New Zealand Energy Corp (TSX:NZ.V)

June 12, 2024

Current price: C$0.70
Target: C$5.00

Initiating Coverage: New Zealand Energy Corp (NZE)

NZE is a ~US$10 mm market cap TSX listed company with ~1.6 mmboe of 2P reserves in mature fields onshore New Zealand. The story is about very material free cashflow. NZE is dividend oriented first and growth second. In late 2023, the newly elected New Zealand government commenced reversing historic anti-hydrocarbon regulations in response to an unexpected decline in domestic gas production and a spike in natural gas prices to >US$12/mcf. This coincided with NZE being re-capitalized and coming under new management with a primary focus on developing the Tariki Gas field where ~1 mmboe of net 2P gas reserves remained up-structure from the production well which ceased >15 years ago. The plan is to restore production for >12 months, then converting the reservoir into a gas storage in mid-2026. By then, the free cashflow generation is expected to allow NZE to distribute to shareholders an amount at least equivalent to the current market cap. ***Our C$5.00/sh target price reflects our ReNAV and implies >5x the current share price.***

Rating & target		Old	New
Target		n.a.	C$5.00
Yield			0%
Implied total return			614%
Share data	**2023**	**2024e**	**2025e**
Shares dil., mm	9	17	16
Mkt cap, US$mm	$5	$9	$9
EV, US$mm	$6	$10	($8)
Financial data	**2023**	**2024e**	**2025e**
Helium, mcf/d	0.0	0.6	7.6
CFO, US$mm	($1)	($0)	$21
Net capex, US$mm	$0	$3	$3
Net debt, US$mm	$1	$1	($17)
CFPS dil., US$/shr	($0.07)	($0.02)	$1.58
EPS dil., US$/shr	($0.10)	($0.08)	$1.26
Valuation	**2023**	**2024e**	**2025e**
Share price, C$/shr	$0.75	$0.70	$0.70
EV/DACF	n.a.	n.a.	n.a.
EV per 2P (US$/boe)	$3.61	$6.37	n.a.
Net asset value			
CNAV, C$/shr			$4.55
RENAV, C$/shr			$5.14
Unrisked NAV, C$/shr			$7.47
P/CNAV			0.2x
P/RENAV			0.1x
P/Unrisked NAV			0.1x

All figures in US$ unless otherwise noted

Revisiting Tariki gas. Boosting production at oil fields

NZE's key asset is its 50% WI in the Tariki gas field where new well Tariki-5 is due to be drilled this September, and is expected to initially add >1 mboe/d net production growing to 2 mboe/d ~6 months later. The well will also evaluate an exploration opportunity (~1.5 mmbbl net) in the shallower Tikorangi limestone where oil has been produced in an offset Tariki well. The Tariki field will be produced through the company's pipeline and facilities. A gas storage option contract is currently being negotiated with a domestic gas utility. NZE will also work-over existing wells at Copper Moki, (work already in progress), and at Waihapa to restore continuous oil and gas production. NZE also plans to drill a well in an unswept crestal fault block in the Tikorangi reservoir at Waihapa. These activities could add another 1 mboe/d net production over the next 6-8 months.

Economics, free cash flow and value build-up

Long term gas realizations are expected to be ~US$7/mcf. Oil realizations are ~US$14/bbl discount to Brent along with a 10% government royalty, material tax losses and opex of ~US$8/boe at plateau production. We estimate ~US$35/boe after tax operating cash flow. The capex programme is funded by the recent C$5 mm equity raise. We forecast NZE will have ~US$17 mm (~C$1.30/sh) in net cash at YE25 increasing to ~US$25 mm (~C$1.90/sh) by June 2026. This represents respectively >1.7x and ~2.5x the current market cap. The shallower Tikorangi oil at Tariki has an unrisked NAV of ~C$2.35/sh. Pending the finalization of the storage contract, the residual value of Tariki will be at least the net value of the remaining recoverable gas that we estimate at ~US$15 mm (~C$1.15/sh). NZE could be worth >C$7.45/sh by YE26 including >C$3.00/sh in net cash. NZE anticipates the domestic utility would fund the gas storage capex and pay NZE a net fee of 50%xUS$9-12 mm/y. This represents 50% of NZE's current market cap **each year**.

Contact details

Analyst:
Stephane Foucaud
sf@auctusadvisors.co.uk
+44 7854 891249

Corporate Broking:
Rupert Holdsworth Hunt
rhh@auctusadvisors.co.uk
+44 7803 752399

Corporate Finance:
Jonathan Wright
jww@auctusadvisors.co.uk
+44 7711 627449

Table of contents

Figure 1. Financial & operating information

New Zealand Energy Corp (NZ CN)		Historical & Auctus Advisors Outlook					
Financial & Operating Information		**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Commodity Prices							
Brent	US$/bbl	$82.10	$85.52	$74.97	$70.00	$70.00	$70.00
New Zealand Gas	US$/mcf	$7.50	$9.00	$9.00	$9.00	$9.00	$9.00
USD / CAD	US$/C$	0.750	0.775	0.800	0.800	0.800	0.800
Production							
Crude Oil production	bbl/d	25	67	520	378	251	204
Natural Gas production	mmcf/d	0	1	8	3	0	0
Total (6 mcf = 1 boe)	boe/d	27	172	1,790	798	251	204
% Oil and Liquids	%	95%	39%	29%	47%	100%	100%
Netbacks							
Realized Price	US$/boe	$69.60	$53.50	$48.10	$49.26	$56.00	$56.00
Royalties	US$/boe	$1.41	$5.27	$4.81	$4.93	$5.60	$5.60
Production Costs	US$/boe	$73.99	$32.21	$8.47	$13.04	$31.02	$36.99
Operating Netback	US$/boe	($5.80)	$16.01	$34.82	$31.30	$19.38	$13.41
Taxes	US$/boe	$0.10	$0.00	$0.00	$0.00	$0.00	$0.00
Cash Flow Netback	US$/boe	($98.35)	($3.17)	$32.12	$25.25	$0.16	($10.19)
Government Take	%	0%	0%	0%	0%	0%	0%
Financials							
Cash Flow (CFO)	US$mm	($1)	($0)	$21	$7	$0	($1)
CFPS - diluted	US$/shr	($0.07)	($0.02)	$1.58	$0.57	$0.00	($0.06)
EBITDAX [a]	US$mm	($1)	($0)	$21	$7	$0	($1)
E&D Capex	US$mm	$0	$4	$3	$0	$0	$0
A&D Capex, Net	US$mm	$0	($2)	$0	($11)	$0	$0
Total Net Capex	US$mm	$0	$3	$3	($11)	$0	$0
Total Net Capex/CFO	x	-0.1x	-14.4x	0.1x	-1.5x	22.1x	-0.4x
Leverage							
Net Debt	US$mm	$1	$1	($17)	($35)	($35)	($35)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	0.0	4.9	0.0	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	8	15	15	15	15	15
Diluted Shares o/s @ YE	mm	9	17	16	16	16	16
Market Capitalization (fully diluted)	US$mm	$5	$9	$9	$9	$9	$9
Enterprise Value	US$mm	$6	$10	($8)	($26)	($26)	($26)
Dividends & Sustainability							
Dividends	US$mm	0	0	0	0	0	0
Dividends	US$/shr	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividend Yield	%	0%	0%	0%	0%	0%	0%
Free Cash Flow	US$mm	($1)	($3)	$18	$18	($0)	($1)
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%	n.a.	9222%	997%	-66%	-100%	n.a.
ROCE	%	n.a.	-21%	-21%	-263%	7%	0%
Net Asset Value [c]							
CNAV (Atax) - diluted	C$/shr	$4.55					
RENAV (Atax) - diluted	C$/shr	$5.14					
Unrisked NAV (Atax) - diluted	C$/shr	$7.47					
P/CNAV	x	0.2x					
P/RENAV	x	0.1x					
P/Unrisked NAV	x	0.1x					
Valuation		**2023**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Share Price, YE/Current	C$/shr	$0.75	$0.70	$0.70	$0.70	$0.70	$0.70
P/CF	x	-8.6x	-31.7x	0.4x	1.0x	497.7x	-9.5x
EV/DACF	x	n.a.	n.a.	n.a.	n.a.	n.a.	33.7x
Target EV/DACF	x	n.a.	n.a.	3.1x	4.1x	2101.0x	872.4x
EV per boe/d	US$/boe/d	$221,030	$58,477	n.a.	n.a.	n.a.	n.a.
YE 2P Reserves	mmboe	2	2	1	1	1	0
EV per 2P Reserves	US$/mmboe	$3.61	$6.37	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus advisors, Company Disclosures **Futures strip as of 11-Jun-24

Equity story and value build-up

With the new management team in place the New Zealand Energy equity story is centred around value creation through rapid production growth in mature assets and net cash build-up on the back of low-risk drilling and well re-entries and work-overs. The new Tariki development well is expected to add net production of 1 mboe/d initially and 2 mboe/d a few months later. Including the workovers at Copper Moki and a new well in the Tikorangi reservoir at the Waihapa field, overall net production could reach 2.2-3.5 mboe/d in 2Q25 including exploration success.

