

Kinetiko Energy Limited (ASX: KKO)

Joint development agreement to drive new production

Overview

Progress at Kinetiko is accelerating, with the acquisition of Badimo Gas, identification of new gas targets, drilling of three new wells, execution of a gas sales agreement with Vutomi Energy, announcement of joint development agreement with major South African financial institution, IDC, to develop gas fields for domestic offtake, and introduction of strategic investor Phefo Power. Gas sales are expected to commence shortly, followed by a 10-20 well pilot, delivering ~1-2 TJ/d by 2024. Successful demonstration should lead to staged project expansion to 100+ TJ/d later this decade. We value KKO at \$0.36/sh (prev. \$0.32), with upside to \$0.90+/sh on derisking.

Key points

Background: Kinetiko is a gas exploration company targeting South Africa's growing unmet energy demand, with 4.9 tcf of 2C contingent resources with further exploration potential, close to industrial centres & power generation.

Afro Energy acquisition concluded, converting Badimo Gas' 51% interest in the CBM exploration permits to a ~46% interest in Kinetiko, simplifying the previous JV decision process and funding of exploration and development.

Aeromag expands exploration targets: Kinetiko's third survey, covering ~560 km² over ER 270 and ER 272, increased the surveyed area to over 800 km² and more than doubled identified gas exploration targets to 79.

Three new exploration wells drilled: Korhaan-3, 4 & 5 were drilled adjacent to two existing wells, with all flowing gas to surface. The five well pod will support near term gas sales, with approval for 500 MMscf/yr (1.4 MMscfd).

First gas offtake agreement executed: The GSA with Vutomi Energy covers gas sales to produce electricity (1 MW -> 5 MW) for third party customers.

IDC JDA: IDC will contribute ZAR70m (\$6m) for 45% of an incorporated JV towards a production pilot of up to 20 wells, with KKO raising \$3.1m via a 1:15 rights issue @ \$0.075 to fund its share. Successful demonstration could lead to a larger staged program ultimately delivering 100+ TJ/d. Discussions are underway with other domestic and international funding groups.

Value proposition: Low drilling costs (~\$US0.35m/well) and high gas prices (~\$US7/MMBtu) provide attractive economics, with an estimated IRR of over 30%. Operatorship and high equity interest provide options for staged farm-down to fund future development and monetize resources in advance of gas sales. Kinetiko is trading at a discount to ASX-listed CBM peers.

Price catalysts: Commencement of multi-well pilot; resource upgrades and maiden reserves; confirmation of well performance parameters; further gas sales agreements; further exploration outcomes, production increases.

Risks: Project schedule delays; resource repeatability over the project area; ongoing funding; immature domgas and independent power sectors; gas pricing; competition from large offshore gas discoveries, civil unrest.

Next steps: Commence initial gas sales (2H 2022), 10-20 well IDC pilot (2H 2022); reserves assessment (2H 2022); progress gas commercialization options (2022/23); FID on larger development (2024+).

SHARE PRICE PERFORMANCE



Closing price as of 24th May 2022

| CAPITALIZATION | |
|--------------------------------|------------------|
| Last price | \$0.079 |
| 52-week range | \$0.08-0.145 |
| Capitalization | \$49m |
| Cash: 31 st Dec | \$1.0m |
| Debt: 31 st Dec | nil |
| EV | \$48m |
| Shares* | 626.3m |
| Options/rights | 3.0m |
| Conv Notes | - |
| Balance date | June |
| * before rights issue & Badimo | |
| RESERVES AND PRODUCTION | |
| 1P (30 Sep 20) | - MMboe |
| 2P " | - MMboe |
| 3P " | - MMboe |
| 2C " | 400 MMboe |
| 2U " | 74 MMboe |
| FY20a | - MMboe |
| FY21e | - MMboe |
| | |
| | |
| | |
| LEADERSHIP | |
| Ex. Chair | Adam Sierakowski |
| MD/CEO | Nic De Blocq |
| NED | Tom Fontaine |
| NED | Geoffrey Michael |

Disclosure: This is a commissioned research report and K1 Capital will receive a fee for preparing this report.

