

1 May 2023

Success Continues – Gas Where It's Needed

NEED TO KNOW

- 100% drilling success rate continues
- IDC funding received for field development
- Partner interest increases with further development and supply agreements advanced

KKO maintains its 100% success rate: KKO's drilling program has continued its 100% drilling success rate at the Mpumalanga Project. Its latest core hole established a sandstone gas pay zone of 153m, with the borehole situated only a few kilometres from the largest gas pipeline in South Africa (SA).

First instalment of IDC funding received: Industrial Development Corporation of South Africa (IDC), a wholly owned subsidiary of the SA Government mandated to promote economic growth and industrial development in SA, has advanced R16.3m as the first instalment of its R70m commitment into its JV with KKO. The proposed gas field comprises ~20 wells to produce gas. Also, the IDC has a first right to participate in up to 45% of the next 60 wells developed by KKO.

KKO continues to attract partner interest: KKO has executed an MOU with FFS Refiners for a potential supply agreement and a Letter of Intent (LOI) with Grüner Energy for a potential gas development and supply agreement. This represents continuing strong third-party interest in the Mpumalanga Project and demonstrates its huge potential.

Investment Thesis

Prime location, long life, exploration upside: The Mpumalanga Project is located ~200km south-east of Johannesburg. The project sits within existing infrastructure including power generation, gas pipelines, high-voltage transmission lines, road and rail. The project hosts a 2C contingent gas resource of 4.9 trillion cubic feet (Tcf), found in shallow sandstone and coal formations, indicating a potential long-life gas development.

Near-term production, government policy paves way: SA Government policy regarding power generation has opened the door for KKO to advance with small scale gas-to-power projects. with existing wells at Mpumalanga utilised to produce gas powering an in-field generator linked to the existing grid.

Long-term production – SA energy crisis creates multiple options for gas sales for KKO: SA's ageing, underinvested power generation (predominantly coal) infrastructure, declining domestic offshore and imported onshore gas supply, as well as the existence of only one approved onshore gas producer, reflects the nation's significant energy crisis. KKO is enviably placed to be part of both a short- and long-term, lower-carbon solution to SA's energy needs.

Valuation A\$0.27 (unchanged)

Our base-case valuation of A\$0.27 is derived by estimating the risked value of developing the Mpumalanga Project. Our unrisks discounted cash flow (DCF) valuation is A\$0.45 per share. As a cross check, we look at the EV/Resource method, deriving a valuation of A\$1.58 using market average EV/Resource multiples. This shows the potential upside to KKO as the project is developed, reserves are certified, and production is increased.

Risks

The key risks relate to development, reserves conversion and funding.

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Energy

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Kinetiko Energy (KKO) is an Australian company that explores and develops advanced shallow conventional gas and coal bed methane opportunities in Southern Africa. Its flagship project is the Mpumalanga Gas Project in South Africa. The company has a 4.9 Tcf 2C contingent resource and almost 7,000km² in granted rights and application areas. KKO's vision is to become a major player in South African onshore gas production.

<https://www.kinetiko.com.au/>

Valuation	A\$0.27 (unchanged)
Current price	A\$0.092
Market cap	A\$72m
Cash on hand	A\$6.3m

Upcoming Catalysts and Newsflow

Period	
Ongoing	Continued drilling program
2QCY23	Maiden Reserves announcement

Share Price (A\$)



Source: FactSet, MST Access.

FINANCIAL SUMMARY - YEAR END 30 JUNE

Kinetiko Energy Ltd (ASX:KKO)

Share Price	A\$/sh	0.09
52 week high/low	A\$/sh	0.13/0.05
Valuation	A\$/sh	0.27
Market Cap (A\$m)	A\$m	124 (After Share Issue for 100% Project)
Net Cash / (Debt) (A\$m)	A\$m	6
Enterprise Value (A\$m)	A\$m	118
Shares on Issue	m	1348 (After Share Issue for 100% Project)
Options/Performance shares	m	7
Potential Diluted Shares on Issue	m	1355

Ratio Analysis	2021A	2022A	2023	2024	2025
EPS (A¢)	(0.30)	(0.93)	(0.19)	0.40	1.19
P/E (x)	n/m	n/m	n/m	22.9	7.7
EPS Growth (%)	n/m	n/m	n/m	n/m	197%
CFPS (A¢)	(0.35)	(0.58)	(0.20)	0.40	1.20
P/CF (x)	n/m	n/m	n/m	23.2	7.7
DPS (A¢)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
EV / EBITDA (x)	n/m	n/m	n/m	16.4	4.9
EV / boe (x)	-	-	-	394.3	157.2
EV / PJe (x)	-	-	-	65.7	26.2
FCFPS	-	-	-	-	-
FCF Yield (%)	-	-	-	-	-

Assumptions (Yr end Jun)	2021A	2022A	2023	2024	2025
Brent Oil Price (US\$/bbl)	50.40	53.65	88.38	86.7	80.6
Exchange Rate (A\$1:US\$)	0.747	0.725	0.680	0.680	0.680
Gas Price (A\$/GJ)	5.95	4.81	7.00	7.00	7.28

Production	2021A	2022A	2023	2024	2025
Gas (TJ/d)	-	-	-	5	12
Gas (PJ)	-	-	-	1.8	4.4
LPG (kt)	-	-	-	-	-
Oil / Condensate (mmbbl)	-	-	-	-	-
Total (mmboe)	-	-	-	0.29	0.73
Gas (mmboe)	-	-	-	0.29	0.73
LPG (mmboe)	-	-	-	-	-
Oil / Condensate (mmboe)	-	-	-	-	-
Year End Reserves 2P (mmboe)	-	30.3	30.3	30.0	29.2

Reserves and Resources As at 30 June 2022	Working Interest	1C Gas (bcf)	2C Gas (bcf)	3C Gas (bcf)
Coal Bed Methane	100.0%	2,047	4,492	8,621
Gas in Sandstone	100.0%	190	370	629
Total		2,237	4,862	9,251

Valuation	A\$m	Risking	A\$m	A\$ps
Mpumalanga Gas Project (~200 PJ) - 100%	372	70%	260	0.19
Total Operations	372		260	0.19
Net Cash / (Debt)	6	100%	6	0.00
Admin / Corporate / Other	(30)	100%	(30)	(0.02)
Exploration (risk-adjusted)	19	50%	9	0.01
CBM unconventional, 2C risked (~330 bcf)	242	50%	121	0.09
TOTAL VALUATION	609		367	0.27

KKO Relative to XEJ 12 months



Profit & Loss (A\$m)	2021A	2022A	2023	2024	2025
Oil / Condensate Revenue	-	-	-	-	-
LPG Revenue	-	-	-	-	-
Gas Revenue	-	-	-	13	33
Total Sales	-	-	-	13	33
Operating Costs	-	-	-	(2)	(5)
Government Resource Taxes	-	-	-	(1)	(2)
Exploration & Development Expenses	(1)	(2)	(1)	(2)	(2)
Other Net Income / Expense	(1)	(2)	(1)	(1)	(1)
EBITDA	(2)	(4)	(2)	7	23
EBITDAX	(1)	(2)	(1)	9	25
Depreciation & Amortisation	(0)	(0)	-	(0)	(0)
EBIT	(2)	(4)	(2)	7	23
Net Interest Expense	0	(2)	0	0	0
Pretax Profit	(2)	(6)	(2)	7	23
Tax Expense / Benefit	-	-	-	(2)	(7)
Net Attributable Profit	(2)	(6)	(2)	5	17
Reported Profit	(2)	(6)	(2)	5	17

