Ivanhoe Mines (IVN) Joins Renergen (RLT); Helium Market Mega Squeeze

IVN Takes 4.35% of RLT – Option to Go Up to 55%

Ivanhoe Mines (IVN), a diversified miner HQed in Canada with a US$13b market cap, has taken a 4.35% stake in RLT, the agreement sees IVN conducting due diligence to determine the size potential of Phase 2 with a possibility of (1) injecting up to US$250m of equity funding into RLT, or (2) taking its investment up to 55%, always at a market-related price. IVN's energy needs in South Africa also makes it a potential foundation customer for RLT's Phase 2 LNG via power generation. We believe this this is a milestone event for RLT, reflecting the attractiveness and significance of the project.

RLT Sells 10% to State-Owned Energy Fund; See-Through Value A$916m or $A7.39 Per Share

RLT has entered a non-binding agreement to sell 10% of the Virginia Gas Project to the state-owned Central Energy Fund at ZAR1bn or A$91.6m. This transaction implies a valuation of A$916m for the project or $A7.39 per share. In December 2019 RLT bought the 10% of the project it did not own at that point for A$2.3m. The transaction satisfies RLT's BEE requirements and the funds will be applied to Phase 2 development.

The Next Steps Towards Phase 2

RLT's huge reserves base enables flexibility in the size of Phase 2. RLT is progressing key Phase 2 workstreams. FEED is complete; plant design and development are well advanced. IVN will conduct 120-day due diligence around a potential increased Phase 2 size. RLT is considering a gross gas production profile ~ 15x Phase 1; reserves are sufficient to increase this to >20x. We estimate first Phase 2 production in FY25, planning ~5 tpd of helium and ~700tpd of LNG with capex at US$937m, which includes 50 ISO containers, showing RLT's intention to be in the downstream helium market.

RENERGEN
FUTURE ENERGY, TODAY

RLT is an emerging producer of LNG and helium. Its principal asset is a 100% shareholding in the Virginia Gas Project, the first and only onshore petroleum production right in South Africa.

Stock	RLT.ASX/REN.JSE
Price	A$3.90/ZAR42.95
Market cap	A$508m
Valuation/share	A$7.12/ZAR78.35

MST Access Live

Video Link - Interview with Stefano Marani, CEO (16 March 2022)

Next steps

May 2022: Commence production from Phase 1 plant; begin generating revenue

Q2CY2022: IVN due diligence on Phase 2

RLT share price (A$) – 1 year

Source: FactSet.

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Helium Market: The Big Squeeze

Several events at major producers have seen the supply of helium significantly reduced. Production issues at the US BLM and in Qatar and Russia has tightened the current market and pushed expected new supply out several years. RLT is perfectly positioned: Phase 1 is set for production in May; Phase 2 has contracts signed.

RLT's LNG - Global Energy Prices Soaring; South Africa (SA) in Desperate Need

LNG prices have risen sharply on European gas consumption and Asian demand. Global oil prices have increased, driven by the Ukraine conflict and sanctions on Russian oil. SA has a growing need for alternative energy. Once again RLT is positioned strongly to be a new supplier into SA energy markets with its Phase 2 LNG offering.

Valuation: Raised to A$7.12 (A$6.71 Previously); Helium a Rare Commodity

Our fully diluted risked valuation is A$7.12/ZAR78.35(un-risked A$8.38), with successful Phase 2 expansion the key driver. Helium markets are tight – several large suppliers have had major production issues and may be out of the market for years, making Virginia Gas key to the global helium supply chain. The potential sale of 10% of the project has a see-through value of A$916m ($A7.39/share). Key catalysts: completion of/first gas from Phase 1, successful Phase 2 funding & FID, start of Phase 2 construction. Risks: Phase 1 delays, more COVID issues, delays in Phase 2 funding/development.

Exhibit 1 – Renergen company summary (year-end 28 February)

MARKET DATA		$A	ZAR
Price	$	**3.87**	**42.18**
Valuation (diluted)	A$/ZAR	**7.12**	**78.35**
Market Capitalisation	A$/ZARm	**501**	**5465**
52 week high / low	$	3.99/1.38	
Shares on issue (basic)	m	129.6	
Options / Performance shares	m	5.3	
Other equity (potential raising)	m	37.8	
Potential shares on issue (diluted)	m	172.6	

12 month relative performance versus S&P/ASX Small Ordinaries Index

INVESTMENT FUNDAMENTALS		FY20A	FY21A	FY22E	FY23E	FY24E
Reported NPAT	ZARm	(52.6)	(42.6)	(46.9)	(94.3)	(54.0)
Underlying NPAT	ZARm	(52.6)	(42.6)	(46.9)	(94.3)	(54.0)
EPS Reported (undiluted)	ZARm	(40.6)	(36.3)	(38.9)	(63.6)	(31.3)
EPS Underlying (undiluted)	**ZARm**	**(40.6)**	**(36.3)**	**(38.9)**	**(63.6)**	**(31.3)**
Underlying EPS growth	%	35.6%	10.7%	-7.1%	-63.7%	-50.8%
P/E Reported (undiluted)	x	nm	nm	nm	nm	nm
P/E Underlying (undiluted)	**x**	**nm**	**nm**	**nm**	**nm**	**nm**
Operating cash flow / share	ZAR	(28.9)	(18.9)	(61.0)	4.9	39.2
Price to operating cash flow	**x**	**nm**	**nm**	**nm**	**860.9**	**107.5**
Free cash flow	**ZARm**	**(353.3)**	**(210.8)**	**(386.0)**	**(768.6)**	**(12,440.6)**
Free cash flow per share	ZAR	(272.7)	(162.7)	(297.9)	(593.2)	(9,601.7)
Free cash flow yield	**%**	**nm**	**nm**	**nm**	**nm**	**nm**
Book value / share	ZAR	190.8	159.3	208.4	1,159.5	1,117.8
Price to book (NAV)	**x**	**22.1**	**26.5**	**20.2**	**3.6**	**3.8**
NTA / share	ZAR	190.8	159.3	208.4	1,159.5	1,117.8
Price to NTA	**x**	**22.1**	**26.5**	**20.2**	**3.6**	**3.8**
Year end shares	m	117.4	117.5	123.9	172.6	172.6
Average Shares on Issue	m	108.8	117.5	120.7	148.3	172.6
Market cap (Spot)	**ZARm**	**4,953.1**	**4,956.5**	**5,227.5**	**7,281.1**	**7,281.1**
Market cap (Spot)	**A$m**	**454.4**	**454.8**	**479.6**	**668.0**	**668.0**
Net debt /(cash)	ZARm	210.2	403.4	678.9	120.8	12,561.4
Net debt /(cash)	A$m	19.1	36.7	61.7	11.0	1,141.9
Enterprise value	**ZARm**	**5,163.3**	**5,359.9**	**5,906.4**	**7,401.9**	**19,842.5**
Enterprise value	**A$m**	**469.4**	**487.3**	**536.9**	**672.9**	**1,803.9**
EV/Sales	x	1,901.1	1,890.0	1,994.0	31.1	56.8
EV/EBITDA	**x**	**nm**	**nm**	**nm**	**144.1**	**176.9**
EV/EBIT	x	nm	nm	nm	nm	2,698.2