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1. Financial summary

| | Units | FY21a | FY22e | FY23e | FY24e | FY25e | FY26e | | Units | FY21a | FY22e | FY23e | FY24e | FY25e | FY26e |
|---------------------------------------|------------|-------|-------|-------|-------|-------|-------|---|-------|-------|-------|-------|-------|-------|-------|
| CPI, forex & prices | | | | | | | | P&L | | | | | | | |
| US inflation rate | % pa | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | Sales revenue | MSA | - | - | 2 | 4 | 7 | 32 |
| Australian inflation rate | % pa | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | Other revenue | | 0 | 0 | - | - | - | - |
| Inflation Factor - US : Dec-20 | | 1.005 | 1.028 | 1.050 | 1.073 | 1.097 | 1.121 | Production costs | | - | -0 | -0 | -1 | -2 | -9 |
| \$US/\$A forex (base) | \$US/\$A | 0.75 | 0.74 | 0.70 | 0.70 | 0.70 | 0.70 | Royalties & prod purchases | | - | -0 | -0 | -0 | -0 | -2 |
| Brent | \$US/bbl | 54 | 88 | 92 | 83 | 77 | 76 | Admin | | -1 | -1 | -1 | -2 | -3 | -3 |
| Nat Gas (Henry Hub) | \$US/mmBtu | 2.8 | 4.6 | 5.1 | 4.1 | 3.7 | 3.7 | Other | | 0 | -0 | - | - | - | - |
| Nat Gas (Sth Africa) - wholes | \$US/mmBtu | 7.1 | 9.1 | 9.4 | 9.0 | 8.8 | 8.8 | EBITDA | | -1 | -1 | -0 | 1 | 2 | 18 |
| Received prices | | | | | | | | Deprec & Amort | | | | | | | |
| Oil | \$US/bbl | - | - | - | - | - | - | EBIT | | -1 | -1 | -1 | -1 | 0 | 16 |
| Condensate | \$US/bbl | - | - | - | - | - | - | Net Interest Expense | | -0 | 0 | 0 | 0 | 0 | -0 |
| Gas | \$US/mmBtu | - | - | 8.0 | 7.9 | 8.1 | 8.3 | EBT | | -1 | -1 | -1 | -1 | 1 | 15 |
| LPG | \$US/bbl | - | - | - | - | - | - | Tax expense | | - | 0 | 0 | 0 | 0 | -1 |
| LNG | \$US/t | - | - | - | - | - | - | Minorities / preferred dividends | | -0 | -0 | - | - | - | - |
| Electricity | \$US/MWh | - | - | - | - | - | - | Normalized NPAT | | -1 | -1 | -0 | -0 | 1 | 14 |
| CO2e | \$US/t | - | - | - | - | - | - | Abnormals | | 0 | 0 | - | - | 19 | 159 |
| Total | \$US/boe | - | - | 38.1 | 42.4 | 49.4 | 47.9 | Reported NPAT | | -1 | -1 | -0 | -0 | 20 | 173 |
| Net production by project | | | | | | | | Effective tax rate % | | | | | | | |
| Amersfoort - KKO Pilot (100% mmboe) | | 0.00 | 0.00 | 0.02 | 0.02 | 0.02 | 0.02 | | | 0.0 | 17.5 | 20.5 | 20.0 | 0.0 | 9.5 |
| Amersfoort - IDC Pilot (20 we mmboe) | | - | - | 0.01 | 0.04 | 0.06 | 0.06 | Cash flow | | | | | | | |
| Amersfoort - Stage 2 (300 we mmboe) | | - | - | - | - | 0.02 | 0.11 | EBITDA | | | | | | | |
| Amersfoort - Stage 3 (to 1 tcf mmboe) | | - | - | - | - | - | 0.27 | Change in work cap | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Deferred tax | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Other operating items (tax, etc) | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Operating cash flow | | | | | | | |
| - mmboe | | - | - | - | - | - | - | PPE capex | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Exploration capex | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Development capex | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Other investing items | | | | | | | |
| - mmboe | | - | - | - | - | - | - | Investing cash flow | | | | | | | |
| Total | mmboe | 0.00 | 0.00 | 0.03 | 0.06 | 0.10 | 0.46 | Inc/(Dec) in Equity | | | | | | | |
| Net production by product | | | | | | | | Inc/(Dec) in Borrowings | | | | | | | |
| Oil | mmbbl | - | - | - | - | - | - | Dividends paid | | | | | | | |
| Condensate | mmbbl | - | - | - | - | - | - | Other financing items | | | | | | | |
| Gas | PJ | - | - | 0.15 | 0.34 | 0.64 | 2.80 | Financing Cash Flow | | | | | | | |