Excluding exploration success at the exploration secondary oil target at Tariki, we forecast New Zealand will have net cash of ~US$17 mm (~C$1.30/sh) at YE25 increasing to ~US$25 mm (~C$1.90/sh) at the end of 1H26. This leaves plenty of capacity for the company to distribute to shareholders an amount at least equivalent to its current market cap (US$10 mm).

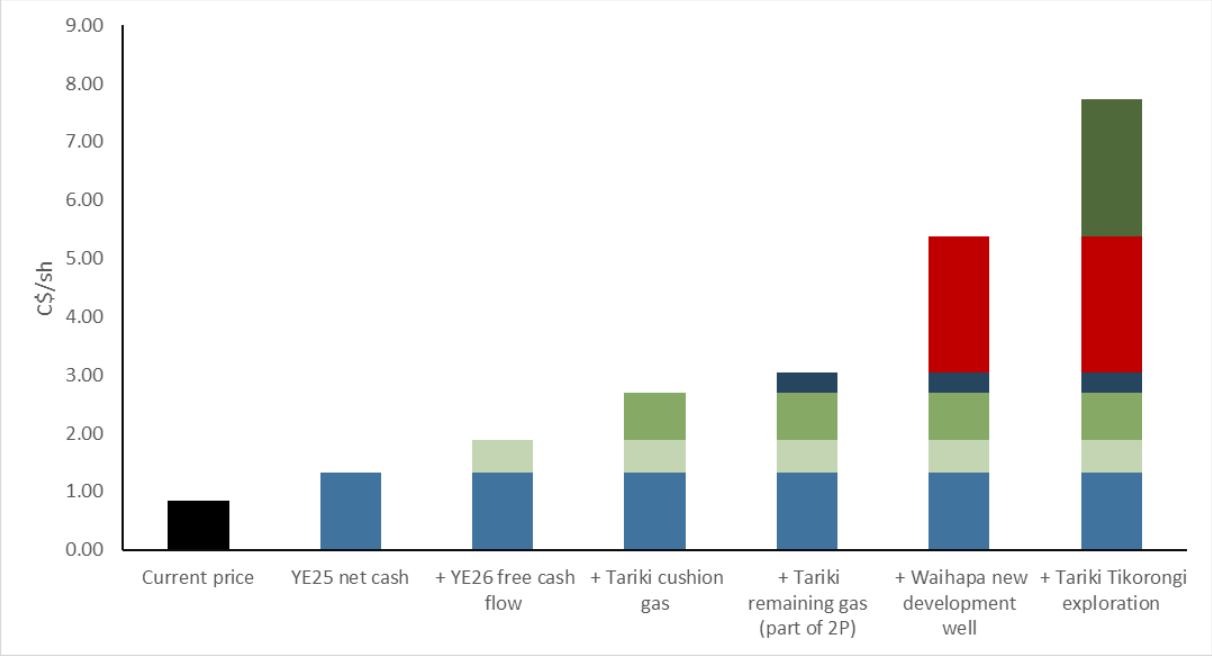
Until a gas storage contract is finalized, the residual value of Tariki if converted for use as gas storage is uncertain. However, it will be greater than the value of the remaining recoverable gas in the reservoir that we estimate at ~US$15 mm net to New Zealand (~C$1.15/sh).

On a sum of the parts basis, including the new Tikorangi development well at Waihapa, the company could be worth >C$5.35/sh by YE26 including >C$3.00/sh in net cash.

There is also further appraisal and exploration upside. The Tariki gas well due to spud in September is also evaluating the shallower Tikorangi reservoir with an additional unrisked NAV of ~C$2.35 per share.

NZE aims to return at least 50% of free cashflow to shareholders.

Figure 2: Value build-up



Source: Auctus

Good things come to those who wait

It is always darkest before the dawn

The IPO of New Zealand Energy took place in 2011. At the time, the company held conventional and unconventional exploration assets in three areas on the North Island of New Zealand, but the exploration did not work as expected. In 2013, New Zealand Energy and L&M Energy each acquired 50% interest in the Tariki, Waihapa and Ngaere fields and the Waihapa production station with associated pipeline infrastructure from Origin Energy for a total of C$33.5 mm. The strategy at this time was to reactivate existing wells and redevelop the fields, as well as to provide lower operating costs for NZE's two Copper Moki discoveries.

New Zealand Energy managed to grow production to over 300 boe/d in 2016 but suffered from a lack of free capital to progress redevelopment. The company was able to successfully reactivate 5 Waihapa-Ngaere oil wells with gas lift in late 2015 and by late 2016 had proven that increasing liquids production rates to more than 4,500 bbl/d increased the oil cut and hence the oil rate. A lack of capital combined with significantly increasing fuel gas costs prevented NZE to scale-up the programme. This difficult situation was compounded by anti-hydrocarbon legislations under the administration elected in 2017 that dampened the appetite from investors and the industry for new investments in oil and gas in New Zealand. Although the country produced ~460 mmcf/d of natural gas and ~35 mbbl/d of liquids (mostly from offshore) at the time, offshore exploration activities were banned. The outbreak of the COVID 19 pandemic early 2020 reinforced this as the *status quo*…

Some things get better with age

As part of the 2013 transaction with Origin Energy, NZE also acquired 50% of the Tariki depleted gas field. The field had been discovered in 1985 and had been in production at a constrained rate of 20 mmcf/d from 1996 until 2002 when it started to decline. With pressure dwindling from ~4,600 psi initially to 500 psi in 2008, production was shut down. At that point the field had produced ~50 bcf of natural gas.

In 2016, New Zealand noted that the reservoir pressure had steadily increased during the period the field was shut in, reaching ~2,700-3,000 psi in 2022. Reservoir modelling, initially in 2018, concluded that the part of the gas field had become disconnected by water ingress ~2000 to 2002. The Tariki-4A observation well is in this block and it never saw the ~500 psi reservoir pressure seen in production well Tariki-1A during 2008. The recovery of pressures since production ceased suggested that the gas bearing Tariki-4A block was pressure equilibrating with the drained Tariki-1A block. The relatively weak aquifer in the block was also able to be accurately calibrated by using pressures from offset wells on the same regionally isolated aquifer system. The recognition that there was likely more than 20 bcf of remaining Gas-In-Place at Tariki justified the the shooting of a high resolution 3D seismic survey in 2021. This survey confirmed that these gas

volumes were very likely remaining in place and that drilling a new well near the crest of the structure would enable recovery of incremental reserves. An independent reserves auditor attributed ~0.9 mmboe of 2P reserves net to New Zealand with production potential of 2 mboe/d (net) that could be transported and processed through New Zealand Energy's existing facilities. Interpretation of the 3D seismic also showed multiple additional exploration opportunities that were not visible on the existing 2D seismic.

Gas shortage and change of administration

With dwindling domestic gas production, negligible new investment in hydrocarbons activities, and increasing energy demand post COVID 19, the price of natural gas spiked with instances of prices >US$15/mcf. In 2023, a new administration came to power in the country with a much more constructive stance on hydrocarbons. In June 2024, the government of New Zealand announced the removal of the previous administration's ban on offshore exploration. Further changes Access to gas became increasingly strategic and traditional domestic utilities expressed interest in accessing New Zealand Energy's gas assets. This includes negotiating an agreement to use Tariki as a seasonal gas storage facility once production has ceased.

Recapitalization and management change

In 4Q23 and 1Q24, the company announced two private placements for a total of ~C$7.3 mm, recapitalizing the business. Frank Jacobs became the largest shareholder and a control person of New Zealand Energy. The proceeds of the placements will fund the drilling of a new well to produce the remaining gas at Tariki as well as other production and ultimately exploration opportunities, some of which were highlighted by the recent 3D seismic. Overall, the company holds 1.6 mmboe of 2P reserves and 3.0 mmboe prospective/contingent resources in near term targets and could be producing 2.3 mboe/d within 12 months. The combination of a low-cost operating environment and current oil and gas prices make these projects very attractive.