PRODUCTION AND PRICING	FY22E	FY23E	FY24E
LNG Transport	317.5	317.5	317.5
LNG Wholesale	238.0	248.7	250.0
LNG (ZAR/mcf) - Blended Pricing	293.6	296.8	297.2
Helium (USD/mcf) Stage 1 Contract Pricing	200.0	205.0	210.1
Helium (USD/mcf) Stage 1 Market Pricing	304.9	304.9	304.9
Helium Stage 1 Blended Pricing	221.0	225.0	229.1
Stage 1 / Stage 2 Blended Pricing	221.0	225.0	229.1

BCF	Methane			Helium		
	Mar-19	Oct-21	% Change	Mar-19	Oct-21	% Change
1P	40.8	215.1	427%	1.0	7.2	620%
2P	139.0	407.0	193%	3.4	13.6	300%
3P	284.2	600.1	111%	6.9	20.0	190%

PROFIT AND LOSS ZAR	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	**3.0**	**2.7**	**2.8**	**3.0**	**237.9**	**349.1**
Operating Expenses	**0.0**	**(66.5)**	**(46.5)**	**(39.1)**	**(186.5)**	**(237.0)**
Gross profit	**3.0**	**(63.8)**	**(43.7)**	**(36.2)**	**51.4**	**112.2**
Other income						
Other operating costs	0.9	0.0	0.0	0.0	0.0	0.0
EBITDA	**(42.5)**	**(63.8)**	**(43.7)**	**(36.2)**	**51.4**	**112.2**
Depreciation & amortisation	3.2	(3.5)	(3.1)	(10.5)	(100.7)	(104.8)
EBIT	**(39.4)**	**(67.3)**	**(46.8)**	**(46.7)**	**(49.3)**	**7.4**
Net interest	4.1	0.0	(4.0)	(0.2)	(45.0)	(61.4)
Pretax Profit	**(35.2)**	**(67.3)**	**(50.8)**	**(46.9)**	**(94.3)**	**(54.0)**
Tax expense	(3.6)	14.7	8.2	0.0	0.0	0.0
NPAT	**(38.8)**	**(52.6)**	**(42.6)**	**(46.9)**	**(94.3)**	**(54.0)**
Adjustments & Significant items						
Underlying NPAT	**(38.8)**	**(52.6)**	**(42.6)**	**(46.9)**	**(94.3)**	**(54.0)**

BALANCE SHEET ZAR	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	98.0	141.0	130.9	95.1	1,350.6	152.3
Receivables	4.5	5.5	7.8	7.9	7.9	7.9
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	10.4	16.1	31.4	31.4	31.4
Current assets	**102.4**	**156.9**	**154.8**	**134.4**	**1,389.9**	**191.5**
PPE, Development and Exploration	37.8	350.8	475.6	720.6	1,394.9	13,781.4
Other	2.2	118.8	150.0	201.4	201.4	201.4
Non current assets	**39.9**	**469.6**	**625.6**	**922.0**	**1,596.3**	**13,982.8**
Total Assets	**142.4**	**626.5**	**780.4**	**1,056.4**	**2,986.1**	**14,174.4**
Accounts Payable	10.9	16.4	27.3	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.3	4.7	5.2	5.2	5.2	5.2
Current liabilities	**11.2**	**21.1**	**32.5**	**5.2**	**5.2**	**5.2**
Borrowings	39.6	351.2	534.3	774.0	1,471.4	12,713.7
Provisions	9.8	7.0	7.2	7.2	7.2	7.2
Non current liabilities	**49.5**	**358.1**	**541.5**	**781.2**	**1,478.6**	**12,720.8**
Total Liabilities	**60.7**	**379.3**	**574.0**	**786.4**	**1,483.8**	**12,726.0**
Share Capital	301.3	452.3	453.1	563.6	1,890.2	1,890.2
Reserves	0.4	8.1	9.1	9.1	9.1	9.1
Accumulated Profits / (Losses)	(121.1)	(213.1)	(255.8)	(302.7)	(397.0)	(451.0)
Total Equity	**180.6**	**247.2**	**206.4**	**270.0**	**1,502.3**	**1,448.3**

CASH FLOW ZAR	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating cash flow	**(36.9)**	**(37.5)**	**(24.5)**	**(79.1)**	**6.3**	**50.8**
PPE and Exploration	(9.6)	(315.8)	(186.3)	(307.0)	(774.9)	(12,491.4)
Investing cash flow	**(9.6)**	**(315.8)**	**(186.3)**	**(307.0)**	**(774.9)**	**(12,491.4)**
Debt Raised / (Repaid)	5.1	296.0	216.3	239.7	697.4	11,242.2
Proceeds from issue of shares	140.2	151.0	0.0	110.5	1,326.6	0.0
Other		(35.6)	(12.6)	0.0	0.0	0.0
Financing cash flow	**145.4**	**411.3**	**203.7**	**350.2**	**2,024.1**	**11,242.2**
Net Increase/Decrease	98.9	58.1	(7.1)	(35.8)	1,255.5	(1,198.3)
Cash at Beginning of Year	3.0	98.0	141.0	130.9	95.1	1,350.6
Ex Rates		(15.0)	(3.0)			
Year end cash	**101.9**	**141.0**	**130.9**	**95.1**	**1,350.6**	**152.3**

Source: RLT, MST Access.

IVN Buys In – Initial Investment 4.35% with Options to 55%; Large Miner Sees the Potential in RLT

Breakdown of the IVN Investment

Who is IVN?

IVN is a Canadian listed diversified mining company with a market cap of ~C$14bn. The company is focused on three principal projects in Southern Africa: production from the Kamoa-Kakula copper joint-venture mine in the Democratic Republic of Congo (DRC), the Platreef palladium-rhodium-platinum-nickel-copper-gold discovery in South Africa; and the redevelopment and upgrading of the Kipushi zinc-copper-germanium-silver mine in the DRC.

The key Platreef project in South Africa is a phased development plan which will start with 700 ktpa production (2024–2027), with two 2.2 Mtpa concentrator streams added in 2028 and 2030, increasing production to 5.2 Mtpa.

