BELL POTTER

**Speculative**

See key risks on page 23, and early stage company risk warning on page 26.
Speculative securities may not be suitable for Retail clients.

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# Hartshead Resources NL (HHR)

## Initiation: Leverage to EU energy markets

Recommendation
Buy (Initiation)
Price
$0.022
Valuation
$0.07 (Initiation)
Risk
Speculative

**GICS Sector**

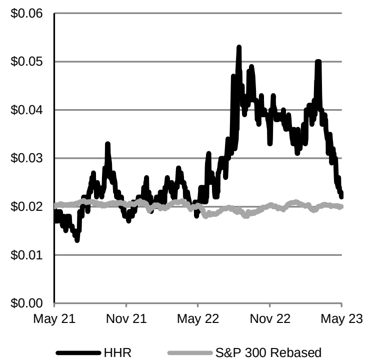
**Energy**

| Expected Return | |
|---|---|
| Capital growth | **218%** |
| Dividend yield | **0%** |
| Total expected return | **218%** |
| **Company Data & Ratios** | |
| Enterprise value | **$27m** |
| Market cap | **$62m** |
| Issued capital | **2,809m** |
| Free float | **78%** |
| Avg. daily val. (52wk) | **$285k** |
| 12 month price range | **$0.019-0.055** |

**Price Performance**

| | (1m) | (3m) | (12m) |
|---|---|---|---|
| Price (A$) | 0.03 | 0.04 | 0.02 |
| Absolute (%) | -35.3 | -38.9 | 10.0 |
| Rel market (%) | -33.8 | -37.3 | 9.7 |

**Absolute Price**




SOURCE: IRESS

## Developing Southern Gas Basin production for UK markets

HHR's core asset is a 40% interest in a UK Southern Gas Basin licence; a staged development is planned with the initial phase expected to reach FID in 2H 2023 for first production in 2025. Anning & Somerville (Phase 1) will develop 2P Reserves of 302 Bcf at initial rates of 140Mmscf/day (51 Bcf/year) tied-in to existing Shell infrastructure for sale into the UK gas market. Production over the first five years averages around 96Mmscf/day (35 Bcf/year). HHR will benefit from the UK's fiscal regime which actively encourages investment in oil and gas extraction in support of its economy and future energy security. HHR's licence areas have previously produced gas under the ownership of global energy majors.

## Farm-out provided funding; steps to FID in 2H 2023

HHR farmed-out a 60% interest in Phase 1 in early April 2023 providing it with cash payments of A$53m and capex free carry for the project of A$95m. The farm-out deal is expected to cover HHR's 40% equity requirement for the estimated £351m (A$650m) Phase 1 gross capital requirement. HHR is now completing FEED and a Field Development Plan for finalisation of debt financing and a Final Investment Decision in 2H 2023. In its first full year of production (FY26) we estimate that Phase 1 could generate EBITDA of A$762m (A$304m net to HHR).

## Investment view: Speculative Buy, Valuation $0.07/sh

We expect HHR equity to re-rate as the Phase 1 project is de-risked into development and financing is secured. The investment provides value leverage to UK and European gas markets which have recently experienced "energy crisis" pricing and are looking to diversify sources of energy supply. HHR's Southern Gas Basin portfolio could support subsequent phases of production and value growth. Our HHR valuation is primarily based on a risked discounted cash flow model of the Anning & Somerville fields with gas price assumptions consistent with the current UK NBP forward curve.

HHR is a project development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher risk and volatility of returns.

**Earnings Forecast**

| Year ending 30 June | 2023e | 2024e | 2025e | 2026e |
|---|---|---|---|---|
| Sales (A$m) | - | - | 135 | 367 |
| EBITDA (A$m) | (4) | (2) | 109 | 303 |
| NPAT (reported) (A$m) | (4) | (2) | 85 | 155 |
| NPAT (adjusted) (A$m) | (4) | (2) | 85 | 155 |
| EPS (adjusted) (A¢ps) | (0.2) | (0.1) | 2.0 | 3.6 |
| EPS growth (%) | na | na | na | 81% |
| PER (x) | -14.4x | -36.2x | 1.1x | 0.6x |
| FCF Yield (%) | -10% | -127% | 52% | 194% |
| EV/EBITDA (x) | -7.5x | -13.4x | 0.2x | 0.1x |
| Dividend (A¢ps) | - | - | - | - |
| Yield (%) | 0% | 0% | 0% | 0% |
| Franking (%) | - | - | - | - |
| ROE (%) | -20% | -5% | 85% | 70% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

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# Initiation: Leverage to EU energy markets

## Investment view: Speculative Buy, Valuation $0.07/sh

**DEVELOPING A MULTI ASSET, UK OFFSHORE GAS PORTFOLIO**

HHR is an offshore UK gas exploration and development company. Its key asset is located in the United Kingdom's prolific Southern North Sea and is expected to reach FID this year for first gas production into the UK domestic market from 2025.

**PHASE 1: ANNING & SOMERVILLE (HHR 40%) - FID THIS YEAR**

- The Anning & Somerville gas fields have gross 2P Reserves of 302 Bcf with FID expected this year for production from 2025. Production is expected to be front-ended, peaking at 140Mmscf/day (51 Bcf/year) in early years; around 50-60% of total gas Reserves will be produced in the first five years of the project at average rates of around 96Mmscf/day (35Bcf/year).
- HHR have a 40% interest in Anning & Somerville. Our un-risked Anning & Somerville NPV is A$329m (net to HHR), with average annual EBITDA in the first five years of A$105m (net to HHR).
- In May 2023, HHR announced a farm-out deal where independent UK-based energy group RockRose Energy acquired a 60% interest in Anning & Somerville. Consideration included cash payments to HHR of A$53m and capex free carry to HHR of A$95m. The farm-out deal is expected to cover HHR's 40% equity requirement for the estimated £351m (A$650m) Phase 1 gross capital requirement.
- HHR is now progressing a Field Development Plan for regulatory approval to enable debt funding agreements, FID and the commencement of development by the end of 2023.
- Anning & Somerville are adjacent to existing producing gas fields with pipeline infrastructure and processing capacity enabling delivery to the UK gas market. In March 2023, HHR and Shell UK Ltd (LON: SHEL, not rated) agreed to commercial terms for transport and toll processing of Anning & Somerville gas production.
- ConocoPhillips previously owned the Anning & Somerville fields, producing a combined 60 Bcf from the fields prior to relinquishment in the 2010s.

**PHASE 2: HODGKIN & LOVELACE (HHR 40%) & SUBSEQUENT PHASES**

- The Hodgkin & Lovelace gas fields contain 139 Bcf of 2C Contingent Resources. ConocoPhillips historically produced 26 Bcf from a single well at Hodgkin and 18 Bcf from a well at Lovelace.
- Hodgkin & Lovelace were also part of the RockRose Energy 60% farm-out deal with bonus payments totalling A$9m to HHR due on regulatory approval of a Field Development Plan.
- Subsurface work is ongoing to refine the current Hodgkin & Lovelace reservoir model, with a revised Resource estimate planned for 4Q 2023. Development of Phase 2 is expected subsequent to Phase 1 with production potentially from 2027.
- HHR also has a 40% interest in fields with un-risked 2U Prospective Resources totalling 344 Bcf. These fields form a potential Phase 3 development. We also expect that HHR's experienced executive team will be active in forthcoming UK offshore licencing rounds.

**UK GAS MARKET: DOMESTIC SUPPLY KEY TO ENHANCE ENERGY SECURITY**

- Natural gas is the largest source of energy for the UK, currently accounting for 40% of total energy supply.