Cash Flow (A\$m)	2021A	2022A	2023	2024	2025
Pretax Profit	(2)	(6)	(2)	7	23
D&A & Other Non-Cash Items	0	2	(0)	0	0
Tax Paid	-	-	-	(2)	(7)
Cash from Operating Activities	(2)	(4)	(2)	5	17
Development Capex	(0)	(0)	-	(9)	(15)
Exploration Capex	(1)	(2)	(1)	(2)	(2)
Acquisitions/Other (Net of Sales)	-	-	-	-	-
Dividends Paid	-	-	-	-	-
Free Cash Flow	(2)	(5)	(2)	(3)	2
Cash Provided by Financing	1	6	8	10	-
Net Change in Cash	(1)	1	6	7	2

Balance Sheet (A\$m)	2021A	2022A	2023	2024	2025
Cash & short term deposits	0	1	6	13	15
Receivables	1	0	0	3	12
Inventories	-	-	-	2	7
Property, Plant and Equipment	0	0	0	9	24
Capitalised exploration	-	-	-	-	-
Intangibles and Goodwill	-	-	-	-	-
Other assets	7	7	7	6	6
Total assets	8	10	15	35	66
Creditors	0	0	1	3	8
Borrowings	-	0	-	-	-
Other liabilities	-	-	(0)	3	11
Total liabilities	0	1	1	6	20
Shareholder equity	8	9	14	30	46
Shareholder Equity + Total Liabilities	8	10	15	35	66

New Drilling Continues to Show Potential of a Huge Gas Province, Multiple Options for KKO

Gas explorer/developer Kinetiko (KKO) owns 100% of the Mpumalanga Project, ~200km from Johannesburg. The project sits within existing infrastructure (power generation, gas pipelines, high-voltage transmission lines, road, rail), covers ~7,000 km², and features a 2C contingent resource of 4.9Tcf.

KKO began a 7-hole core exploration program for the Mpumalanga Project in September 2022. The first 4 holes in the 7-hole program have continued the 100% drilling success rate (34 out of 34) and demonstrate the huge potential of the project. KKO plans another minimum of 3 core holes in this program, which is designed to focus on identifying further gas-laden sandstones, coals and other carbonaceous structures and extend the continuity of potential gas fields in its new exploration tenement, northernmost block ER272.

Drill program – 100% success rate continues

First core hole: success – gas in sandstone and coal for 247m

The first hole in the program was strategically located near the Majuba Power Station, which has a 20MW gas generator awaiting a source of fuel.

Core hole 271-23C spudded on 21 September 2022 near the Majuba Power Station. The core hole represented an important milestone, marking KKO's return to exploration after the Koorhaan well program was completed in June 2022.

The hole was completed and logged to a depth of 478m, with a thick, dolerite cap sill between 80 and 226m providing a vertical gas seal with gassy sandstone, coal and carbonaceous siltstones and mudstones below. Gas shows were nearly continuous below the dolerite during the drilling with gas-bearing geological sequences totalling 247m intersected, including 131.5m of sandstone pay.

In addition, desorption tests have been run on coal samples with measures of 13m³ per tonne of coal – the highest reading to date at the project.

Second core hole: more success – 90 km south of first hole

The second core hole (270-06C), spudded in November 2022, is approximately 90km south of 271-23C. This hole was designed to test the potential of the southerly dipping basement structures and provide deeper, higher pressured gassy sands and coal sequences and open up an entirely new area for possible gas production.

Wireline logging results have established 147m of gassy sandstone pay in the vertical profile, being even greater than that reported in the previous Majuba core well (~131m).

Gas desorption testing from the core hole achieved gas content of nearly 7m³/t (and rising). Drilling of core hole 270-06C has intersected strong gassy sediments in targeted carbonaceous geology extending the potential contiguous gassy sandstone geology south from core well 271-23C by approximately 64km, and clearly demonstrates that there is another gas discovery, providing strong evidence that the deeper wells to the south would produce increased volumes for potential future production fields.

Third core hole: the best so far

The third core hole (270-03C), spudded in January 2023, is approximately 10km north of 270-06C and designed to test the potential of the southerly dipping basement structures. This core hole provides deeper, higher-pressured gassy sands and coal sequences similar to those encountered in 270-06C. The well is strategically located approximately 2 km from SA's most significant gas pipeline, the Lilly Pipeline, and provides potential distribution infrastructure to major gas markets in SA's KwaZulu-Natal province.

Wireline logging results have established 153.5m (between 288 to 574m) of gassy sandstone pay in the vertical profile, being even greater than that reported in the previous 270-06C core well (~147m) as well as coal seams of 5.75m cumulative thickness. This is the first hole where KKO has seen reservoir quality sandstone in the glacial Dwyka Formation (below 561m). It has always been poorly sorted and tight in the other wells, but adds a deep additional pay zone in this area.

Gas desorption testing from the core hole achieved gas content of over 10m³/t (and rising), which is also a better result than 270-06C.

Fourth core hole – gas shows again

The fourth core hole (270-05C) spudded in March 2023. This hole is due north of 270-06C and north-west of 270-03C, approximately 10km from the Lilly Pipeline.