| LPG | mmbbl | - | - | - | - | - | - | Net Inc/(Dec) in Cash | | | | | | | |
| LNG | Mt | - | - | - | - | - | - | Free cash flow | | | | | | | |
| Electricity | TWh | - | - | - | - | - | - | Balance sheet | | | | | | | |
| CO2e | Mt | - | - | - | - | - | - | MSA | | | | | | | |
| Total | mmboe | - | - | 0.03 | 0.06 | 0.10 | 0.46 | Cash & cash equivalents | | | | | | | |
| Total production | kboed | 0.00 | 0.00 | 0.08 | 0.16 | 0.27 | 1.26 | Other current assets (DTA) | | | | | | | |
| Production growth | % | - | - | - | 99.5 | 67.1 | 360.0 | PPE, Exp & Dev | | | | | | | |
| Revenue | | | | | | | | Intangible assets | | | | | | | |
| Oil | MSA | - | - | - | - | - | - | Other non-current assets | | | | | | | |
| Condensate | MSA | - | - | - | - | - | - | Total Assets | | | | | | | |
| Gas | MSA | 0 | 0 | 2 | 4 | 7 | 32 | Short term debt | | | | | | | |
| LPG | MSA | - | - | - | - | - | - | Other current liabilities (DTL) | | | | | | | |
| LNG | MSA | - | - | - | - | - | - | Long term debt | | | | | | | |
| Electricity | MSA | - | - | - | - | - | - | Other non-current liabilities | | | | | | | |
| CO2e | MSA | - | - | - | - | - | - | Total Liabilities | | | | | | | |
| Total modelled | MSA | 0 | 0 | 2 | 4 | 7 | 32 | Minorities | | | | | | | |
| Total reported | MSA | - | - | - | - | - | - | Total shareholders equity (exc mi) | | | | | | | |
| Revenue growth | % | - | - | - | 122.3 | 94.2 | 346.7 | Total Funds Employed | | | | | | | |
| Operational metrics | | | | | | | | Net debt | | | | | | | |
| Revenue | \$A/boe | - | - | 50.8 | 55.9 | 64.7 | 61.1 | Business metrics | | | | | | | |
| Production & transport costs | \$A/boe | - | - | -10.9 | -11.5 | -13.9 | -16.9 | EBITDA margin % | | | | | | | |
| Royalties & prod purchases | \$A/boe | - | - | -2.6 | -2.8 | -3.2 | -3.1 | EBIT margin % | | | | | | | |
| Admin | \$A/boe | - | - | -45.6 | -33.2 | -26.1 | -5.7 | Normalized NPAT r % | | | | | | | |
| EBITDA margin | \$A/boe | - | - | -8.4 | 8.3 | 21.5 | 35.5 | Revenue growth % | | | | | | | |
| D&A | \$A/boe | - | - | -11.7 | -17.6 | -17.2 | -4.8 | EBITDA growth % | | | | | | | |
| Tax and financing | \$A/boe | - | - | 4.5 | 2.3 | 4.7 | -3.7 | EBIT growth % | | | | | | | |
| Normalized NPAT | \$A/boe | - | - | -15.6 | -7.0 | 9.0 | 27.0 | Normalized ROA % | | | | | | | |
| Resource/production | years | - | - | 31.7 | 15.5 | 9.1 | 1.9 | Normalized ROE % | | | | | | | |
| Product mix | % liquids | - | - | - | - | - | - | Fully diluted shares (million) | | | | | | | |
| Change vs. prior report | | | | | | | | Wtd diluted shares (million) | | | | | | | |
| USD/AUD (average) | \$US/\$A | - | - | - | - | - | - | Leverage | | | | | | | |
| Brent USD | \$US/bbl | - | - | - | - | - | - | Net Debt / Book Ec % | | | | | | | |
| Brent AUD | \$A/bbl | - | - | - | - | - | - | Net Debt / (ND+Bo) % | | | | | | | |
| Production | mmboe | - | - | - | - | - | - | Net Debt / Total As % | | | | | | | |
| Revenue | \$m | - | - | - | - | - | - | EBIT Interest cover x | | | | | | | |
| Cash opex (-ve = inc.) | \$m | - | - | - | - | - | - | Debt / Free Cash Fl x | | | | | | | |
| EBITDA | \$m | - | - | - | - | - | - | Valuation metrics | | | | | | | |
| Normalized NPAT | \$m | - | - | - | - | - | - | Norm. EPS c/sh | | | | | | | |
| Cash (YE) | \$m | - | - | - | - | - | - | EPS growth % | | | | | | | |
| Debt (YE, +ve = inc.) | \$m | - | - | - | - | - | - | PER x | | | | | | | |
| Capex (+ve = inc.) | \$m | - | - | - | - | - | - | Op Cash flow c/sh | | | | | | | |
| | | | | | | | | Price/Op Cash x | | | | | | | |
| | | | | | | | | EV/EBITDA x | | | | | | | |