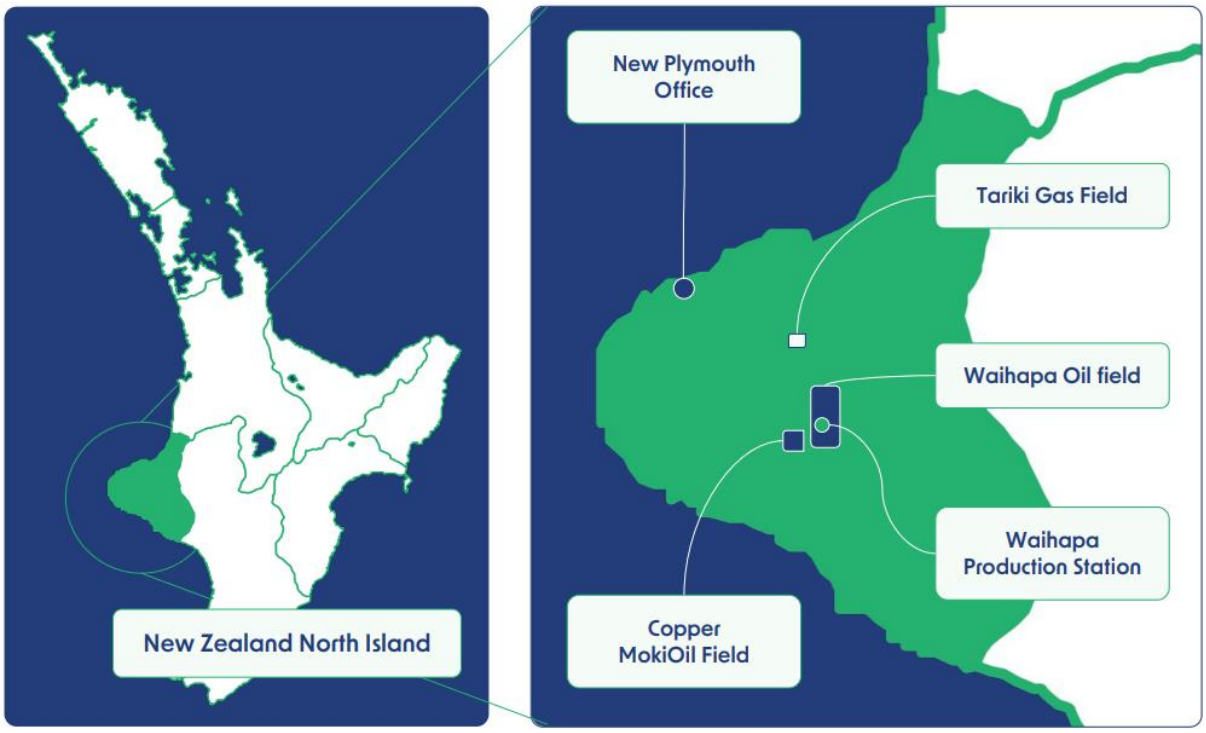
New Zealand Energy currently holds interests in three assets onshore New Zealand:

- 50% interest in the TWN assets (the Tariki Licence, Waihapa Licence and Ngaere Licence) covering 22,959 onshore acres. NZE is the operator for these assets, which hold most of the reserves and represent the near-term production potential exploration opportunities. The Tariki reservoir (a high quality Oligocene sand) at Tariki is a gas production and gas storage opportunity while the Tikorangi reservoir is oil prone and is present on all three licences and has produced more than 24 mmbbl oil at Waihapa-Ngaere to date. The company's current ~20 boe/d production comes from the Waihapa and Ngaere licences. The TWN assets also include the Waihapa Production Station (WPS) and associated gathering and sales infrastructure, providing a range of services to its own operated assets and to third parties.

- 100% interests in the Copper Moki onshore permit with 943 acres. Low cost re-entries and/or work-overs could add ~50-100 bbl/d production in the very near term. Copper Moki-1 has had a new pump installed in the week commencing 10th June.

- 100% interest in the Eltham permit which is not a near term area of focus but contains the Arakamu oil discovery which will be subject to an improved recovery process trial later this year in order to evaluate the commercial viability of that field.

Figure 4. New Zealand Energy's assets



Source: Company

Figure 5. New Zealand's Licenses Overview

Permit	Permit/Licence name	WI	Expiry Date	WI Area Acres	1P reserves mmboe	2P reserves mmboe	3P reserves mmboe	Prospective /Contingent Resources mmboe*
PML 38138	Tariki	50%	2026		0.5	1.1	1.4	1.5
PML 38140	Waihapa	50%	2036	11,840	0.3	0.5	0.8	1.5
PML 38141	Ngaere	50%	2036					
PMP 55491	Copper Moki	100%	2046	943	0.1	0.1	0.2	
PML 38141	Eltham	100%	2026	898				
Total				**13,681**	**0.8**	**1.6**	**2.4**	**3.0**

** Auctus estimates*

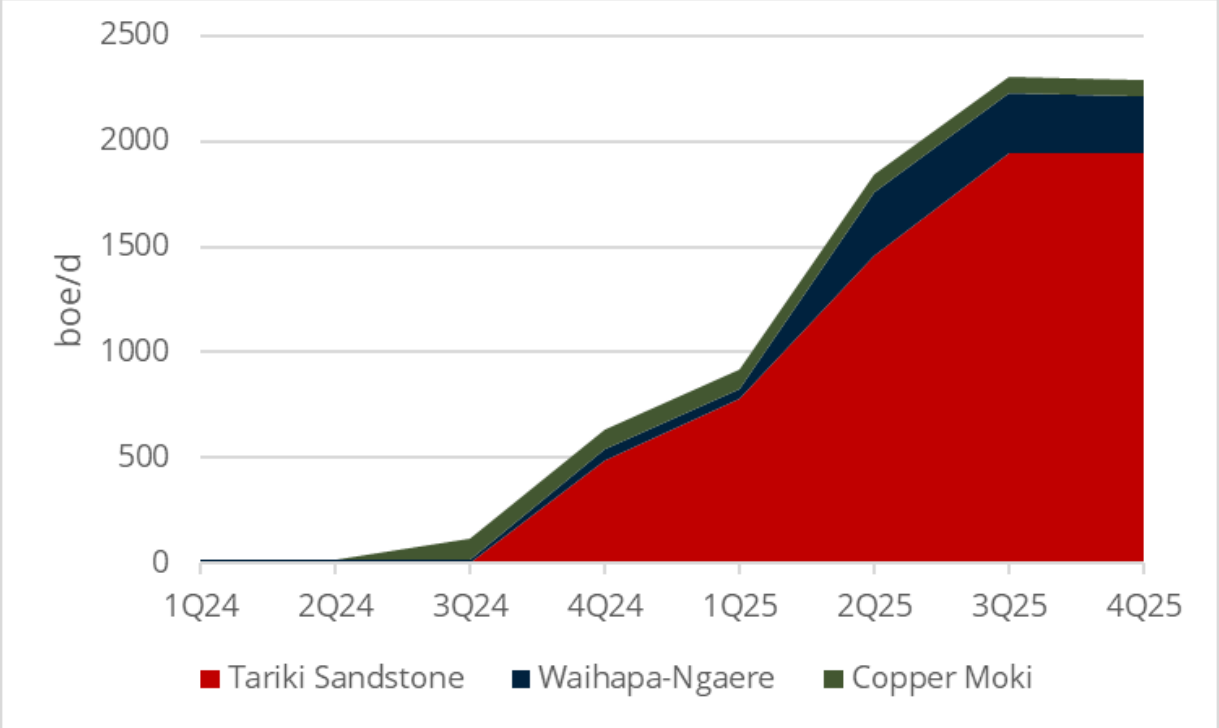
Source: Company, Auctus

Figure 6. Sources of potential production increase

Permit/Licence name	Activities	Net protential production (mboe/d)	Net cost (US$ mm)	Chance of success	When?
Tariki	Tariki-5 gas & condensate	2000	2.6	100%	4Q24-1Q25
Tariki	Tariki-5 oil (Tikorangi)	500	0	25%	4Q24
Waihapa-Ngaere	Waihapa H1 clean-up	125-250	0.2	70%	3Q24?
Waihapa-Ngaere	Waihapa 6 work-over	40	0.3	70%	3Q24?
Waihapa-Ngaere	Restoring gas lift at 3 existing wells	60-150	0.0	100%	4Q24-1Q25
Waihapa-Ngaere	New development well in Tikorangi	500	1.3	80%	4Q24
Copper Moki	Work-overs at Copper Moki 1 & 2	50-100	0.2	100%	3Q24
Total		**3275-3540**	**4.5**		

Source: Company, Auctus

Figure 7. Auctus production forecast (excluding exploration success)