- The UK is a net importer of gas; in 2021, domestic production averaged 3.2 Bcf/day and consumption 7.4 Bcf/day. Increased dependence on imported LNG has exposed the UK's energy market to volatile global energy markets. Russian supply accounted for around 20% of the UK's LNG imports in 2021.
- Natural gas from the United Kingdom's Continental Shelf averages half the carbon intensity of imported LNG, making domestic gas production a critical fuel during the UK's energy transition.
- The UK Government is actively incentivising new gas developments through the introduction of a 'super-deduction' for capital investment. This super-deduction offsets the UK Energy Profits Levy (EPL) which increased the headline tax rate for the energy sector from 40% to 75% out to 31 March 2028. Under the super-deduction tax relief, businesses would receive a £91.40 tax saving for every £100 they invest in UK oil and gas extraction.

## Valuation methodology: Risked DCF approach

Our valuation is based on:

- **Phase 1 (Anning & Somerville, 40% HHR)**: Risked DCF model with development assumptions consistent with the ERCE Competent Persons Report and Bell Potter Securities' commodity price, capital and operating cost inflation and currency estimates.
- **Phase 2 (Hodgkin & Lovelace, 40% HHR)**: Based on comparable advanced exploration/appraisal projects.
- We have also accounted for HHR's corporate overhead expenses.

Our valuation conservatively includes dilution from an assumed A$30m capital raising over the next twelve months.

## Timeline & value catalysts

- ✓ 2021 – Acquired 100% of Licence P2607 during the UK's 32nd Offshore Licensing Round.
- ✓ 2022 – Completion of Competent Persons Report for Anning & Somerville resulting in the conversion of 301.5Bcf to 2P Reserves.
- ✓ 2022 – Letter of no objection received from the North Sea Transition Authority (NSTA) for the Concept Select Report (CSR).
- ✓ March 2023 – Agreement with Shell on key commercial terms for gas transportation and processing.
- ✓ April 2023 – Farm-out completed for the divestment of 60% of Licence P2607 to RockRose Energy.
- ✓ May 2023 – Completion of Anning & Somerville geophysical survey, a critical component of the Environmental Statement and understanding of seabed and pipeline route conditions.
- 2Q-3Q 2023 – Completion of FEED and submission of the Field Development Plan to NSTA.
- 3Q 2023 – Enter binding agreement with Shell for gas transportation and processing.
- 4Q 2023 – Finalisation of project capital costs, debt financing and FID.
- End-2023 – Begin development of initial production wells, platforms and pipeline modifications for tie-in with Shell infrastructure.
- Early 2025 – First gas production.

Ongoing – Gas Contingent Resources and Reserves updated.

## Capital requirements & sources of funds

At 11 May 2023, HHR held pro-forma cash of A$35m and no debt. This cash balance included the initial A$12m cash payment from RockRose as part of the farm-in agreement.

- **Anning & Somerville capital requirements:**
  1. Previous published capital cost estimates for Phase 1 are £351m (~A$650m), current June 2022. HHR's 40% share of this estimate is around A$260m.
  2. The RockRose 60% farm-out agreement provided A$95m in free carry capital expenditure and over A$50m in cash payments, totalling around A$145m.
  3. We expect HHR will require around A$100-150m in debt or other finance to take FID on Anning & Somerville.
- **Phase 2 modest near-term capital commitments:** We expect HHR will ultimately fund Phase 2 with Phase 1 free cash flows.

## RockRose 60% farm-out & institutional placement

### LICENCE P2607 SELL-DOWN COMPLETED; DEBT FINANCING PENDING

In early April 2023, HHR entered a binding 60% farm-out agreement with RockRose Energy for Licence P2607. RockRose is a wholly-owned subsidiary of independent British energy company Viaro Energy (not listed).

HHR and RockRose have entered into a Joint Operating Agreement and the UK oil and gas regulator the North Sea Transition Authority has now approved the transaction.

**Table 1 - Farmout characteristics**

| Payment | US$m | A$m | Description |
|---|---|---|---|
| A. Initial payment and past costs | 7.9 | 12.2 | Initial cash consideration and Rockrose's 60% share of the pre-completion joint venture costs paid on completion of the transaction |
| B. Bonus payments | 26.5 | 40.7 | Cash Phase 1 bonus to be used exclusively for Phase 1 development of which A$9.8 million is available from Phase 1 FID and A$31.7 million from Phase 1 FDP on approval by UK government |
| **Sub-total cash payments (Anning & Somerville)** | **34.4** | **52.9** | **Total ash available on FID** |
| Free carry (Anning & Somerville) | 61.8 | 95.0 | RockRose contribution to HHR's share of project capital expenditure |
| **Total (Anning & Somerville)** | **96.2** | **147.9** | **Total cash available for HHR to invest in Anning & Somerville** |
| EPL tax benefit (Anning & Somerville) | 31.4 | 48.4 | By way of UK government Oil and Gas Investment allowance relating to A & B. |
| **Total economic benefit (Anning & Somerville)** | **127.6** | **196.3** | |
| Conditional payment for Hodgkin & Lovelace FID | 5.9 | 9.0 | Phase 2 Bonus in cash on NSTA approval of the FDP for the Phase 2 Lovelace and/or Hodgkin gas fields |
| **Total consideratoin** | **133.5** | **205.3** | |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### APRIL 2023 A$20M INSTITUTIONAL PLACEMENT

Simultaneous to the farm-out, HHR completed a A$20m institutional placement. HHR now expects to be fully funded for its equity component of the Anning & Somerville development.

HHR is in discussions with debt providers and offtake partners, for the remaining A$100-150m of its share of Phase 1 capital expenditure. The company has outlined various debt options including Nordic bonds and offtake funding, with a target to be finalised in 3Q 2023.

## UK oil & gas tax regime: Incentives for oil & gas investment

In May 2022, the UK Government introduced a 25% Energy Profits Levy on oil and gas producers' profits. In November 2022, the EPL was increased a further 10% to 35% and the government announced the levy would remain in place until the end of March 2028.

Combined with the UK's permanent oil and gas fiscal arrangements, the headline tax rate for the sector increased from 40% to 75%.

The UK Government also introduced a tax 'super-deduction' designed to encourage companies to invest in UK oil and gas extraction. A 29% investment allowance was added to the permanent regime, increasing the tax saving for every £100m that companies invest in UK oil and gas developments from £46.25m to £91.4m. Investments in decarbonisation technology were further incentivised with a £109.25m deduction for every £100m of investment.

# Financials & valuation methodology

## Risked, sum of the parts valuation: $0.07/sh

**Near term capital raise assumption:** Consistent with other development companies under our coverage, we conservatively assume dilution from a A$30m equity raising over the next twelve months at a 10% discount to the current share price to enable HHR to progress its capital projects and studies.

**Table 2 - Risked, sum of the parts valuation**

| | 100% A$m | HHR interest % | HHR Unrisked A$m | Risk disc % | HHR Risked A$m |
|---|---|---|---|---|---|
| Anning and Somerville - Total to HHR (Phase 1) | 759 | | 329 | 30% | 230 |
| Hodgkin & Lovelace (Phase 2) | 350 | 40.0% | 140 | 80% | 28 |
| Exploration | | 100.0% | | | 13 |
| **Total projects** | | | **469** | | **271** |
| Corporate overhead assumption | | | | | -25 |
| **Enterprise value** | | | | | **246** |
| Net debt (diluted) | | | | | -35 |
| **Equity value** | | | | | **281** |
| Diluted shares on issue m | | | | | 2,829 |
| **Equity value A$/sh** | | | | | **0.10** |

| | |
|---|---|
| Assumed near-term equity raise | |
| Value A$m | 30 |
| Current share price A$/sh | 0.0220 |
| Raise discount % | 10% |
| Effective raise price A$/sh | 0.0198 |
| New shares m | 1,515 |

| | |
|---|---|
| **After assumed near-term equity raise** | |
| Net debt | -65 |
| **Equity value** | **311** |
| Diluted shares on issue m (after assumed raise) | 4,345 |
| **Equity value A$/sh** | **0.07** |

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Phase 1: Anning & Somerville development (40% HHR)

We have modelled Phase 1 with a production profile similar to the Concept Select Report Best Case scenario. Key parameters, CPR vs Bell Potter Securities modelled, are outlined in the following table.

