Tangiers Petroleum

Tao be, or not Tao be?

Initiation of coverage

Oil & gas

Tangiers Petroleum is a chance to invest in a pure-play, binary exploration well with potentially very large upside. The company holds a 25% working interest in the Tarfaya offshore block, Morocco. Together with operator GALP, Tangiers will be drilling the TAO-1 well, targeting up to 758mmbbl unrisked potential across three horizons, with a projected mid-June spud date. With the recent successful equity raise in May and partial carry from GALP, the company should be fully funded to drill the estimated US$75m well. Attractive fiscal terms imply that a discovery of any size would be a transformational event for Tangiers. Our RENAV, based on a risked TAO-1 well, is 39p/share, though success could see multiples of this.

Year end	Revenue (A$m)	PBT (A$m)	Operating cash flow (A$m)	Net (debt)/cash (A$m)	Capex (A$m)
12/12	0.0	(4.8)	(2.4)	4.2	(9.1)
12/13	0.0	(7.3)	(3.6)	6.1	(1.1)
12/14e	0.0	(21.3)	(4.6)	4.4	(16.6)
12/15e	0.0	(41.5)	(4.8)	(36.8)	(36.5)

Note: Debt is indicative only

Morocco: The undiscovered country

Until recently, Morocco has been largely overlooked in modern oil exploration. However, Tangiers can now count Kosmos, Anadarko, Genel, BP and Cairn as neighbours and there will be multiple wells drilled in 2014. The Tarfaya block lies to the north-east of the recent Cap Juby well drilled by Genel. The company believes TAO-1 has a better chance of encountering light oil (vs the heavy oil that was seen in Cap Juby), due to a different burial history. The primary prospect, Trident, has a best estimate unrisked prospective resources of 423mmbbl, discovery of which would be material, but would require further appraisal.

One well, but up to three prospects

Recent wells by Genel and Cairn have started the 2014 Morocco campaign off on a downbeat footing. However, the Cap Juby well reaffirmed the presence of a hydrocarbon system with heavy oil in the Upper Jurassic. The TAO-1 well will target three separate objectives. Although partially dependent, the prospects allow investors two or three chances to see a return. The smallest of the three has best estimate unrisked prospective resources of 144mmbbl, which would likely be commercial on a standalone basis.

Valuation: Near-term drilling, mid-June spud

As a currently single asset company, investors in Tangiers are playing for success at TAO-1. Our RENAV, including a heavily risked DCF-based valuation, is 39p/share, though the results of the well will be binary. Success will see very material upside, while a failure would mean that Tangiers would likely have to start at the drawing board with limited cash resources but an ambitious management. With Tangiers, investors have the potential for material, near-term drilling with significant upside in the case of success.

30 May 2014

Price	**12.5p**
Market cap	**£22m**
	US$1: A$1.07
Net cash end December 2013 (A$m)	6.1
Shares in issue	174.6m
Free float	89%
Code	TPT
Primary exchange	ASX
Secondary exchange	AIM

Share price performance

%	1m	3m	12m
Abs	7.5	26.6	(13.8)
Rel (local)	6.2	26.7	(17.8)
52-week high/low		17.75p	9.38p

Business description

Tangiers Petroleum is an ASX- and AIM-listed, Perth-based E&P with a 25% working interest in the Tarfaya Offshore Block, Morocco. The TAO-1 well, targeting 758mmbbl gross best estimate, is due to spud in June.

Next events

TAO-1 spud	June 2014
TAO-1 results possible	July/August 2014

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Investment summary

Company description: Pure-play Moroccan exploration

Tangiers Petroleum is an ASX- and AIM-listed, Perth-based E&P with a 25% working interest in the Tarfaya Offshore Block, Morocco. The block (comprising eight exploration permits) is operated by Portuguese integrated company GALP, which holds a 50% stake. ONHYM (the Moroccan NOC) is carried through exploration activities and holds 25%. According to a 2011 CPR by Netherland Sewell and Associates, the gross unrisked P50 prospective oil resource is estimated to be 867mmbbl across four prospects, three of which can be targeted with a single well, targeting 758mmbbl. It is due to spud in mid-June and we expect results from late July into early August.

Valuation: Contingent on a single well

Our valuation is based on a DCF-derived approach, risked to take account of the geological and commercial risks. The RENAV of 39p/share is made up almost exclusively of the risked value of TAO-1, to which we assign a chance of success of 8%. This is made up of a geological risk of 20% (lower than company-guided 21%) and a commercial risk of 40%. As a single asset play, success in the drilling of TAO-1 is critical; a failure would mean very significant downside to the shares.

In the event of success, we would expect the management to be pragmatic with the asset. The company will not see any discovery through to production given its limited resources, so monetisation is the most likely mid/long-term scenario. We would look to Cove success in this regard and also to the stated Fastnet strategy.

Financials: Cash is tight by year end

After the May 2014 equity raises of A$5m and A$4m, assignation of back costs from GALP (pending) and the release of US$3m bank guarantees, the company should be able to cover its net costs of the US$75m TAO-1 well, where GALP is covering the first US$33m gross costs (Tangiers liable for 33% of rest). However, with G&A and other expenses, we forecast cash resources of around A$4.5m at year end).