Source: Auctus

New Zealand Energy Assets

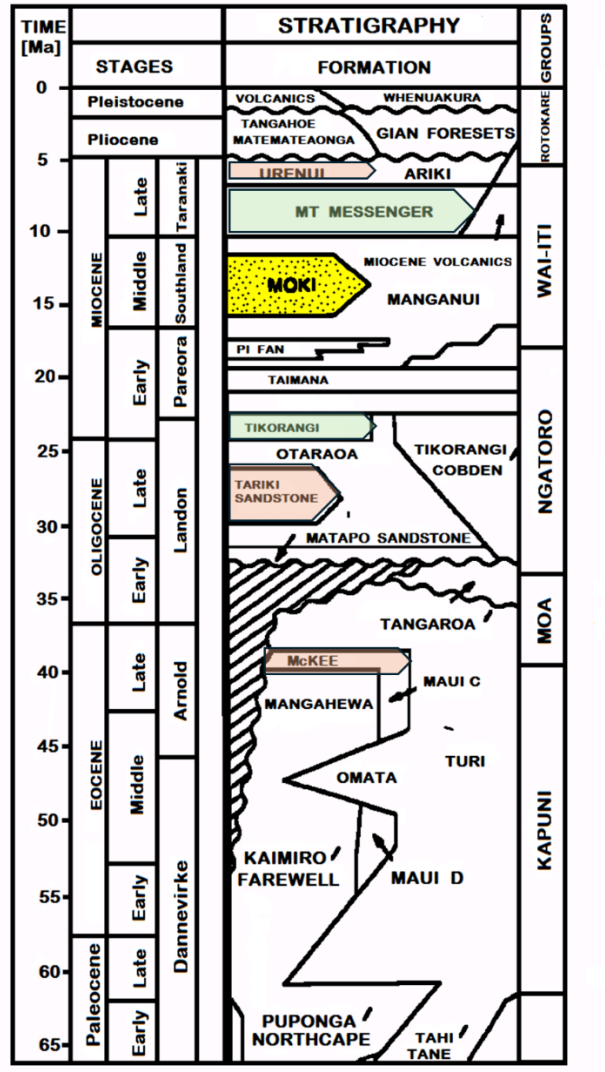
Tariki (TWN assets): Gas production, gas storage and oil exploration upside

Tariki is the most valuable of the TWN assets (the Tariki Licence, Waihapa Licence and Ngaere Licence). NZE holds 50% WI in this group of assets that was acquired from Origin Energy in October 2013. New Zealand Energy's 50% partner is L&M Energy, a local private company.

The assets cover 22,959 onshore acres and include the Waihapa Production Station (WPS).

The TWN assets offer multi-zone production and potential production from the Tariki, Urenui, Mt. Messenger, Moki, Tikorangi and Kapuni formations.

Figure 8. Reservoirs of interest in the Taranaki basin



Source: Company

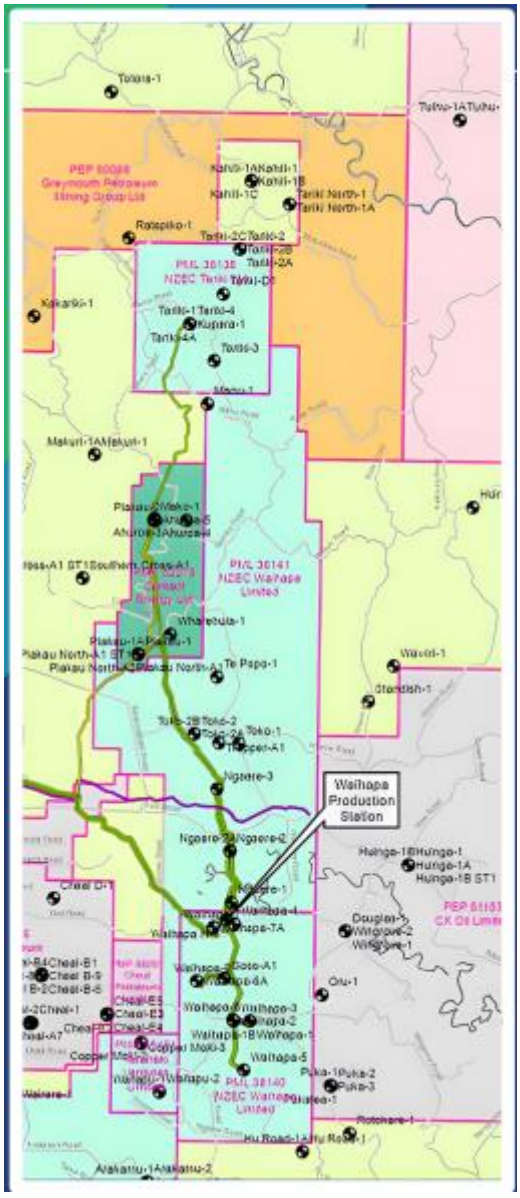
Extensive infrastructure:

There are 16 established drill pads, most of which have oil and gas gathering pipelines in place to deliver production to the WPS. The WPS provides gathering, processing and sales infrastructure, including a 45 mmcf/d gas processing, gas compression, a 51-km 8-inch gas sales pipeline from the WPS to the Stratford gas power generation plant then onwards to termination at New Plymouth; 59 km of oil/gas mixed product pipelines including gas lift lines; a 25,000 bbl/d oil processing facility; a 49-km oil sales pipeline from WPS to the Omata Tank Farm in New Plymouth capable of transporting up to 15,500 bbl/d; and an 18,000 bbl/d water processing and disposal system. The insurance value of the infrastructure is US$10 mm (=the current market cap). This insurance value reflects a small facility and no significant gas processing. NZE expects to have re-instated a larger facility once Tariki gas is being processed and sent directly to market via Waihapa instead of via the early production route (Cheal). To rebuild Waihapa to perform the oil services and also the Tariki gas processing once in full production would be closer to US$30 mm or more. This represents 3x the current market cap.

Tariki was a stable producer for 12 years:

The Tariki gas field was discovered and developed on 2D seismic. The reservoir is the Tariki formation (sandstone) at ~3,000 m depth. The field was produced from 1996 to 2008 with ~50 bcf of natural gas plus 1.8 mmbbl of liquids recovered of more than 80 bcf of gas initially in place. A total of 11 wells have penetrated the Tariki formation on the licence area. However, the majority of the production came from only one well – the Tariki-1A well. The well produced at a restricted rate of 20 mmcf/d until 2002 when production began to decline. While the initial pressure of the field was ~4,600 psi, the well continued to produce at decreasing rates until the reservoir pressure declined to the point it could no longer flow in 2008. Production from the field ceased at that time.

Figure 9. New Zealand Energy's licences and infrastructure



Source: Company

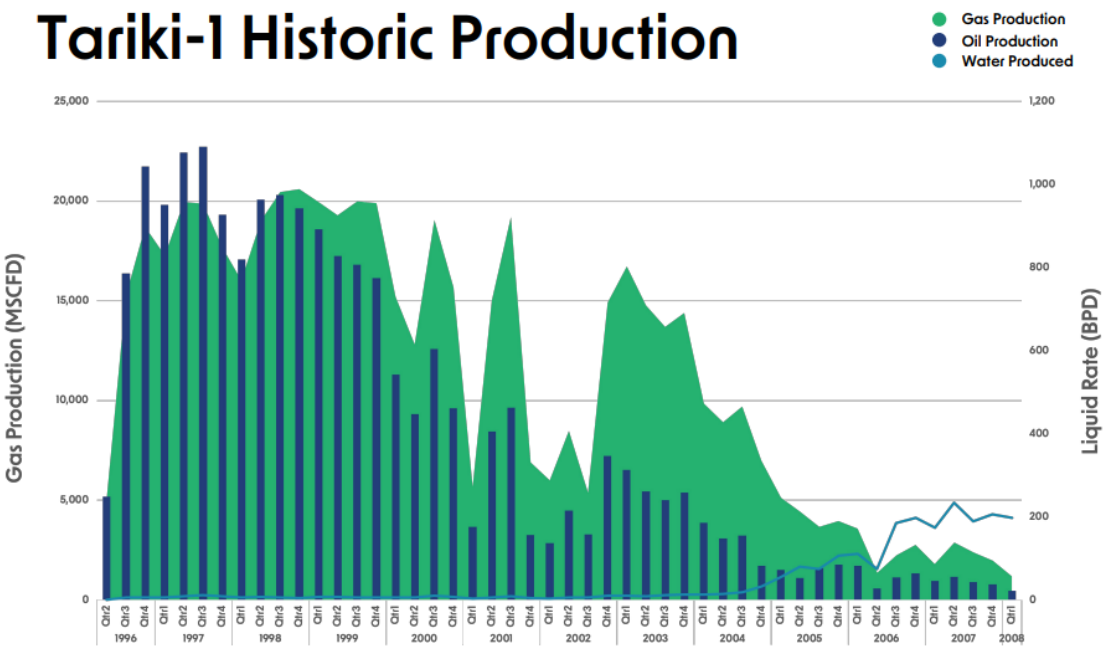
Re-activating the field to produce remaining reserves:

During 2018, with pressure having recovered to 2,500 psi, reservoir studies indicated the likely presence of undeveloped gas in the Tariki Field. Encouraged by this assessment, subsequent reservoir modelling, and to better assess the viability of a gas storage development, a high resolution 3D seismic survey was acquired over the Tariki Licence. The survey was completed in June 2021. Processing of the new data was completed by the end of 2021 with interpretation of the Tariki field data taking place in 2022 and 2023. With the reservoir partially repressurized, a new well (Tariki-5) on the crest, up structure from the existing Tariki-1 well will be drilled to recover the remaining reserves of the field. An independent reserves auditor estimated 0.9 mmboe 2P reserves (net to NZE).

