(5)**	**(5)**	**(5)**	**(5)**
Exploration & development	$m	(1)	(4)	(4)	(5)
EBITDA	**$m**	**(6)**	**(9)**	**(9)**	**(10)**
Depreciation & amortisation	$m	(0)	(0)	(0)	(0)
EBIT	$m	(6)	(9)	(9)	(10)
Net interest	$m	0	0	0	0
PBT pre impairments / unusual	**$m**	**(6)**	**(9)**	**(9)**	**(10)**
Impairments	$m	0	0	0	0
Pretax Profit	$m	(6)	(9)	(9)	(10)
Tax expense	$m	0	0	0	0
NPAT	**$m**	**(6)**	**(9)**	**(9)**	**(10)**
Minority interests	$m	0	0	0	0
Reported NPAT	**$m**	**(6)**	**(9)**	**(9)**	**(10)**

BALANCE SHEET (A$m)		FY21	FY22E	FY23E	FY24E
Cash	$m	7	8	11	2
Receivables	$m	0	0	0	0
Other	$m	0	0	0	0
Current assets	**$m**	**7**	**8**	**11**	**2**
Plant and equipment	$m	0	0	0	0
Exploration and evaluation assets	$m	0	0	0	0
Associates	$m	0	0	0	0
Other	$m	0	0	0	0
Non current assets	**$m**	**1**	**0**	**0**	**0**
Total Assets	**$m**	**8**	**8**	**12**	**2**
Payables	$m	1	1	1	1
Borrowings	$m	0	0	0	0
Other	$m	0	0	0	0
Current liabilities	**$m**	**1**	**1**	**1**	**1**
Borrowings	$m	0	0	0	0
Other	$m	0	0	0	0
Non current liabilities	**$m**	**0**	**0**	**0**	**0**
Total Liabilities	**$m**	**1**	**1**	**1**	**1**
Equity	$m	55	70	83	83
Retained earnings	$m	(58)	(66)	(76)	(85)
Reserves / Other	$m	5	4	4	4
Shareholder's equity	**$m**	**2**	**8**	**11**	**1**

CASH FLOW (A$m)		FY21	FY22E	FY23E	FY24E
OCF - pre interest & tax	$m	(1)	(8)	(9)	(9)
Net corporate interest	$m	0	0	0	0
Tax Paid	$m	0	0	0	0
Other	$m	(1)	0	0	0
Operating cash flow	**$m**	**(1)**	**(8)**	**(9)**	**(9)**
PPE	$m	(0)	0	0	0
Development capex	$m	0	0	0	0
Investments / Divestments	$m	0	0	0	0
Other investing cash flow	$m	0	0	0	0
Net investing	**$m**	**1**	**0**	**0**	**0**
Net movement in Equity	**$m**	**8**	**10**	**13**	**0**
Cash dividends Paid	$m	0	0	0	0
Net debt movement	$m	0	0	0	0
Other	$m	(0)	(1)	(1)	0
Net Financing	**$m**	**8**	**10**	**12**	**0**
Change in cash	$m	7	1	3	(9)

Source: Company data, MST Access

Hartshead Resources Investment Thesis - Supply gas into the UK market that is short gas

