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The TAO of Asymmetric Investing

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by

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Key Investment Tenets

We run a capital structure long/short strategy with an event-driven focus

We are value investors across multiple dimensions: equity, credit & volatility

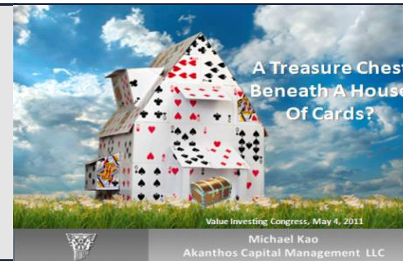
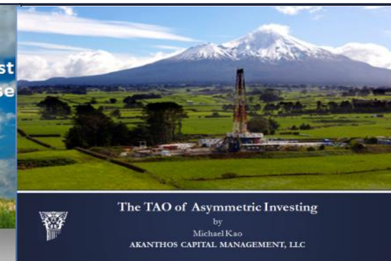
We believe over-weighting highest conviction trades leads to long-term outperformance

We seek fundamentally different thematic drivers to offset position concentration

We are willing to sustain some near-term volatility to achieve higher longer-term returns

We construct the portfolio to be a thematically diverse collection of asymmetric payoffs

Diverse Themes of Asymmetric Investing

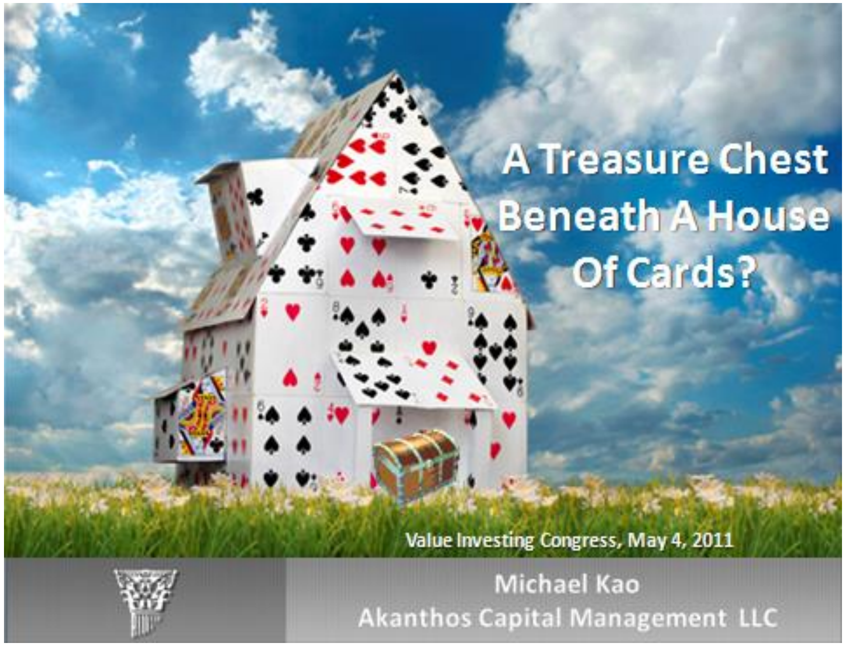
			
Date	**2010**	**2011**	**2014**
Bankruptcy Reorganization	√		
Event Driven / Special Situation	√	√	√
“Perpetuity Option”		√	√
Shareholder/ Creditor Activism		√	
Distressed/ Deep Value Security	√	√	√
Relative Value	√		

General Motors Distressed Bonds

- Presented the case for the pre-IPO debt securities of GM in October 2010
- OldCo bonds have converted to NewCo equity and warrants
- Bonds that we purchased for ~5c at the lows eventually recovered 40c+ at the time of exit
- GM bankruptcy stubs (MTLQU) have been a multi-bagger over the past 2 years due to positive claims resolution and stock appreciation

Fannie Mae and Freddie Mac Preferred Securities

- Invested in 2009 at 2c
- Presented at VIC on May 4, 2011, when preferreds were trading at around 5c
- Our largest event driven position despite taking significant profits to manage risk
- Currently trading around 35-40c
- Still a strong risk-reward proposition given strength of legal arguments and continued profitability of companies



Today's Idea: A Small-Cap E&P Common Equity

Company Description:

- Canadian domiciled oil and gas producer with operations in the North and South islands of New Zealand
- Traded on Toronto exchange
- Assets consist of drilling permits on 2.8mm net acres of conventional and unconventional drilling opportunities
- 3 basins: Taranaki, East Coast and Canterbury
- 100% ownership of facilities and pipeline infrastructure
- Currently most active driller in New Zealand
- Long term company goal to become the top New Zealand oil & gas producer in 10 years