Tariki-5 is scheduled to spud in late August 2024 with a gross drilling cost of NZ$8 mm (US$4.8 mm) or NZ$4 mm (US$2.4 mm) net to New Zealand Energy. Initial gross production is expected to be ~6 mmcf/d of natural gas plus 180 bbl/d of condensate (3 mmcf/d plus 90 bbl/d net to NZE) via an early production system and third-party infrastructure. During the initial phase of re-instating production two routes are considered. Production could also be transported through the neighbouring Cheal infrastructure which will enable production to commence immediately following the well drilling, instead of ~6 months later. The transport and processing fee is currently being negotiated and is expected to be in the order of ~NZ$2.5/mcf (~US$1.5/mcf) and the capex requirement would be ~NZ$1 mm (US$0.6 mm) gross. Production could also initially be sold through the adjacent Ahurora facility as a high-pressure pipeline between the two fields already exists. In that scenario, the capex would be minimal and the gas would not need to be fully processed. Within 6-8 months, gross production is expected to increase to 20-25 mmcf/d plus ~500 bbl/d of condensate (10-12.5 mmcf/d plus ~250 bbl/d of condensate net) via NZE's direct connection to the gas network once refurbishment of the gas processing equipment at WPS is completed Tariki is connected by two pipelines to the WPS ~16 km south of the Tariki-4 wellsite. Processed gas will then be transported to market via the national First Gas pipeline network.

Of the 12 PJ (~12 bcf) of gross 2P reserves (6 PJ or ~6 bcf net) at Tariki, ~ 6 PJ (~6 bcf) gross resources (3 bcf net) is planned to be produced over a period of ~12-18 months before the field is converted into a gas storage facility. At that time, ~4 PJ (~4 bcf gross or 2 bcf net) would be left in the reservoir as cushion gas. This gas would be monetized at the time of conversion. The remaining 2 PJ (~2 bcf) of gross resources (1 bcf net) will not be produced immediately but will be left in storage to take advantage of future spikes in gas prices.

Figure 10. Tariki production



Source: Company

Secondary oil Exploration target at Tariki-5:

The Tariki-5 well will also evaluate the intermediate fractured Tikorangi limestone formation en-route to the target Tariki sandstone reservoir. The prospect is at ~2,500 m depth. The Tikorangi formation, from which over 24 mmbbl of oil has been produced at the nearby Waihapa/Ngaere fields, is also present on the Tariki permit and in offset well Tariki-2C well produced over 0.18 mmbbl of oil. The new 3D seismic data revealed that the Tariki-2C well penetrated the Tikorangi formation approximately 200 metres down dip from the crest of the structure near the Tariki-5 well path, suggesting the potential for recoverable oil at the top of the structure. Mobile oil was present at the Tikorangi in the Kupara-1 well on the same location. The pool is estimated to hold ~3 mmbbl gross recoverable resources (1.5 mmbbl net to New Zealand Energy) with a chance of success of around 25%.

Underground gas Storage:

Due to the shortage of gas in New Zealand, numerous utilities are interested in accessing gas storage. The company is currently negotiating the conversion of Tariki into a gas storage asset. A typical deal would see the counter-party would pay for the 4 bcf gross (2 bcf net) cushion gas and a usage fee for the gas drawn and injected. The extraction and injection would be achieved using the Tariki-5 and Tariki-1A wells with extraction at 40 mmcf/d and injection at 27 mmcf/d. The project would require onsite compression at Tariki-1A at a cost of NZ$30 mm (US$18 mm) gross and possibly a new second up structure well at a cost of NZ$8 mm (US$5 mm) gross.

A blueprint for this type of project is the adjacent Ahuroa gas underground storage situated approximately 10 km south, also in the Taranaki region. It is owned and operated by Clarus, one of New Zealand's largest energy groups. This facility can store ~18 bcf of natural gas including cushion gas. The Ahuroa gas field was discovered in 1986 (at the same time as Tariki). The facility was opened in 2011 and was the first such facility to be developed in the country.

Waihapa-Ngaere (TWN assets): oil production and exploration upside

The Waihapa-Ngaere Oil Field in the Tikorangi Limestone reservoir (fractured carbonate) was discovered in 1988 and has produced more than 24 mmbbl to date. Material balance studies match the field history very well and confirm that 20 mmbbl remain in the reservoir. Unlike a conventional sandstone reservoir, the recovery factor in a reservoir system based solely on open fractures, such as at Waihapa, can be more than 90%. A total of 15 wells have penetrated the Tikorangi formation. The field's oil production peaked at >15,000 bbl/d in 1994. As of YE23 production was from six Tikorangi wells on natural flow. New Zealand Energy holds 50% WI in the field with WI 2P reserves of 0.45 mmboe (including 0.3 mmbbl of oil).

Continuous gas lift ceased in 3Q23. Since then, production has been operating on cyclic well unloads without the use of gas-lift. This has been to manage the cost of fuel gas for the gas-lift compressor. Net production in 1Q24 was only 20 boe/d with a high water cut. The field gas production is currently used for fuel at the production station.

Plans are advanced to re-enter up to two wells to restore them to continuous production in 2024. The Waihapa H1 well initially produced ~1,000 bbl/d (gross) for a few weeks before production declined rapidly following the collapse of a small downhole section. NZE plans to clean-up the well and expects to bring back gross production of 250-500 bbl/d (125-250 bbl/d net). The cost of this operation is expected to be NZ$0.4 mm net (<US$0.2 mm). The Waihapa-6A well could also be restored to ~40 boe/d net production with a net cost of NZ$0.5 mm (US$0.3 mm).

With gas lift gas provided from Tariki, production could also be increased by 60-150 boe/d net by restoring continuous gas-lift to the northern area wells.

A new development well is also expected to be drilled at the highest point of the Tikorangi structure at a total gross cost of NZ$4-4.5 mm (NZ$2-2.25 mm net) or US$2.4-2.7 mm (US$1.2-1.35 mm net). This well has a very high chance of success and could produce 1 mbbl/d gross (0.5 mbbl/d net) and recover 3 mmbbl gross (1.5 mmbbl net).

In addition, contingent resources and exploration targets in the Mt. Messenger, Tikorangi and Kapuni formations may be drilled in future appraisal and exploration programs in the TWN Licences.

Copper Moki: oil production opportunities

New Zealand Energy holds 100% interest in the Copper Moki PMP that covers 943 acres. The field comprises the Copper Moki-1 and Copper Moki-2 wells which produced from the Mt Messenger Formation (Late Miocene) using beam pump artificial lift, the Waitapu-2 well, which has acted as a water injector since November 2015, plus associated surface production facilities. Copper Moki-3, a former high water-cut oil producer, is currently shut in.

There are currently two producible oil pools within the permit, namely the Copper Moki-1 - Waitapu-2 pool, which has been subject to waterflooding to substantially improve oil recovery since 2015, and the Copper Moki-2 pool.

The three wells have collectively produced a total of 582,200 bbl of light oil (41 deg API) from the Mt. Messenger formation, The oil is trucked to the WPS and then transported by pipeline to the OMV-operated Omata Tank Farm in New Plymouth and sold at Brent based pricing.

Production at Copper Moki has been offline due to mechanical failures in the Copper Moki 2 well in 2023 and in Copper Moki 1 in 2022. Activities to restore these two wells to production in june 2024 has commenced and may add 50 to 100 bbl/d net production to New Zealand Energy.