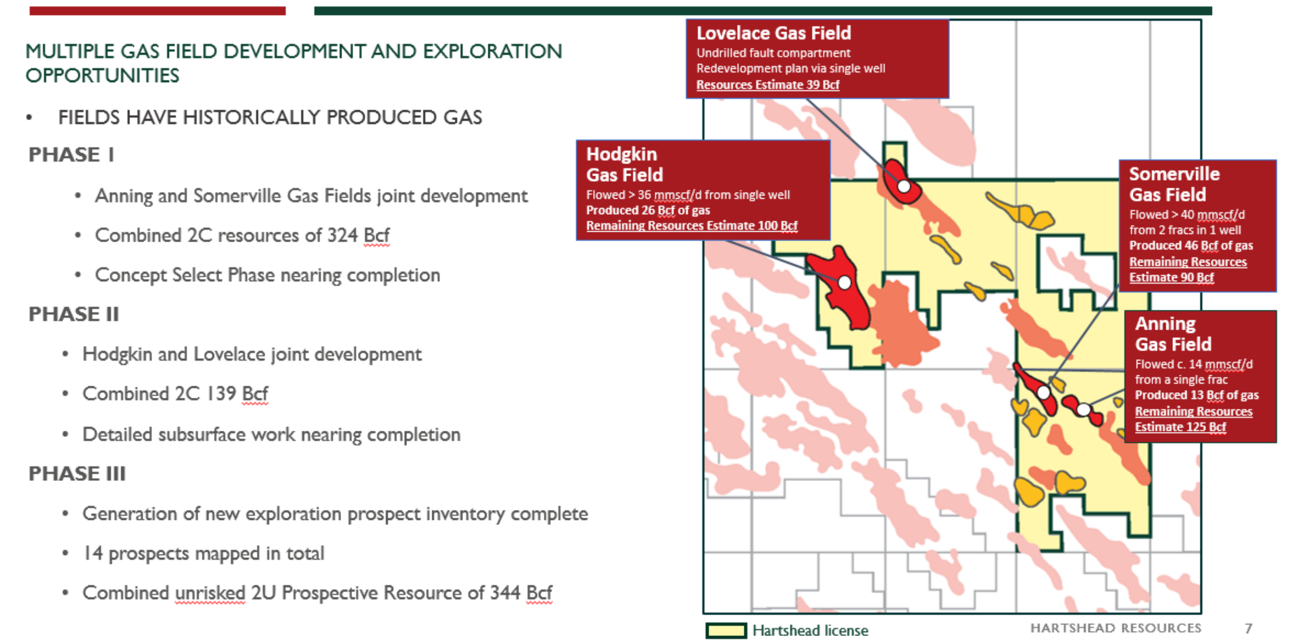
HHR is a new entrant in the Southern Gas Basin (SGB) of the North Sea. Its small gas pools aggregation strategy aims to enable the multi-phased development of resources in a market which is short of gas.

In order to maximise economic recovery, these gas pools must be aggregated and coupled together with a thorough interpretation of the existing subsurface dataset. This creates a compelling investment case for a single owner/operator that can execute against a carefully designed development plan that is phased to fully exploit the resources through a single offtake route.

HHR has put together an experienced management team with over 250 years combined industry experience and UK SGB specific knowledge. The team has a seasoned skill set including subsurface, engineering, commercial, and health, safety, environment and quality (HSEQ) experience that has successfully managed a number of SGB projects.

HHR is the 100% owner and operator of License P2607 which is comprised of five blocks in Quads 48 and 49 on the United Kingdom Continental Shelf, in the SGB which it won in the UK 32nd Offshore Licensing Round. The license awarded covers four existing discoveries and two drill-ready prospects in five contiguous blocks.

Figure 1 – HHR's portfolio well positioned for UK gas market – Over 800 Bcf of 2C and 2U Resource



Source: Company

HHR management estimate 463 Bcf (80 mmboe) of 2C contingent resources are contained in the existing discoveries and 344 Bcf (59 mmboe) in the prospective 2U resources. All existing discoveries have multiple wells, flow tests and historical production.

HHR has appointed ERC Equipoise (ERC) to provide an Independent Technical and Commercial Audit of the reserves and resources associated with the Phase I, II and III developments.

It is currently progressing the Phase 1 assets (Anning and Somerville fields) through to a field development plan (FDP) and the conversion of the 2C contingent resource base to certified 2P reserves.

The Phase 1 asset development is targeting preliminary field development plan in 1H FY23 with first gas in 2H FY24.

Near-term activities, news flow and share price catalysts

Development on License P2607 has a phased approach, initially with the development of 324 Bcf of gas to support construction of a production hub, pipeline to host facilities and host facilities modified to receive HHR sales gas.

This hub will then enable the satellite development of smaller pools, such as those at Tethys North, or indeed from successful exploration drilling, where these gas pools would have been stranded without access to the Phase 1 infrastructure.