Company Overview

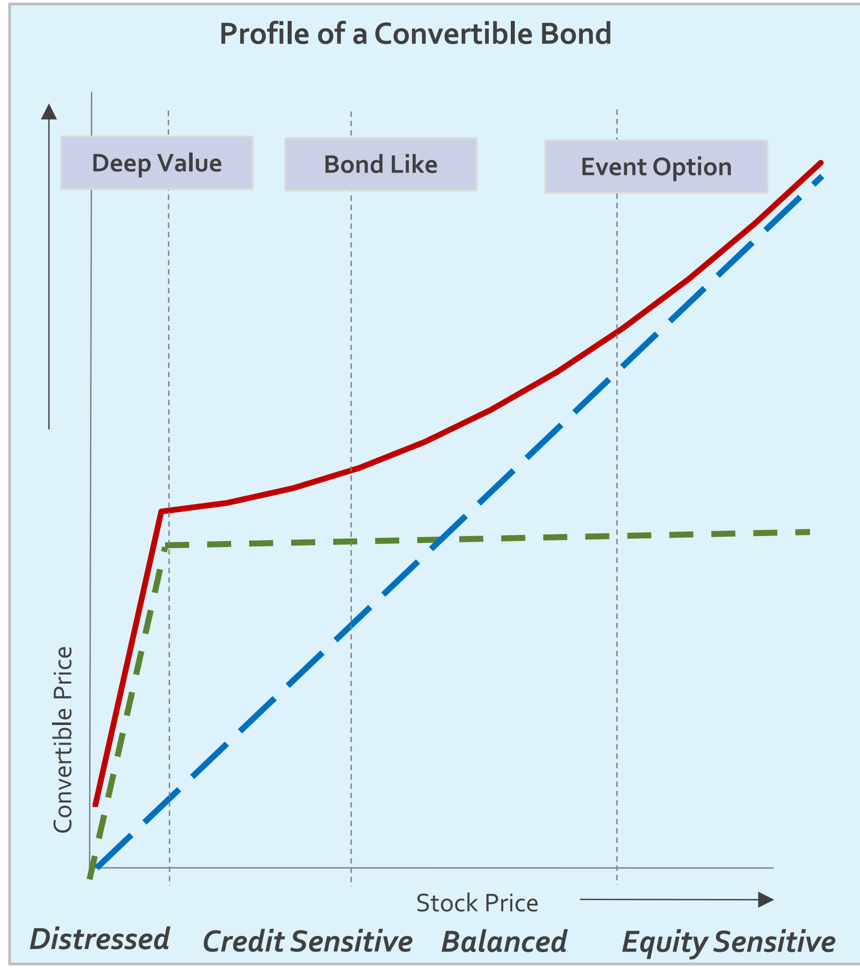
Capital Structure

Cash & Mkt Securities	$68.5
Debt	0.0
Net Debt (Cash)	($68.5)
Stock Price (CAD)	$3.03
Fully Diluted Shares OS	68.6
Market Capitalization	**$207.8**
Total Enterprise Value (TEV)	**$139.3**
Consensus FY2015 EBITDA (March)	41.2
TEV / 2015E EBITDA	3.4x