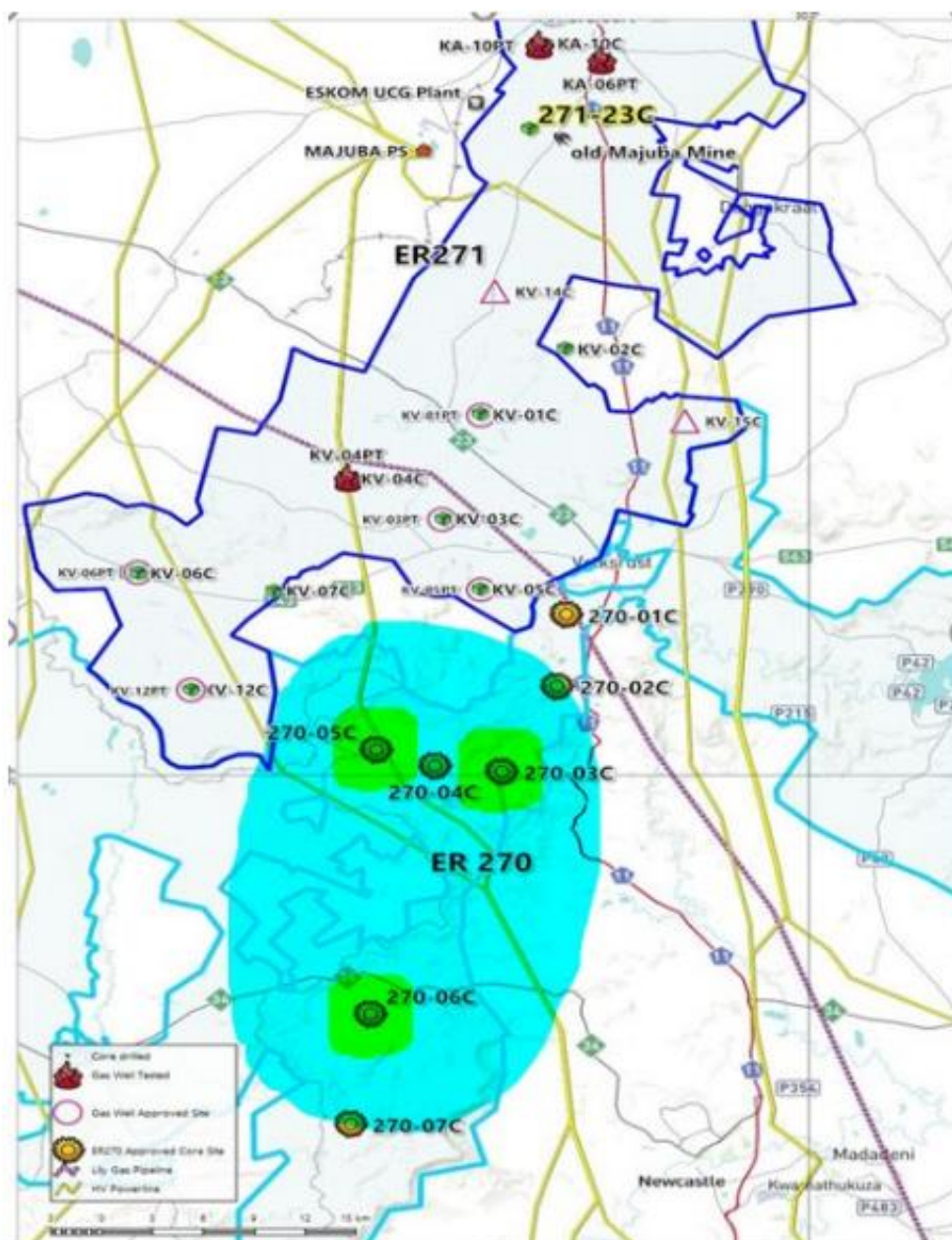
Core well 270-05C is currently coring at below 550m metres having drilled through anticipated stratigraphy and into unexpected deeper dolerites. Initial gas indications were encountered as shallow as 40m until top of first dolerite cap at 68m. Then again from 175m gas was significantly observed from zones within the cores until a second dolerite layer was encountered from 287m to 487m. KKO is still drilling through sediments below the deep dolerites and could expect a similar recurrence of igneous and sedimentary sequences towards the terminal depth.

What's left? 3 core holes to go in this program

Approval has been given for 5 core hole sites in tenement ER272, 3 of which will be drilled and cored to support the minimum workscope required by the regulator.

Core hole 272-01C is the first of the three sites planned in the continued coring program. Block ER272 is proximate to Secunda, where Sasol runs its gas-to-liquids plant and reticulates gas to the northern market and pushed MRG (Methane Rich Gas) to the industrial markets of the ZwaZulu-Natal province to the south. Sasol is looking to replace gas to counter the imminent depletion expected from their Mozambican onshore fields.

Figure 1: Locations of ER270 core holes: 270-06C (second), 270-03C (third), 270-05C (fourth)



Source: KKO.

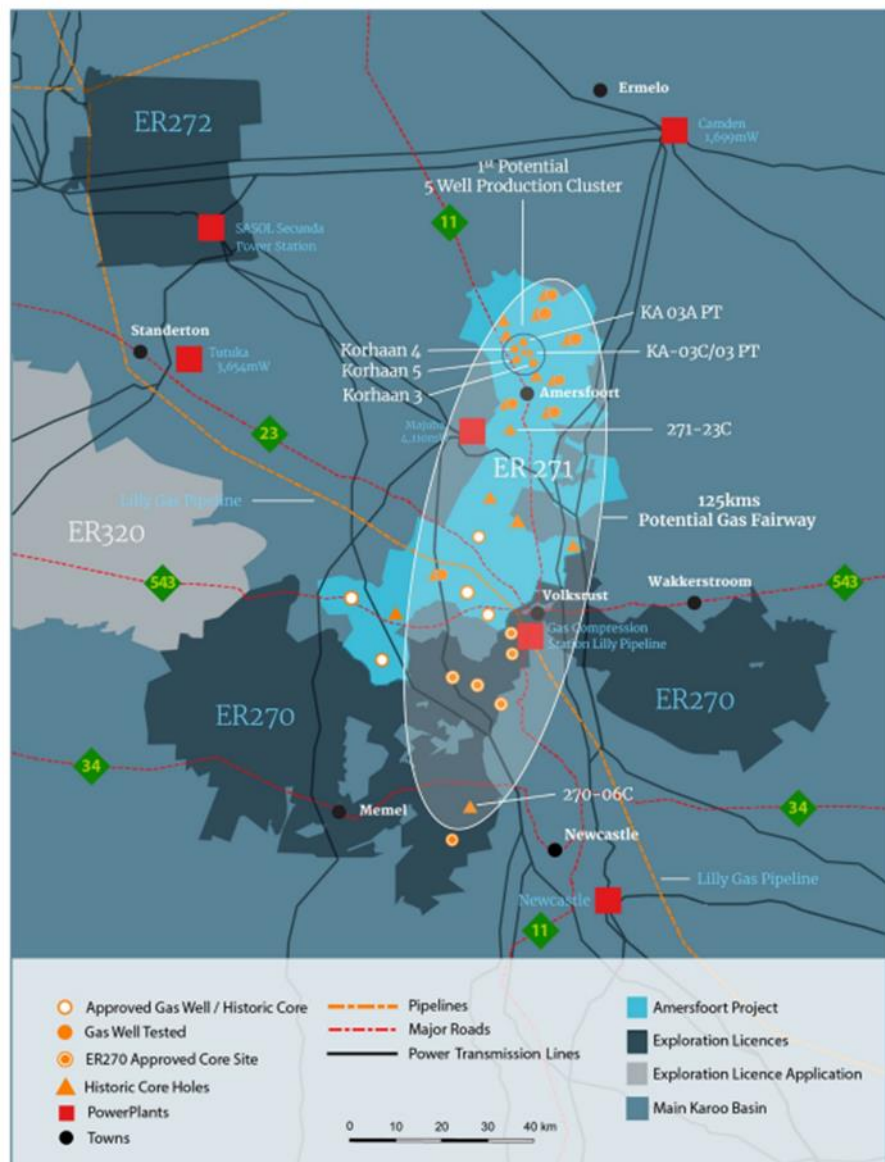
Recap of previous exploration success – focus on increasing resources

To date, only 20% of the total land package has been explored by aeromags surveys and drilling. The size of the exploration tenements presents KKO with multiple exploration options and an opportunity to increase the resource significantly.