Valuation and financials

Financials

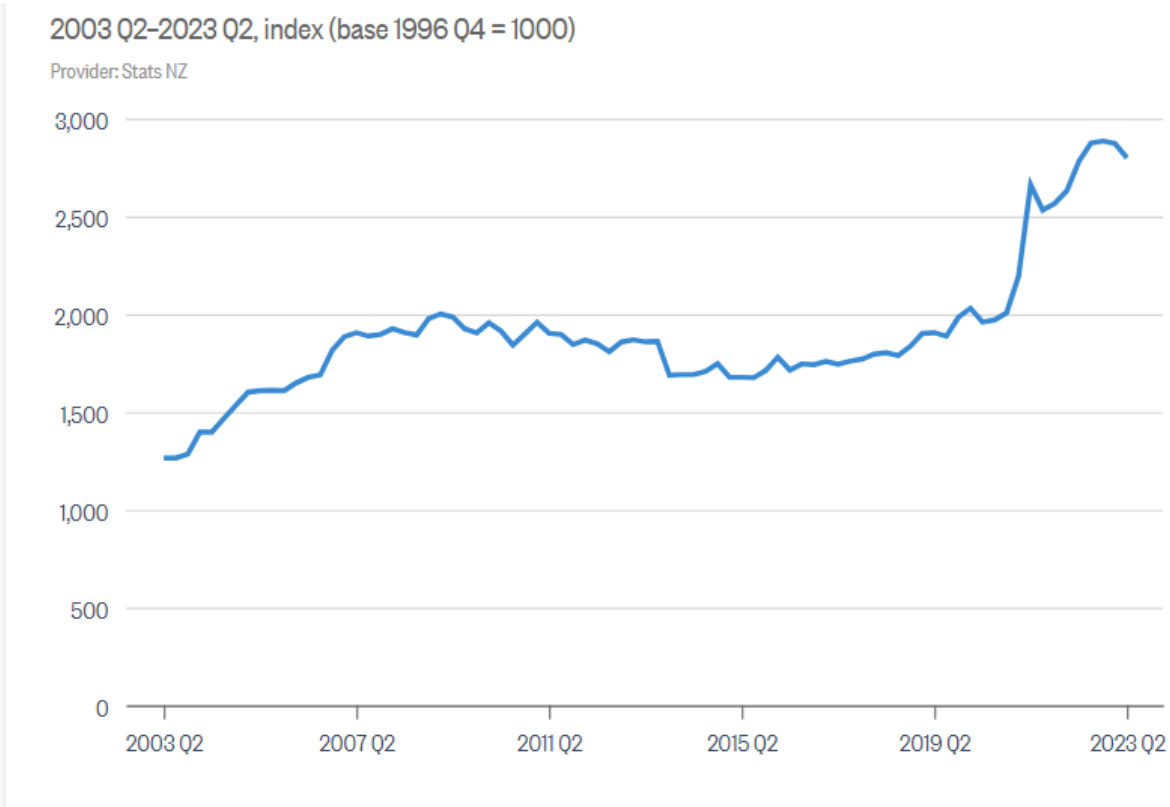
NZE held C$1.18 mm in cash at YE23 increasing to ~C$6 mm on completion of the recent C$5 mm financing. The company has issued a C$2.5 mm convertible debenture (including accrued interests) that carries interest at 10% per annum with a maturity date of July 2025. The conversion price is C$3 per share. The company raised C$5 mm of new equity priced at C$0.75 per share in 2Q24.

We have assumed that New Zealand Energy will stage its activity programme in 2024 and 2025 in order to grow within cashflow (particularly in 2024 until gross gas production at Tariki-5 reaches 20 mmcf/d). We assume net capex of US$5 mm (~C$6 mm) in 2024 and US$3 mm (~C$3.6 mm) in 2025. This funds the work at Copper Moki (+100 bbl/d net from 3Q24), Waihapa 6 (+40 boe/d net from 4Q24) and Tariki-5 (+~4.25 mmcf/d plus ~125 bbl/d from mid 4Q24). With additional surface facility investment in 2025, net production at Tariki-5 increases to 10 mmcf/d plus 250 bbl/d in 2Q25. We also assume that the new Waihapa Tikorangi development well comes on stream that same quarter (+250 boe/d net). We assume that the restoration of the gas lift at Ngaere only mitigates some declines. Our forecast does not include success at the Tikorangi exploration target at the Tariki-5 well.

Overall and assuming US$85.5/bbl for Brent in 2024, US$75/bbl in 2025 and US$70/bbl in 2026, and US$7.2/mcf (NZ$12/mcf) over these three years for New Zealand Energy's gas realizations, we forecast operating cashflow of US$22 mm (~C$27 mm) in 2025 and US$7 (~C$9 mm) mm in 2026 (we assume only one year of production at 20 mmcf/d at Tariki-5 with gas production from the field being shut during 2Q26).

Pending further details on the gas storage, we carry a payment of C$2 mm by the gas storage counterparty in 2024. We then assume only a cash payment for the residual 4 bcf gross cushion gas of NZ$35 mm (~US$20 mm) or ~US$10 mm net to New Zealand Energy's 2 bcf. This reflects ~NZ$9 mm/bcf. In 2008, NZ$24 mm was paid for 4 PJ of cushion pad gas at Ahuroa which equated at the time to a per-unit equivalent of ~NZ$5.90/GJ (~NZ$5.90 mm/bcf). Working gas capacity at the time was stated as 10-15 PJ (~10-15 bcf). Given the evolution of gas prices over the period (~+50%), we believe that NZ$9 mm/bcf is a reasonable assumption. In addition to the cushion gas, a further NZ$54 mm was paid for the rights to develop Ahurora as an underground gas storage facility that we have not considered.

Figure 17. Price index for commercial natural gas in New Zealand



Source: https://infoshare.stats.govt.nz/

Overall, we forecast net cash (net of the existing convertible) to reach US$17 mm at YE25 and US$25 mm at YE26. Adding a payment for the cushion gas could add a further US$10 mm. This does not include the remaining 2 bcf of gross 2P reserves that would have not been produced by then nor sold as cushion gas.

Valuation

Our Core NAV of C$5.00 per share for the company includes:

- our estimate of the company's YE24 net cash minus three years of G&A.
- a NPV10% (after tax) of the company's 2P reserves truncated to leave 4 bcf of gross (2 bcf net) cushion gas for the gas storage business plus 2 bcf gross of remaining gas (1 bcf net).
- the risked value of the new Waihapa-Tikorangi development well (1.5 mmbbl net resources with a 80% chance of success).
- the expected cash payment for the cushion gas in the gas storage. We view this as a conservative way to value the gas storage business given that the

project would require onsite compression at Tariki-A of US$9 mm net, which could also be funded by the counterparty.

- The value of the remaining 2P gas reserves at Tariki not produced by early 2026 nor sold as cushion gas. We have valued these residual 2P reserves in line with the cushion gas.

- Pending details on the nature of the transaction with a domestic utility for the usage of the gas storage facility, we have not yet attributed value to the gas storage beyond the value of the remaining gas at the time of the conversion. We however note that Contact Energy Ltd paid at NZ$54 mm (in addition to the price paid for the cushion gas) for the rights to develop Ahuroa as an underground gas storage facility that we have not considered. New Zealand Energy expects that the domestic utility that it is negotiating an agreement with would fund the capex required for the conversion and pay a yearly fee of NZ$15-20 mm gross (NZ$7.5 mm-10 mm net to New Zealand) or US$9-12 mm (US$4.5-6 mm net). Assuming a 10% discount rate would suggest a value of US$45-60 mm net to New Zealand or C$3.35-4.45 per share. In addition, NZE could keep the condensates strip from the gas; which would boost further the economics of the project.

Our ReNAV of ~C$5.20 per share includes our Core NAV plus the risked value of the Tikorangi prospect targeted by Tariki-5. We assume a 25% probability of success.

Our unrisked NAV is ~C$7.55 per share.

NZE has indicated that the licences hold multiple further exploration and appraisal opportunities that we have not included at this stage pending further visibility on future work programmes.

Figure 18. NAV Table

Asset Valuation	WI Reserves and Resources (mmboe)	CoS (%)	Unrisked (US$mm)	EMV (US$mm)	C$/Share (Risked)	C$/Share (Unrisked)	% Total
Net Cash/Debt YE24			-1	-1	-0.05	-0.05	-1%
G&A (3y)			-5	-5	-0.38	-0.38	-7%
Exercising options							
Oil & Gas							
New Zealand 2P reserves to be produced	1.2	100%	27	27	2.02	2.02	39%
New Zealand Waihapa-Tikorangi oil	1.5	75%	31	23	1.75	2.33	34%
Gas Storage							
New Zealand 2P gas remaining reserves to be	0.2	100%	5	5	0.34	0.34	7%
New Zealand Tariki Gas Storage including remaining gas 2P reserves to be sold as cushion	0.3	100%	11	11	0.81	0.81	16%
Total Core NAV			**69**	**61**	**4.55**	**5.14**	**89%**
New Zealand Tariki-Tikorangi	1.5	25%	31	8	0.58	2.33	11%
Total Risked Exploration			**31**	**8**	**0.58**	**2.33**	**11%**
Total			**100**	**69**	**5.14**	**7.47**	**100%**
Unrisked NAV					**7.47**		
P/Core NAV				**19%**			
P/NAV				**17%**			
P/Unrisked NAV				**11%**			

Source: Auctus Advisors, Company Reports

Other assumptions

- Corporate tax in New Zealand is 28% of profit. However, New Zealand Energy carries ~NZ$130 mm of tax losses which will shield all profits over the period of our valuation.

- Royalties are ~10% of revenue.

- Net decommissioning liabilities are ~NZ$10 mm.

- Our gas realizations assumptions reflect a discount of 20% to spot gas prices of US$9/mcf (NZ$15/mcf).

- For oil realizations, we carry NWS shelf discount of US$7/bbl plus an adjustment (paid to OMV) of US$7/bbl for a total discount of US$14/bbl to Brent.

- NZE generates revenue from processing third party's oil and gas production. This generates ~US$0.48 mm per year (~NZ$0.8 mm per year).

- Once Tariki gas is onstream, fixed opex is ~NZ$4 mm (US$2.4 mm) per year (excluding the repair and maintenance amount we have included in capex) plus NZ$8/boe (US$4.8/boe).