Before year end, the result of TAO-1 well will be known. In the success case, the company would have to raise financing to fund any appraisal well, albeit from a much higher share price (we expect). In failure case, Tangiers would have to farm-down its working interest to fund further wells, as we would expect the shares to be too low to execute an equity raise without huge equity dilution.

In the event of discovery, fields would be worth a very material amount. Even assuming first production in 2021, the Moroccan fiscal regime is generous enough to generate a NPV of over US$10/bbl, increasing markedly as any discovery moves towards production. It is this high value, and the still relatively large equity position of 25% that gives Tangiers a certain flexibility when dealing with funding of any such discovery.

Sensitivities: Tao

Investors are buying Tangiers shares for the upside from drilling at TAO-1. Given the profile of the company, the binary result of the well is also a binary result for the company. Failure would leave the company with a ground-up rebuilding process, for which management is prepared but has not yet taken any steps – we would not expect anything before the well result.

Company description: Very high impact

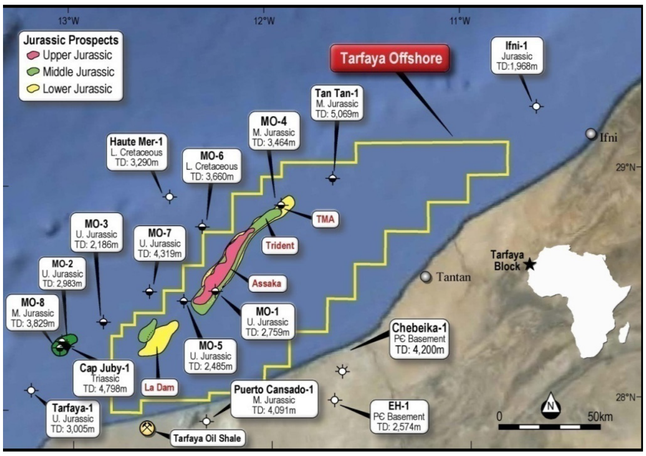
Tangiers Petroleum is an ASX- and AIM-listed, Perth-based E&P with a 25% working interest in the Tarfaya Offshore Block, Morocco. The block is in shallow water generally under 200m and covers 11,282km^2. The block (comprising eight exploration permits) is operated by Portuguese integrated GALP, which holds a 50% stake, with ONHYM (the Moroccan NOC), which is carried through exploration activities, holding the remaining 25%. According to a 2011 CPR by Netherland Sewell, the gross unrisked P50 prospective resource is estimated to be 867mmbbl across four prospects, three of which can be targeted with a single well. This is due to spud in mid-June 2014.

The company also has a brand new management, after the ill-fated proposed merger with Jacka and the departure of the previous CEO. A new chairman, managing director and technical director all bring experience across the industry from financial to technical and are looking to rebuild Tangiers, starting with the successful equity raise in May.

Prospects sit in key play fairway

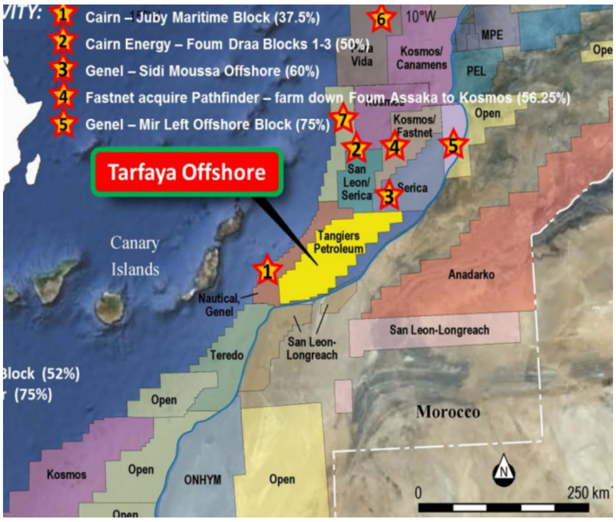
The Tarfaya Basin petroleum system is Mesozoic in age and covers an area of around 170,000km^2. The key play type here is the Jurassic Carbonate fairway. The play is not only being targeted by Tangiers in 2014, but also by Cairn Energy, with its JM-1 well completed in March 2014, and by Genel Energy, which is targeting two exploration wells in its Sidi Moussa and Mir Left licences in H214.

Exhibit 1: Tarfaya Offshore block map



Source: Tangiers Petroleum

Exhibit 2: Neighbours are large



Source: Tangiers Petroleum

The carbonate developed in shallow waters along the basin margins and the primary reservoir targets are carbonate reef and grainstone oolitic bars. Thirteen wells have been drilled on or near the Tarfaya block and most have targeted the Upper Jurassic on the margins of the carbonate platform at the shelf edge. The majority of these wells were drilled in the late 1960s and early 1970s by Esso, with the drilling of eight Moroccan Offshore (MO) wells, MO-1 to MO-8 (targeting Cretaceous deltaic sands). Tangiers' exploration well, TAO-1, will primarily target the Middle Jurassic in the Trident prospect, but will also tag the Upper Jurassic in the Assaka prospect. If Trident is successful, the company also plans to test the Lower Jurassic interval in the TMA prospect. All three prospects are four-way dip-closed structures identified on 2D seismic and further delineated by 677km^2 of 3D seismic acquired in late 2011/early 2012.