Prior to the current drilling program, KKO's 100% success rate included:

- 23 core holes drilled in ER271, each intersecting gas
- 7 perm test wells successfully drilled, logged, tested and suspended for production
- first 5-well cluster (Beast and Korhaan wells) set for production in 2023 (Figure 2: upper circled area)
- Korhaan Project holes (3.4 and 5) were percussion-drilled to intersect carbonaceous sandstone and coal geology at depths of 130–450m. The wells are conventional and have unsophisticated completions, as they are open holes that test the entire Lower Karoo section and have successfully flowed low-pressure gas. Gas exploration has focused on sandstones, coal and other carbonaceous structures at depths of 130–450m. The recent Korhaan 3-well drilling program confirmed geological lithological correlations with adjacent existing wells. Logs showed an average of over 100m of pay per well.

Figure 2: KKO's drilling success to date showing extent of potential gas fairway



Source: KKO.

First Instalment of IDC Funding Received – A Key Indication of Confidence in the Project

The Industrial Development Corporation of South Africa (IDC), a wholly owned subsidiary of the SA government, is mandated to promote economic growth and industrial development in SA. The involvement of the IDC in the project at an asset level is a key indication of the government's confidence in the project's viability.

Recap of the joint development agreement between KKO and the IDC

KKO's joint development agreement (JDA) with the IDC is to co-develop a gas production field to comprise up to 20 wells (45% IDC and 55% KKO). The development is budgeted to cost approximately R155m. KKO expects these wells to be developed in the southern ER271 and ER270 blocks, where deeper well depths are expected due to southerly dipping basement structures.

The project is budgeted to cost approximately R155m, comprised of:

- 45% (R70m) contributed by the IDC
- 55% (R85m) by Afro Energy, a wholly owned subsidiary of KKO.

The contributions are to be made by shareholder loans repayable from the project's gas production revenues. The agreement has the ability to expand the IDC's interest in KKO's production plans going forward, because the IDC has the first right to participate for up to 45% equity relating to further gas production blocks up to a total of 80 wells.

IDC's first funding instalment to be used for appraisal wells, development of well fields for LNG programs

IDC has advanced R16.3m as part of its R70m commitment into its joint venture with KKO. This was to match their commitment to the R20m advanced by KKO. The cash will be used to drill a set of 5 approved appraisal wells to the west of Volksrust in the southern part of block ER271, and to begin development of well fields to supply to the 2 planned LNG programs.

The gas field development will be undertaken in two phases. The first will be the development of approximately 10 wells in each project with the construction of infield LNG plants with the capacity of about 5,000 tons per annum (approx. 30,000 GJ/mth) and building from there to production volumes of 2 million GJ/a.

KKO Continues to Attract Partners – Demonstrates Huge Potential of Project

The identification of potential offtakers for gas produced by KKO is significant to the potential growth of the company's gas reserves.

KKO has executed a Letter of Intent (LOI) with Grüner Energy for a potential gas development and supply agreement and a Memorandum of Understanding (MOU) with FFS Refiners for a potential supply agreement. This represents continued strong third-party interest in the Mpumalanga Project and demonstrates its huge potential.

Grüner Energy – LOI for gas development and supply

Grüner Energy has executed an LOI with KKO to conclude a gas development and supply agreement (gas supply agreement). Grüner is a developer, builder, owner and operator of sustainable energy assets in emerging African markets. Grüner's focus is in Africa, monetising regional gas resources using natural and biogas as a transitional fuel. KKO and Grüner intend to co-fund the development of a proof-of-concept gas production trial, that if successful can be scaled.

The LOI has the purpose of ultimately negotiating and concluding within 6 months a formal, binding gas supply agreement between KKO and Grüner, whereby:

- KKO agrees to explore, drill and extract natural gas within SA
- Grüner intends to assist in developing production of natural gas and purchase such natural gas.

FFS Refiners – MOU for potential supply agreement

KKO has executed a non-binding Memorandum of Understanding (MOU) with FFS Refiners (FFS) to finalise a gas supply agreement. FFS is a leading supplier of industrial heating fuels in SA and is seeking to supplement its industrial fuels business with the supply of LNG. KKO and FFS intend to develop a proof-of-concept gas production trial, that if successful can be scaled into a long-term supply arrangement.

This MOU joins the Grüner Energy LOI in KKO's plans to develop multiple joint ventures with parties that have expertise in the provision of mid-stream infrastructure, and with a focus on those who bring an existing market along with them in urgent need of high-quality gas.

Near-Term Production – Gas to Power

Government policy urgently seeking additional generation capacity

The SA government is working urgently to find solutions to the chronic power issues in the country, and is looking to clear the way for alternative power generators in the short term, including gas-fired generation.

To this end, the government as part of its Energy Action Plan is looking to:

- enable and accelerate private investment in generation capacity
- accelerate the procurement of new capacity from renewables, gas and battery storage
- fundamentally transform the electricity sector to achieve long-term energy security.

As part of the government's reform (which is favourable for KKO over the short and longer term), the need for private power producers to obtain generation licences for electricity production of up to 100MW has been eliminated. This move aims to expedite the addition of crucial generation capacity to address the energy needs in the country.

Government initiatives are short- and long-term positive for KKO: paves the way for the company to generate its own power

These initiatives enables KKO to proceed with the installation of its own pilot genset at the project. Discussions have already advanced to procure equipment from a reputable global provider.

The overarching policy from the SA government is positive for KKO's business, because it means that KKO and any of its JV partners can engage gas generators within the project in short time periods and tie them into the grid or supply to a remote customer via wheeling. This could be a strong short-term cash-generating option for the company.

KKO's gas-to-power (GTP) program will entail using existing wells at Mpumalanga to produce gas to an in-field, containerised generator linked to the existing grid running through the farmlands.

KKO recently terminated a JV for power generation with Vutomi Energy in preference for an outcome more beneficial to its shareholders. The termination of this JV is a small negative, as the JV would have generated some cash in the shorter term – this will now be deferred until KKO acquires its own generation set.

Long-Term Production – KKO in the Box Seat; SA Energy Crisis, Higher Demand Create Options

South Africa faces a serious energy problem

The SA energy market supply situation is dire, with new supply required in order to meet demand and replace high-carbon-emission power generation. Existing, primarily-coal-fired, power generation is old and has suffered from years of underinvestment, leading to regular power restrictions and blackouts.

In addition, SA's gas supply is limited. It relies on imported supply from Sasol that is in imminent decline. Domestic gas supplies are also limited with only one other gas production licence granted in the country, which has only recently begun production of LNG on a small scale. Industry relies on LPG, and SA imports all of its diesel requirements to support one of the world's largest trucking fleets. The SA Government has been clear that the country requires domestic gas production, and that an identified part of its coal generator fleet will be converted to gas.

The energy crisis has had a devastating effect on the economy, with businesses closing, jobs lost and critical services such as healthcare and education affected. It has also discouraged much-needed investment in the country, which in turn has contributed to Eskom's lack of funding for new power stations to replace ageing infrastructure.

The problems caused by an ageing, carbon-intensive power generation system, declining offshore gas supply and only one licenced onshore gas producer (which has only just started production) require a solution.

KKO set to benefit long term from increased gas demand – four pillars of production

KKO is in a strong position to take advantage of SA's urgent need for alternative energy sources. KKO has indicated that it sees four key focus pillars for its business: gas to power, LNG, direct to pipeline and chemical derivatives.

Gas to power is a key focus of the business

KKO's purchase of generation sets is a short-term cash generation opportunity.