IVN is headed up by founder and Executive Co-chairman Robert Friedland. A multi-decade veteran of metals and mining markets, he has led several of the world's most significant mineral discoveries and mine developments, including Voisey's Bay Nickel (Vale) in Canada and Oyu Tolgoi copper and gold mine (Rio) in Mongolia.

IVN is focused on lowering its carbon footprint and is searching for cleaner energy generation to power its projects.

The rationale – why IVN?

RLT sees IVN as the ideal strategic partner to move forward with Phase 2 of the Virginia Gas Project. IVN is mining and developing in Africa strategic minerals necessary for electrification and decarbonisation: copper, nickel and platinum group metals. IVN is aligned with RLT as it also sees helium in South Africa as a key strategic commodity.

Major concerns about energy security exist in South Africa. Development of the country's first commercial LNG facility and proposed gas-to-power operations at the Virginia Gas Project from the Phase 2 development will assist in its energy security and could potentially provide IVN with a power source for its Platreef Project. Power production at the Virginia Gas Project will emit significantly fewer greenhouse gases than the existing coal-generated power.

Stage 1 – Initial investment completed – IVN takes 4.35% of RLT

On March 15, 2022, RLT placed 5,631,787 shares to IVN at ZAR35.625 per share (equivalent to US$2.37, A$3.24), equal to a 5% discount to 30-day VWAP, raising ZAR200.6m (equivalent to US$13.3m, A$18.3m). The placement takes IVN to 4.35% ownership of RLT, within the existing pre-approved placement capacity.

Stage 2 – due diligence and option to increase IVN holding to 25%

The initial strategic investment in RLT establishes a pathway for IVN to increase its shareholding in RLT up to a 25% shareholding through a market-related (10% discount to 30-day VWAP) second subscription. The key condition is the successful completion of due diligence by IVN to determine the extent and the scalability of the helium natural gas projects, including the Virginia Gas Project. Scalability appears to exist: the current planned Phase 2 only consumes roughly half of 2P reserves, and the total proven reserves (3P) only occupies 14% of the total production rights area.

The second subscription can be settled by IVN, at its election, with:

- cash and/or
- issuing IVN shares equal to the second subscription price (or the relevant portion not settled in cash).

Stage 3 – option for IVN to go to 55% and provide US$250m in Phase 2 funding

Following completion of the second subscription, IVN has the option to increase its shareholding in RLT up to 55%, by electing to provide equity funding of up to US$250,000,000 at a market-related price (10% discount to 30-day VWAP) for further development and up-scaling of the Virginia Gas Project.

Why Is This Transaction Good for RLT?

The transaction between RLT and IVN is advantageous from multiple different angles:

Validation of the project

- The partnership with IVN shows the progress made by RLT – now the owner and developer of an internationally significant resources project.
- The partnership validates RLT's assets and strategy, with this validation given by a company of significant size and experience in the sector.

Synergies with IVN

- IVN already has extensive mining operations in South Africa.
- IVN is aiming for net-zero carbon emissions. LNG is a compelling transition fuel to provide base-load power for IVN's Platreef project.
- RLT has the potential to provide clean, reliable electricity and provide an alternative to coal-fired electricity generation.
- The partnership enables IVN to study the project and look for opportunities, while giving RLT the opportunity to consider a larger project to monetise more of its substantial reserves and resources.

Enhanced funding options for Phase 2

The partnership:

- reduces funding uncertainty
- provides RLT with a significant amount of the required equity funding for the Phase 2 project
- paves the way for RLT to access significant capital towards the Phase 2 development
- provides an anchor buyer for the further equity required and enhances RLT's debt funding capacities for Phase 2
- diversifies its investor base into North America, and minimises potential dilution to existing shareholders as further investments from IVN will be linked to the prevailing share price at the time of subsequent investments.

Agreement to Sell 10% of the Project to State-Owned Energy Fund – See-Through Value A$916m ($A7.39/Share)

RLT has entered an agreement to sell 10% of the Virginia Gas Project to the state-owned Central Energy Fund for ZAR1 bn or A$91.6m.

The non-binding transaction is subject to completion of conditions precedent, and the parties have 141 days to execute binding agreements. RLT will use proceeds from the Central Energy Fund subscription to progress development of Phase 2 of the Virginia Gas Project.

Central Energy Fund is a state-owned diversified energy company with an investment mandate focused on contributing to the energy security of South Africa. The transaction satisfies RLT's BEE requirements.

The transaction shows a clear see-through value of the project. The transaction values 100% of the project at A$916m or A$7.39 per share, compared with the current price of A$3.93.

When first listed in Australia in July 2019, RLT owned 90% of the Virginia Gas Project. In December 2019, RLT bought the remaining 10% from the then BEE partner for A$2.3m. At the time, RLT said: 'Renergen remains committed to the principles of empowerment and will consider any fair, market-related offers from qualifying Broad-Based BEE investors for the 10% stake, on terms agreed by both Renergen and its lenders.'

Phase 1 to Produce First Gas in May 2022

Phase 1 is set to produce gas in May 2022. The commencement of the project has been delayed slightly from RLT's previous guidance of first gas in 1QCY22.

RLT has continued to advance the project well despite COVID restrictions in South Africa, supply chain issues and shipping delays (particularly getting the last of the LNG equipment from China).

Completion of Phase 1 will represent a major milestone in the company's progress. In full production this will see RLT produce 350kg of helium and 50 tonnes of LNG per day.

Exhibit 2 – Aerial shot of RLT's Virginia Gas Project, Phase 1

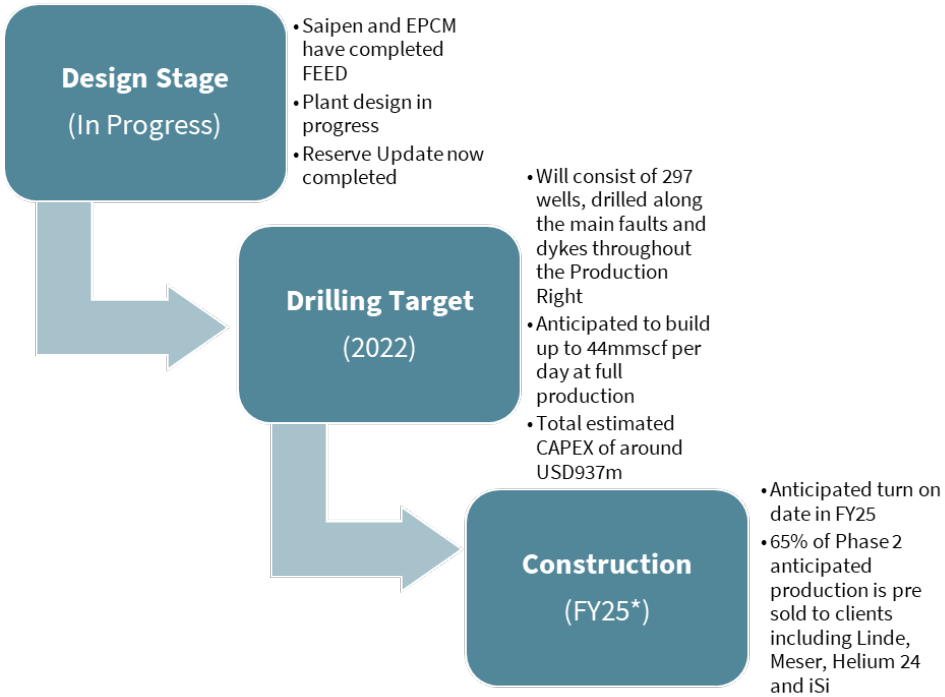
Source: RLT.