- We carry ~NZ$0.6 mm (US$0.35 mm) per year of recurring capex.

Risk analysis

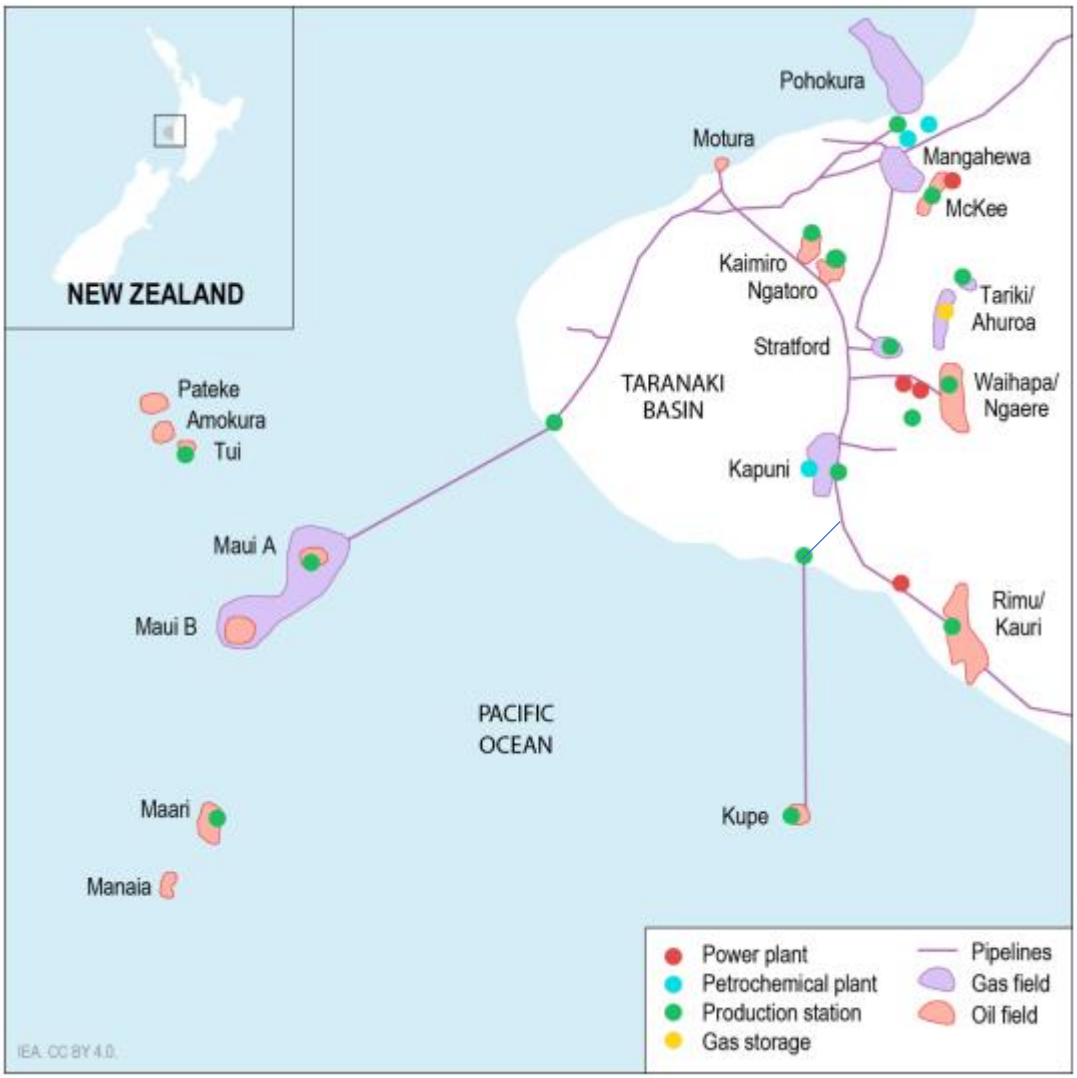
We have identified the following key areas of risk:

1. Geological risks. We view the geological risk at Tariki's gas as low. This asset underpins an important portion of our valuation. The Tikorangi at Tariki carries a much higher risk.
2. Commercial risks. The conversion of Tariki into an underground gas storage requires a commercial agreement with a counterparty. We note that with the current high gas prices in the country and seasonal fluctuations, gas storage facilities are increasingly important. If such an agreement cannot be reached, the cushion gas from the field can be produced. Our current valuation for the gas storage project opportunity reflects the value of the cushion gas.
3. Execution risks. The drilling of the Tariki-5 well is very important to the future of the company and our valuation. We note that the company has operated the license for a long time and, as a result, knows the asset well. The well is only ~3,000 m deep and there have been 10 previous well bores in the area.

Appendix 1: New Zealand upstream oil and gas

Oil and gas are produced from 21 petroleum licenses and permits, all located in the Taranaki basin. The industry is mature with ~50 mmbbl oil 2P reserves and 1.6 tcf of gas 2P reserves at YE22. The most important fields are Maui (operated by OMV), Pohokura (operated by OMV on behalf of OMV and Todd Energy), Kupe (Beach Energy (Operator), Genesis Energy and NZOG) and Mangahewa (Todd Energy). OMV and Todd Energy control almost 75% of gas production in New Zealand. Oil and gas production in 2022 was ~390 mmcf/d for natural gas (down ~30% vs 2019) and 21.4 mbbl/d of oil.

Figure 19. New Zealand oil and gas fields and infrastructure



Source: EIA

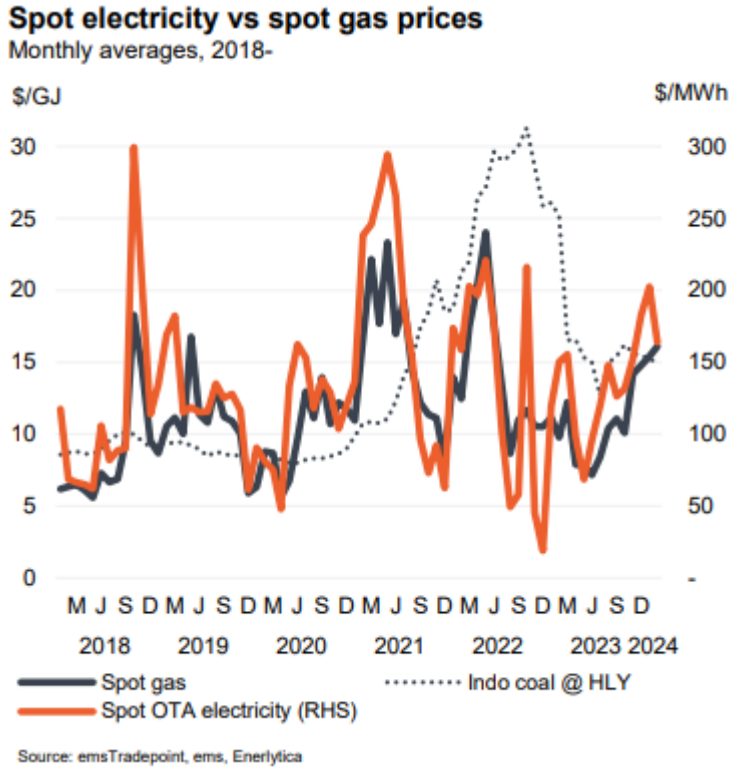
Natural gas is the second largest source of energy in the country. 80% of New Zealand's domestic gas production comes from only four fields. Pohokura is the most important gas field. New Zealand neither exports nor imports natural gas and does not have any infrastructure to support international gas trading. This is a unique situation among

OECD countries. All domestic natural gas production is consumed in the country, and annual consumption thus varies depending on availability.

According to Enerlytica, the supply of indigenous gas has, since at least 2018, been insufficient to meet the full potential of market demand. This has been compounded by the accelerated production decline at the large Pohokura gas field and weak hydro lake inflows. Electricity generators have been required to accept reductions to their volumes of contracted gas. Some large industrial users with contracted gas have also experienced supply curtailments while others that were nearing the end of their existing contract terms have found gas suppliers unable to offer new volumes to them.

This gas shortage has generated increasing gas prices and volatility.

Figure 20. Gas prices in New Zealand (NZ$/GJ = ~NZ$/mcf)



The increasing penetration of renewable energy combined with the electrification of the energy system and the demand from aluminium smelters for energy continuity has increased the volatility of the call on gas. Enerlytica estimates the call on gas for power generation only at 15 bcf per year. This requires a gas system providing flexibility.

This flexibility could be achieved in two ways: (1) LNG imports or (2) natural gas storage. There is no existing LNG import infrastructure in New Zealand. Compared to indigenous gas, importing LNG is an expensive option in terms of capex and opex. In addition, LNG prices are also very high given the restriction on Russian natural gas supply.