KKO's current core well program is adjacent to the Majuba power station, which includes a 20MW gas-fired unit that is currently static. KKO is the only potential supplier to that unit.

LNG – for transport converting from diesel and/or businesses converting from LPG

Enormous potential exists for supplying LNG into the transport business. SA has some 377,000 licensed heavy vehicles. Switching heavy truck and bus transport from diesel to LNG will realise increased efficiency and meaningful cost savings, and reduce their carbon footprint. Renergen has recently begun production in its small-scale LNG plant at the Virginia gas project. The potential market for Renergen's heavy vehicle LNG product is 40,000–67,000 vehicles, showing the further potential for KKO to add to the supply in this market.

In addition, LNG can replace LPG. LPG in SA is generally of low quality, so customers would enjoy cost savings and increases in efficiency by converting to LNG.

Direct to pipeline

The 600km Lilly 1 gas pipeline from Secunda to Durban runs through KKO's tenements. The pipe has a maximum diameter of 16". It has a capacity limited to 23 mGJ/a. The present utilisation of Lilly 1 is 12mGJ/a. The provision of gas to this pipeline is a simple and low-cost, high-return option for KKO.

Chemical derivatives – urea and ammonia

The production of fertilisers requires natural gas. Russia's invasion of Ukraine has reduced the supply of urea and ammonia into the global market. The SA agriculture sector is desperately seeking lower-cost domestic supply.

Merger with Badimo Gas Goes Ahead; KKO to Own 100% of Mpumalanga

Shareholder approval was received in December 2022 for KKO to merge with Badimo Gas and to acquire the 51% of the Afro Energy Joint Venture it didn't already own, thus acquiring 100% of the Mpumalanga Project. The completion of the transaction represents a milestone for KKO, as its control of 100% of the project will enable streamlined decision making, comprehensive planning and capital deployment. This will also significantly improve KKO's ability to raise both debt and equity capital and to create further JV opportunities and involve strategic partners in its project or drilling programs.

Consideration

The consideration of the transaction was the issue of 567,704,812 shares in KKO to Badimo.

Badimo shareholders have voluntarily agreed to place the consideration shares they receive into escrow, which restricts the disposal of their KKO holdings for 12–27 months from issue. Two of the company's directors have also agreed to escrow a portion of their shares.

KKO is increasing ownership by 104% (from 49% to 100%) for an allocation of shares which represents an 82% increase of shares on issue, an accretive deal.

Transaction-related sale of KKO shares requires another approval, per ASX regulations

In addition, to complete the merger, KKO was obligated within four months of 2 December 2022 to facilitate a A\$6.5m sale of Badimo consideration shares at a price between \$0.075 and \$0.15 per share. This corresponds to a minimum of 43,333,334 KKO shares (at a \$0.15 issue price) and a maximum of 86,666,667 (at a \$0.075 issue price). The purpose of the sale is to convert part of the consideration for the purchase of Afro Energy to cash for the shareholders of Badimo.

The number of shares issued by KKO as part of this sale will ultimately be deducted from the number of consideration shares to be issued to Badimo shareholders, so the total consideration shares to be issued will remain the same (567,704,812).

During the period, market conditions have been poor and KKO has not been able to complete the share sale. KKO applied for a waiver to the ASX, to extend the time to issue the Transaction Shares, but the ASX did not grant the waiver. As a result, KKO will still be proceeding with the restructure. However, as a result of the waiver not being approved by the ASX, KKO will reconvene a meeting of its shareholders to refresh the restructure approvals. This will require KKO to issue a subsequent notice of meeting with an updated Independent Experts Report.

Valuation: Base Case of A\$0.27 (Unchanged)

Substantial upside under any scenario

We have looked at two different valuation methodologies (one as our base case, one as a cross-check) in order to arrive at what we view as a conservative risk-based valuation for KKO.

KKO's assets have had a substantial amount of exploration and some appraisal performed on them over the last few years. The Mpumalanga Project has independently assessed 2C resources, and KKO has a gas-to-power project and has an agreement signed with the IDC for 20 production wells.

The gas has a number of options for commercialisation, as discussed in the prior section:

- gas to power (GTP)
- LNG – for transport converting from diesel and/or businesses converting from LPG
- direct to pipeline – the 600km Lilly 1 gas pipeline from Secunda to Durban runs through KKO's tenements
- chemical derivatives – urea and ammonia.

Valuing exploration assets such as KKO's is quite a subjective process. A number of uncertainties are at play – significant test and appraisal works are yet to be completed, and financing is still uncertain. The key risks relate to development risks, reserves conversion and funding.

Scenario 1 (base-case valuation): development of Mpumalanga Gas Project – valuation A\$0.27 per share. This method, our base case, uses a simple development NPV estimate of the Mpumalanga Project in SA.

Our base-case valuation of A\$0.27 is derived by estimating the risked value of developing the Mpumalanga Project. The valuation of this asset implies a KKO shareholder obtains this project at a significant discount and gains exposure to the remainder of KKO's substantial gas resources in SA and exploration potential for free.

Our unrisked DCF valuation is A\$0.45 per share.

Scenario 2 ('cross-check' valuation): EV/2P+2C Resources – valuation A\$1.58 per share. As a cross check, we look at the EV/Resource method, deriving a valuation of A\$1.58 using average market EV/Resource multiples. This method, a common valuation method in the equity market, assesses the value the market is attributing to combined 2P and 2C reserves and resources. This shows the potential upside to KKO as the project is developed, reserves are certified and production is increased.

Scenario 1 (base-case valuation): development of asset – Mpumalanga Project: A\$0.27/share

We have modelled a simple development scenario to specifically focus on KKO's Mpumalanga Project.

We have valued a hypothetical, standalone Mpumalanga Project based on KKO's public filings, government data, internal estimates, industry benchmarks, and other CSG developments.

A preliminary, risked adjusted, post-tax, NPV (12) for a potential future Mpumalanga Project development is based on a conservative assumption that a small portion of currently booked substantial 2C contingent resource (~2.4 Tcf) is monetised, i.e. 50% of current 2C volumes of gas in Sandstone resource (~200 PJ) under various gas price scenarios. This is detailed in Figure 3.

Figure 3: Base-case valuation for KKO

Valuation	A\$m	Risking	A\$m	A\$ps
Mpumalanga Gas Project (~200 PJ) - 100%	372	70%	260	0.19
Total Operations	372		260	0.19
Net Cash / (Debt)	6	100%	6	0.00
Admin / Corporate / Other	(30)	100%	(30)	(0.02)
Exploration (risk-adjusted)	19	50%	9	0.01
CBM unconventional, 2C risked (~330 bcf)	242	50%	121	0.09
TOTAL VALUATION	609		367	0.27

Source: MST estimates.