Source: company data and K1 Capital forecasts

\$A currency unless otherwise noted. Nominal \$ basis. Year ending June.

2. Valuation

Table 1 Valuation cases

| Case | Description | \$m | \$/sh |
|-----------------|--|------------|-------------|
| Base | 1 tcf gross staged development of the Amersfoort project: 3-well own pilot commencing late 2022, 20-well IDC pilot from late 2023 (KKO 55% share), 300-well development (~12 TJ/d) from 2024 (Stage 2), before expansion to ~120 TJ/d, ~1 tcf from 2027 (Stage 3), retaining 50%. \$US7.50/MMBtu gas price. Remaining 2C contingent and 2U prosp. res. from 2030, risked at 30% and 10%. | 569 | 0.36 |
| Bear | 1 tcf staged development but no value ascribed to remaining 2C and prospective resources. \$US7.00/MMBtu gas. | 118 | 0.07 |
| Bull | Base @ \$US9.00/MMBtu gas | 780 | 0.49 |
| Blue Sky | 2C contingent resources (80% conversion to 2P) unrisked @ \$US7.50 MMBtu gas. (Prosp resources remain risked at 10%). | 1578 | 0.99 |

Table 2 Base case valuation summary

| NPV @ 10.0% WACC+country factor | Net volume | Resource NPV | Risk factor | Other value | Risked value | Risked value | Unrisked value |
|---|-----------------------------|--------------|-------------|-------------|--------------|----------------------|----------------|
| Valuation as of 31 Dec 2021 | PJe | \$/GJ | % | M\$A | M\$A | \$/sh | \$/sh |
| Projects (DCF model valuation) | 525.3 | | | 83 | 192 | 0.12 | 0.21 |
| Amersfoort - KKO Pilot (100%) | 1.5 | 2.61 | 100 | - | 4 | 0.00 | 0.00 |
| Amersfoort - IDC Pilot (20 wells, 55%) | 3.4 | 0.27 | 80 | 1 | 1 | 0.00 | 0.00 |
| Amersfoort - Stage 2 (300 wells, 50%) | 46.6 | 0.48 | 60 | 11 | 25 | 0.02 | 0.02 |
| Amersfoort - Stage 3 (to 1 tcf, 50%) | 473.8 | 0.39 | 50 | 71 | 162 | 0.10 | 0.19 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| Exploration / Appraisal | 3,910.1 | | | | 379 | 0.24 | 0.91 |
| Undeveloped 2C (80% conversion) | 3,125.4 | 0.37 | 30 | | 349 | 0.22 | 0.73 |
| Prospective 2U (80% conversion) | 784.6 | 0.37 | 10 | | 29 | 0.02 | 0.18 |
| ER 320 Prospective 2U | - | - | 10 | | - | - | - |
| - | - | - | - | | - | - | - |
| - | - | - | - | | - | - | - |
| Other (corporate, cash, debt, etc) | | | | | -1 | -0.00 | -0.00 |
| Corporate costs | | | | | -23 | -0.01 | -0.01 |
| Cash | | | | | 1 | 0.00 | 0.00 |
| Additional Equity | | | | | 21 | 0.01 | 0.01 |
| Debt | | | | | - | - | - |
| Equity Valuation @ base case | - | | | | 569 | 0.360 | 1.12 |
| Mkt Cap @ current share price | (and undiluted share count) | | | | 49 | 0.079 | |
| Number of shares (undiluted) | 000,000 | | | | 626.2 | @ valuation date | |
| Number of shares (diluted) | 000,000 | | | | 1,599.8 | fully funded devel't | |
| "Other value" is consideration for equity sell-down or delta to project equity NPV due to product price differences, etc. | | | | | | | |

Source: K1 Capital analysis. Includes \$10m of additional equity in CY23 and CY24 to progress the exploration, appraisal and staged development before operations can be funded internally and by partial sell-down.

3. Project update

Kinetiko's recent and current work focuses on five areas:

1. Simplifying its operational structure,
2. Expanding its exploration potential,
3. Appraising discovered gas resources,
4. Concluding gas offtake discussions, and
5. Securing funding for production pilots.

3.1.1 Simplifying operations: Afro Energy acquisition

Kinetiko announced the effective merger with its JV partner, Badimo Gas, in May 2021, acquiring 100% of Afro Energy. The acquisition was an important step in restructuring the joint venture arrangement to facilitate ongoing exploration and development activity.

The transaction delivers ownership of 100% of the South African assets under one listed entity, which increases the range of financing options to develop the project, provides a single board and management team to streamline development and exploration initiatives and deliver cost efficiencies, increases the net contingent resource of 4.9 Tcf (2C) to Kinetiko, and provides a larger market capitalization and enhanced liquidity for institutional investment. The merged entity will be able to raise capital for accelerated exploration, production and downstream development in international markets, which was previously not available to Badimo.

KKO will issue ~598m shares to Badimo as consideration, after facilitating the sale of \$6.5m of shares to settle loan amounts owed to Kinetiko for past exploration expenditure, giving Badimo ~46% of the post-merged Kinetiko. Kinetiko's accounting treatment of its interest in Afro Energy will change from being an investment in an associate to being consolidated as a subsidiary company.

| Security | Existing | Completion of Proposed Acquisition |
|--|--------------------|------------------------------------|
| Existing shares | 626,229,536 | 626,229,536 |
| Consideration Shares* | - | 597,704,812 |
| Total Shares | 626,229,536 | 1,223,934,348 |
| Existing Options | 3,000,000 | - |
| New Options | - | - |
| Fully diluted capital structure | 629,229,536 | 1,226,934,348 |

*Indicative only.

Source: Kinetiko Energy Limited, "Kinetiko Executes Binding Agreements to Acquire 100% of Afro Energy", 24th December 2021, p 4. Share quantities are before the current renounceable rights issue and placement.

3.1.2 Expanding exploration potential: Aeromagnetic program

Kinetiko completed its third aeromagnetic survey in December 2021, with 12,610 km flown over three areas in ER 270 and ER 272, increasing the total distance flown since 2014 by over 60%. 42 new compartments were discovered, covering 264 km², more than doubling total prospective gas compartments identified to 79, with a total area of 1,229 km².

The identified areas represent only ~20% of the currently assessed prospective area within the company's permits, pointing to further upside.