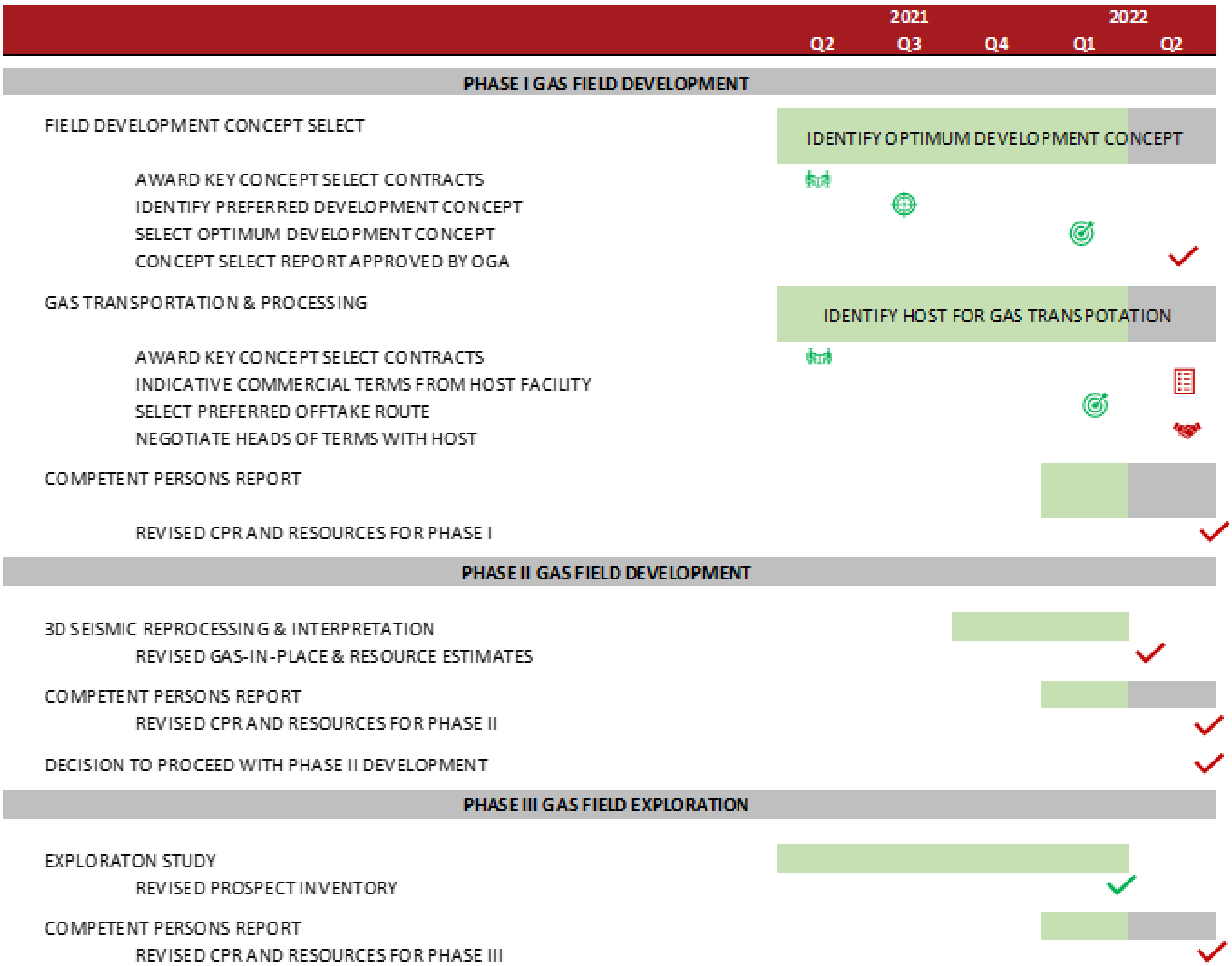
The first part of the development planning will be thorough subsurface analysis and modelling to assist with detailed well placement and design, production forecasting and selecting the optimal development concept.

Following this, the Phase 1 development will be ready to commence engineering design prior to taking a final investment decision on the development of the two gas fields.

As HHR progresses through each material milestone of the Phase I, 2 and 3 work programs the assets will, in our view, increase in value and become increasingly attractive to potential acquirers.

We see a number of key valuation accretion points including achieving an independent CPR audit, preliminary field development plan (FDP)/FEED, final FDP approval, and the conversion of 2C contingent resources to 2P reserves.

Figure 2 – HHR key activities and milestones over next nine months



Source: Company

UK gas prices reflecting the tragedy in the Ukraine and the potential supply issues the conflict could create

What's impacting UK gas prices now and where are they going?