Key assumptions in Scenario 1 (base-case valuation)

- We have used gas prices of the equivalent of A\$7.50/GJ.
- We have taken into consideration the production of GTP (deferred out to FY24 as KKO take on the project without the JV partner) as well as the 55% share of the IDC production well agreement and have rolled out an increasing production profile to FY2029 and then steadily declined production out until CY2044. Our peak production rate is 47mmcf/d. The mid-term profile is somewhat subjective, and contribution from CSG fields will also be a function of KKO successfully securing future offtake agreements.
- Our valuation is based on modelled cash flows using DCF analysis and is subject to future refinement once more public information comes to light as the project is gradually de-risked.
- Capex assumptions and valuation are subject to refinement; however, we base our well costs on a conservative assumption of ~A\$800k per well. First gas is assumed in FY2024, this being the GTP agreement.
- Our valuation is risked acknowledging the early stage of the appraisal and development. We have also used a higher discount rate to account for the perceived higher country risk (12%).

Scenario 2 ('cross-check' valuation):

EV/(2P+2C) – reserves and resources: A\$1.58/share (based on peer group average)

A commonly utilised valuation methodology is to compare the value attributed by the market to the reserves and resources in the ground, most often by analysing EV/(2P+2C). This methodology is commonly practised by investors.

The simplest and most effective way to do this is to look across KKO's peer group. Most of the peer group report a 2C figure but some do not have 2P. KKO's 2C resource is 4862Bcf (4950GJ) on a 100% basis.

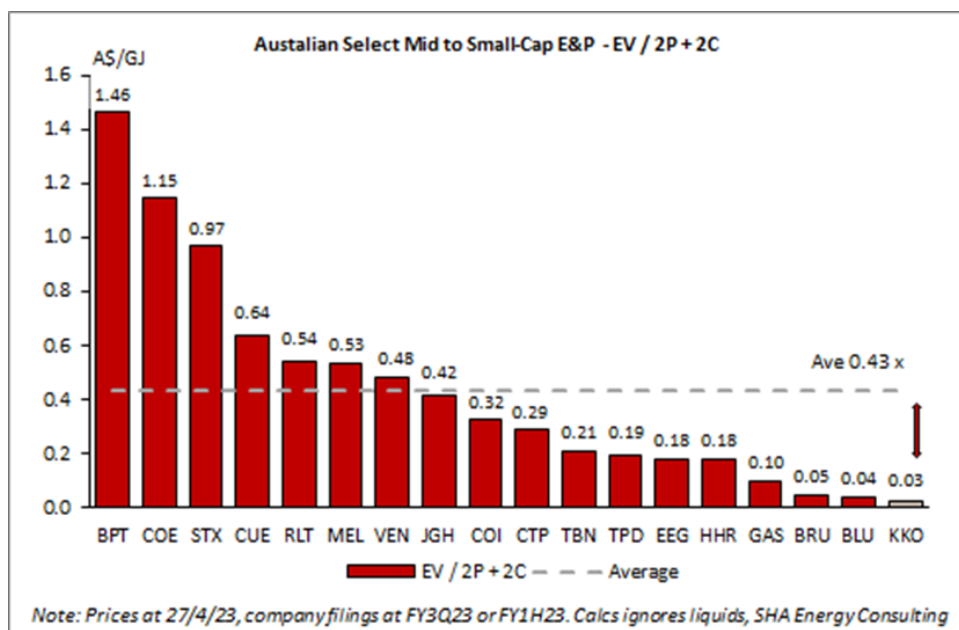
We have selected a group of small to mid-cap E&P companies at various life cycle stages, including producers. The median EV/(2P+2C) is \$0.43/GJ as shown in Figure 4, but with a very wide range of \$0.03–\$1.46/GJ. KKO's A\$0.03 EV/Resource is one the lowest of the group.

We see substantial opportunity for the equity market to rerate KKO's resources (including an imminent reserve certification), once investors get greater comfort on KKO's ability to execute on the GTP production agreement as well as the IDC agreement for an initial 20 production wells.

If we apply a peer group median of A\$0.43/GJ to the entirety of KKO's 2C contingent resource booking, we achieve an implied valuation of A\$1,715m or A\$1.58 per share.

This is an unrisks number; however, it could also be considered that the market does apply a 'risk factor' to the multiples. We see the risk (discount) currently being applied to KKO as high given its early stage and position in SA. We believe that this is excessive and that over time the share price will likely rerate as KKO executes on its plans.

Figure 4: Average EV/2P+2C multiples – Australian-listed small energy companies



Source: SHA Energy Consulting, MST.

Positive catalysts for the share price and valuation

Further exploration success: KKO's current core program has delivered further gassy shows. Exploration success is a key catalyst to stock price performance.

Reserve certification: Reserves are key to commercialisation of gas and for the company's ability to raise finance, and certification will be a key near-term catalyst.

Resource upgrades: Further testing and appraisal of these fields will be conducted. Conversion of prospective resources to contingent resources and contingent resources to reserves could be positive for the share price.

Further customer agreements: Gas sales agreements are key to cash generation and growth of the project.

Project financing: Obtaining project financing is key to the development of the assets into commercialisation.

Sell-down of assets: KKO's 100% ownership of assets is a key strategic advantage. Significant stakes in the assets can be sold down to JV partners/developers in order for KKO to fund and develop the project.

Early project delivery: The early commencement of any of the projects would mean cash flows were generated sooner and would reflect positively on management, which would likely boost the valuation.

Joint venture deals: Intelligent and innovative JV deals could add potential value to the portfolio of assets.

Gas price increases: Strong gas prices will be positive to commercialising the project. Once commercial, gas price increases would have a positive effect on the valuation and share price.

Government incentives: The SA government has backed gas to help solve a genuine energy crisis. Further government incentives may accelerate and/or subsidise developments in the future and be a positive catalyst for KKO.

Risks to share price and valuation

Lack of exploration success: A key to the growth and development of the project, lack of exploration success would be a negative for the stock.

Reserves and resources disappointment: The expectation of a strong reserves certification means any disappointing results would pose a risk to the share price.

Project financing: Obtaining project financing is key to the development of the assets into commercialisation; delay to this is a key risk.

Inability to sell down assets: KKO's 100% ownership of assets is a key strategic advantage. Sell down of assets could provide funding for KKO. The inability to sell down assets may delay the project.

Gas price decreases: Upon commercialisation, price decreases of the underlying commodity would be a negative for the valuation. Gas prices represent the key sensitivity for the valuation.

Reversal of government backing of gas: The SA Government has backed gas to solve an energy crisis. Any change in the political climate would risk this backing being removed.

Community opposition: Any failure to adequately manage and meet community expectations with respect to issues such as compensation for land access, exploration activity, employment opportunities, and impact on local business may lead to local dissatisfaction, disruptions in the exploration program and potential losses to the company.

Delays to project delivery: Delays to any project delivery would negatively affect the valuation and may reflect negatively on management.

Black Empowerment (BEE) risk: Black Empowerment is key to operating in SA. Any issues that arise with BEE can put projects at risk.

Financials – Development Funding Options and Potential Cash Flow

Current cash situation

KKO's cash balance as at 31 March 2023 was A\$6.3m, including an amount of A\$1.678m that relates to the amount placed into the Special Purpose Vehicle with the IDC.

In October 2022, KKO raised A\$5m via a placement, with Phefo Power, a strategic SA investor, subscribing for A\$4.3m of shares in KKO.

In addition to the placement, the company granted Phefo an option to subscribe for a further R30m (A\$2.95m) of fully paid ordinary KKO shares at a price that is the greater of (1) the 14-day VWAP of KKO's shares at the time the option is exercised or (2) \$0.09. Phefo exercised the option in December 2022 with 32,802,220 ordinary shares issued in KKO.