3.1.3 Appraising discovered gas resources: Korhaan drilling program

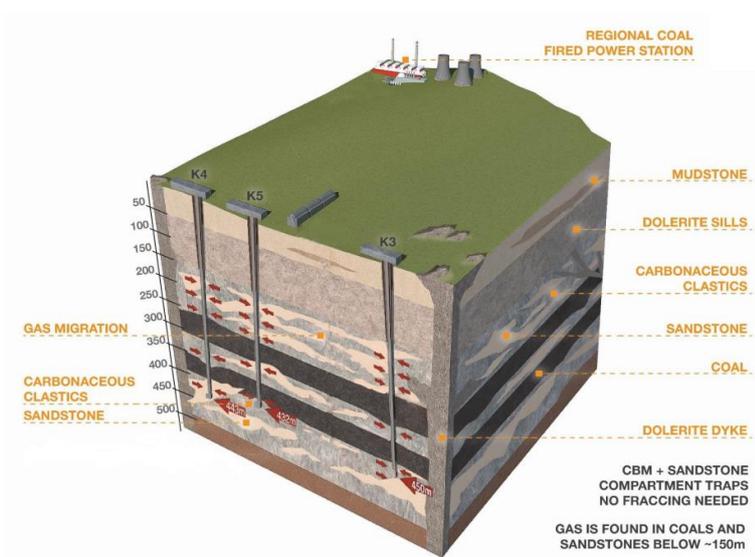
Three wells were recently drilled to build production capacity and better understand production performance and preferred well completions. Korhaan-3, 4 and 5 were drilled within ~400 m of two producing wells drilled in 2014, with all encountering gas charged formations and similar geology. The current barefoot completions will be replacing with cased and perforated completions after initial flow testing. The wells will not require fracking.

Figure 1 Korhaan well locations



Source: Kinetiko Energy Limited, “First well of Korhaan project spudded”, 4th November 2021, p 2

Figure 2 Korhaan area well cross-section (not to scale)



Source: Kinetiko Energy Limited, “Korhaan-3 drilled and logged – preparing to flow test all wells”, 17th February 2022, p 4

Table 3 Korhaan drilling program results

| Parameter | Korhaan-3 | Korhaan-4 | Korhaan-5 | Average |
|-------------------|-----------|-----------|-----------|---------|
| Total depth (m) | 449 | 443 | 432 | 442 |
| Gassy section (m) | 77 | 133 | 135 | 115 |

3.1.4 Concluding gas offtake discussions: Vutomi Energy

In December Afro Energy entered a 50/50 joint venture term sheet with Vutomi Energy (Pty) Ltd, a small South African power producer, to produce and sell electrical energy to third party offtakers.

Vutomi Energy will supply a 1MW gas reticulation engine to the JV on a loan basis at no cost and the JV will pay for installation and electricity network connection. The engine will utilize gas from Afro Energy's existing wells. The project may form the basis for future larger cogeneration plants.

The amount of gas to be developed is small (~55 TJ/yr)¹, however, the project is an important step in demonstrating commercial operation and converting contingent resources to reserves.

3.1.5 Securing funding for production pilots: IDC

Afro Energy announced a funding agreement with the Industrial Development Corporation of South Africa (IDC) in early April to develop a 15-20 well pilot production field in Exploration Right 12/3/271.

The investment and development will be conducted through an incorporated special purpose vehicle "Afro Gas Development SA (Pty) Ltd" in two phases. Phase 1 will involve the development of ~10 wells and the construction of a gas processing plant and pipeline gathering system. Phase 2 will comprise the commencement of gas production and the development of a further ~10 wells, plus expansion of facilities as required. Production will be achieved under the existing government approval for 500 MMscf/yr. The IDC has a first right to participate up to 45% of the next 80 wells developed by Afro Energy.

IDC will contribute 45% (ZAR70m, ~\$6.3m) of the anticipated ZAR155m project and Kinetiko will contribute 55% (ZAR80m, ~\$7.2m) via Afro Energy.

3.1.6 Other partnerships: Phefo Power

Kinetiko has secured a subscription of ZAR10m (~\$0.9m) from South African energy investment group, Phefo Power, which bolsters Kinetiko's Black Economic Empowerment (BEE) certification. The investor subscription was combined with the current 1:15 pro rata renounceable rights issue to raise a combined total of ~\$4m.

¹ Gas consumption = 1 MWe /40% notional efficiency * 3600 sec/hr*24 hr/day*365 days/yr = 78.8 TJ/yr @ 100% utilization, 55 TJ/yr @ 70% utilization => 0.151 TJ/d, equivalent to ~150 kscfd.