Next Steps in Developing Phase 2

Progress of Key Phase 2 Workstreams Continues

RLT commenced plant design, key exploration and development activities in 2022. The preliminary design stage at Phase 2 has been completed, with Saipem and EPCM completing Front End Engineering and Design (FEED).

Exhibit 3 – Phase 2 project phases



Source: RLT. *MST estimate

Phase 2 – Aiming to Be 15x Bigger than Phase 1 – IVN May Think Even Bigger

The upgrade of the reserves for RLT in late 2021 led to a significant increase in the proposed size of the Phase 2 project. RLT had previously contemplated a Phase 2 based on producing 10x the volume of helium and 6x the volume of LNG. RLT is now targeting 44mmscfd (of gross gas made up of methane and helium) from the Phase 2 plant; this compares to 3mmscf from the Phase 1 plant, a multiple of ~15x gross production.

RLT will be targeting to produce ~5 tpd of helium and ~700tpd of LNG.

2P total gas (methane + helium) is equivalent to 65,000,000 standard cubic feet (scf) per day for the remainder of the license tenor.

RLT's huge reserves base enables flexibility as to the size of the Phase 2 development. The reserves are large enough to increase this to more than 20x of Phase 1 on 2P numbers alone, where the 3P reserves only cover 14% of the production right. IVN will conduct a 120-day due diligence process to investigate the potential to increase the size of Phase 2.

Construction – Set to Commence in CY2022

Construction of the Phase 2 plant and surrounding pipelines and infrastructure will commence in CY2022. We expect the construction to be around 2 years with first gas in FY2025.

Comparing RLT to Its Peers – It's a Standout

RLT has a unique asset. The high helium content of >3% is the highest reserve concentration in the world. Mega LNG projects, such as those in Qatar, extract helium at concentrations of around 0.1%.

The most relevant comparables for RLT are standalone single entities that are exploring or seeking to develop helium resources. When comparing RLT to these other entities, it is clear that RLT is the most advanced, as well as significantly closer to generating cash flow. Only one of RLT's comparables has a prospective resource.

Exhibit 4 – Status comparison – RLT's closest comparables

	Avanti Energy	Desert Mount Energy Corp	Blue Star Helium	Renergen
Market Cap (USD)	C$67m	C$270m	A$67m	A$506m
Successful Drilling	✗	✗	✗	✓
Proven & Contingent Resources	✗	✗	✗	✓
Associated LNG	✗	✗	✗	✓
Plant Construction Underway	✗	✗	✗	✓
Offtake Agreements	✗	✗	✗	✓

Source: RLT

The Helium Market Mega Squeeze – Supply Hit from All Sides

2022 is turning out to be a very different year for the global helium business than most market participants were expecting up until very recently. The helium supply chain is complex, unpredictable and subject to supply shocks. Helium markets are now likely to remain very tight throughout 2022 and have significant uncertainty for 2023.

There is now considerable uncertainty about when Amur will restart helium production and how quickly it will ramp up. Qatar appears to have been delayed significantly and the BLM may be offline for some time. There is now increased scepticism in the market as to whether Amur will eventually become a reliable source of close to its 2.1 BCF per year nameplate capacity.

RLT is in in the final stages of completing Phase 1 of its LNG and helium project at the Virginia Gas Project in South Africa, with production due in May this year, and is advancing feasibility studies into a significantly larger Phase 2. The latest developments in the helium market look very positive for RLT from both a demand and pricing perspective.

Market Demand Is Strong

Helium cannot be substituted and is difficult to recycle. Helium supplies into high-growth, high-tech sectors including manufacturing, healthcare (predominantly MRIs), computing and rocketry. It is an opaque market for which it is difficult to predict growth, but given recent trends we would expect demand to grow around 5% p.a. going forward. Current helium demand is around 6bcf p.a.

2022 Was Going to Be the Year of New Supply … That's Not Going to Happen

Largely driven by expectations for significant production from two of Russia's Amur eventual three 700 MMCF p.a. helium tranches, 2022 was expected to be the year where the helium market finally moved from the tight supply conditions experienced in recent years to a sustained period of more plentiful supply.

However, several significant events at Amur as well as issues at Qatar and the US Bureau of Land Management (BLM) have put substantial strain on global helium supply.

Also, due to the Ukraine–Russia war, Algeria has begun feeding gas directly into the pipeline to Europe, bypassing the liquefiers, which means Algeria has substantially reduced helium production. This is unlikely to recommence soon.

Russia's Amur plant – fires and explosions put a question mark over production

Amur produced helium from its first helium plant for several weeks in September before taking a planned shutdown that was originally expected to last for a month or two. Trains 1 & 2 then suffered a fire, which delayed the plant restart. Train 3 suffered a catastrophic explosion in early January. Train 4 has the same technical design as trains 1, 2 and 3 so operators have declined to commence operations. Trains are used to send the helium to Russia's helium hub which is located roughly 3 days' drive away. If Russia were to look to transport the helium east, the closest locations would sit 10–12 days' drive in ideal weather conditions.

There is now considerable uncertainty about when Amur will restart helium production and how quickly it will ramp up. Given how recently the explosion took place, Gazprom would be in the process of assessing the extent of damage and putting its plan together for repairing the plant. It is too early to know if Amur's helium production will be delayed by six months, 12 months, or even longer.

Added to this, the Russia–Ukraine conflict has added further uncertainty with respect to the supply of helium, as global trade sanctions have been placed on Russian exports.

Exhibit 5 – The second train of the Amur gas processing plant following the fire that started on 8 October 2021

Source: AMUR GPZ.

Qatar – at maximum capacity

A new helium plant at Qatar was originally planned to start up in 2017 but it has been delayed. In early 2022, the US Government requested a status report from Qatar on the new plant. Qatar informed the US that, due to significant pipeline issues, the plant would not be operational until 2025. The US was relying heavily on the plant being operational in 2022 as its key BLM supply is depleting (and is fully contracted). This puts further stress on the global supply.