note: all $ figures in CAD $

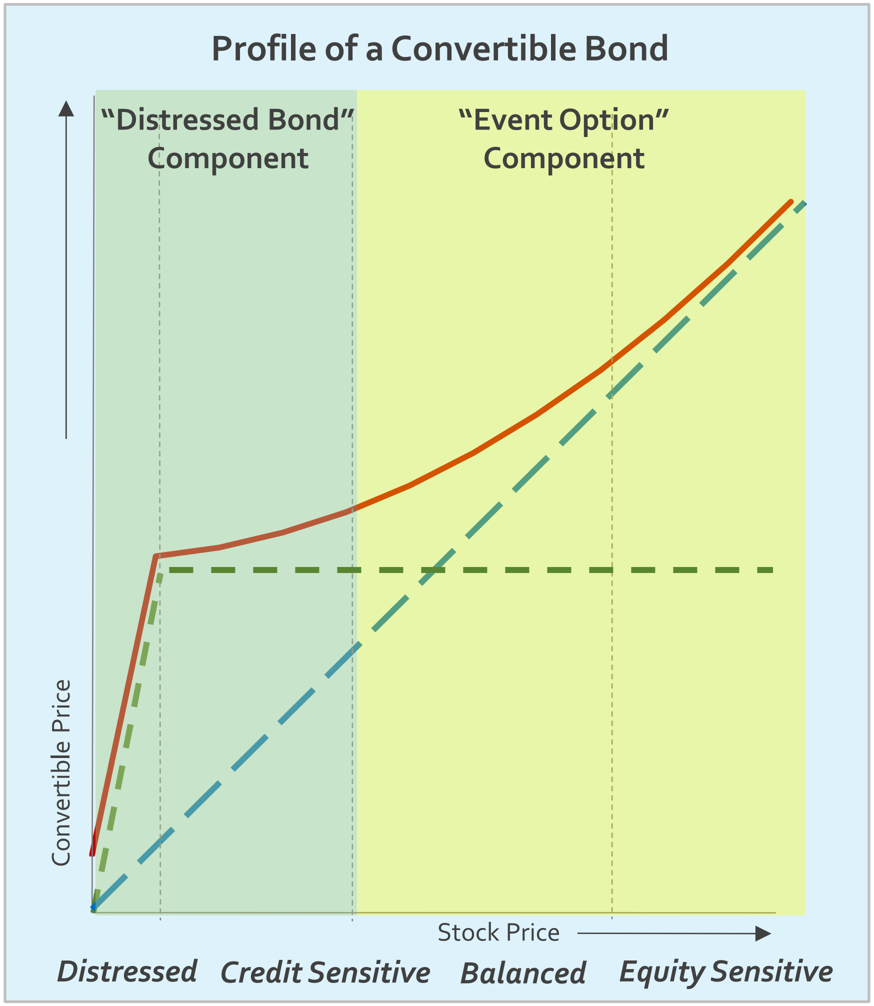
The TAO of Asymmetric Investing

- The company is Tag Oil (Bloomberg ticker: TAO CN)
- We think of TAO CN equity as having a profile similar to a "distressed bond" + multiple "event options"
- Theoretically, a deep value equity with zero debt has a profile similar to discounted debt with first call on assets/cash flow
- As in a bond, TAO CN's value derives from NPV of cash flows from current production
- Event options derived from exploration/drilling program



“Distressed Bond ” Component

- TAO CN’s shallow oil production in Taranaki Basin provides predictable cash flows
- Current production is a highly depressed 1,400 barrels per day; generating $40mm of annual cash flow
- Trading at 3.5x <u>current</u> cash flow with production at depressed levels
- Company should be able to increase production in near term to 1,600-1,800 bbl/day, which would make current valuation = 2.7-3.0x TEV/CF
- Existing producing wells account for <25% of total drillable potential
- Similar to distressed bond trading below “potential” principal value



"Event Option" Component

New Zealand is economically stable and relatively untapped:

- Including offshore New Zealand has 1Bn acres vs . Gulf of Mexico's 383mm acres
- TAO CN is currently the most active driller in New Zealand

TAO CN's three "option components":

- *Taranaki (West Coast) Basin*
  - Target both shallow and deep drilling opportunities to generate steady cash flows
- *East Coast Basin*
  - Potential game changing shale oil play
  - 14bn barrels of potentially recoverable oil (13bn unconventional)
  - Source rock geology very similar to Bakken field in North America
- *Canterbury Basin*
  - Frontier basin with proven hydrocarbon system onshore and offshore

Valuation

	Base Case (1)	Upside Case (2)	Unrisked Ceiling (3)
"Distressed Bond" Component			
Proved & Probable (2P) Reserves + Cash (4),(5)	$2.63	$2.63	$3.05
"Event Option" Component			
West Coast (4 plays)	$3.59	$5.66	$20.69
East Coast (10 plays)	$0.00	$7.22	$72.20
Total Event Options	$3.59	$12.88	$92.88
Total Value	**$6.22**	**$15.51**	**$95.93**
Current Price	$3.03	$3.03	$3.03
% Potential Upside	***105%***	***412%***	***3066%***

(1) Base case: low probability (5-20%) chance of success on West Coast, no value to East Coast