The COVID pandemic caused gas demand in the UK to lower in spring 2020, resulting in low gas prices (see Figure 3).

Globally, in 2021, a cold winter in Asia prompted a dramatic spike in LNG spot prices. A hot summer followed, increasing electricity demand for cooling. Resulting high LNG prices limited deliveries to Europe, but lockdowns were lifting and economies recovering. Energy demand started to recover.

Traditionally, Europe uses the summer, when gas prices are lower due to limited heating demand, to fill reserves for the winter. Following the closure of the Rough[1] storage facility due to safety concerns in the UK in 2017, a depleted gas field in the North Sea, the UK now has no long-term storage.

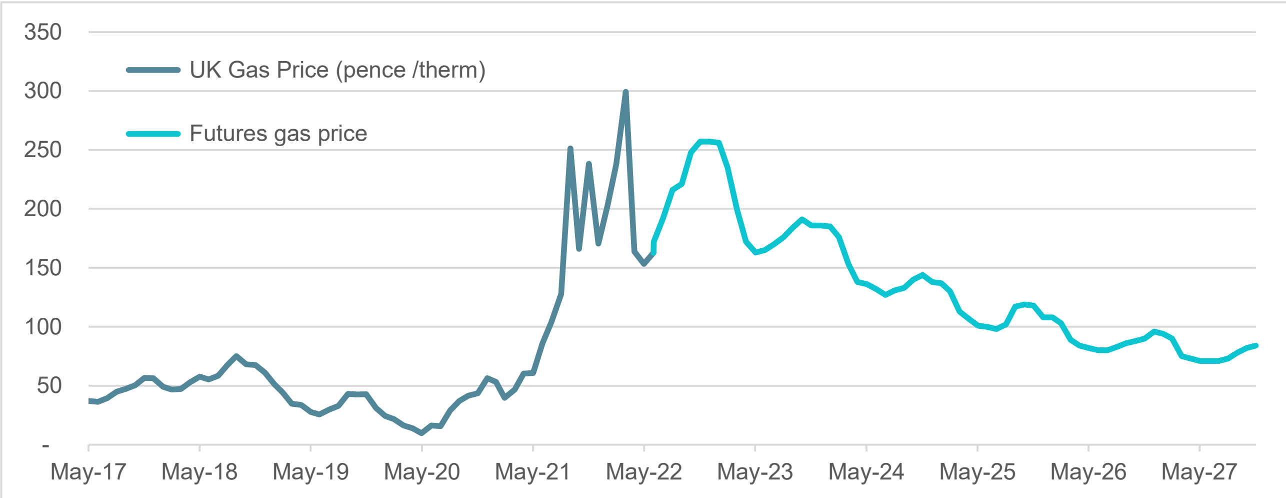
Wind power generation was lower than average during the 2021 summer due to mild weather conditions. High carbon prices in the EU reportedly reduced the level of coal-fired power generation so more gas than usual has been used to generate electricity, leaving less gas to go into storage.

The recent developments in Eastern Europe and the tragedy that is currently occurring in Ukraine has heightened the risk that gas supplies from Russia to Europe and the UK may be impacted.

Given all of the above, the UK is experiencing abnormally high gas prices (Figure 1) reflecting all the supply and demand issues noted.

The forward curve is indicating average gas prices of 115 pence/therm in CY2025 (HHR targeting first gas in late 2024) compared with the historic ten-year average to June 2021 of £0.47/therm.

Figure 3 – UK NBP gas prices – CY 2025 forward curve averaging 115 pence/therm – Spot gas price ~153 pence/therm



Source: FactSet, CME Group

The UK NBP gas futures for prior settlements for gas prices (Figure 1) out to CY2027 (averaging 80 pence /therm) are implying the markets believe the current peaks will start to ease in mid-2023 but pricing in the outer years is materially higher than over the last ten years heading into June 2021.

We note that what is currently occurring will provide long term gas users the impetus to lock in offtake agreements which potentially is very timely for HHR as it progresses through to first gas in late FY24.

[1] Rough was the largest gas storage facility in Great Britain, that used to be used by market participants to store gas in the summer and deliver that gas to meet peak demand in the winter.

Valuation

We have lifted our valuation for HHR from A$0.118 to $0.135 reflecting the higher multiples HHR's comparative companies are trading at.