Exhibit 6 – Qatar helium plant

Source: NRGedge.

The BLM – plant failures add further pressure

The BLM has been a long-term supplier into the helium market, but with the depletion of the resource, the final auction of helium from the BLM was held in 2018. The final sales contracts are being delivered into for the BLM supply until the resource is exhausted. The BLM helium asset has been put up for sale by the US Government with bids due in September.

In early 2022, the BLM suffered main compressor issues as well as electrical system failures. Its helium plants are over 80 years old. The repair time is significant and may not occur until after the sale of the BLM is complete in September.

Exhibit 7 – The BLM helium facility

Source: BLM.

LNG Markets – Global Energy Shortage Drives Demand and Prices

Global LNG Markets – Demand Is Strong and Supply Tight

Spot contract prices have strengthened after weakening significantly in the first half of 2020 off the back of COVID. Demand has recovered and LNG prices have increased due to higher Northern Hemisphere demand, and supply has tightened, particularly in Europe, driving a higher LNG price. Local demand has increased from LNG projects, and southern supplies continue to tighten.

Europe is facing a confluence of events that have driven spot UK gas prices up some 500% from a year ago. The focus of the global gas market remains on supply to Europe. Supply shortages in parts of Europe can be traced to a shortage of gas from Russia into Europe, the absence of full nuclear generating capacity, intermittency of wind and solar energy and the banning of the shale gas sector in Europe. Relations between the US and Russia, now at a low due to Russia's Ukraine invasion, have led the US to attempt to avert a further crisis in European gas supply. The US has been working to shore up gas supply for Europe through LNG imports from the US and allied nations, including Australia. The US gas price is up almost 60% on a year ago.

In Asia, importers of LNG are paying record prices to secure supplies. China, the world's biggest buyer of natural gas, still needs to restock, even though imports are almost double what they were last year. Utilities in Japan and South Korea are largely locked in by long-term LNG contracts that are indexed to oil. Still, Korea Electric Power Co. said recently it will increase electricity prices for the first time in almost eight years.

American exporters will ship more LNG as new projects come online toward the end of the year. But as more gas goes abroad, less will be available in the US. Gas inventories are running below their five-year average.

Phase 1 Not Global Gas Price–Linked, but Phase 2 Will Be

For Phase 1, LNG prices will be determined by movements in SA diesel prices and LPG pricing. Diesel prices are highly correlated to the oil price whereas SA LPG prices are more determined by local demand and supply issues.

However, going forward we would expect that Phase 2 pricing may be far more influenced by global LNG and gas markets.

With the recent transaction with IVN, RLT may well be selling LNG for power generation and may look to sell at 'LNG export parity price'.

Valuation: Funding and Pricing Lifts Phase 2, with Some Extra Capex

Base-Case Valuation: Lower Risk Rating, Lift in Helium Pricing Boosts Valuation

Valuation increased to A$7.12/ZAR78.35 (previous A$6.71/ZAR73.86) – Unrisked Valuation A$8.38

We have increased our valuation off the back of two major inputs to our valuation:

- **A lower risk rating on Phase 2.** We have lowered the risk rating on Phase 2 and now assume a probability of 85%, up from 70%. The key drivers are the investment into RLT by IVN and the sale of 10% of the project to CEF. These factors lower the project's funding risk and increase its attractiveness to potential debt providers. We also consider that the recent developments in the helium market have made Phase 2 a necessary supply input for the global helium market. In addition, we apply a 12.5% discount rate to our valuation.
- **Increased helium prices.** Our previous helium price forecasts considered a market that was relatively well balanced from 2022 on. Recent events in the market (see 'The Helium Market Mega Squeeze' earlier in this report) have had a substantial effect on both short- and medium-term supply. We consider prices for both contract and spot helium will be higher than previously expected. We have also changed the mix of contract and spot for Phase 2 from 80% contract/20% spot to 65% contract/35% spot. We still consider our helium prices to be on the conservative side.

Our valuation also takes into consideration a substantial increase in capex for Phase 2. Our previous forecast was based on Netherland Sewell estimates from the reserves statement in November 2021, which totalled US$800m. We have revised this number to US$937m as per company guidance (refer RLT presentation January 2022). Part of this increase is the inclusion of 50 ISO containers to allow RLT to deliver helium into the spot market.

Our revised valuation does not take into account the sell down of 10% of the project to CEF as this is a non-binding agreement. We will adjust our valuation on this agreement becoming binding.

We have applied a relatively high 12.5% discount rate, consistent with our previous valuation.

RLT's production licence lasts until 2042. The company has an option to extend the life of the licence by 30 years. We have assumed the life of the project is extended by 10 years from 2042 in order to utilise the 2P reserves.

We have also taken into consideration the issue of shares to IVN and an equity issue to partly fund the Phase 2 construction, with the additional shares being added to our fully diluted share base. We have assumed 10% of funding is covered by the equity raising. We have not considered any further equity funding from IVN at this stage. We will review our valuation when IVN completes its due diligence and decides how it will participate in equity funding of RLT.

The key driver of our valuation is the successful implementation of the Phase 2 expansion.

Exhibit 8 – RLT valuation per share – risked NPV

	Unrisked Valuation		Risk	Risked Valuation		Previous Valuation	
Valuation Summary	**A$**	**ZAR**	**Weighting**	**A$**	**ZAR**	**A$**	**ZAR**
Stage 1 Valuation	0.90	9.90	100%	**0.90**	**9.90**	0.97	10.70
Stage 2 Valuation	8.41	92.51	85%	**7.15**	**78.63**	6.57	72.32
SG&A	-0.57	-6.25	100%	**-0.57**	**-6.25**	-0.60	-6.58
Net Debt	-0.36	-3.93	100%	**-0.36**	**-3.93**	-0.23	-2.57
Total Valuation	**8.38**	**92.23**		**7.12**	**78.35**	**6.71**	**73.86**

Source: MST estimates.

Further Upside to Valuation as Phase 2 De-risks

Our valuation places a risk (probability) weighting of 85% on delivery of Phase 2. We see several catalysts ahead to increase the valuation:

- **first gas and sales from Phase 1**: first gas and sales from Phase 1 will represent a major milestone as it produces its first gas and makes the first sales to customers.
- **funding and FID for Phase 2**: Phase 2 represents a significantly larger project than Phase 1. With capex of around US$937m, the successful funding and FID for Phase 2 would be a major event for the project.
- **significant reserves upgrade**: further reserves upgrades could lead to larger production facilities and/or longer life.

Phase 2 – On a Whole New Scale

Significantly higher production

Phase 1's capacity is around 50 tonnes of LNG and 350kg of helium per day.