### RISK DISCOUNT: 30% TO ACCOUNT FOR PRE-FID STAGE OF DEVELOPMENT

We have conservatively applied a 30% risk discount to the Phase 1 valuation to account for its pre-FID stage of development, consistent with other projects of this nature. The 8% real WACC combined with a 30% risk discount is equivalent to using a discount rate of around 14%.

**Table 3 - Phase 1 modelled assumptions**

| Gross parameters | ERCE | Bell Potter assumption | Difference % |
|---|---|---|---|
| 2C Resource | 301.5 Bcf | 301.5 Bcf | - |
| Initial capex | £351m | £421m | 20% |
| First production | Late 2024 | Mid-2025 | 6-month delay |
| Maximum production rate | 130MMscfd | 130MMscfd | - |
| Gas price (from 2025, real) | £8.7/mcf | £13.8/mcf | - |
| Annual direct opex (average, real) | £11.0m | £11.0m | - |
| NPV10% (Best case, gross) | £514m | - | - |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 1 - Phase 1 field production & cash flow summary (real, net to HHR)**


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Phase 2: Hodgkin & Lovelace (40% HHR): 139 Bcf 2C Resource

The Hodgkin & Lovelace fields contain gross 139 Bcf of 2C Contingent Resources. Hodgkin's 100 Bcf 2C Contingent Resource has had historic gas production of 26 Bcf, and therefore can be taken into production with a development well. The Lovelace field contains 39 Bcf of 2C Contingent Resources and also has historical production of 18 Bcf.

We have adopted a heavily risked (80% discount), EV/Contingent Resource multiple approach, based on the 139 Bcf of 2C Resource.

## ASX-listed energy sector

**Table 4 - ASX-listed energy sector**

| Company Name | | Reserve & Resource (Bcfe) | | | Resource Multiples (A$/Bcfe) | |
|---|---|---|---|---|---|---|
| | EV | 2P | 2C | 2P + 2C | EV/2P | EV/2P+2C |
| Woodside Energy Group (WDS) | **67,523** | 19,965 | 47,501 | 67,467 | **3.38** | **1.00** |
| Santos Limited (STO) | **29,457** | 9,570 | 17,989 | 27,560 | **3.08** | **1.07** |
| Beach Energy Limited (BPT) | **3,386** | 1,552 | 1,212 | 2,764 | **2.18** | **1.22** |
| Karoon Energy Ltd (KAR) | **1,485** | 302 | 450 | 751 | **4.92** | **1.98** |
| Strike Energy Limited (STX) | **1,026** | 349 | 488 | 837 | **2.94** | **1.23** |
| Cooper Energy Limited (COE) | **433** | 217 | 202 | 419 | **2.00** | **1.03** |
| Conrad Asia Energy Ltd (CRD) | **251** | 0 | 375 | 375 | **na** | **0.67** |
| Horizon Oil Limited (HZN) | **183** | 32 | 33 | 65 | **5.74** | **2.80** |
| Comet Ridge Limited (COI) | **147** | 213 | 334 | 547 | **0.69** | **0.27** |
| Carnarvon Petroleum Limited (CVN) | **128** | 0 | 551 | 551 | **na** | **0.23** |
| Talon Energy Ltd (TPD) | **84** | 24 | 414 | 439 | **3.47** | **0.19** |
| TMK Energy Limited (TMK) | **83** | 0 | 813 | 813 | **na** | **0.10** |
| Central Petroleum Limited (CTP) | **63** | 67 | 187 | 254 | **0.93** | **0.25** |
| Vintage Energy Ltd (VEN) | **53** | 48 | 18 | 66 | **1.11** | **0.81** |
| Armour Energy Limited (AJQ) | **52** | 167 | 43 | 210 | **0.31** | **0.25** |
| Australis Oil & Gas Limited (ATS) | **51** | 17 | 702 | 719 | **2.96** | **0.07** |
| Blue Energy Limited (BLU) | **49** | 74 | 1,337 | 1,411 | **0.67** | **0.04** |
| Galilee Energy Limited (GLL) | **48** | 0 | 2,840 | 2,840 | **na** | **0.02** |
| **Hartshead Resources (HHR)** | **27** | **115** | **56** | **171** | **0.23** | **0.16** |
| AXP Energy Limited (AXP) | **12** | 35 | 1,162 | 1,197 | **0.35** | **0.01** |
| Maximum | | | | | **5.7** | **2.8** |
| **Mean** | | | | | **2.2** | **0.7** |
| **Trimmed mean (25% excluded)** | | | | | **2.0** | **0.5** |
| **Median** | | | | | **2.1** | **0.3** |
| Minimum | | | | | **0.2** | **0.0** |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Project summary & location

HHR holds a 40% interest in UK Southern North Sea Production License P2607, located in the Southern Gas Basin adjacent to producing oil and gas fields. Licence P2607 consists of five contiguous blocks in Quads 48 and 49 of the United Kingdom Continental Shelf. The Southern North Sea lies between the United Kingdom and the Netherlands, with a prolific history of gas production dating back to the 1960s.

Licence P2607 contains numerous gas fields including Anning & Somerville (Phase 1), Hodgkin & Lovelace (Phase 2) and other exploration targets (Phase 3). The fields were previously owned and operated by ConocoPhillips.

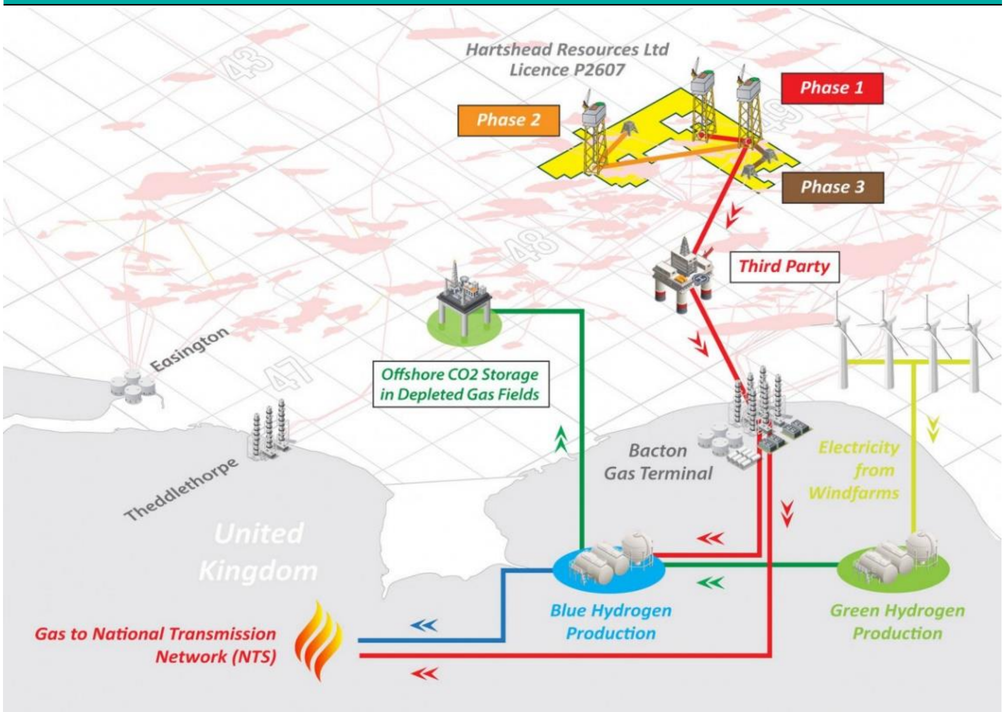
The licence contains total 2P Reserves and 2C Contingent Resources of 441 Bcf, with additional exploration targets holding 344 Bcf of 2U Prospective Resources.