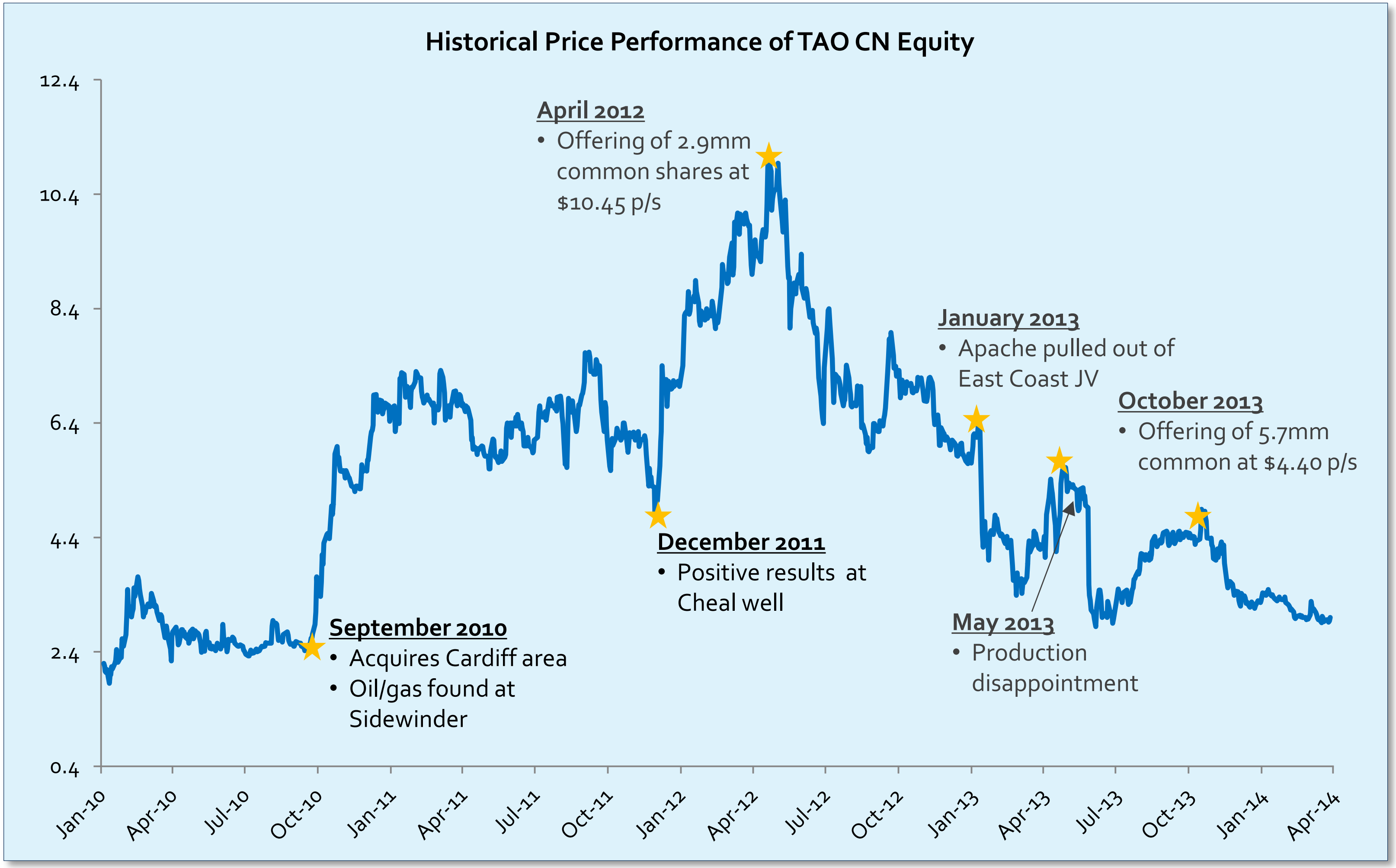
(2) Upside case: higher probability (15-30%) chance of success on West Coast, 10% chance to East Coast

(3) East Coast has 14bn of potential oil in place; recovery factor for NA shale roughly 10%

(4) Cash net of 12 months of capex

(5) Base 2P value of 5.6MMBoe, consisting of 3/31/13 value of 6.1MMBoe less 2013 production