It is based on the blend of:

- our Phase 1 project valuation at first gas (A$0.128), and
- a FY24 valuation (discounted back to today) of A$0.141, based on US$5/boe which is in line with the listed average multiple comparative company multiples for 2C contingent resources and 2P reserves (Figure 4) and recent M&A acquisition multiples, noted below (Figure 5).

We note if we run our Phase 1 base case valuation at higher assumed gas prices of 60 pence/therm and 70 pence /therm (base case 50 pence/therm), our **Phase 1 base case valuations lift from A$0.128 to A$0.169 and A$0.21.**

Figure 4 – Comparative Company EV / (2P + 2C) multiples

Company	Ticker	Share price (LC)	Enterprise Value (LCm)	Market Cap. (US$m)	Net debt / (Cash) (US$m)	Enterprise Value (US$m)	2P Reserves (mm boe)	2C Resources (mm boe)	EV/(2P+2C) (US$/boe)
EnQuest PLC	ENQ-GB	0.29	1,856	696	1,646	2,341	189	279	5.0
IOG PLC	IOG-GB	0.25	185	162	72	234	27	13	5.7
Kistos PLC	KIST-GB	3.85	376	298	61	359	20	99	3.0
Serica Energy PLC	SQZ-GB	2.53	585	867	(130)	737	61	0	12.1
Average									**6.5**

Source: Company

We also note that our valuation pays no recognition to the 139 Bcf of 2C gas resource in the Phase 2 development plan, or the 344 Bcf of un-risked 2U prospective resource in the Phase 3 development plan.

Merger and acquisition activity has been high

The liquid nature of North Sea Oil and Gas projects in terms of both asset and corporate transactions has been key to attracting new entrants and capital into the area. Since 2019 there has been more than 55 UK North Sea M&A transactions at an asset and corporate level. The recent exit multiples for blended 2C and 2P contingent resources for similar companies to HHR have ranged from US$2.70 to US$14.20 per boe (average of US$5.70/boe).

Figure 5 – Exit multiples for a number of UK gas transactions for similar companies to HHR

Vendor	Acquirer	Asset(s)	Consideration (US$)	Net 2P + 2C Reserves & Resources	EV/(2P+2C) (US$/boe)
IOG	CalEnergy	50% of UK SNS Assets	94.0	35.3	2.7
Tulip Oil NV	Kistos	Q-10A, Q10-B, Q11-B and M10/M11	262.6	90.2	2.9
TotalEnergies	Kistos	20% of GLA WoS (UK)	125	8.8	14.2
E.On	Premier Oil	UK Gas Portfolio	120	38	3.2
SSE	Viaro	UK Portfolio	164	30	5.5
Average					**5.7**

Source: Company

If we applied US$5.70/boe to HHR's Phase I assets (2P plus 2C of 55.9 MMboe) we can imply an exit valuation of ~US$318m or A$0.19.6 per share in FY24 or A$0.16 today.

Risks to our valuation and forecasts

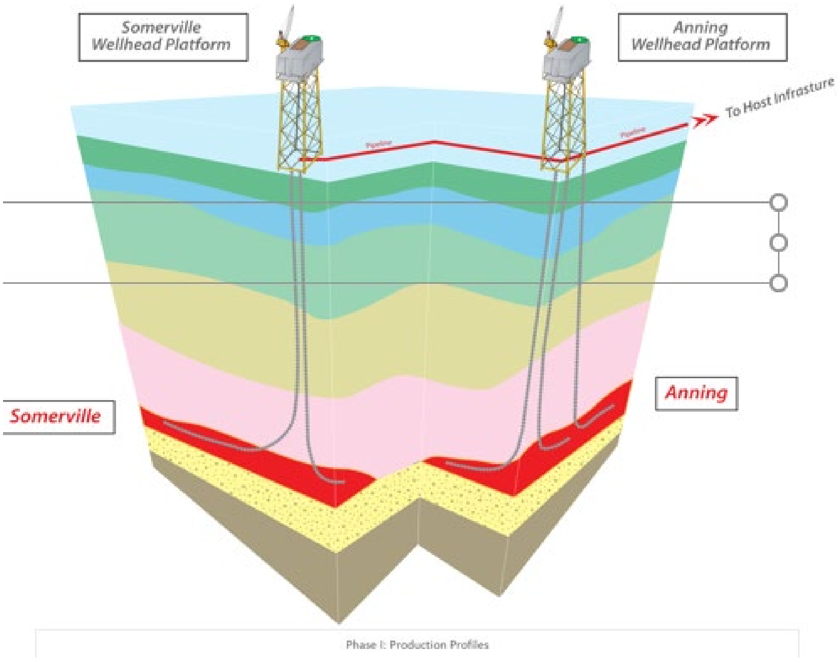
The key risks to our financial forecasts and valuation include:

- UK gas pricing particularly if HHR are unable to sign long term offtake contracts,
- quantum of capital expenditure and forecast over runs,
- access to gas distribution infrastructure,
- project timing,
- reserve and resource estimates,
- operational risks including equipment failure,
- regulatory changes,
- governmental responses to climate change and the impact on gas demand,
- and the ability to find partners and or source capital to complete the first project, and
- an extension of the "windfall" oil and gas tax post December 2025.

Appendix 1 – Currently Proposed Phase 1 Development

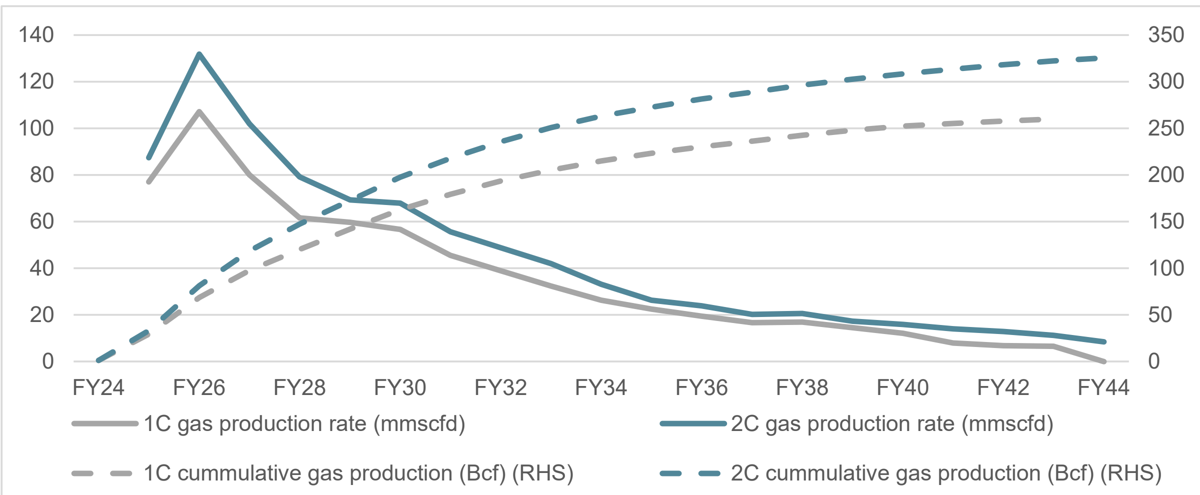
- 2C resources estimate 324 Bcf. 1C estimate is 255 Bcf from six wells
- Peak production rate estimated at c. 140 mmscfd. Approximately 160 TJ/d
- Greenfield Development Concept Identified.
- Two minimum facility, unmanned platforms.
- Export via third party infrastructure.
- Gas delivery to Bacton Gas Terminal.
- Phase I infrastructure can then be used to monetise Phase II and Phase III resources