**Table 5 - Licence P2607 project summaries**

| | Phase 1 (Anning & Somerville) | Phase 2 (Hodgkin & Lovelace) | Phase 3 (Exploration) |
|---|---|---|---|
| HHR interest | 40% | 40% | 40% |
| Joint Venture partners | RockRose Energy | RockRose Energy | RockRose Energy |
| 2P Reserves | 302Bcf | - | - |
| 2C Contingent Resources | - | 139Bcf | - |
| 2U Prospective Resources | - | - | 344Bcf |
| Historic gas flow | Anning - 14mmscf/d; Somerville >40mmscf/d | Hodgkin >36mmscf/d | - |
| Potential gas market | UK | UK | UK |
| Stage | Pre-development - FID 3Q 2023 | Advanced exploration | Exploration |
| First gas | Early 2025 | 2025-2026 | - |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 2 - HHR's key projects**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Experienced North Sea joint venture partner

RockRose Energy is a wholly owned subsidiary of Viaro Energy Group (not listed); an independent British company active in the trading and production of oil, gas and associated products. In 2020, the Viaro Energy's turnover exceeded US$1b.

RockRose Energy is focussed on oil and gas production and infrastructure projects. The company holds interests in several producing assets throughout the United Kingdom and the Netherlands, with current attributable production of around 27mboe/day. As of 2021, the group held total 2P Reserves plus 2C Contingent Resources of 81MMboe.

Viaro Energy is part of Viaro Group, which includes Viaro Investment and Viaro Real Estate.

RockRose was listed on the LSE until its acquisition by Viaro in mid-2020, valuing RockRose at around £248m.

# Phase 1: Anning & Somerville (40% HHR)

## Value catalysts & news flow

- ✓ 2021 – Acquired 100% of Licence P2607 during the UK's 32nd Offshore Licensing Round.
- ✓ 2022 – Completion of Competent Persons Report for Anning & Somerville resulting in the conversion of 301.5Bcf to 2P Reserves.
- ✓ 2022 – Letter of no objection received from the North Sea Transition Authority (NSTA) for the Concept Select Report (CSR).
- ✓ March 2023 – Agreement with Shell on key commercial terms for gas transportation and processing.
- ✓ April 2023 – Farm-out completed for the divestment of 60% of Licence P2607 to RockRose Energy.
- ✓ May 2023 – Completion of Anning & Somerville geophysical survey, a critical component of the Environmental Statement and understanding of seabed and pipeline route conditions.
- 2Q-3Q 2023 – Completion of FEED and submission of the Field Development Plan to NSTA.
- 3Q 2023 – Enter binding agreement with Shell for gas transportation and processing.
- 4Q 2023 – Finalisation of project capital costs, debt financing and FID.
- End-2023 – Begin development of initial production wells, platforms and pipeline modifications for tie-in with Shell infrastructure.
- Early 2025 – First gas production.
- Ongoing – Gas Contingent Resources and Reserves updated.

## Project location & summary

Phase 1 includes the Anning & Somerville gas fields. Both fields have historically produced gas; the Somerville well 46 Bcf raw gas reaching flow rates of over 40Mmsfc/day; and the Anning well 13 Bcf raw gas and flowed at around 14Mmscf/day.

FID for the phase 1 development is targeted for 3Q 2023. A 'Letter of no objection' was received from UK regulator NSTA for the Phase 1 Concept Select Report (July 2022); allowing for the submission of a Field Development Plan (expected mid-2023), with first gas targeted for early 2025.

HHR currently hold operatorship in the Phase 1 development, which will be transferred to joint venture partner RockRose Energy at a future date which we expect to be before or upon first gas production.

## Resources and reserves

**Table 6 - Phase 1 Resources & Reserves**

| Phase 1 | Reserves | | |
|---|---|---|---|
| **Bcf** | **1P** | **2P** | **3P** |
| Anning | 73 | **145** | 245 |
| Somerville | 107 | **157** | 213 |
| **Total 100%** | **180** | **302** | **458** |
| **Total net to HHR (40%)** | **72** | **121** | **183** |

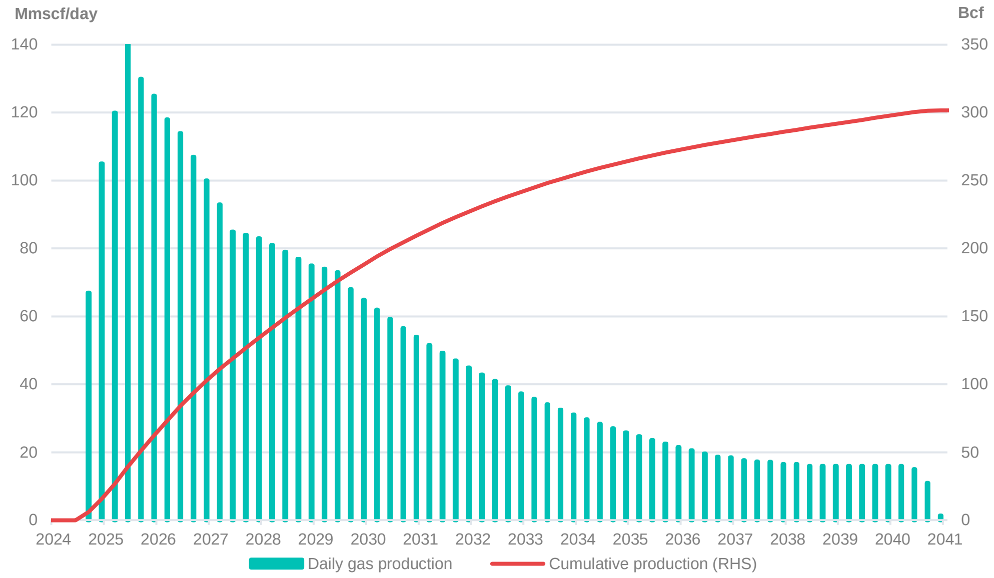
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Development concept: Six wells; Front-ended production

The preferred development concept within the Petrofac Greenfield Concept Select Report outlines three multi-fracked production wells and a Normally Unmanned Installation (NUI) platform at each of the Anning & Somerville gas fields (six wells and two NUIs in total).

HHR's independent report best case scenario supports a front-ended production schedule with around 50-60% of gross Phase 1 field production within the first five years, at a peak flow rate of 140Mmscf/day (approx. 148TJ/day).

**Figure 3 - Phase 1 daily and cumulative production (Quarterly)**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### KEY CAPITAL ITEMS: SIX HORIZONTAL MULTI-FRACK WELLS; SUBSEA PIPELINE

HHR's Competent Persons Report Phase 1 development capital expenditure estimate (mid-2022 estimate) is around £350m.

**Table 7 - Phase 1 initial capital expenditure**

| | CPR (gross) | CPR (A$m, gross) | CPR (Net to HHR) | CPR (A$m, net to HHR) |
|---|---|---|---|---|
| Development capex | £351m | A$635m | £140m | A$254m |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### GAS TRANSPORTATION & PROCESSING THROUGH SHELL INFRASTRUCTURE

HHR have entered an agreement with Shell outlining key commercial terms to transport and process HHR's Phase 1 gas production. HHR will construct a subsea pipeline to tie-in to underutilised Shell infrastructure at its Leman Alpha platform. Gas will then be transported to Shell's Bacton Gas Terminal for processing and delivery into the United Kingdom's National Gas Transmission System.

Gas produced from the Southern Gas Basin is primarily processed at the Bacton Energy Hub. The hub supplies up to one-third of the UK's gas and manages European imports and exports.

HHR and Shell expect to complete the Phase 1 Basis of Design Engineering Study outlining the preferred export route and tie in option in late 2023. Fully-termed binding agreements with Shell are expected to be completed by the end of 2023, in parallel with FEED and the final Field Development Plan.