Exhibit 3: Summary of current estimates

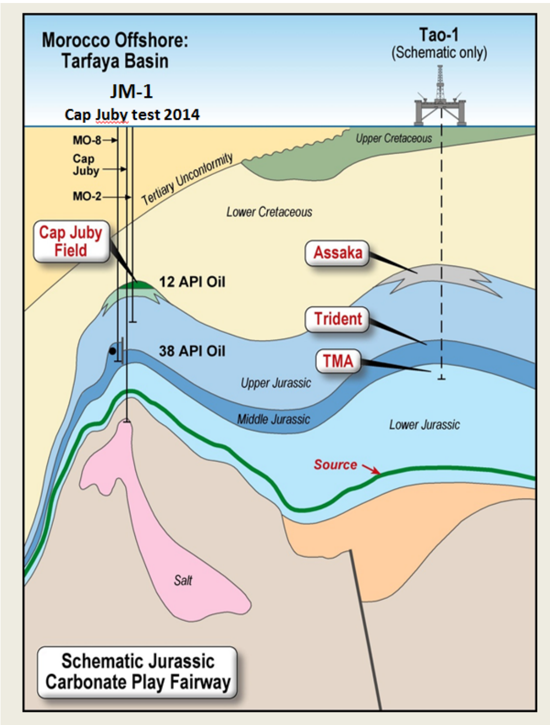
	Prospect/target	Gross (100%), mmbbl		
		Low estimate	Best estimate	High estimate
TAO-1 well	Assaka	26	144	796
	Trident	85	423	2,109
	TMA	29	191	1,305
	La Dam: U/M/L Jurassic	17	109	749
	Total	**156**	**867**	**4,959**

Source: Tangiers

The Trident prospect is targeting gross unrisked P50 resources of 423mmbbl of light oil in the Middle Jurassic based on the 2011 CPR from Netherland Sewell & Associates (NSAI) and it is estimated to have a geological chance of success (CoS) of 21%. There have been few well penetrations of the Middle Jurassic in the Tarfaya block, however the reservoir has been drilled in the Cap Juby discovery, 20km west of Tarfaya, by Esso's MO-8 well and most recently by Cairn's 2014 JM-1 well. MO-8 produced a small amount of 38° API oil on test from the Middle Jurassic, supporting Tangiers' light oil prognosis for Trident. However, JM-1 encountered poor porosity across the reservoir and the well was not tested. The key risk for Trident and the other TAO-1 prospects is reservoir quality and the challenge will be to maximise the chances of intersecting areas of greater secondary porosity due to fractures or karstification. To mitigate this risk, Tangiers' partner and operator GALP has carried out seismic inversion studies, which it believes has allowed it to identify good porosity intervals at the exploration well location. We also understand that the JV has planned for the well to intersect the primary target at Trident in an optimal location.

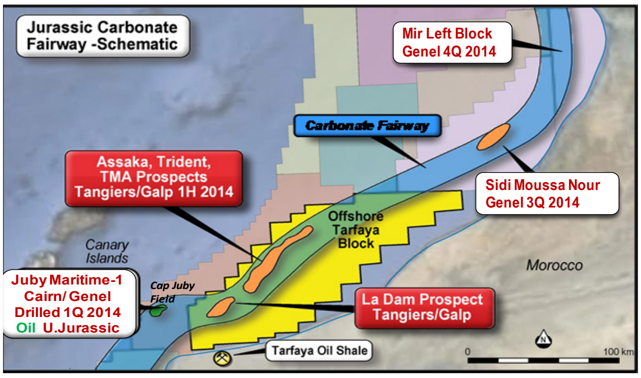
In the event of success in TAO-1, an ability to correctly assess the areas of better porosity will be critical in continuing to locate the best producing zones through the appraisal phase and into development. The reservoirs will be heterogeneous due to the distribution of facies and karst features and this will remain a key challenge for well planning and placement.

Exhibit 4: Jurassic Carbonate schematic



Source: Tangiers Petroleum

Exhibit 5: Jurassic Carbonate fairway



Source: Tangiers Petroleum

The Assaka prospect is estimated by NSAI to contain 144mmbbl of P50 gross unrisked prospective resources in the Upper Jurassic. The Cap Juby discovery well, MO-2, produced 2,377b/d of 12° API heavy oil from the reservoir when tested by Esso in 1972 and Cairn confirmed in March 2014 that the Upper Jurassic objective in JM-1 also contained heavy oil (across a gross interval of 110m).

Tangiers believes that the structure at Assaka has undergone a different burial history to that at Cap Juby making it less likely to also contain heavy oil. Erosion of the Cretaceous sediments at Cap Juby means that the Middle Jurassic at this location is much closer to the historic land surface and thereby at greater risk of the freshwater ingression that brings with it the bacteria that consume the lighter ends of hydrocarbons. It can be seen from the schematic shown in Exhibit 4 that the TAO-1 well is positioned away from the erosionary Tertiary unconformity, which can be clearly identified on seismic. The fact that light oil was encountered deeper in Cap Juby also points to the potential presence of lighter oil further away from the Tertiary unconformity.