Figure 7 – Phase 1 Development



Source: Company

Figure 8 – Phase 1 Development Forecast Production Profiles



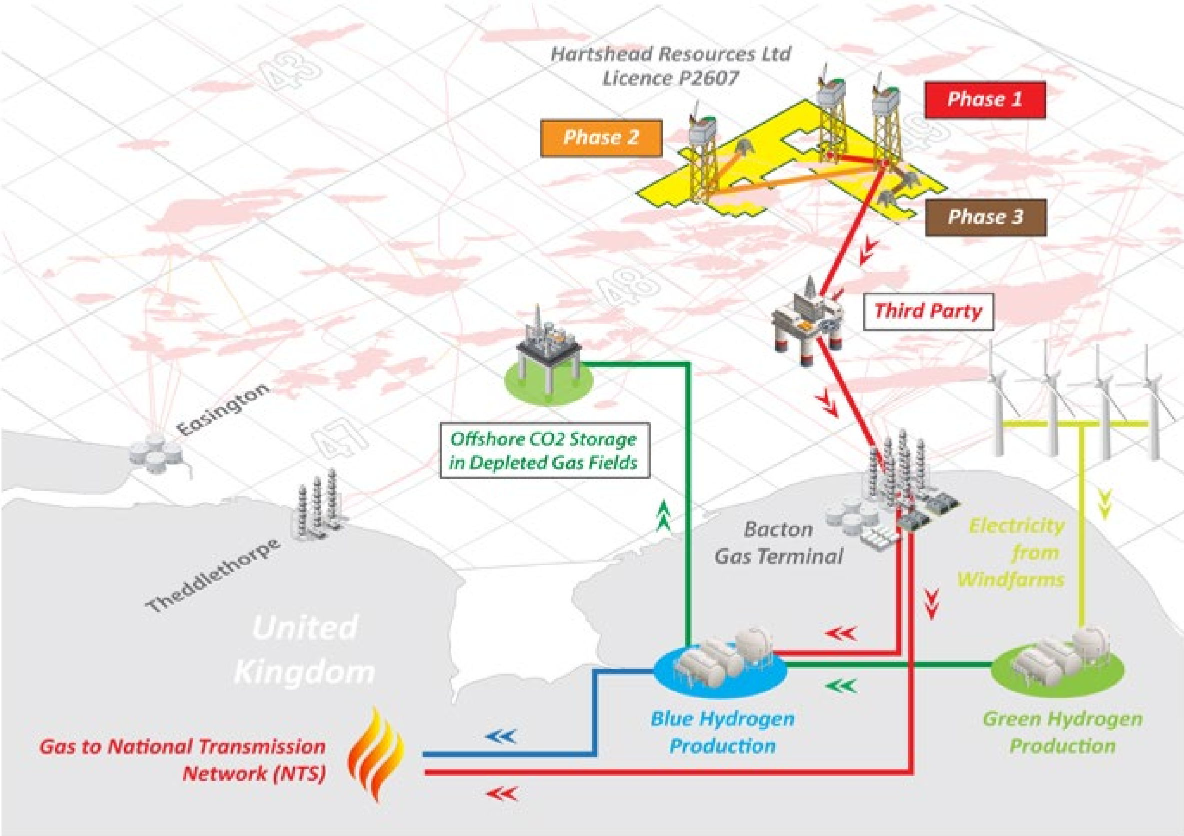
Source: Company

Appendix 2 - Bacton Energy Hub Initiative

During the fourth quarter HHR announced that it had been selected to participate in several Special Interest Groups (SIGs) established by the UK Oil & Gas Authority (OGA) as part of the Bacton Energy Hub initiative. The initiative is focussed on future hydrogen generation at the Bacton gas terminal, where HHR intends to process its natural gas production. The UK Southern Gas Basin, together with the Bacton gas terminal and offshore wind power infrastructure, form the Bacton Catchment Area.

In line with the UK's decarbonisation efforts and 2050 net zero target, the area has been the focus of a recent study by the OGA to consider how the Bacton Catchment Area could be developed into an energy and infrastructure hub for future hydrogen generation. HHR's gas developments could provide material volumes of natural gas feedstock into the Bacton Energy Hub for blue hydrogen generation and the Company's future offshore infrastructure could potentially be utilised in Carbon Capture & Storage and electrification projects.

Figure 6 – The Bacton Energy Hub Catchment Area



Source: Company

The OGA study has confirmed that there is a significant economic opportunity for a hydrogen-led energy hub centred at Bacton that will play a leading role in the UK's energy future which focusses on the following:

- **Blue Hydrogen**: Using natural gas feedstock from existing and undeveloped gas fields to produce hydrogen via methane reformation;
- **Carbon Capture & Storage:** Depleted gas fields or suitable reservoirs to be used for the injection and storage of CO2 generated as a by-product from Blue Hydrogen production;
- **Green Hydrogen**: Integration of new and existing wind turbines into the Bacton Energy Hub to produce hydrogen via electrolysis; and
- **Electricity**: Generation of electricity from wind turbines to provide power to the UK grid and offshore installations in the Southern Gas Basin.