### GAS OFFTAKE AND PRICING

We expect HHR to finalise offtake for Phase 1 gas with a large gas trader or utility company closer to production; with prices linked to day-ahead spot indices.

### OPERATING COSTS: FIXED & THIRD PARTY ASSUMPTIONS

HHR's Competent Persons Report Phase 1 operating cost estimates (mid-2022 estimate) are outlined in the following table.

Phase 1 will also incur indirect costs relating to third party charges for the transportation and processing through Shell's infrastructure. These tariffs are likely to be gas price linked.

**Table 8 - Phase 1 operating costs**

| Average annual operating costs | CPR (gross) | CPR (A$m, gross) | CPR (net to HHR) | CPR (A$, net to HHR) |
|---|---|---|---|---|
| Direct (Annual) | £7.6m | A$13.8m | £$3.0m | A$5.5m |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Proven technology & UK Southern North Sea experience

Licence P2607 neighbours numerous producing gas fields, including the Ineos (not listed, 75%) and Spirit Energy (not listed, 25%) owned Clipper South.

Clipper South contains approximately 473 Bcf with a projected 15 year production life. The field was developed in 2011 via four horizontal wells incorporating several hydraulic fractures in each. Clipper South is now operated remotely by Shell and transported through the Bacton Gas Terminal.

With its analogous reservoirs, HHR plan to utilise the same horizontal, multi-fracked well technology as the Clipper South development. HHR's subsurface Manager Neil Marcus was instrumental in his role as Lead Development Manager to bring the Clipper South field into production.

HHR have assembled other experienced management with extensive track records in the Southern North Sea. Project Manager Jeff Barnes managed 14 UK Southern Gas Basin developments within a 31 year tenure at ConocoPhillips.

# North Sea production & UK gas market

## North Sea is a major gas supplier to the United Kingdom

The Southern North Sea has supplied uninterrupted gas to the United Kingdom and export markets since its initial development in 1967. There are now hundreds of producing oil and gas fields in the region, with major North Sea players including: Shell (Bacton Gas terminal, Leman Alpha Complex and Clipper field); ExxonMobil (NYSE:XOM; interests in over 40 producing oil and gas fields); and Harbour Energy (LON:HBR; Greater Britannia Area, J-Area and AELE).

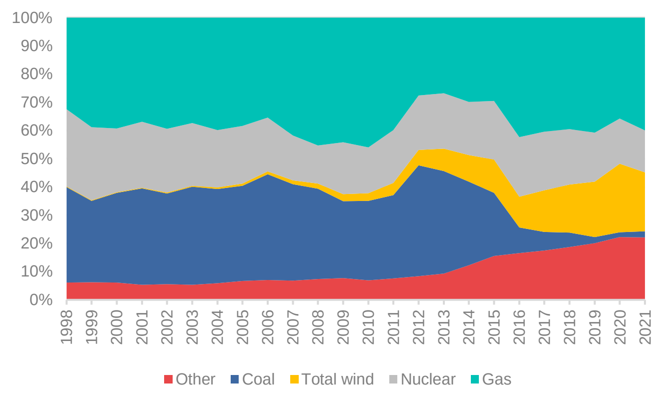
## Pipelined gas offers a stable supply during energy transition

Natural gas is playing an increasingly important role as the UK transitions towards renewable energy. Historically, gas provided the largest source of primary energy for the UK accounting for 40% of total energy supply in 2021; having nearly doubled since the 1990s. The UK's demand for natural gas has traditionally exceeded domestic production, with the NSTA forecasting the UK to be a net importer of gas out to 2050.

Gas from the United Kingdom's Continental Shelf averages less than half the carbon footprint of imported LNG, therefore we expect North Sea production to be an integral provider of natural gas to the UK for the foreseeable future.

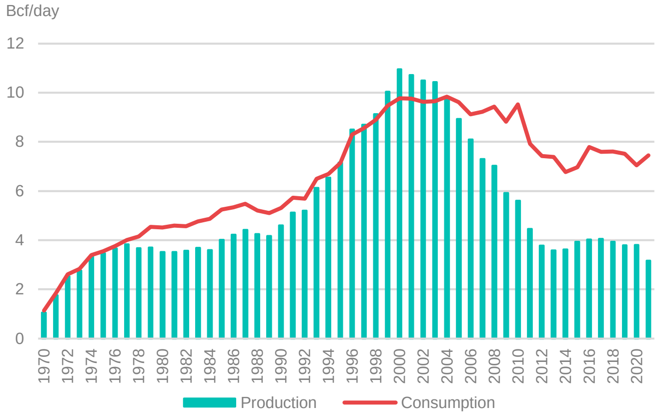
In 2021, natural gas accounted for 40% of electricity generation; a 6% increase on 2020 levels as gas provided relief from the drop in renewable generation due to unfavourable weather conditions.

**Figure 4 - UK electricity generation by source**




SOURCE: UK GOVERNMENT

**Figure 5 - UK Natural gas production & consumption**




SOURCE: BP

### UK'S INCREASED RELIANCE ON IMPORTED GAS & VOLATILE MARKETS

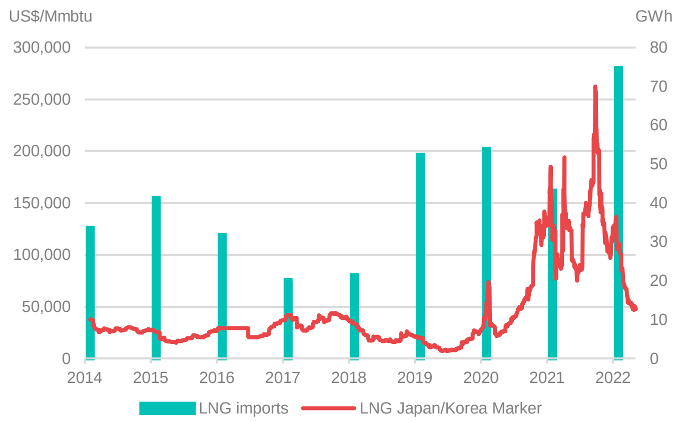
In recent years, the UK has materially increased its imports of pipeline gas and LNG to meet its energy requirements. This increased dependence on global markets exposed the UK economy to volatile energy prices. Domestic gas production goes some way to de-risking the UK's energy supply and is expected to play a crucial role in the future of the UK's energy security.

The following charts highlight:

- The UK's LNG imports have lifted in recent years, coinciding with record high "energy crisis" energy pricing;

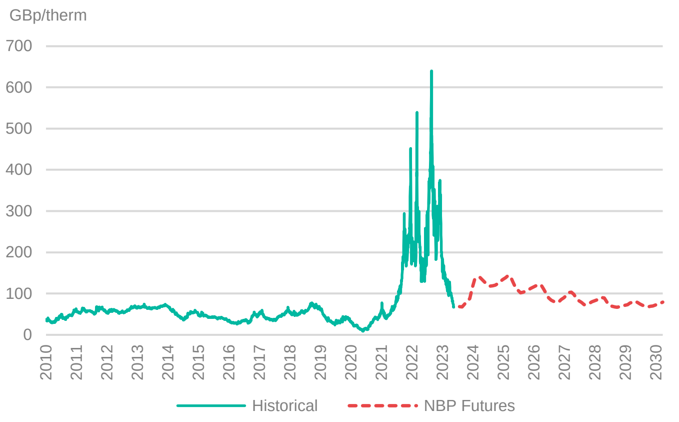
- UK NBP (National Balancing Point) and European gas prices (Dutch TTF) hit record highs over 2022-23, with the Ukraine-Russia conflict disrupting global energy markets through the withdrawal of Russian gas supply; and
- The UK's domestic gas price is highly correlated with European gas prices.