The exploration well is expected to cost US$75m, based on the top two targets. In the case of success at Trident, the company may decide to deepen the well to additionally target the TMA prospect at an additional cost. TMA is a Lower Jurassic prospect estimated to contain 191mmbbl of gross P50 unrisked prospective resources. The reservoir has yet to be drilled and the main risk is considered to be the preservation of porosity at the target depth of greater than 4,000m.

We note that the resource estimates provided by NSAI in 2011 are based on 2D seismic and do not take into account the 3D seismic survey carried out subsequent to the CPR. We expect that the incorporation of the 3D results would provide a further refinement to the resource estimates, and possibly increasing the CoS.

Additional prospectivity in Jurassic Carbonate and beyond

Beyond the TAO-1 well, Tangiers also has a further Jurassic Carbonate prospect, La Dam, located to the south-west of Trident/Assaka/TMA (Exhibit 1). Like TAO-1, the prospect contains three stacked targets and is estimated to contain gross unrisked P50 prospective resources of 109mmbbl.

The company also has a number of other plays that need to be evaluated. They include Tertiary clastics, the Cretaceous Tan Tan formation, and Liassic/Triassic clastics.

Commercial terms – farm-out to GALP

On 3 December 2012, Tangiers signed a farm-out deal to transfer a 50% working interest and operatorship of the Tarfaya offshore block. Under the terms of the farm-out, GALP agreed to reimburse US$7.5m of back costs and fund up to US$33m of gross drilling costs. GALP would also take on the US$3m guarantee held by the Moroccan government. The government approval of the farm-out was announced on 20 December 2013.

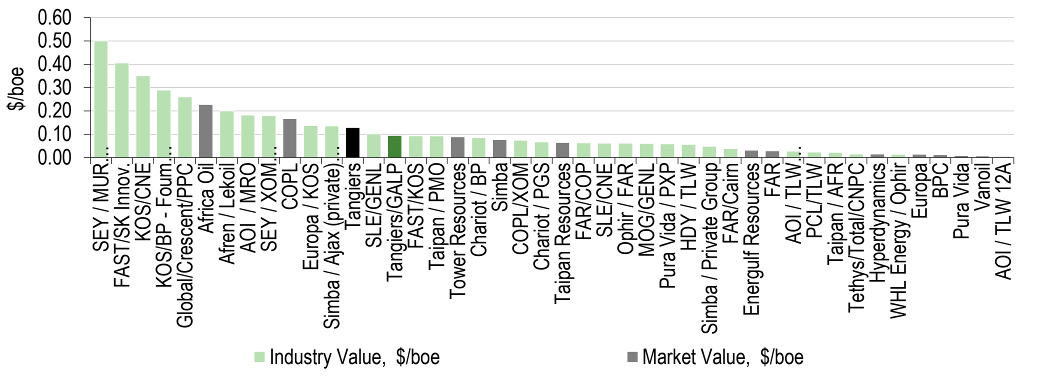
The Moroccan government approved a six-month extension to the First Extension Period for the Tarfaya Offshore Block. This means the joint venture partners will have until February 2015 to evaluate the results of the TAO-1 well and decide whether to enter the Second Extension Period.

GALP is a €10.6bn market cap, Portuguese-based integrated oil company. It owns two refineries in Portugal, a retail network and a gas distribution businesses across Iberia. Importantly, it also has material interests in the massive Brazilian pre-salt discoveries and Mozambique. It also holds assets across South America, Angola, Namibia and East Timor. While relatively new to operatorship, it has extensive experience in exploration and recent hires, including Stephen Whyte from BG, bring years of operational knowledge. We believe that GALP has done a great deal of work on the Tarfaya block since the farm-in, firming up understanding, carrying out further studies and tying this back to existing well information.

Farm-out valuation

We can compare the valuation implied by the farm-out to GALP to the current market cap and our DCF-based valuation. GALP was prepared to pay US$33m of gross costs and US$7.5m of back costs for 50% of the block, implying a (post-drill) valuation for the block of US$81m. Tangiers' working interest is therefore worth US$20.25 m or 5.2p/share, which is below the current EV and well below our risked DCF value.

Exhibit 6: Valuation of industry farm-out vs market valuation for selected recent farm-outs

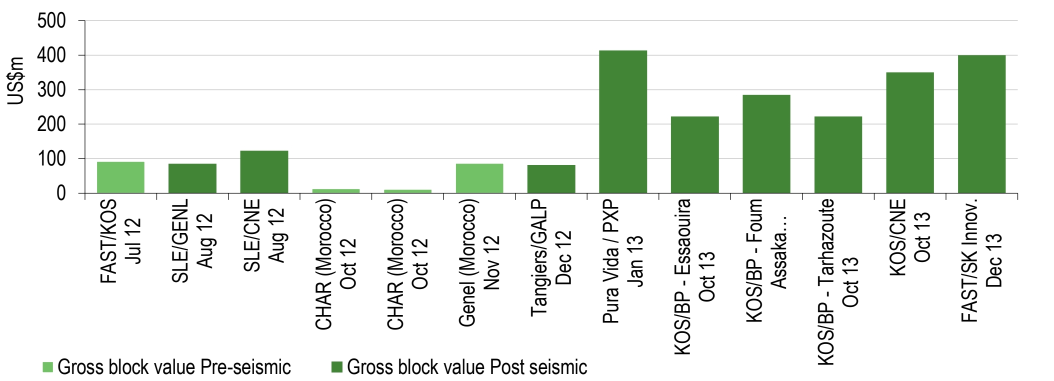


Source: Edison Investment Research, Bloomberg. Note: Industry valuations are post-deal valuations. In each case the darker bars represent the Tangiers value. Figures are in US$/boe