With the increase in reserves, RLT has developed a plan to construct Phase 2 to produce at a rate of 44 million standard feet a day (mmscfd) of raw methane. This would produce net methane (after processing losses and removal of inerts and gas for power generation on site) of 33mmscfd and helium at 1.1mmscfd. This equates to ~675t of LNG and ~5,000kg of helium.

We believe the helium market needs the supply and the LNG market in South Africa has large growth potential for heavy vehicles, industry and power generation in particular. However, the project development is not without risk: Phase 2 is a challenging project for RLT, on a substantially different scale to Phase 1. We see a relatively higher level of risk with regards to funding, construction, timing, customers, logistics and supply chain. However, we consider the probability of the project proceeding to be very high as the demand for RLT's products, particularly helium, is very strong – the project is almost a necessity for the market. As a result, we have applied a probability factor of 85% to Phase 2.

Higher capex required

We have assumed capex for the Phase 2 project is split between FY23 and FY24, with most drilling occurring in FY23 and plant capex in FY24. We ramp up assumed production with our first full year being FY26.

We have based our capex assumptions on RLT guidance. The assumption is for a 44mmscfd operation. On 2P reserves, this requires two plants to process the gas, the pipeline infrastructure is increased to match, and we have 311 wells inclusive of Phase 1.

Exhibit 9 – Capex assumptions – initial capex (ZAR)

CAPITAL REQUIREMENTS	FY2023		FY2024		Total	
	ZAR m	USD m	ZAR m	USD m	ZAR m	USD m
New Well Drilling and Completion Capex	693	49	42	3	735	52
Pipeline and Liquification Plant Capex			12,383	885	12,383	885
Cost of Stage Two Expansion	693	49	12,425	888	13,118	937

Source: MST estimates.

Key Assumptions – Base-Case Valuation

Exhibit 10 – Key modelling assumptions – base-case valuation

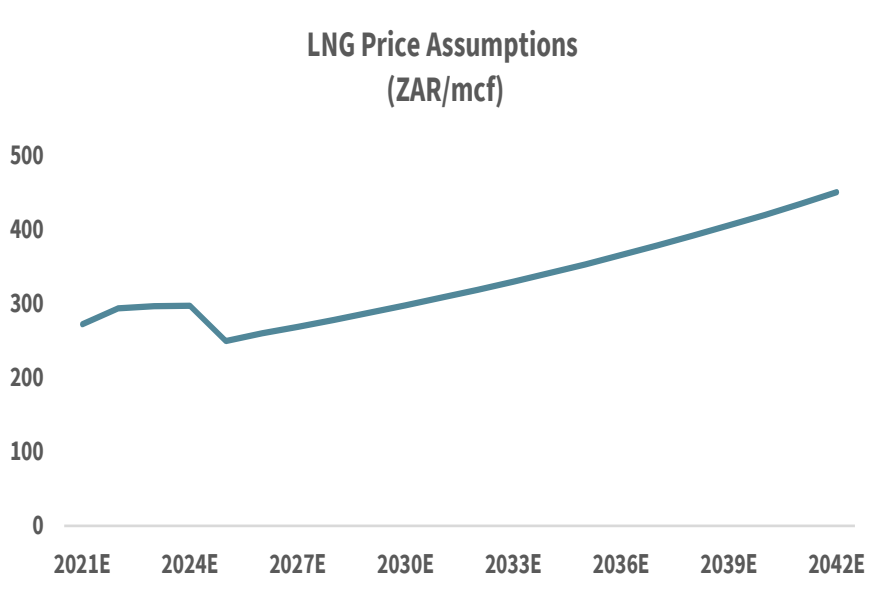
ASSUMPTIONS	
Well Depletion Rate	
Well Depletion Rate	5%
Helium Percentage	
Helium Percentage Phase 1	3%
Helium Percentage Phase 2	3%
Inflation Rates	
Transport LNG	2.5%
Wholesale LNG	4.5%
Gas Extraction	4.5%
Gas Liquification & Pipeline	4.5%
Gas Transportation	4.5%
Maintenance Capex Growth	4.5%
Financial Assumptions	
ZAR/USD	14.0
ZAR/AUD	11.0
Discount Rate	12.5%
Interest on Loans	US Treasury + 4%

Source: MST estimates.

Pricing

We have maintained our pricing profiles, but acknowledge that as more contracts are signed (particularly with methane), adjustments may be needed.

Exhibit 11 – LNG pricing assumptions (ZAR/mcf)



LNG pricing is a key to the valuation. We assume RLT sells 70% of its LNG to the heavy vehicle industry and 30% to industrial users for the life of Phase 1.

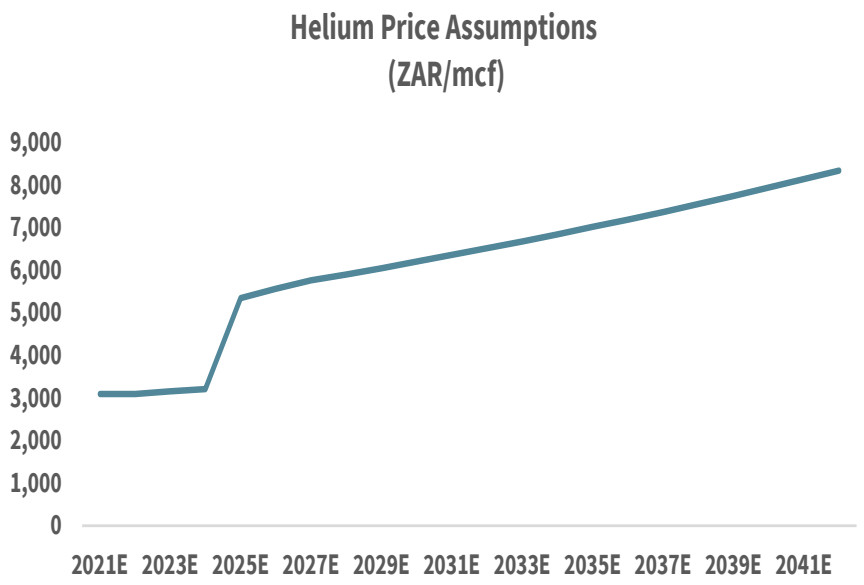
Heavy vehicle LNG is priced at a 25% discount to the South African diesel price, which is regulated by the SA Government and highly correlated to the Brent Crude price.

RLT will price its LNG to wholesale customers at a 'bulk rate'.

For Phase 2 we assume that LNG is sold for power generation (38%), industrial use (18%) and transport (44%). The price is a weighted average of the three.

Source: MST estimates.

Exhibit 12 – Helium pricing assumptions (ZAR/mcf)



Source: MST estimates.

We assume that 80% of Phase 1's helium is sold under the Linde contract at US$200mcf and inflated at 2.5% per annum as per the contract. The remaining 20% is priced at 'market' rates which we assume to be US$305mcf as per management guidance.