**Figure 6 - UK LNG imports & LNG Japan/Korea Marker**



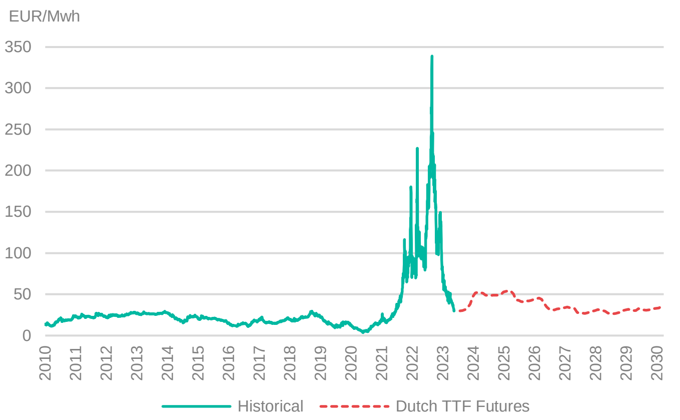

SOURCE: INTERNATIONAL ENERGY AGENCY (IEA)

**Figure 7 - UK NBP Gas: Historical and Futures**



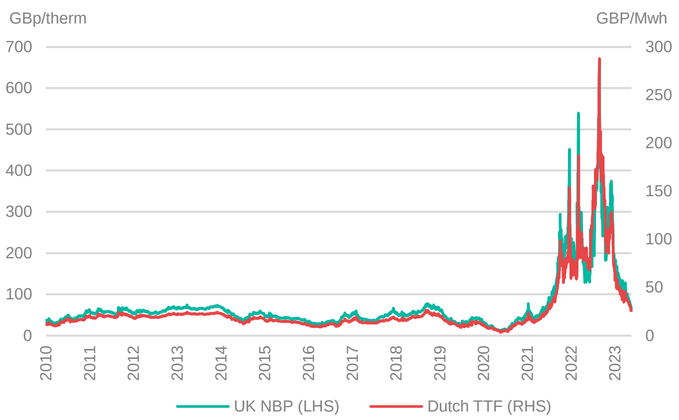

SOURCE: BLOOMBERG (TICKER: FN1 COMDTY)

**Figure 8 - Dutch TTF Front month: Historical and Futures**




SOURCE: BLOOMBERG (TICKER: TZT1 COMDTY)

**Figure 9 - UK NBP & Dutch TTF historical prices**




SOURCE: BLOOMBERG (TICKERS: FN1 COMDTY & TZT1 COMDTY) BP

# Phases 2, 3 & other exploration assets

## Phase 2: Value catalysts & news flow

- 2Q 2023 – Independent audit of Phase 2 resources and updated CPR
- 2H 2023 – Field development planning using Phase 1 infrastructure
- 2025 – Commence construction of Phase 2 development
- Ongoing – Gas Resources and Reserves updated.

## Phase 2: Project location & summary

HHR hold a 40% interest in the Phase 2 development, which contains the Hodgkin & Lovelace gas fields.

The Hodgkin field has produced 26 Bcf raw gas (by ConocoPhillips) from a single well and contains 100 Bcf of 2C Contingent Resources; while the Lovelace field also has historical production and is estimated to contain 39 Bcf 2C Contingent Resources.

Subsurface work is ongoing to refine the reservoir models, with a revised Resource estimate planned for 4Q 2023.

Subject to Field Development Plan feasibility and successful permitting, HHR plan to FID Phase 2 in 2024, with development to commence in 2025.

## Phase 3 exploration: 314 Bcf 2U Prospective Resources

A third party exploration study was undertaken to determine exploration potential within License P2607. 14 new prospects were identified with un-risked 2U Prospective Resources totalling 344 Bcf.

All prospects are undrilled structural traps and will require an economic evaluation to identify the highest priority targets for exploration drilling. Any findings will likely be drilled following first gas from Phase 1, allowing exploration to be funded by earnings.

**Table 9 - Phase 3 Un-risked Prospective Resources**

| Phase 3 (Exploration) | Resources | | |
|---|---|---|---|
| **Bcf** | **1U** | **2U** | **3U** |
| Total | 143 | 344 | 719 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### CURRENT BIDDING IN THE UK'S 33RD OFFSHORE LICENSING ROUND

HHR have placed bids for blocks in the UK's 33rd Offshore Licensing Round. The company has stated their preference for blocks adjacent to License P2607, with historical production, easily converted Resources to Reserves and gas flow which can be tied-in to Phase 1 infrastructure. This should allow new fields to be brought into production relatively quickly, with the potential to add new production wells into the Phase 1 project. We expect further clarity once the blocks are awarded in late 2023.

# HHR’s Gas Resources & Reserves

**Table 10 - HHR's Gas Reserves, Contingent Resources & Prospective Resources (100% basis)**

| | Bcf | | | PJe | | | MMboe | | |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 1 Reserves** | **1P** | **2P** | **3P** | **1P** | **2P** | **3P** | **1P** | **2P** | **3P** |
| Anning | 73 | 145 | 245 | 77 | 154 | 260 | 13 | 25 | 42 |
| Somerville | 107 | 157 | 213 | 113 | 166 | 226 | 18 | 27 | 37 |
| **Total Phase 1** | | **302** | | | **320** | | | **52** | |
| **Phase 2 Resources** | **1C** | **2C** | **3C** | **1C** | **2C** | **3C** | **1C** | **2C** | **3C** |
| Hodgkin | 35 | 100 | 387 | 37 | 106 | 410 | 6 | 17 | 67 |
| Lovelace | 14 | 39 | 79 | 15 | 41 | 84 | 2 | 7 | 14 |
| **Total Phase 2** | | **139** | | | **147** | | | **24** | |
| **Total (2P + 2C)** | | **441** | | | **467** | | | **76** | |
| **Phase 3 (Exploration)** | **1U** | **2U** | **3U** | **1U** | **2U** | **3U** | **1U** | **2U** | **3U** |
| Prospective Resources | 143 | 344 | 719 | 152 | 365 | 762 | 25 | 59 | 124 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Table 11 - HHR's Gas Reserves, Contingent Resources & Prospective Resources (net to HHR)**

| | Bcf | | | PJe | | | MMboe | | |
|---|---|---|---|---|---|---|---|---|---|
| **Phase 1 Reserves** | **1P** | **2P** | **3P** | **1P** | **2P** | **3P** | **1P** | **2P** | **3P** |
| Anning | 29 | 58 | 98 | 31 | 62 | 104 | 5 | 10 | 17 |
| Somerville | 43 | 63 | 85 | 45 | 66 | 90 | 7 | 11 | 15 |
| **Total Phase 1** | | **121** | | | **128** | | | **21** | |
| **Phase 2 Resources** | **1C** | **2C** | **3C** | **1C** | **2C** | **3C** | **1C** | **2C** | **3C** |
| Hodgkin | 14 | 40 | 155 | 15 | 42 | 164 | 2 | 7 | 27 |
| Lovelace | 6 | 16 | 32 | 6 | 17 | 34 | 1 | 3 | 5 |
| **Total Phase 2** | | **56** | | | **59** | | | **10** | |
| **Total (2P + 2C)** | | **176** | | | **187** | | | **30** | |
| **Phase 3 (Exploration)** | **1U** | **2U** | **3U** | **1U** | **2U** | **3U** | **1U** | **2U** | **3U** |
| Prospective Resources | 57 | 138 | 288 | 61 | 146 | 305 | 10 | 24 | 49 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Capital structure & share register

## Capital structure

**Table 12 - Capital structure**

| | A$ |
|---|---|
| Share price | $0.022 |
| Issued Capital | 2,809m |
| Market cap $m | $62m |
| Net debt $m | -$35m |
| EV (undiluted) $m | $27m |
| Options / rights m | 21m |
| Issued shares (diluted) m | 2,829m |
| Market cap (diluted) m | $62m |
| Net debt $m | -$35m |
| EV (diluted) $m | $27m |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Substantial shareholders

Source: 2022 HHR Annual Report and other ASX announcements.