Furthermore, the terms of the farm-out can be compared to others in Africa. On a US$/boe basis (for gross unrisked boe), it was not as good as those achieved by other Moroccan players (Fastnet, Kosmos, Cairn), where terms have been around three times stronger.

There are many potential causes for the multiples achieved in our view: (i) the block could be less attractive geologically to industry players, though the block lies between two blocks that Genel has interests in, reducing this likelihood; (ii) the deal was done before sustained industry interest – the chart below illustrates the significant jump in Moroccan block values in 2013 as the country became more in-focus for the industry as bigger players such as BP entered; (iii) the deal was done pre-3D completion; (iv) as a small player with limited cash, the other parties would have been in strong negotiating positions; and (v) at the time of the farm-out, the cost of a well was below the US$75m currently estimated, therefore the $33m gross carry would have covered a great deal more of the Tangiers' share, reducing its exposure.

Exhibit 7: Moroccan gross block values implied by farm-out deals, ordered chronologically



Source: Edison Investment Research. Note: Tangiers was pre-3D seismic.

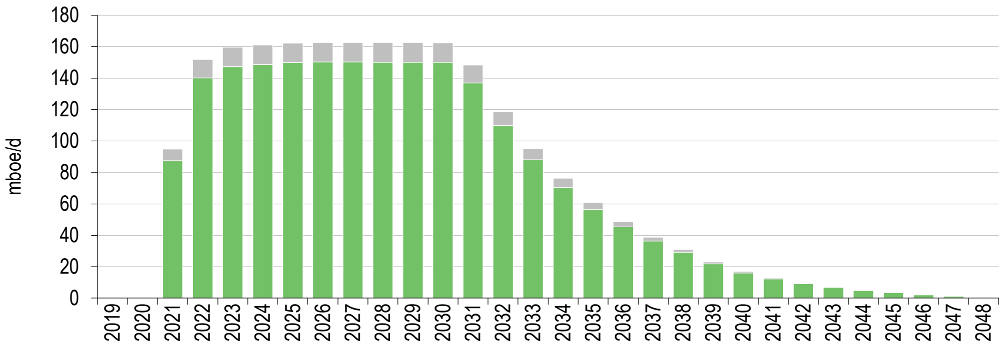
Well timing

Given recent rig mobilisation, we expect the well to spud in mid-June. We understand the well is budgeted to take over 50 days for the first two objectives, with Trident TD around 3,650m. This timing seems generous to us, given the Foum Draa well took around 57 days to drill over 1,000m deeper. We therefore hope that well results may be forthcoming from as early as mid-July through to early August, though testing time would add incrementally to this.

Modelling a discovery – NPV of over US$8/bbl

We model Tangiers Petroleum using an illustrative discovery of 758mmbbl, the level given in the latest CPR. We assume that any field sees first oil production in 2021, following a number of years of appraisals before FID. A discovery of 758mmbbl would require multiple appraisal wells and follow-up work to properly map the best producing zones and therefore would likely take many years to get to FID. We have also modelled some associated gas, though this is *de minimis* when compared to the value of oil. We show the production profile modelled below. With such a large resource, field life will be significant – here we have modelled a 150mb/d plateau before a steady 20% decline rate.

Exhibit 8: Illustrated production profile



Source: Edison Investment Research. Note: Green indicates oil, grey indicates gas.

With a flat royalty of 10% and a corporate tax rate of 30% (with a 10-year holiday), Morocco has one of the most attractive fiscal regimes in the world. Therefore, a discovery is worth a significant amount, even if discounted back from first production in 2021. Our modelling implies a value of over US$8/boe now, which should grow to over US$20/bbl by first production and continue to climb beyond.

Management

The company has recently seen a transformation in management following the departure of previous management and the ill-fated proposed take-over of Jacka in early 2014. The management intends to see the exploration of the Tarfaya block through and has extensive experience in small oil and gas.

Michael Evans (non-executive chairman, appointed 9 April 2014) has extensive executive and board level experience with publicly listed companies in the natural resources sector over 30 years. Michael was the founding executive chairman of ASX oil and gas explorer FAR, a position he held from 1995 until his resignation in April 2012. Under Mr Evans' stewardship, FAR established and built up an extensive international oil and gas portfolio spanning Africa, North America, China and Australia, with industry partners including Amoco, Shell, BHP, BP, Exxon, CNOOC, Woodside and Santos, among others. Mr Evans is currently the non-executive chairman of ASX-listed TNG.