We assume Phase 2 pricing, beginning in FY2025, is 65% contracted and 35% spot with pricing of the contract at US$325mcf and inflated at 2.5% per annum. Spot pricing is at US$500mcf and escalates at the same rate. We consider these estimates to be conservative given helium market conditions.

Positive Catalysts for the Share Price

Although we see some of the value of Phase 2 reflected in the current share price, there are several catalysts that we would expect to drive the share price towards our valuation.

First gas and sales from Phase 1

First gas and sales from Phase 1 of the project would demonstrate the company's ability to deliver projects and build confidence in Phase 2.

Funding and FID of Phase 2

The key to Phase 2 progressing is funding. The amount of funding required is large relative to RLT's size. Attaining funding is a key risk and completing the funding will be a major positive catalyst for the stock.

Development of Phase 2

As the key to the valuation, development of the Phase 2 project will be a key catalyst for the share price.

Signing of customer contracts

Signing of further customer contracts would increase the market's confidence in take-up of LNG in South Africa as a transport fuel or industrial energy source. Several such contracts are currently under negotiation. Further signing of helium contracts will also increase confidence in the project.

Further increase in reserves

The Victoria Gas Project is 187,000 hectares. The reserve only covers a fraction of the project. There is strong potential for the reserves to grow substantially and further extend life or give potential for additional plants to be constructed.

Consistent performance of liquification plants/positive cash flow

Consistent performance of the liquification plants would prove project viability, begin to create positive cash flow and increase confidence in Phase 2.

Price increases in helium and LNG above our estimates

The valuation is sensitive to price increases in both products.

Increase in helium percentage in gas

RLT has had drilling results of up to 12% helium in the gas. An increase in helium percentage in the gas would lead to an increase in profitability for the project.

Risks to the Share Price and Valuation

Delays in Phase 1 commissioning and first gas

Delays in the commissioning and first gas from Phase 1 would delay cash flow and be negative for the valuation.

Unable to fund or delay in funding

The key to Phase 2 progressing is funding. The amount of funding required is large relative to RLT's size. Attaining funding is a key risk – if this does not occur or is delayed, it would be a negative catalyst for the stock.

Delays and increased cost for Phase 2

As the key driver of long-term value in RLT, any delays or increases in cost for Phase 2 would be viewed negatively by the market and would decrease our valuation.

Lower-than-expected conversion to LNG – heavy vehicle and wholesale markets

RLT's strategy relies on the SA heavy vehicle and wholesale markets market adopting LNG. Slower-than-expected rates of conversion would be unfavourable to the share price and valuation.

Increased drilling and construction costs

Increased costs would have direct negative effects on the valuation.

Competition from other gas sources

Imported LNG is seen as a future alternative energy source for South Africa and may be competitive with Phase 2's LNG. This may impact pricing and lead to closer alignment with global LNG prices.

Inability to sign additional helium customers

As a key value driver, any issues with signing helium customers would be negative.

Poor performance of plant and equipment

Reliable output from the liquification plants is a key driver of value for RLT. Any disruptions to this output would be seen as a negative for the valuation.

Decreased product prices

The valuation is sensitive to price decreases in both helium and LNG.

Political risk/fiscal changes in South Africa

Energy policy has followed a difficult path in South Africa. RLT has all approvals in place; however, the risk remains that policy and fiscal regime change could detrimentally affect the company. Changes in fuel tax affecting LNG would reduce its competitiveness with diesel and may require a change in strategy.

Recent riots in South Africa have increased interest in political risk in the country. We note, however, that the region in which the Virginia Gas Project is located was not affected.

Further COVID issues

Further COVID issues add risk to timing and cost.

Financials: Phase 2 Capex – Large Funding Required

Phase 2 Initial Capex of ~US$937m – Funded by Debt, Pre-Sales and Equity

The forecast pre-production capex of ~US$937m is a large funding requirement of over twice RLT's current market capitalisation.

US government funding

Per the Sproule report, RLT has entered into a commitment letter with the Overseas Private Investment Corporation (OPIC), the United States' government development finance institution, for OPIC to provide capital assistance for the development of the helium resource, indicating the United States' government's level of interest in the Virginia Gas Project as part of the global helium supply. OPIC provided a significant portion of the funding for Phase 1, with a US$40m loan at very attractive rates. We are confident that OPIC will once again fund a significant portion of the project.

Corporate and bank funding

We expect additional debt financing process either in the form of corporate bonds, bank debt, or financing from offtakers, which should attract supportive interest given the project's attractive market credentials (i.e., it fulfills a critical objective in helium supply globally). As such, we expect RLT will likely be able to obtain a significant portion of its funding as debt on attractive terms.

'Other' non-equity funding

RLT has completed a helium forward sale agreement for an amount of 100,000 units over a period of 19 years, with each unit representing a thousand standard cubic feet (mcf) of helium, to Argonon Helium, a helium trading company. This 19-year agreement has the potential to prefund helium sales from Phase 2 plant of up to c. US$25m. The arrangement is intended to facilitate the creation of a liquid spot market for helium, accessible to all investors through the Argonon platform. We see potential for further pre-sales to fund Phase 2.

Ivanhoe Mines

Ivanhoe Mines is a potential major funding source for Phase 2. IVN has options to equity fund the project through issue of RLT stock or via equity into the project.

Confirmation of 10% sale of project to CEF

Confirmation of the sale of 10% of the project to CEF will provide A$91m of funding towards the project.

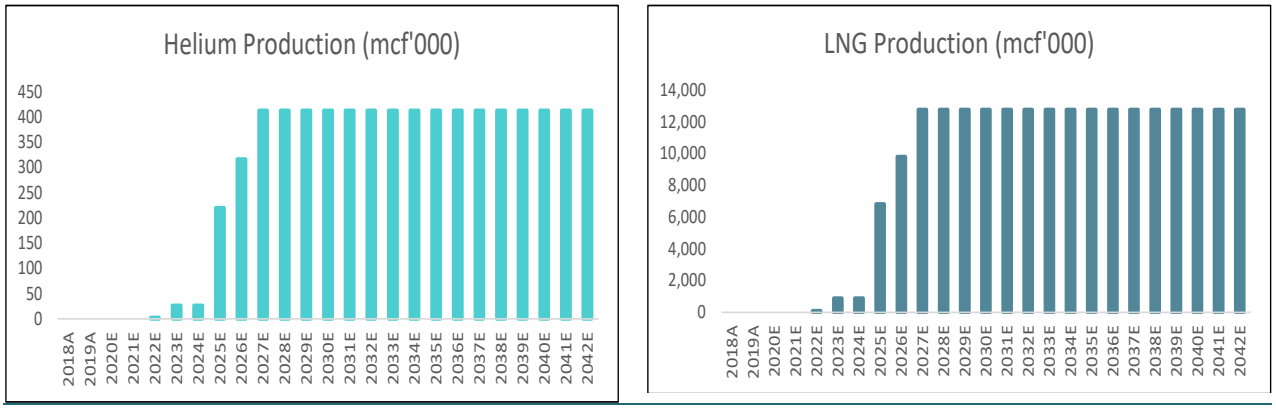
Equity funding

With a funding requirement of this size, debt funders will require an element of equity. We have assumed ~10% of the capex will be funded by an equity capital raising.