**Table 13 – Substantial shareholders**

| | Shareholding m shares | % held |
|---|---|---|
| Mr Christopher Lewis | 236 | 8% |
| Dr Andrew Martharu | 122 | 4% |
| Jalbar Pty Ltd | 92 | 3% |
| Gulf Natural Resources Pty Ltd | 88 | 3% |
| Alitime Nominees Pty Ltd | 84 | 3% |
| Other | 2,187 | 78% |
| **Total** | **2,809** | |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Board of directors & management

**Table 14 - Board of Directors and executive team**

| Name | Position | Appointed to current position |
|---|---|---|
| Chris Lewis | Chief Executive Officer | September 2019 |
| Bevan Tarratt | Non-Executive Chairman | May 2018 |
| Nathan Lude | Executive Director | May 2017 |
| Jeff Barnes | Project Developments Manager | - |
| Neil Marcus | Subsurface Manager | - |

SOURCE: COMPANY DATA

## Board of directors' biographies

**Chris Lewis – Chief Executive Officer**

Chris is a geophysicist with over 28 years' experience in the oil and gas industry having worked for major E&P companies, junior and small cap companies and service companies and was the Chief Executive Officer of Hartshead Resources Limited. Over the last 17 years Chris has held a variety of executive and senior management positions, has managed oil and gas operations in Europe and Africa and has been instrumental in the start-up and rejuvenation of multiple small companies. Chris has been involved in multiple, small oil and gas ventures including successful exits from: Zeta Petroleum: Built a portfolio of assets in Romanian and sold to GMI Limited (CEO: 2005-2009); Centric Energy: Awarded license in the Kenya Tertiary Rift Basin, farmed out to Tullow Oil and then sold to Africa Oil (VP Exploration: 2010); VP Exploration: Lion Petroleum: The company had two blocks onshore Kenya and was successfully reversed into TSX listed Taipan Resources (VP Exploration: 2011). Chris's technical strengths are in exploration and development subsurface management and delivering effective and valuable sub-surface projects. Commercially Chris has been involved in license applications, negotiations with government bodies, new ventures transactions and capital raising for a variety of organisations.

**Bevan Tarratt – Non-Executive Chairman**

Bevan has an extensive background in the corporate and financial services industries having worked in various accounting and corporate broking firms for the past 15 years. Bevan has significant experience in the recapitalisation, restructuring and acquisition of assets for numerous ASX companies and was a Client Advisor at Patersons Securities and Partner of a venture capital firm. Bevan is well experienced in executive and non-executive board roles with over 20 years of experience.

**Nathan Lude – Executive Director**

Nathan has broad experience working in Asset Management, Mining and the Energy Industry, and is well experienced in project identification and project development across multiple ASX listed companies. Nathan is the founding Director of corporate advisory firm Advantage Management which specialises in business growth and project development of ASX listed companies or private companies aspiring to become listed. Previously Nathan worked for ATCO Gas Australia and has previously held Executive and Managing Director positions for various ASX listed companies. Nathan is currently the Chairman for ASX listed, GTI Resources. Since 2007 Nathan been involved in Asset and Fund Management and formerly operated a publicly unlisted business development fund. Nathan's business network spreads across Australia and Asia and has strong ties with Australian broking firms, institutions and also Asian Investors. Nathan has completed a Masters of Asset Management at Bond University, a Post Graduate Diploma in Asset Management and has a Bachelor of Business degree.

Continued over page

**Jeff Barnes – Project Developments Manager**

Jeff is a seasoned industry player with over 40 years' upstream oil & gas experience. Jeff managed 14 UK Southern Gas Basin developments and infrastructure projects within his 31-year tenure at ConocoPhillips (UK) Limited. Jeff is industry recognised within the UK Southern North Sea with a track record of delivering successful UK capital projects. Previously Jeff was director of New Ventures at ODE (Offshore Design Engineering) Limited and a member of ODE's Executive Management Board Jeff has operated at Director and Project Management levels across UK and international business.

**Neil Marcus – Subsurface Manager**

Neil is a professional engineer with 40 years' experience in the upstream oil and gas business, his early career was working on North Sea Projects in the UK and Norway with Conoco. Neil Subsequently worked on assignments with Premier, BHP, Repsol YPF and Cairn on development projects in Pakistan, Algeria, Argentina and India. From 2009 to 2017 focused on the UK Southern Gas Basin, where he led the development of the Clipper South tight gas field for RWE and Ineos.

SOURCE: HHR WEBSITE

# Company summary

## Company description

Hartshead Resources NL is focussed on the phased development of its offshore gas fields in the United Kingdom's Southern North Sea. The company is advancing its Phase 1 project Anning & Somerville, located within Licence P2607 where HHR hold a 40% interest. The Phase 1 gas fields contain historical production and a combined 302 Bcf of 2P Reserves. A final investment decision is expected in 2H 2023 for potential first gas production in early 2025. Gas from Phase 1 is expected to tie-in to existing Shell-owned infrastructure for transportation into the UK gas market. Licence P2607 also encompasses HHR's earlier stage projects, including Phase 2 which contains 139Bcf of 2C Contingent Resources together with other exploration potential.

## Investment view: Speculative Buy, Valuation $0.07/sh

We expect HHR equity to re-rate as the Phase 1 project is de-risked into development and financing is secured. The investment provides value leverage to UK and European gas markets which have recently experienced "energy crisis" pricing and are looking to diversify sources of energy supply. HHR's Southern Gas Basin portfolio could support subsequent phases of production and value growth. Our HHR valuation is primarily based on a risked discounted cash flow model of the Anning & Somerville with gas price assumptions consistent with the current UK NBP forward curve.

HHR is a project development company with prospective operations and forecast cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

## Valuation methodology

Our valuation is based on:

- **Phase 1 (Anning & Somerville, 40% HHR)**: Risked DCF model with development assumptions consistent with the ERCE Competent Persons Report and Bell Potter Securities' commodity price and currency estimates.
- **Phase 2 (Hodgkin & Lovelace, 40% HHR)**: Based on comparable advanced exploration/appraisal projects.
- We have also accounted for HHR's corporate overhead expenses.

Our valuation conservatively includes dilution from an assumed A$30m capital raising over the next twelve months.

# Investment risks

## Risks

Risk to energy sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating energy and industrial development assets and companies are subject to fluctuations in underlying commodity prices (energy and other) and foreign currency exchange rates.
- **Infrastructure access.** Energy projects are reliant upon access to processing/treatment and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and costs of goods sold can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy, building/construction materials and labour markets. Energy companies are also exposed to costs associated with future rehabilitation.
- **Reserve and Resource risks.** Future earnings forecasts and valuations rely on accuracy of Reserve estimation, the ability to extract the underlying Reserve and the potential for Reserve life extensions.
- **Sovereign risks.** Energy companies' assets are subject to the sovereign risk of the country and state of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure, taxation, carbon abatement and environmental management (among other things) can impact the earnings and valuations of energy companies.
- **Environmental risks.** Energy companies are exposed to risks associated with environmental degradation as a result of their exploration and production processes. Fossil fuel producers may be partially exposed to the environmental risks of end markets including the electricity generation sector.
- **Operating and development risks.** Energy companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Energy and industrial development companies are exposed to OH&S risks.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19):** This may have an adverse impact on the macro economic factors such as energy demand and oil/gas pricing.