David Wall (managing director, appointed 15 April 2014) brings extensive financial experience in oil and gas. He was a leading oil and gas analyst for over six years, with a particular focus on Africa. His skillset spans asset evaluation across many fiscal regimes and play types as well as corporate advisory, M&A and equity capital markets. Prior to his career as an analyst, Mr Wall managed a small team at Woodside Petroleum, responsible for a wide range of functions including strategic input, and reported to the executive committee. Mr Wall holds a Bachelor of Commerce from the University of Western Australia, majoring in management and finance.

Dr Stephen Staley (non-executive director, appointed 9 April 2014) has 30 years' of management and technical experience in the European, African and Asian oil, gas and power sectors, including with Conoco and BP. More recently Stephen was founding managing director of upstream start-ups Fastnet and Independent Resources. He was a non-executive director of Cove Energy. He is a Fellow of the Geological Society, holds a BSc in geophysics from Edinburgh University, a PhD in petroleum geology from Sheffield University and an MBA from Warwick University.

Brent Villemarette (executive director) is a petroleum engineer with more than 30 years' experience in the oil and gas industry. His experience spans a wide range of disciplines including exploration, development, operations, marketing, acquisitions and new ventures. He is presently chief operations officer for Transerv Energy, which has assets in the onshore Perth Basin in Western Australia and in Alberta Canada. He has previously been operations director for Latent Petroleum, a private oil and gas exploration company co-founded with a small team of industry professionals engaged in commercialising the Warro tight gas field in the northern Perth Basin. He has also held roles with Apache Corporation Oryx Energy (formerly Sun E&P).

Sensitivities

The critical sensitivity for Tangiers is the likelihood of finding commercial hydrocarbons in the TAO-1 well. As it is the company's primary asset, success would likely see a transformation in the company's position and share price, while a failure would almost certainly lead to a collapse of the share price. Beyond this, the value of Tangiers is affected by the following major factors.

Complexity of reservoir: While the finding of hydrocarbons in commercial quantities is the material risk, we would stress that a complete appraisal programme will be required given the likely heterogeneous nature of the carbonate reservoirs.

Funding issues: Following the recent equity issuance in April 2014, the company should have enough cash to fund its remaining (non-carried) stake in the TAO-1, up to a gross well cost of US$75m to test Assaka and Trident. We assume that the well is drilled to the deepest target, and include a marginal cost to the company for this extra depth – this may not be incurred, either through an under-budget drill cost or a decision not to drill deeper. Should the well experience cost over-runs, the company would have to find additional funds, most likely from equity investors, diluting the shareholder base further. In the event of success at TAO-1, the company is currently unable to fund any follow-up drilling and would have to look to equity investors to fund appraisal, or look towards monetisation options.

Oil price risk: We do not expect Tangiers to take its interest in the Tarfaya Block to production, instead monetising at the appropriate time. However, the value it can realise from any possible sale will be influenced by prevailing oil price expectations. Please see our valuation sensitivities section for further details.

Fiscal regime change: Morocco has one of the most attractive fiscal regimes in the world, and history has shown that governments have a habit of increasing their stakes when oil exploration is successful, or when oil prices increase markedly. We do not think that a fiscal regime change is likely, but it is possible.

Valuation

Traditionally, we value oil companies with an asset-by-asset NAV derived from detailed DCF modelling. Our valuation includes production, development and contingent resources, while exploration is valued only if the company has a plan and resources to drill in the next 12-18 months.

We apply a risking to this value, which aims to take account of geological, technical and commercial uncertainties. Our overall chances of success applied are materially lower than any geological CoS to account for these factors. We draw attention to the risking of the TAO-1 well. If a discovery is made as prognosed, we believe our risk factor would increase to around 40% for that field as the various stages of development (declaration of commerciality, development funding, FEED, FID, construction and commissioning) would still lie ahead. We therefore multiply the CPR GCoS by this number to arrive at our current risking. We do not include La Dam as it is not currently funded.

For commodity pricing, we assume US$80/bbl long-term inflated for Brent (after a fade from current levels), while we use local gas prices where appropriate. In this case, we assume US$3.0/mcf for gas, though sensitivity to increases is relatively low as we assume the majority is oil.

We explicitly assume that all three targets are drilled, although dependent on shows from the first two, the third may not be drilled. The company can choose to not fund its share of a deepening to TMA (191mmbbl), and could back-in after in the event of a success (at a premium to costs). Under this framework, we value Tangiers' core portfolio at 1p/share. However, the risked value of the TAO-1 well contributes to a RENAV of 39p/share.

Exhibit 9: NAV summary

Asset				Recoverable reserves			Net risked	Value per share	
	Country	Diluted WI	CoS	Gross	Net	NPV	value	Risked	Unrisked
		%	%	mmboe	mmboe	$/boe	$m	p/share	p/share
Net (debt) cash (2013 year-end)							6	2	2
SG&A							(5)	(1)	(1)
2014 exploration							(16)	(4)	(4)
Capital raising + release of bank guarantees + back costs							19	5	5
Core NAV							**4**	**1**	**1**
Exploration									
TAO-1	Morocco	25%	8%	817*	204	8.6	141	38	476
RENAV							144	39	477

Source: Edison Investment Research. Note: *We model 758mmbbl of oil with limited associated gas.