New Zealand has only one gas storage facility – the Ahuroa Gas Storage Facility, owned by FlexGas (a subsidiary of Clarus Group). The capacity of Ahuroa is up to 18 PJ (~17 bcf) in an underground reservoir, covering just over 10% of the country's annual demand.

Enerlytica estimates that 17 PJ (~17 bcf) of additional gas storage is required beyond what is currently available. This increases to 25 PJ (~25 bcf) if the recent downgrade to the storage capacity of the Ahuroa gas storage facility is taken into account.

The conversion of the Tariki gas field into a gas storage would go a long away to addressing the gas storage gap. The Tariki field is adjacent to Ahuroa and could benefit from the existing infrastructure. According to Enerlytica, the other potential candidates for underground gas storage have significant drawbacks. The reservoirs of the Pohokura field make gas injection and withdrawal inefficient. In addition, a single well at Pohokura costs ~NZ$30 mm (vs NZ$8 mm at Tariki). Production at Maui is driven by a very strong aquifer, which is a problem for withdrawal and re-injection. The field being offshore implies that costs would be very high.

Appendix 2: Senior Management & Board of Directors

James Willis: Chairman
Mr. Willis is the Chairman of New Zealand Energy. He is a former partner at Bell Gully with more than 45 years experience in oil and gas law in New Zealand and Australia. Mr. Willis is a former managing director of an Australian exploration group.

Frank Jacobs: Director
Mr. Jacobs is the largest shareholder of New Zealand Energy. He has extensive experience in upstream oil and gas with companies listed on the ASX and TSXV, including a tenure as COO of TAG Oil. He was in the past specifically appointed to grow companies including Cue Energy Resources, Cultus Petroleum, Anzoil, Triangle Energy and PetroReal Energy Corporation. Mr. Jacobs is a director at Monumental Energy.

Robert Bose: Director
Mr. Bose is a principal at Charlestown Capital Advisors, a private investment firm founded in 2005 that is located in New York City. At Charlestown, Mr. Bose is the Managing Member of Charlestown Energy Partners, a private investment vehicle which focuses on public and private equity investments in energy and commodities. He is the President of Sintana Energy and a non executive director at Challenger Energy. Prior to joining Charlestown, Mr. Bose spent 17 years in the Global Investment Banking Group at the Bank of Nova Scotia, ultimately as Managing Director and Head of Power & Utilities Group which provided M&A and capital markets coverage in the energy and power sectors. Mr. Bose has an Honors Degree in Economics from Queen's University in Kingston, Ontario and is a CFA Charterholder.

Mike Adams: COO and Director
Mr. Adams has over 37 years of global experience in the upstream oil and gas industry in New Zealand, Australia, the Middle East and the North Sea. He initially joined New Zealand Energy in 2015. During the formative stages of Mr Adams' career he worked for the New Zealand national oil company, Petrocorp, where he was involved in the appraisal and development of the Waihapa field (New Zealand's second largest onshore oil field), development of the McKee field (New Zealand's largest onshore oil field) and discovery of the Mt Messenger accumulations at Kaimiro and Ngatoro. He next worked overseas including with BHP Petroleum in Australia and QGPC (Qatar) before returning to New Zealand in 1996 to work for Fletcher Challenge Energy where he focused in particular on enhanced recovery projects in various Taranaki fields. He set up his own reservoir engineering consultancy in 1999 and has been involved in many successful project assignments both in New Zealand and overseas, most recently including tenure with Belltree UK where he was technical manager for a 16-man consultancy leading international projects covering appraisal planning and testing of the 2014 Sangomar discovery offshore Senegal for Cairn Energy, prospect evaluation, field appraisal and development planning and EOR.

Appendix 3: Capital structure and main shareholders

There are ~15 mm shares in issue, 1.4 mm options (with an exercise price of C$0.84 per share) plus 0.06 mm warrants (with an exercise price of C$0.75 per share). There is also a C$2 mm convertible debenture (plus C$0.54 mm accrued interest) with a conversion price of C$3 per share that matures in July 2025.

The main shareholders are Frank Jacobs, holding 14.9% of the issued share capital, Charlestown with 8.9%, MNGR with 8.6% and David Schmidt with 6%.

Copyright and Risk Warnings

New Zealand Energy Corp. ("New Zealand" or the "Company") is a corporate client of Auctus Advisors LLP ("Auctus").

Auctus receives, and has received in the past 12 months, compensation for providing corporate broking and/or investment banking services to the Company, including the publication and dissemination of marketing material from time to time.

MiFID II Disclosures

This document, being paid for by a corporate issuer, is believed by Auctus to be an 'acceptable minor non-monetary benefit' as set out in Article 12 (3) of the Commission Delegated Act C(2016) 2031 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. It is produced solely in support of our corporate broking and corporate finance business. Auctus does not offer a secondary execution service in the UK. **This note is a marketing communication and NOT independent research. As such, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and this note is NOT subject to the prohibition on dealing ahead of the dissemination of investment research.**

Author

The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

Not an offer to buy or sell

Under no circumstances is this note to be construed to be an offer to buy or sell or deal in any security and/or derivative instruments. It is not an initiation or an inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000.

Note prepared in good faith and in reliance on publicly available information

Comments made in this note have been arrived at in good faith and are based, at least in part, on current public information that Auctus considers reliable, but which it does not represent to be accurate or complete, and it should not be relied on as such. The information, opinions, forecasts and estimates contained in this document are current as of the date of this document and are subject to change without prior notification. No representation or warranty either actual or implied is made as to the accuracy, precision, completeness or correctness of the statements, opinions and judgements contained in this document.

Auctus' and related interests

The persons who produced this note may be partners, employees and/or associates of Auctus. Auctus and/or its employees and/or partners and associates may or may not hold shares, warrants, options, other derivative instruments or other financial interests in the Company and reserve the right to acquire, hold or dispose of such positions in the future and without prior notification to the Company or any other person.

Information purposes only

This document is intended to be for background information purposes only and should be treated as such. This note is furnished on the basis and understanding that Auctus is under no responsibility or liability whatsoever in respect thereof, whether to the Company or any other person.

Investment Risk Warning

The value of any potential investment made in relation to companies mentioned in this document may rise or fall and sums realised may be less than those originally invested. Any reference to past performance should not be construed as being a guide to future performance. Investment in small companies, and especially upstream oil & gas companies, carries a high degree of risk and investment in the companies or commodities mentioned in this document may be affected by related currency variations. Changes in the pricing of related currencies and or commodities mentioned in this document may have an adverse effect on the value, price or income of the investment.

Distribution

This document is directed at persons having professional experience in matters relating to investments to whom Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO") applies, or high net worth organisations to whom Article 49 of the FPO applies. The investment or investment activity to which this communication relates is available only to such persons and other persons to whom this communication may lawfully be made ("relevant persons") and will be engaged in only with such persons. This Document must not be acted upon or relied upon by persons who are not relevant persons. Without limiting the foregoing, this note may not be distributed to any persons (or groups of persons), to whom such distribution would contravene the UK Financial Services and Markets Act 2000 or would constitute a contravention of the corresponding statute or statutory instrument in any other jurisdiction.

Disclaimer

This note has been forwarded to you solely for information purposes only and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto ("financial instruments"). This note is intended for use by professional and business investors only. This note may not be reproduced without the prior written consent of Auctus.

The information and opinions expressed in this note have been compiled from sources believed to be reliable but, neither Auctus, nor any of its partners, officers, or employees accept liability from any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this note. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. Auctus is not agreeing to nor is it required to update the opinions, forecasts or estimates contained herein.

The value of any securities or financial instruments mentioned in this note can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors. This note does not have regard to the specific instrument objectives, financial situation and the particular needs of any specific person who may receive this note.

Auctus (or its partners, officers or employees) may, to the extent permitted by law, own or have a position in the securities or financial instruments (including derivative instruments or any other rights pertaining thereto) of the Company or any related

or other company referred to herein, and may add to or dispose of any such position or may make a market or act as principle in any transaction in such securities or financial instruments. Partners of Auctus may also be directors of the Company or any other of the companies mentioned in this note. Auctus may, from time to time, provide or solicit investment banking or other financial services to, for or from the Company or any other company referred to herein. Auctus (or its partners, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published.

Further Disclosures for the United Kingdom

This note has been issued by Auctus Advisors LLP, which is authorised and regulated by the Financial Conduct Authority. This note is not for distribution to private customers. This note is not intended for use by, or distribution to, US corporations that do not meet the definition of a major US institutional investor in the United States or for use by any citizen or resident of the United States.

This publication is confidential and may not be reproduced in whole or in part or disclosed to another party, without the prior written consent of Auctus. Securities referred to in this note may not be eligible for sale in those jurisdictions where Auctus is not authorised or permitted by local law to do so. In particular, Auctus does not permit the distribution or redistribution of this note to non-professional investors or other persons to whom disclosure would contravene local securities laws. Auctus expressly disclaims and will not be held responsible in any way, for third parties who affect such redistribution.