Administrative costs are well controlled by KKO, with the spend for the last quarter being around A\$0.3m. The cost-efficient nature of drilling was also highlighted this quarter with only A\$0.5m spent on exploration activities. We would assume that these costs will increase as the company both increases exploration activity and goes into production.

Historically, KKO has been reliant on equity capital, most of which has been spent on exploration and evaluation. KKO's focus is also on converting its large resource base across to reserves and in recent times on commercialisation of gas, demonstrated by the GTP deal and the IDC agreement.

Near-term cash commitments

KKO's key near-term commitments are:

- current core drilling program
- tie-in of wells for GTP
- funding KKO's 55% share of the IDC agreement: R85m (A\$7.5m).

Longer-term funding

In order to move into commercial production, KKO will need to look at various funding options, which could include:

- **cash flow from operations:** We have assumed the commencement of the GTP operations in FY2024. We have also forecast cash flow from the IDC joint venture
- **sell-down of acreage:** A sale for cash or farm-out in order could fund the development of the project. KKO's 100% ownership of the project via Afro Energy offers potential strategic partners to invest directly in the project
- **joint venture agreements:** As with the IDC agreement, KKO can develop innovative JV agreements over selected parts of the project
- **equity capital:** KKO has relied on equity capital to fund the portfolio to date. Development of that portfolio would logically include equity capital in the mix
- **debt:** Gas sale agreements may open up the option for KKO to be able to acquire debt finance or for forward sale agreements to be put in place.

Appendix 1: Overview of Flagship Mpumalanga Project – 100% KKO Control; Location, Location

Size and rights details

KKO's 100%-owned Mpumalanga Gas Project includes exploration rights:

- ER270, ER271 (into which ER38 and ER56 have been consolidated), and ER272
- ER320 (under application).

This flagship asset covers 6,065km², with 3,683km² of granted exploration rights and over 2,383km² under application. The reduction from previous acreage is due to the company being obliged by regulation to reduce its area during the rights renewal process, giving the operator the chance to divest itself of inoperable areas such as wetlands, townlands, mountains and canyons, and rather focus on the practical and operational geography under rights. This also minimises the annual license fees payable to the regulator.

Ownership and operatorship – 100% KKO

KKO's operatorship and 100% equity interest in the project gives options for farm-downs to fund further exploration and development, reduce capital cost exposure and receive cash for resources prior to gas sales.

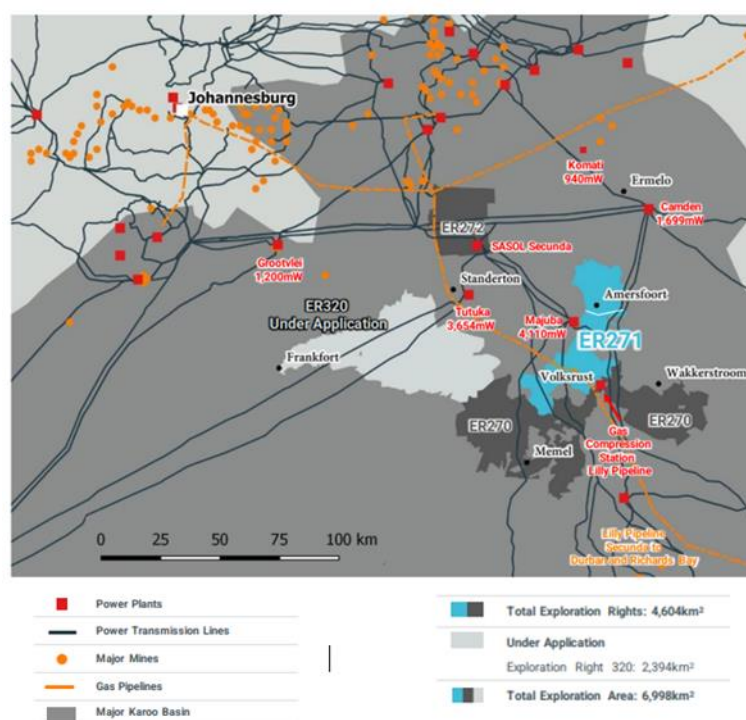
Afro Energy, the entity that holds 100% of the Mpumalanga Project, was previously owned 49% by KKO and 51% by Badimo Gas. KKO has now acquired 100% of Afro Energy by converting Badimo's 51% Afro Energy stake to a ~46% equity interest in KKO. This has been achieved by the issue of 567,704,812 shares in KKO to Badimo.

Location – proximity to infrastructure and potential customers

The Mpumalanga Project is located some 200km south-east of South Africa's largest metropolitan area, Johannesburg (see Figure 5). It is adjacent to and surrounded by key infrastructure including power stations, gas pipelines, high-voltage transmission lines, road and rail.

Potential users of gas are located nearby, including Majuba Power Station (4kW), which is capable of using gas to co-fire power generation and is only kilometres from planned drilling, and the Secunda refinery owned by Sasol (South Africa's largest gas consumer), situated on the northern boundary of ER272 where drilling is scheduled for 2QCY23.

Figure 5: Location of KKO's Mpumalanga Project and surrounding infrastructure



Source: KKO.

Geology

Proven and highly prospective Permian age fields; gas in both sandstone and coal formations

The Permian age sediments of the Northern Karoo Basin are extensively intruded by Jurassic age dolerites. The conventional sandstone reservoirs, in which gas is generated from the interbedded coals and coaly mudstones, are unconventionally trapped by younger volcanic dolerite intrusions. These honeycombed volcanic compartments with gas-filled sandstones are present over a large area with similar geology, as demonstrated by decades of previous coal exploration.

Every one of the exploration holes Afro drilled to date has found gas trapped in this way, in an area over 70km wide. The gas is 96–98% methane with a small component of nitrogen.

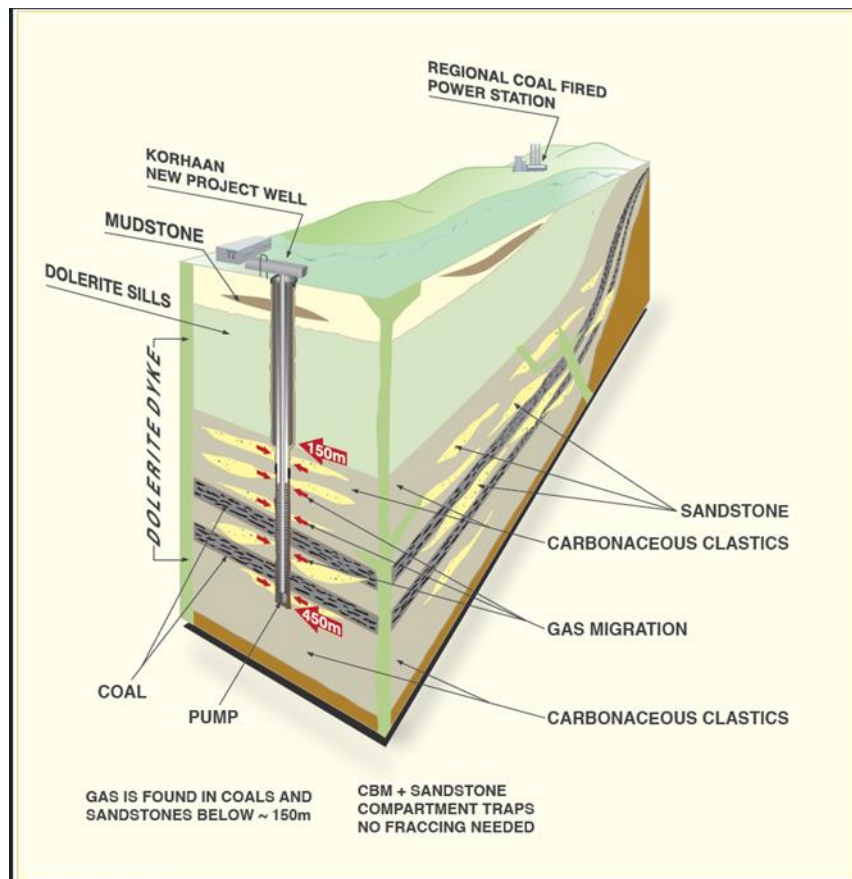
Potential for thousands of wells, with peak gas within days of dewatering

