

## Third Times a Charm?

### **ACTION: Maintain SPECULATIVE BUY. Lowering Target**

This morning, TAG provided an update on the drilling operations at the BED4-T100 ("T100") horizontal well in the BED-1 field, located in Egypt's Western Desert. TAG encountered challenges during their second attempt to drill the horizontal section targeting the Abu-Roash "F" reservoir ("ARF"). These difficulties were primarily due to stability issues in the upper part of the Abu-Roash "E" ("ARE") section, in addition to mechanical problems with the drilling rig. TAG will now drill a third lateral from the intermediate cased section of the well at ~2,650 meters using an oil-based mud system (versus water-based), with flow test results now expected in March. We reiterate our **SPECULATIVE BUY** recommendation however, we believe the increased expense of this well and drilling challenges have elevated the company's risk profile. Therefore, we are adjusting our target price to \$1.00 (from \$1.25) equivalent to a 0.6x (was 0.75x) multiple of our risked NAV estimate.

**Drilling a Third Leg:** The Abu-Roash "E" shale sits directly above the Abu-Roash "F" target reservoir and is highly fractured which can create drilling difficulties. TAG used a water-based mud system to drill the first and second laterals in the T100 well. In the first lateral, TAG was successful using a water-based mud to complete the build section of the well however, was not successful in the second lateral in part due to mechanical issues with the rig. TAG is hopeful that with the upgrades to the drilling rig and using an oil-based mud system, the company should have drilling success with the third lateral.

**Near-term Operations:** Updating the mud system on the drilling rig is expected to take ~8 to 10 days. Drilling of the build section of the well is expected to take approximately two weeks, followed by two weeks to drill the horizontal section of the well. Once drilling is complete, TAG will immediately fracture stimulate and test the ARF reservoir with flow results expected in March.

### **IMPACT: Negative however Thesis Remains Unchanged**

The ARE zone is highly fractured as it is located within the crest of the structure. This characteristic suggests that the ARF reservoir might also be naturally fractured, potentially enhancing flow rates. We find it encouraging that the initial lateral drilling in the well showed promising signs of oil and indications of primary porosity. Nevertheless, it's crucial for TAG to secure a successful production test outcome from the third lateral. We remain optimistic that the modifications and upgrades to the drilling rig and plan will prove effective. Our fundamental theses remains unchanged. TAG is targeting a large unconventional reservoir and a successful production test should result in significant stock price appreciation. Therefore, we view the recent pullback in the stock price as a buying opportunity.

#### RATING & TARGET PRICE

Rating	SPECULATIVE BUY
Price	C\$0.38
Price Target	C\$1.00
Market Cap (\$M)	C\$68.60
Projected Return	163.2%

#### MARKET DATA

TAO-TSXV	C\$0.38
52 Week Range	C\$0.79 - C\$0.37
Basic Shares O/S (mm)	180.5
Fully Diluted O/S (mm)	188.8
Enterprise Value (\$M)	C\$44
Net Debt (\$M)	C\$(24.7)

#### UPCOMING EVENTS/CATALYSTS

TAG Conference Call: Thursday, January 4, 2024, at 7:00 AM PST / 10:00 AM EST.

Initial results of the BED4-T100 horizontal well (Feb/March)

#### ANALYST INFORMATION

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## Company Description:

TAG Oil Ltd. is currently focused on oil and gas exploration and development in the Middle East and North Africa. Near-term operations are focused on the unlocking the unconventional oil potential in the ARF formation in the Badr Oil Field, located in the Western Desert, Egypt. TAG also holds a 2.5% gross overriding royalty on future production from previously held assets located in New Zealand and a 3% GORR on perviously held assets in Australia.

## Risks:

While this is not an exhaustive list, we view the following risks as being noteworthy to investors in TAG Oil Ltd.

**SHALE OIL PLAY:** Although TAG has conducted a detailed analysis of the ARF zone, there can be no assurances that the Company will be successful at proving the commerciality of the play

**FINANCIAL RISK |** TAG currently has limited production and cash flow and must rely on working capital to fund its operations. If TAG is unable to increase production as expected, the Company may need to source additional capital which may not be available when needed.

**EXCHANGE RATE RISK |** TAG is an international company, is exposed to currency fluctuations including the Egyptian Pound, the US dollar and Canadian dollar.

**EXPLORATION RISK |** TAG has an active exploration program. The exploration for, and production of, hydrocarbons is a highly speculative activity which involves a high degree of risk. Exploration failure could have a material impact on our valuation.

**POLITICAL RISK |** TAG is an international oil and natural gas exploration and production with primary activities in Egypt and as a result is subject to political risks. The government extensively regulates the energy industry, with influence over exploration and production activities, prices, taxes, royalties and export restrictions. New regulations or modifications to existing regulations could adversely impact the company's profitability.

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