Valuation sensitivities

While we believe that Tangiers is likely to monetise well before production, it is important to acknowledge the effects on valuation of various factors. We model on the basis of the current best estimate volumes for the prospect, though we believe that recent seismic work will have increased the joint venture partners' understanding of the reservoir, potentially increasing volumes. As a reminder, the current estimates targeted by the TAO-1 well range from 140mmbbl to 4.210bnbbl, so there is considerable room for both upside and downside scenarios from our base case modelling.

We assume a discount rate of 12.5%, consistent with much of our coverage (including peers Fastnet and Canadian Overseas Petroleum). The table below shows that our RENAV would increase by around 40% if we decreased the discount rate to 10%, a symptom of the 2021 production date. The oil price also has a marked effect, with the RENAV moving by c 50% for every US$10/bbl change in Brent.

Exhibit 10: Sensitivities to oil price and discount factor

		Discount rate				
		7.5%	10.0%	12.5%	15.0%	17.5%
Oil price (US$/bbl)	60	43	30	21	14	10
	80	76	54	39	28	21
	100	109	79	58	42	32
	120	143	103	76	57	43

Source: Edison Investment Research

If we were to assume that our discount rate and oil price assumptions are similar to the market, this would imply that the market is risking the TAO-1 well at under 3% chance of success.

Financials

Tangiers held A$3.5m in cash in March 2014. This has since been bolstered by two equity raises of A$5m and A$4m (gross) in May 2014. Additionally, the government approval of the farm-out deal should have triggered GALP to release US$7.5m for back costs and take over the US$3m bank guarantees.

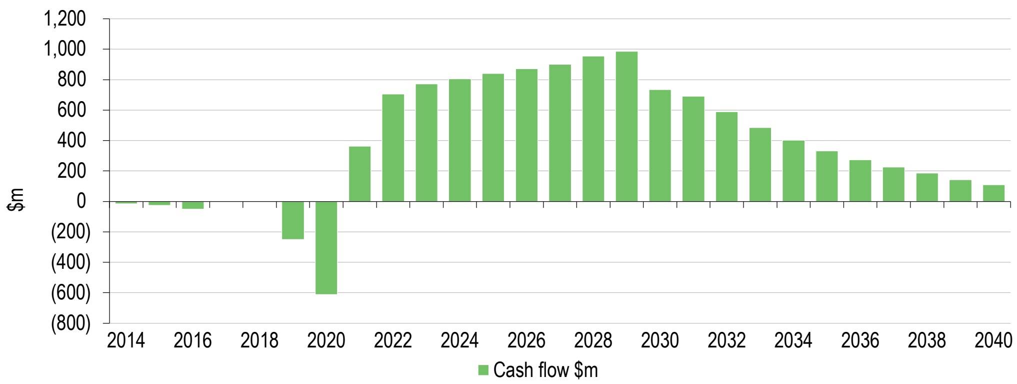
The company is responsible for 33% of the costs of any exploration wells. With an estimated US$75m well cost, and a US$33m gross drilling carry from GALP, this leaves Tangiers liable for US$14m of drilling costs. We note that the US$75m estimated cost does not include the potential time to deepen the well to the TMA prospect. We understand that TMA will only be drilled if the joint venture has been encouraged by results seen in Assaka/Trident. We assume this cost to be US$2m net to Tangiers.

We assume none of these costs are due in H114, leaving Tangiers with an estimated A$14-16m at the end of H114 (dependent on decision to drill TMA). Our modelling therefore implies that the company will have cash reserves of just around A$4.5m by year-end 2014.

Illustrative cashflows in the event of a discovery

We assume appraisal wells in 2015 and 016 before a development is better understood and sanctioned. The chart below gives our modelling of the 758mmbbl field. Significant pre-production capex is quickly reclaimed by high production rates and low fiscal take, and large free cash flow is generated.