Appendix 3 – Phase 3 Exploration Inventory

An exploration study across License P2607 by Xodus Group has generated 14 new prospects and leads with un-risked 2U Prospective Resources of 344 Bcf.

Twelve new prospects, in addition to the existing Garrod and Ayrton prospects, have been identified on the license area. All of the new prospects are undrilled structural traps within the Rotliegendes reservoir and are summarised below (Figure 7) along with their respective geological chance of success (GCoS).

A number of opportunities for further work have been identified by Xodus to potentially further de-risk the prospects and reduce volumetric uncertainty including seismic reprocessing and geological and geophysical studies. The prospects will be economically evaluated and ranked prior to being short listed for further work. Future work on short listed prospects will also involve initial well planning for the drilling of exploration wells in the final selected prospect or prospects.

It may be that the McLaren prospect can be drilled as part of the Somerville development project in 2024 or 2025 and this option is being evaluated. Any other prospects selected to be drilled would likely be drilled as vertical exploration wells, sometime following Phase I first gas which is scheduled for H2 2024.

Figure 7 – Phase 3 Prospective 2U Resources of 344 Bcf

Prospect	GIIP (Bcf)			Recoverable Volume (Bcf)			GCoS
	P90	P50	P10	1U	2U	3U	P50
Mclaren	34	47	63	18	**27**	39	0.54
Stephenson	47	58	73	36	**47**	60	0.43
Widdowson East	8	36	99	6	**29**	79	0.32
Widdowson Central	14	26	49	11	**21**	40	0.50
Lonsdale	7	20	38	5	**16**	31	0.50
Anderson	5	14	31	5	**12**	29	0.45
Garrod	24	74	177	16	**52**	125	0.50
Ayrton	36	107	206	25	**74**	146	0.41
Wenlock Prospect 1	6	28	79	4	**19**	55	0.36
Wenlock Prospect 2	1	8	27	1	**5**	19	0.36
Wenlock Prospect 3	2	7	24	1	**5**	17	0.36
FFs Prospect 1	5	15	37	3	**11**	26	0.41
FFs Prospect 2	12	27	52	8	**19**	37	0.35
FFs Prospect 3	6	13	24	4	**9**	17	0.34
Arithmetic Total	**205**	**480**	**980**	**143**	**344**	**719**	

Source: Company

Appendix 4 – United Kingdom Windfall Tax

On 26 May 2022, the UK Government announced a new tax on the profits of oil and gas companies operating in the UK and the UK Continental Shelf.

The Energy Profits Levy (the Levy) will be charged at 25 % and apply to profits arising on or after 26 May 2022.

The oil and gas sector is currently subject to a 40 % headline rate of tax on UK 'ring fence profits' consisting of 30% Ring Fence Corporation Tax (RFCT) and 10% Supplementary Charge to Corporation Tax (SCT). The Levy will therefore effectively increase the headline rate of corporation tax on oil and gas sector UK profits from 40% to 65%. Not quite as simple as that. Please see our initiation for more detail on tax calculations.

KPMG noted that:

"As evidenced by levels of activity following previous rate increases, these announcements will reduce the attractiveness of investment in the UK at a time when energy security and funding the energy transition are front and centre of the political agenda.

As such the UK Chancellor also announced a 'super-deduction' style investment allowance to provide an immediate incentive for the oil and gas sector to invest in UK extraction and to support energy security."

The measure is temporary and will be phased out when oil and gas prices return to historically more normal levels. The legislation will also include a sunset clause which will remove the Levy after 31 December 2025.

The tax base for the Levy will be computed in a similar manner to RFCT and the SCT, applying to a company's ring fence profits, with the following applying:

- Levy losses may be:
  (i) carried back for 12 months against previous levy profits (three years for terminal losses);
  (ii) carried forward to set against future levy profits; and
  (iii) group relieved in year to another company with levy profits;
- No relief for existing RFCT or SCT losses;
- No deductions for decommissioning costs;
- No deductions for finance costs (akin to SCT); and
- An investment allowance will be available for certain expenditure (operating and leasing expenditure) at a rate of 80 %.

The Levy will be included in the RFCT three-instalment payment regime for large companies, although for accounting periods that straddle the commencement date, the levy payment for that straddling period will be made in the final instalment payment.

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