The gas zone depth ranges from 100m to 700m with simple vertical wells and no need for fracking. There is potential for thousands of wells across over KKO's licences containing multiple TCFs of gas.

Unlike a CSG well, which may require months of dewatering to reach peak production, these wells yield their peak gas rate within days of dewatering the sandstone layers, with much less water production than a CSG well. A handful of production test wells have proven the commercial nature of this play.

The next step is two-fold: to explore expanded areas for targeted markets and to add more producing wells to feed SA's transition away from coal and hydrocarbon imports.

Figure 6: Mpumalanga project geology



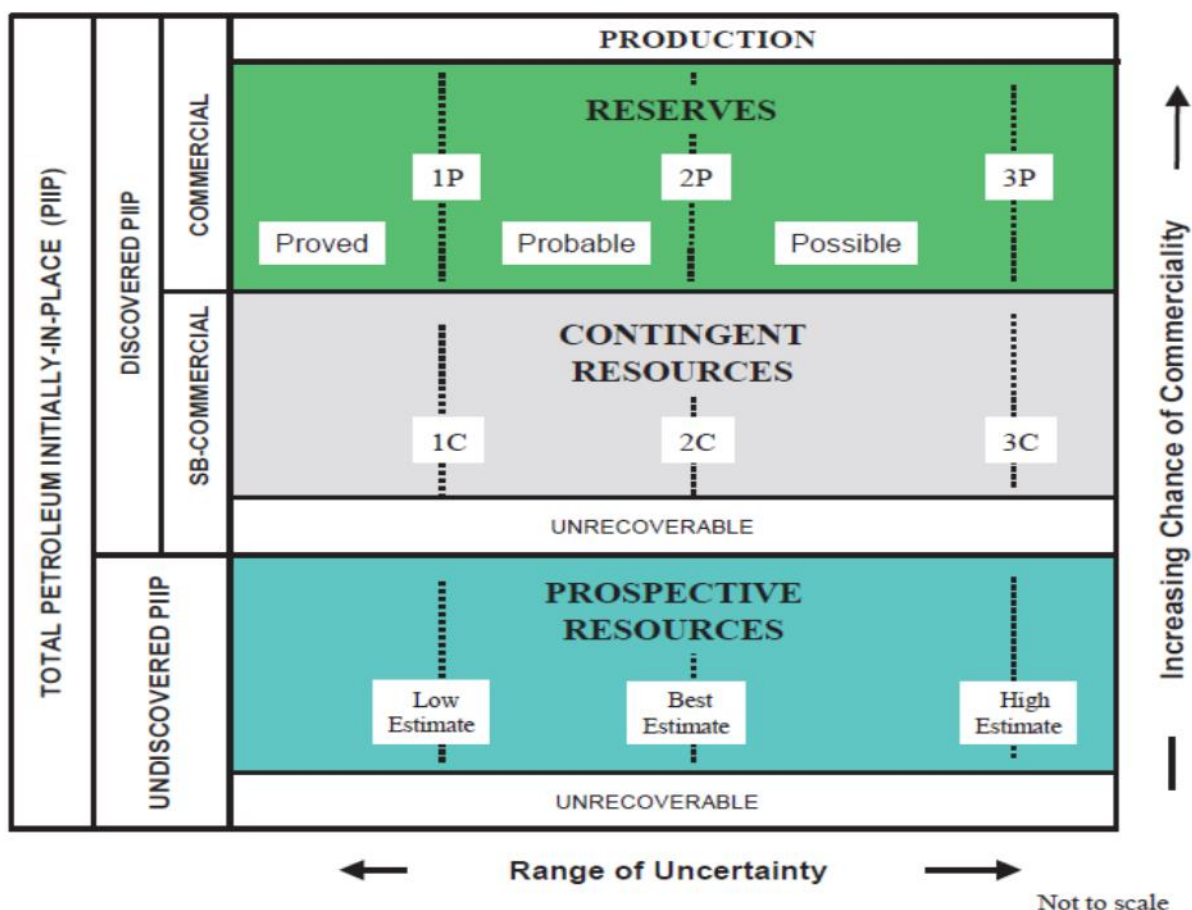
Source: KKO.

Appendix 2: Reserves and Resources – Current Status and Future Exploration

Current resources and reserves

Reserves and resources are classified according to a range of certainty and chance of commerciality. Figure 7 is a 'ready reckoner' that outlines the classification of reserves and resources. Figure 8 shows the current estimates for KKO's resources.

Figure 7: Classifying resources and reserves



Source: Industry.

Contingent resource certified of 4.9 TCF

In July 2020, independent resource certifier Gustavson certified 2C contingent resource of 4.9 TCF. This followed the provision of new information from exploration activities undertaken in the last few years and considered granted exploration rights ER270, ER271 (into which ER38 and ER56 have been consolidated) and ER272. The current resource has been derived from approximately 65% of the total land package granted and pending.

Figure 8: KKO's gross gas resources – estimates by blocks

Unit = Billion Cubic Feet			
Gas in Place	1C	2C	3C
CBM	3,114	6,884	13,097
Gas in Sandstone	1,090	2,423	4,368
Total	4,204	9,307	17,465

Unit = Billion Cubic Feet			
Prospective Resource	1U	2U	3U
Gas in Sandstone	361	903	1,767

Unit = Billion Cubic Feet			
Contingent Resources	1C	2C	3C
CBM	2,047	4,492	8,621
Gas in Sandstone	190	370	629
Total	2,237	4,862	9,251

Source: KKO.

Resource verified with flow testing – very clean gas

The resource was verified by independent gas flow testing with 95% recovery of gas from produced groundwater and 96–98% methane content. The gas is considered so pure that polishing and conditioning may not be required – there is no hydrogen sulfide (H₂S) or CO₂.

There is evidence of strong gas reservoir recharge over time.

Isolated coal measures remain untested for coal bed methane potential, with only sandstones tested to date, although coals encountered whilst coring are tested for their desorption capacities.

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