Project Production Flow and EBITDA

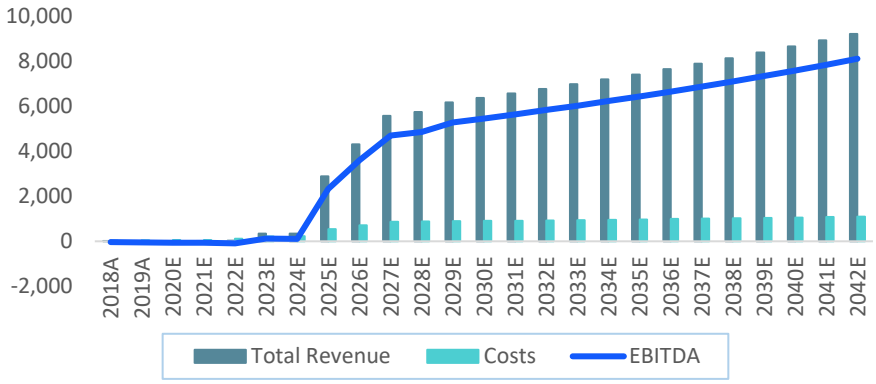
We assume Phase 2 will commence production in FY25 and will ramp up to full production rates over a period of 24 months.

Exhibit 13 – Production estimates



Source: MST estimates.

Exhibit 14 – Revenue, costs and EBITDA (ZARm)



Source: MST estimates.

Appendix 1: Understanding the Numbers – How Total Resources Are Categorised

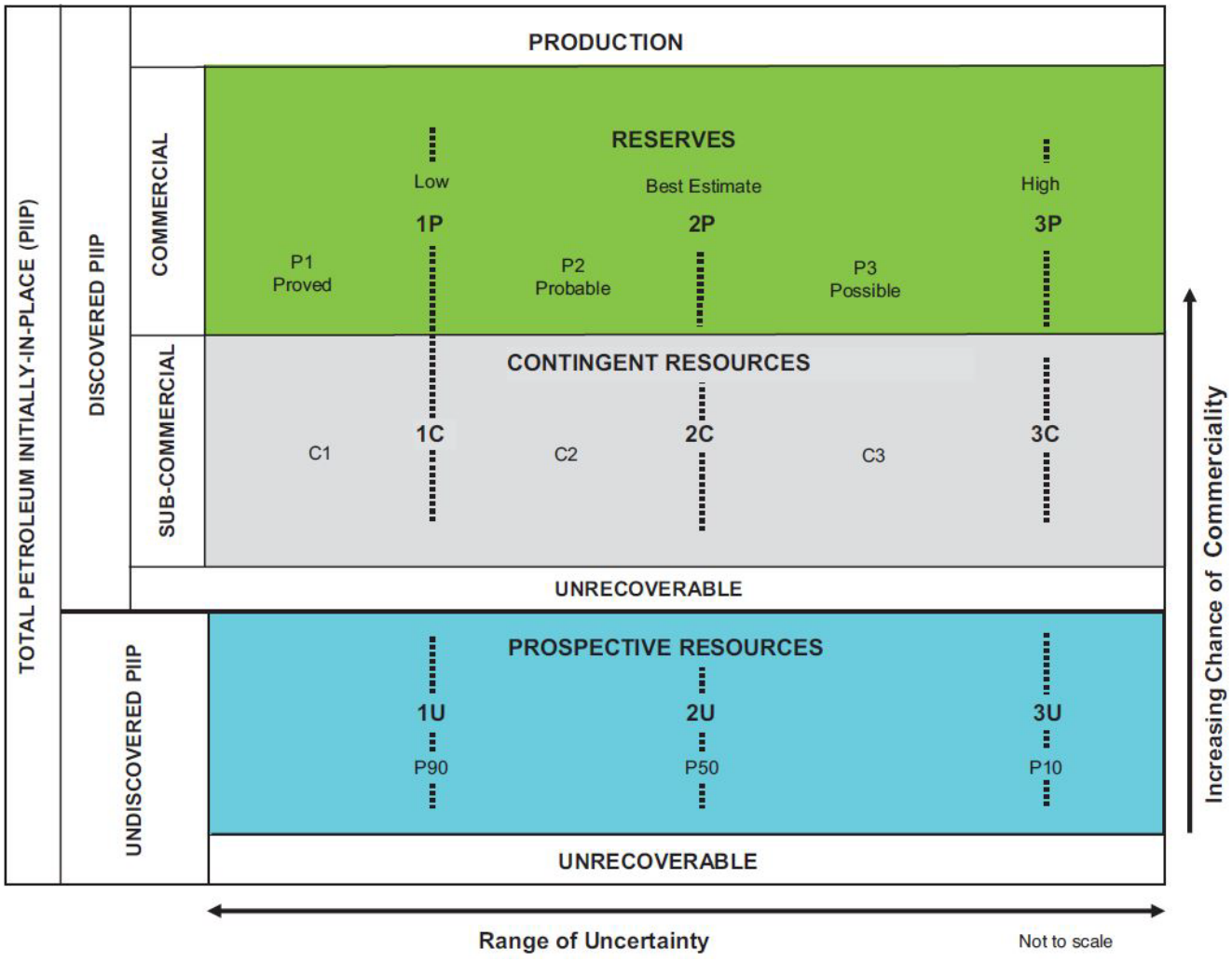
Estimated quantities of potentially recoverable helium can be placed into three categories. In order of increasing certainty, they are Prospective Resources, Contingent Resources and Reserves.

Prospective Resources are those quantities of helium estimated, as of a given date, to be **potentially recoverable** from **undiscovered accumulations** by application of **future projects**.

Contingent Resources are those quantities of helium estimated, as of a given date, to be **potentially recoverable** from **known** accumulations but where the applied project(s) are **not yet considered mature enough for commercial development due to one or more contingencies.**

Reserves are those quantities of helium anticipated to be **commercially recoverable** by **application of development projects** to **known accumulations**. The categories within Reserves, in decreasing certainty, are Proved, Probable and Possible.

Exhibit 15 – Classification of Petroleum (Including Helium) Reserves and Resources



Source: Sproule (Renergen Prospectus).

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