Recent Events

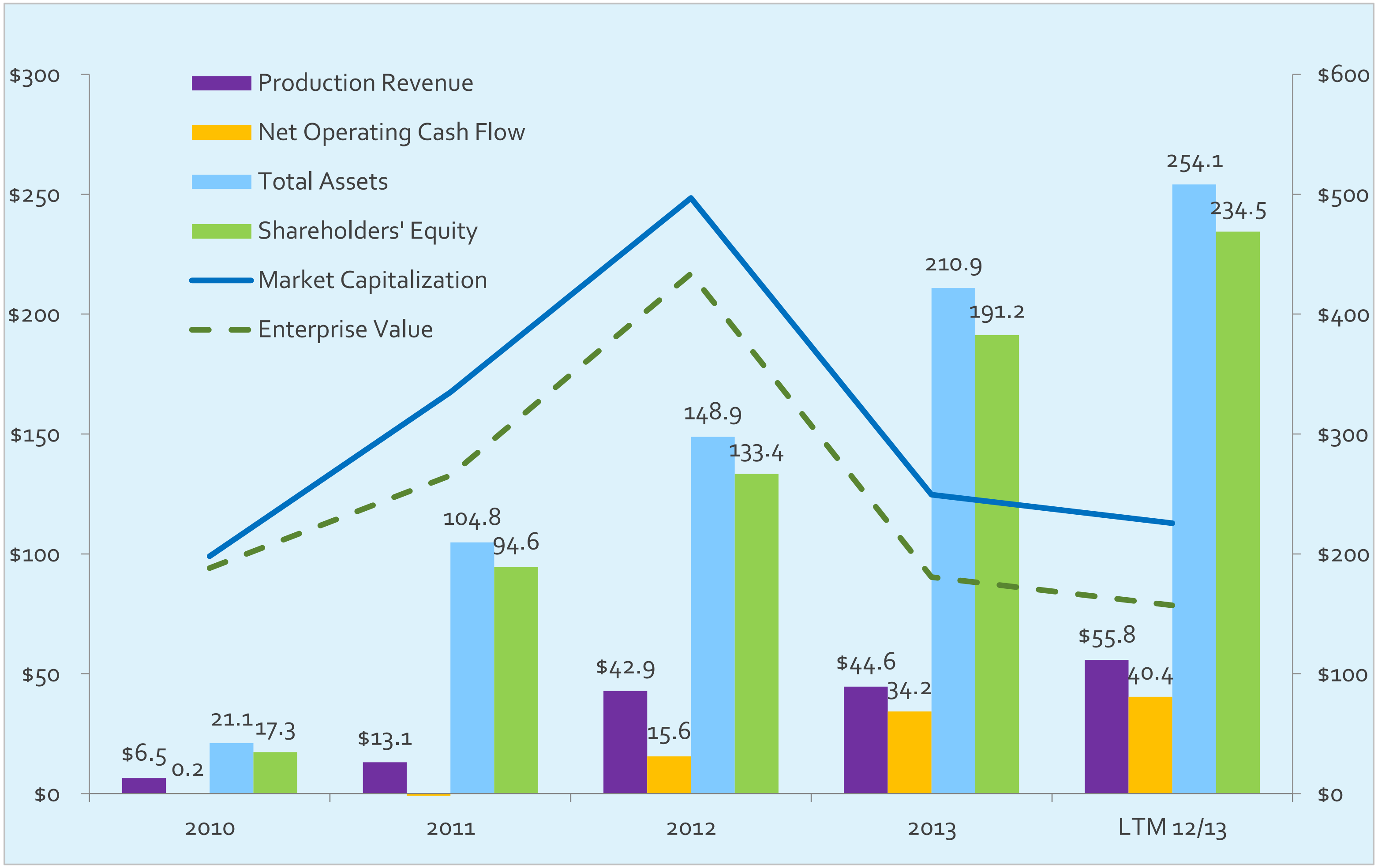


Why Is It Trading in Deep Value Territory?

- Disappointing production numbers in the past few quarters
  - Higher than expected decline rates on mature wells
  - Mitigated by higher oil vs. gas production (higher pricing & cash flow)
  - Current production baseline of 1,600-1,800 BOE/day (mostly oil) should be stable

- Apache pulled out of East Coast JV in early 2013
  - Shift in corporate strategy to refocus on domestic operations (trough natural gas)
  - Frustration with delays and postponements, impact on project IRR
  - Apache spent $27.5mm total, including $15mm lump sum payment to TAO
  - TAO CN is working with Apache's consultants who "fell in love with the play"

Summary:
Intrinsic and Market Value Divergence Creates Asymmetry



Left scale for revenue, cash flow, assets, shareholder equity. Right scale for market capitalization and enterprise value

Risks

- Commodity price risk
- Potential environmental opposition to unconventional drilling / fracking
- Limited operating history of wells
- Lack of oil & gas infrastructure in prospective areas (e.g. East Coast)
- Must demonstrate viability of drilling areas prior to permit expirations
- High potential CAPEX spending
- Near term drilling results at Cardiff (gas play in Taranaki) might disappoint

Q&A

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