# Hartshead Resources NL

as at 31 May 2023

| | |
|---|---|
| Recommendation | Buy, Speculative |
| Price | $0.022 |
| Valuation | $0.07 |

## Table 15 - Financial summary

| | | |
|---|---|---|
| **Date** | | **31/05/23** |
| **Price** | **A$/sh** | **0.022** |
| **Valuation** | **A$/sh** | **0.07** |

**Bell Potter Securities**
Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)

**PROFIT AND LOSS**

| Year ending 30 June | Unit | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|
| Revenue | A$m | - | - | 135 | 367 | 257 |
| Expenses | A$m | (4) | (2) | (25) | (64) | (50) |
| **EBITDA** | **A$m** | **(4)** | **(2)** | **109** | **303** | **207** |
| Depreciation & amortisation | A$m | (0) | - | (13) | (39) | (34) |
| EBIT | A$m | (4) | (2) | 96 | 263 | 174 |
| Net interest expense | A$m | 0 | (0) | (4) | (1) | 4 |
| Profit before tax | A$m | (4) | (2) | 92 | 263 | 178 |
| Tax expense | A$m | - | - | (7) | (108) | (154) |
| **NPAT (reported)** | **A$m** | **(4)** | **(2)** | **85** | **155** | **24** |
| Adjustments | A$m | - | - | - | - | - |
| **NPAT (adjusted)** | **A$m** | **(4)** | **(2)** | **85** | **155** | **24** |

**CASH FLOW STATEMENT**

| Year ending 30 June | Unit | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|
| **OPERATING CASH FLOW** | | | | | | |
| Receipts from customers | A$m | 0 | - | 108 | 359 | 267 |
| Payments to suppliers and employees | A$m | (4) | (2) | (21) | (63) | (51) |
| Tax paid | A$m | - | - | (7) | (108) | (154) |
| Net interest | A$m | 0 | (0) | (4) | (1) | 4 |
| Other | A$m | - | - | - | - | - |
| **Operating cash flow** | **A$m** | **(4)** | **(2)** | **76** | **187** | **66** |
| **INVESTING CASH FLOW** | | | | | | |
| Capex | A$m | (1) | (91) | (26) | (2) | (2) |
| Other | A$m | - | - | - | - | - |
| **Investing cash flow** | **A$m** | **(1)** | **(91)** | **(26)** | **(2)** | **(2)** |
| **FINANCING CASH FLOW** | | | | | | |
| Debt proceeds/(repayments) | A$m | - | 100 | - | - | - |
| Dividends paid | A$m | - | - | - | - | - |
| Proceeds share issues (net, incl. options) | A$m | 30 | 29 | - | - | - |
| Other | A$m | - | - | - | - | - |
| **Financing cash flow** | **A$m** | **30** | **129** | **-** | **-** | **-** |
| **Change in cash** | **A$m** | **25** | **36** | **50** | **185** | **65** |
| Free cash flow | A$m | (5) | (92) | 50 | 185 | 65 |

**BALANCE SHEET**

| Year ending 30 June | Unit | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash | A$m | 28 | 64 | 113 | 299 | 363 |
| Receivables | A$m | - | - | 27 | 35 | 25 |
| Inventories | A$m | - | - | - | - | - |
| Capital assets | A$m | 3 | 94 | 107 | 70 | 38 |
| Other assets | A$m | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **A$m** | **31** | **158** | **248** | **403** | **426** |
| **LIABILITIES** | | | | | | |
| Creditors | A$m | - | 0 | 5 | 6 | 5 |
| Borrowings | A$m | - | 100 | 100 | 100 | 100 |
| Provisions | A$m | - | - | - | - | - |
| Other liabilities | A$m | - | - | - | - | - |
| **Total liabilities** | **A$m** | **-** | **100** | **105** | **106** | **105** |
| **NET ASSETS** | A$m | | | | | |
| Share capital | A$m | 43 | 72 | 72 | 72 | 72 |
| Reserves | A$m | 1 | 1 | 1 | 1 | 1 |
| Accumulated losses | A$m | (14) | (16) | 70 | 224 | 248 |
| Non-controlling interest | A$m | 0 | 0 | 0 | 0 | 0 |
| **SHAREHOLDER EQUITY** | **A$m** | **31** | **58** | **143** | **297** | **322** |
| Weighted average shares | A$m | 2,323 | 3,322 | 4,332 | 4,332 | 4,332 |

**FINANCIAL RATIOS**

| Year ending 30 June | Unit | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|
| **VALUATION** | | | | | | |
| EPS (adjusted) | Ac/sh | (0.2) | (0.1) | 2.0 | 3.6 | 0.6 |
| EPS growth (Acps) | % | na | na | na | 81% | -84% |
| PER | x | -14.4x | -36.2x | 1.1x | 0.6x | 3.9x |
| DPS | Ac/sh | - | - | - | - | - |
| Franking | % | 0% | 0% | 0% | 0% | 0% |
| Yield | % | 0% | 0% | 0% | 0% | 0% |
| FCF/share | Acps | (0.2) | (2.8) | 1.1 | 4.3 | 1.5 |
| FCF yield | % | -10% | -127% | 52% | 194% | 68% |
| EV/EBITDA | x | -7.5x | -13.4x | 0.2x | 0.1x | 0.1x |
| **LIQUIDITY & LEVERAGE** | | | | | | |
| Net debt / (cash) | A$m | (28) | 36 | (13) | (199) | (263) |
| Net debt / Equity | % | -64% | 50% | -19% | -276% | -366% |
| Net debt / Net debt + Equity | % | -175% | 34% | -23% | 157% | 138% |
| Net debt / EBITDA | x | 7.7x | -18.1x | -0.1x | -0.7x | -1.3x |
| EBITDA /net int expense | x | 116.7x | -110.6x | 27.0x | 509.4x | -46.7x |
| **PROFITABILITY RATIOS** | | | | | | |
| EBITDA margin | % | na | na | 81% | 83% | 81% |
| EBIT margin | % | na | na | 72% | 72% | 68% |
| Return on assets | % | -20% | -2% | 42% | 47% | 6% |
| Return on equity | % | -20% | -5% | 85% | 70% | 8% |

**ASSUMPTIONS**

| Year ending 30 June | Unit | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|
| Brent crude oil price (real) | US$/bbl | 67 | 60 | 60 | 60 | 60 |
| UK average gas price (real) | £/Mscf | 21.5 | 11.2 | 12.6 | 10.8 | 8.9 |
| Anning & Somerville contract price (real) | GBp/therm | 214 | 112 | 125 | 107 | 88 |
| Equivalent A$ price | A$/GJ | 36 | 19 | 21 | 18 | 15 |
| Currency | £/A$ | 0.56 | 0.55 | 0.56 | 0.56 | 0.55 |
| Anning & Somerville production (gross) | Bcf | - | - | 15.6 | 47.0 | 40.1 |
| Anning & Somerville production (net to HHR) | Bcf | - | - | 6.2 | 18.8 | 16.0 |
| Anning & Somerville production (net to HHR) | PJ | - | - | 6.6 | 19.9 | 17.0 |

**VALUATION (Discount rate 8.0%)**

| | Unrisked 100% $m | HHR % equity | Unrisked HHR $m | Risk % disc | Risked HHR $m |
|---|---|---|---|---|---|
| Anning and Somerville - Total to HHR (Phase 1) | 759 | | 329 | 30% | 230 |
| Hodgkin & Lovelace (Phase 2) | 350 | 40% | 140 | 80% | 28 |
| Exploration | | 100% | | | 13 |
| **Total projects** | | | **469** | | **271** |
| Corporate overhead assumption | | | | | -25 |
| **Enterprise value** | | | | | **246** |
| Net debt (diluted) | | | | | -35 |
| **Equity value** | | | | | **281** |
| Diluted shares on issue m | | | | | 2,829 |
| **Equity value A$/sh** | | | | | **0.10** |

| **Assumed near-term equity raise** | |
|---|---|
| Value A$m | 30 |
| Current share price A$/sh | 0.0220 |
| Raise discount % | 10% |
| Effective raise price A$/sh | 0.0198 |
| New shares m | 1,515 |

| **After assumed near-term equity raise** | |
|---|---|
| Net debt | -65 |
| **Equity value** | **311** |
| Diluted shares on issue m (after assumed raise) | 4,345 |
| **Equity value A$/sh** | **0.07** |

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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