4. Valuation

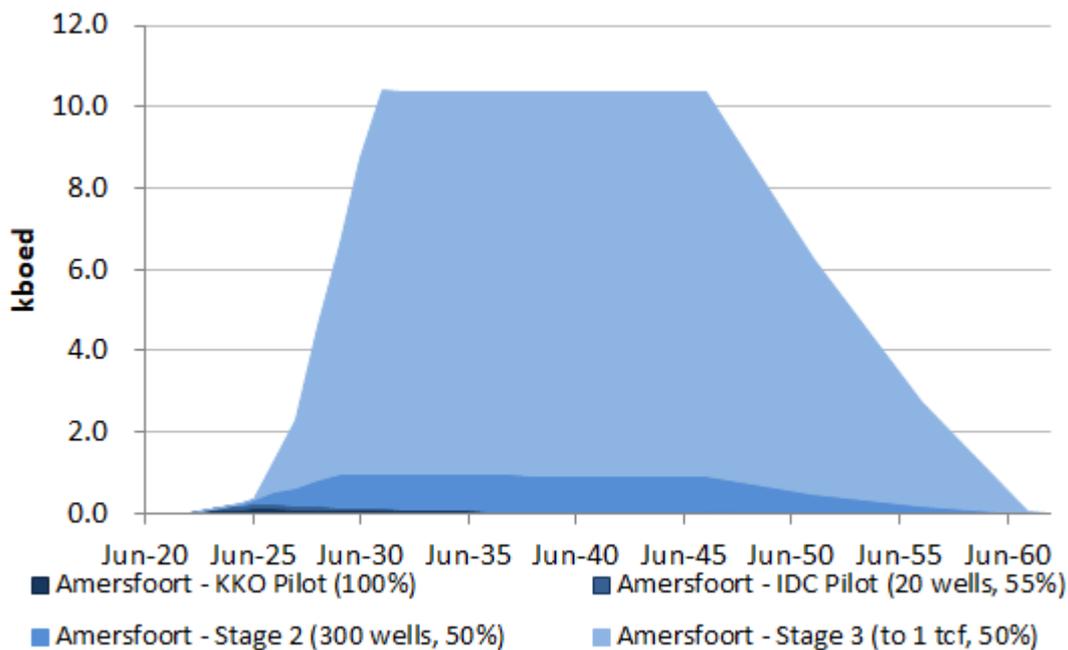
We have valued Kinetiko using discounted cash flow analysis for the Amersfoort Gas Project and enterprise value to resource multiples for undeveloped resources and exploration prospects. Our resource multiples are based on analogous projects cross-checked with market or transaction metrics. We apply risk factors to account for technical and commercial maturity. Our investment model incorporates probability distributions for key variables, including reserves and resources, commodity prices and exploration success, and uses Monte-Carlo simulation to quantify the range of share price outcomes.

We continue to assume a stage development concept, with initial production from 3 to 5 existing wells commencing in 2H 2022 for onsite power generation (1 MW), a 10-20 well pilot commencing drilling in late 2022 and production by mid-2023, followed by a larger ~300 well, 90 bcf, 12 TJ/d, development to support an on-site power generation project in 2024.

We assume full development would comprise a ~3000+ well, 900 bcf, ~120 TJ/d, gas sales to medium to large scale power gen (~800 MW) project in the second half of this decade. Detailed project assumptions for each project stage are explained in our report of 6th September 2021.

The key uncertainties at this stage are longer term well performance (estimated ultimate recovery and production profile) and development economics (capex per well, gas offtake profiles and pricing). These assumptions will be further refined based on pilot project performance.

Figure 3 Kinetiko production model



Source: K1 Capital analysis

5. Comparative valuation

Kinetiko continues to trade at a material discount to ASX peers with international operations, due to uncertainty regarding future commercialization of Kinetiko's large contingent resource endowment. Successful demonstration of production from the planned pilot programs and conversion of contingent resources to reserves should see this discount begin to unwind.

Three ASX-listed companies other than Kinetiko have onshore CBM/unconventional gas interests in southern Africa: Tlou Energy (ASX: TOU) – CBM in Botswana, Pure Hydrogen (ASX: PH2) – CBM in Botswana, and Renergen (ASX: RLT) – biogenic gas and helium in South Africa. Five ASX-listed juniors have CBM exploration and appraisal interests in Australia.

Our trading metrics are based on a price-equivalent reserves and resources basis. Our primary valuation metric for CBM companies is 2P reserves + 0.8*2C resources, based on industry conversion of ~80% of 2C resources to 2P reserves over a period of 5 years.