Exhibit 11: Illustrative US$ cash flows per annum for 758mmbbl discovery



Source: Edison Investment Research

Exhibit 12: Financial summary

A$'000s	2011	2012	2013	2014e	2015e	2016e
Dec	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	0	0	0	0	0	0
Cost of Sales	0	0	0	0	0	0
Gross Profit	0	0	0	0	0	0
EBITDA	(5,341)	(4,781)	(7,372)	(5,014)	(5,014)	(5,014)
Operating Profit (before amort. and except.)	(5,375)	(4,817)	(7,397)	(21,609)	(41,527)	(68,010)
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0
Other	0	0	437	0	0	0
Operating Profit	(5,375)	(4,817)	(6,960)	(21,609)	(41,527)	(68,010)
Net Interest	94	45	69	261	44	0
Profit Before Tax (norm)	(5,282)	(4,772)	(7,328)	(21,349)	(41,483)	(68,010)
Profit Before Tax (FRS 3)	(5,282)	(4,772)	(6,892)	(21,349)	(41,483)	(68,010)
Tax	0	0	0	0	0	0
Profit After Tax (norm)	(5,282)	(4,772)	(6,892)	(21,349)	(41,483)	(68,010)
Profit After Tax (FRS 3)	(5,282)	(4,772)	(6,892)	(21,349)	(41,483)	(68,010)
Average Number of Shares Outstanding (m)	83.6	105.9	152.5	216.8	230.8	230.8
EPS - normalised (c)	(6.3)	(4.5)	(4.5)	(9.8)	(18.0)	(29.5)
EPS - normalised and fully diluted (c)	(6.3)	(4.5)	(4.5)	(9.8)	(18.0)	(29.5)
EPS - (IFRS) (c)	(6.3)	(4.5)	(4.5)	(9.8)	(18.0)	(29.5)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets	4,227	12,149	11,359	7,988	7,988	7,988
Intangible Assets	3,193	9,165	7,743	22,679	55,541	118,538
Tangible Assets	52	44	49	(14,887)	(47,749)	(110,746)
Investments	983	2,940	3,567	196	196	196
Current Assets	1,829	4,483	6,211	4,557	121	121
Stocks	0	0	0	0	0	0
Debtors	377	308	121	121	121	121
Cash	1,452	4,175	6,089	4,436	0	0
Other	0	0	0	0	0	0
Current Liabilities	(1,113)	(445)	(916)	(916)	(916)	(916)
Creditors	(1,113)	(445)	(916)	(916)	(916)	(916)
Short term borrowings	0	0	0	0	0	0
Long Term Liabilities	0	0	0	(8,025)	(44,873)	(112,683)
Long term borrowings	0	0	0	0	(36,848)	(104,658)
Other long term liabilities	0	0	0	(8,025)	(8,025)	(8,025)
Net Assets	4,943	16,186	16,653	3,605	(37,679)	(105,489)
CASH FLOW						
Operating Cash Flow	(1,160)	(2,418)	(3,617)	(4,553)	(4,770)	(4,814)
Net Interest	0	0	0	0	0	0
Tax	0	0	0	0	0	0
Capex	(2,282)	(9,095)	(1,125)	(16,596)	(36,514)	(62,996)
Acquisitions/disposals	0	0	0	0	0	0
Equity financing	2,744	14,324	6,693	8,100	0	0
Dividends	0	(88)	(36)	0	0	0
Other	0	0	0	11,395	0	0
Net Cash Flow	(698)	2,723	1,914	(1,653)	(41,283)	(67,810)
Opening net debt/(cash)	(2,151)	(1,452)	(4,175)	(6,089)	(4,436)	36,848
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	0	0
Closing net debt/(cash)	(1,452)	(4,175)	(6,089)	(4,436)	36,848	104,658

Source: Edison Investment Research, company accounts

EDISON

Contact details	Revenue by geography
Level 2 5 Ord Street West Perth WA 6005 Australia Tel: +61 (0)8 9485 0990 Fax: +61 (0)8 9321 8990 http://www.tangierspetroleum.com.au/	N/A

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 11-14e	N/A	ROCE 14e	N/A	Gearing 14e	N/A	Litigation/regulatory	◖
EPS 12-14e	N/A	Avg ROCE 11-13e	N/A	Interest cover 14e YY	N/A	Pensions	○
EBITDA 11-13e	N/A	ROE 14e	N/A	CA/CL 14e	N/A	Currency	◖
EBITDA 12-14e	N/A	Gross margin 14e YY	N/A	Stock days 14e	N/A	Stock overhang	○
Sales 11-13e	N/A	Operating margin 14e	N/A	Debtor days 14e	N/A	Interest rates	○
Sales 12-14e	N/A	Gr mgn / Op mgn 14e	N/A	Creditor days 14e	N/A	Oil/commodity prices	●

Management team

Non-Executive Chairman: Michael Evans (appointed 9 April 2014)

Michael Evans has extensive executive and board level experience with publicly listed companies in the natural resources sector over 30 years. Michael was the founding executive chairman of ASX oil and gas explorer FAR, a position he held from 1995 until his resignation in April 2012. Mr Evans is currently the non-executive chairman of ASX-listed TNG Limited.

Managing Director: David Wall (appointed 15 April 2014)

Mr Wall brings extensive financial experience in oil and gas. He was a leading oil and gas analyst for over six years, with a particular focus on Africa. Prior to his career as an analyst, Mr Wall managed a small team at Woodside Petroleum, responsible for a wide range of functions including strategic input, and reported to the executive committee.

Non-Executive Director: Dr Stephen Staley (appointed 9 April 2014)

Dr Stephen Staley has 30 years' of experience. Stephen was founding managing director of upstream start-ups Fastnet and Independent Resources. He was a non-executive director of Cove Energy. He is a Fellow of the Geological Society, holds a BSc in geophysics from Edinburgh University, a PhD in petroleum geology from Sheffield University.

Brent Villemarette (executive director)

Brent Villemarette is a petroleum engineer with more than 30 years' experience spanning a wide range of disciplines including exploration, development, operations, marketing, acquisitions and new ventures. He is presently COO for Transerv Energy.

Principal shareholders	(%)
Ablett Pty	3.75
Australian Global Capital	3.49
Peninsula Investments	3.14
HSBC	2.68
Phantom	1.8
Barclayshare Nominees	1.78

Companies named in this report

Cove Energy (now taken over), Fastnet, Genel, Cairn, Anadarko, Kosmos, BP