Table 4 Reserve and resource trading metrics

| Company | Code | Last Price 09-May-22 | Total Shares (million) | Mkt Cap M\$A | EV M\$A | 2P PJe' | 3P PJe' | 2C PJe' | EV/2P \$/GJe | EV/ (2P+0.8*2C) \$/GJe | EV/ (3P+2C) \$/GJe | Gearing D/(D+E) % |
|---|------|-------------------------|---------------------------|-----------------|---------------|-----------------|--------------|-----------------|-----------------|------------------------------|--------------------------|-------------------------|
| Kinetiko Energy | KKO | 0.085 | 626 | 53 | 53 | - | - | 2,463.3 | - | 0.03 | 0.02 | 0 |
| Australian CBM (4) | | | | 469 | 441 | 222.1 | 551.8 | 4,338.3 | 1.23 | 0.12 | 0.09 | 2 |
| Blue Energy | BLU | 0.080 | 1,528 | 122 | 114 | 71.0 | 291.0 | 1,313.0 | 1.60 | 0.10 | 0.07 | - |
| Comet Ridge | COI | 0.170 | 926 | 157 | 160 | 151.1 | 260.8 | 300.8 | 1.06 | 0.41 | 0.28 | 6 |
| Galilee Energy | GLL | 0.345 | 339 | 117 | 100 | - | - | 2,507.5 | - | 0.05 | 0.04 | - |
| State Gas | GAS | 0.360 | 200 | 72 | 68 | - | - | 217.0 | - | 0.39 | 0.31 | - |
| ASX International CBM/helium (5) | | | | 386 | 398 | 458.8 | 847.4 | 704.2 | 0.87 | 0.29 | 0.19 | 15 |
| Elixir Energy | EXR | 0.145 | 892 | 129 | 104 | - | - | - | - | - | - | - |
| NuEnergy Gas | NGY | 0.023 | 1,481 | 34 | 34 | 64.8 | 64.8 | 37.0 | 0.53 | 0.36 | 0.33 | 8 |
| Tlou Energy | TOU | 0.032 | 600 | 19 | 18 | 22.4 | 235.3 | 117.9 | 0.78 | 0.15 | 0.05 | 27 |
| Pure Hydrogen | PH2 | 0.365 | 339 | 124 | 112 | - | - | 549.3 | - | 0.25 | 0.20 | - |
| Renergen | RLT | 3.380 | 24 | 80 | 131 | 371.6 | 547.3 | - | 0.35 | 0.35 | 0.24 | 42 |
| ASX oil & gas producers (4) | | | | 62,711 | 72,118 | 22,896.7 | 389.6 | 53,013.1 | 3.15 | 1.10 | 0.95 | 22 |
| Beach Energy | BPT | 1.675 | 2,281 | 3,821 | 3,814 | 1,990.8 | - | 1,124.1 | 1.92 | 1.32 | 1.22 | 4 |
| Cooper Energy | COE | 0.275 | 1,633 | 449 | 554 | 288.5 | 389.6 | 207.8 | 1.92 | 1.22 | 0.93 | 30 |
| Santos | STO | 8.080 | 3,387 | 27,366 | 33,286 | 8,416.1 | - | 16,717.3 | 3.96 | 1.53 | 1.32 | 27 |
| Woodside Petroleum | WPL | 31.580 | 984 | 31,074 | 34,464 | 12,201.4 | - | 34,963.9 | 2.82 | 0.86 | 0.73 | 20 |

Source: K1 Capital analysis of company data. Expressed relative to the spot east coast Australian gas price of \$26/GJ.

Table 5 Reserve & resource spot price equivalence factors

| Commodity | units | Price 09-May-22 | Price \$/US/boe | Price factor | Source |
|------------------|-------------|--------------------|--------------------|-----------------|---------------------------------------|
| USD/AUD forex | \$/US/\$A | 0.7095 | - | - | Reserve Bank of Australia |
| Brent | \$/US/bbl | 112.21 | 112.21 | 1.00 | Bloomberg |
| WTI | \$/US/bbl | 109.47 | 109.47 | 0.98 | " |
| Henry Hub | \$/US/mmBtu | 8.13 | 47.15 | 0.42 | " |
| EC Australia | \$/A/GJ | 26.00 | 112.89 | 1.01 | AEMO Wallumbilla benchmark 9 May '22 |
| WC Australia | \$/A/GJ | 5.54 | 24.05 | 0.21 | gasTrading spot price Apr '22 |
| Europe | \$/US/mmBtu | 32.20 | 186.76 | 1.66 | World Bank, Netherlands TTF, Apr '22 |
| SAfrica | \$/US/mmBtu | 10.37 | 60.16 | 0.54 | est. field gate price @ \$US112 Brent |
| LNG | \$/US/mmBtu | 16.44 | 95.38 | 0.85 | 85% of Brent (14.7% slope) |
| LNG JPN/KOR spot | \$/US/mmBtu | 17.18 | 99.64 | 0.89 | World Bank, Japan, Feb '22 |
| LPG | \$/US/t | 855 | 75.00 | 0.67 | Saudi Contract Price - May '22 |
| Helium | \$/US/kscf | 210 | 1,183 | 10.54 | USGS Mineral Comm Summary 2020 |

Source: K1 Capital analysis. Helium "boe energy equivalent price" assumes notional 1.03 MMBtu/kscf for comparison

Disclosure:

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K1 Capital overview: K1 Capital was established in 2016 as a specialist independent provider of research, analysis and corporate advisory services, focused on oil & gas and the broader energy sector. K1 Capital operates under its own AFSL which covers the provision of research to wholesale clients.

Analyst background: John Young has over 30 years' experience in the petroleum, resources and financial services industries with ExxonMobil, WMC Resources/BHP Billiton, Wilson HTM and Ord Minnett, with qualifications in engineering (BE hons), applied science (MAppSc), operations research (GradDipBusSc), management (GDM) and finance (GradDipAppFin).

6. Appendices

6.1 Reserves and resources

Contingent and prospective resources are unchanged from our initial report from November 2020.

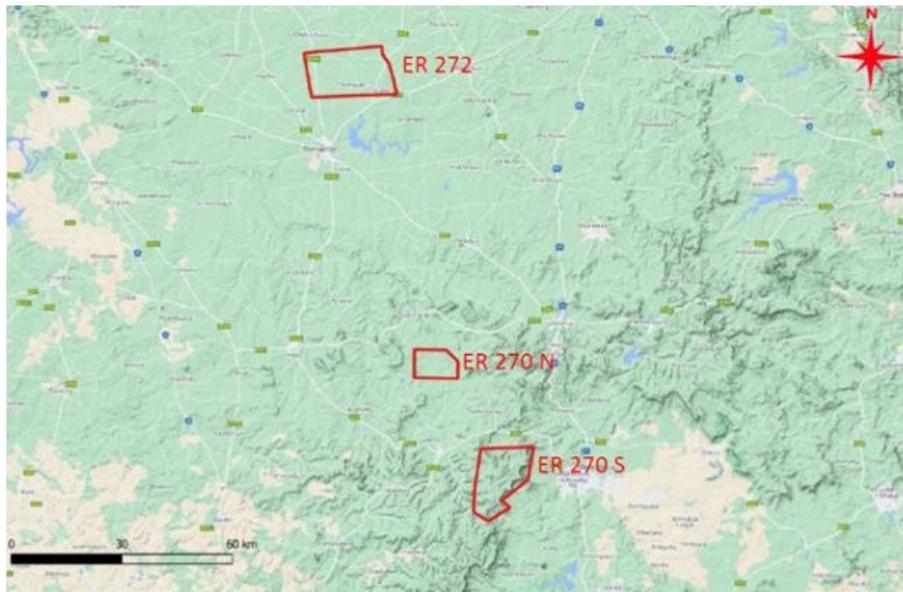
Table 6 Gross resource statement (n.b. KKO's share is 100% of the gross amount shown)

| Item | Units | 1C | 2C | 3C | 1U | 2U | 3U | Comment |
|-----------------------------|---------------------|----------------|----------------|-----------------|--------------|--------------|----------------|---|
| Permit area | bcf | 4,604 | 4,604 | 4,604 | | | | |
| CBM | bcf | 4,604 | 4,604 | 4,604 | | | | assume resource play covers all permits " |
| Sandstone | bcf | 4,604 | 4,604 | 4,604 | | | | |
| Gas in place (gross) | bcf | 4,204.0 | 9,306.6 | 17,465.0 | 0.0 | 0.0 | 0.0 | |
| CBM | bcf | 3,114.2 | 6,883.8 | 13,097.2 | | | | |
| Sandstone | bcf | 1,089.8 | 2,422.8 | 4,367.8 | | | | |
| Recoverable (gross) | bcf | 2,236.9 | 4,861.8 | 9,250.6 | 361.0 | 902.5 | 1,766.7 | |
| CBM | bcf | 2,047.1 | 4,492.0 | 8,621.2 | | | | |
| Sandstone | bcf | 189.8 | 369.8 | 629.4 | 361.0 | 902.5 | 1,766.7 | |
| | | 1C+1U | 2C+2U | 3C+3U | | | | |
| Recovery (gross) | bcf | 61.8 | 61.9 | 63.1 | | | | |
| CBM | bcf | 65.7 | 65.3 | 65.8 | | | | |
| Sandstone | bcf | 50.5 | 52.5 | 54.9 | | | | |
| Resource density | bcf/km ² | 0.56 | 1.25 | 2.39 | | | | |
| CBM | bcf/km ² | 0.44 | 0.98 | 1.87 | | | | |
| Sandstone | bcf/km ² | 0.12 | 0.28 | 0.52 | | | | |
| EUR/well | bcf/well | 0.14 | 0.30 | 0.58 | | | | @ 60 acres/well spacing |
| CBM | bcf/well | 0.11 | 0.24 | 0.45 | | | | |
| Sandstone | bcf/well | 0.03 | 0.07 | 0.13 | | | | |

1. Source: data extracted from Kinetiko Energy Limited, "Significant Gas Resource Increase – Contingent Resources (2C) now 4.9 tcf", 29th July 2020, p 2. Resource assessment per Gustavson Associates LLP, Boulder, Colorado, USA.
2. Resources include exploration rights ER38, ER56, ER270, ER271 & ER272, covering 4,604 kms² gross.
3. n.b. Resource Assessment Excludes Exploration Right Application 320, comprising 2,394 km² pending approval.

6.2 Aeromagnetic survey areas

Figure 4 Aeromagnetic survey areas



Source: Kinetiko Energy Limited, "New Aeromagnetic Survey Interpretation Update", 27th January 2022, p 2

| Parameter | Previous surveys | Recent survey | Total |
|--|------------------|---------------|--------|
| Total line km flown (km) | 19,594 | 12,610 | 32,204 |
| Total area identified (km ²) | 965 | 264 | 1,229 |
| Gas compartments (#) | 37 | 42 | 79 |
| Line km flown/area (km/km ²) | 20.3 | 47.8 | 26.2 |
| Compartment size (km ²) | 26.1 | 6.3 | 15.6 |



| Parameter | ER270N | ER270S | ER270N | Total |
|--|--------|--------|--------|--------|
| Total area identified (km ²) | 43.86 | 85.25 | 135.06 | 264.17 |
| Gas compartments (#) | 12 | 19 | 11 | 42 |
| Compartment size (km ²) | 3.7 | 4.5 | 12.2 | 6.3 |

The smaller compartment size identified in the recent survey is unlikely to be important to development economics, given multiple wells will be required within each compartment to extract the gas resources. The higher distance flown per gas area identified is expected given the focus on higher profile areas first.

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