

## Major Milestone: RLT Produces First Gas

Reenergy (RLT) has completed a thorough commissioning process on the Virginia Gas Project LNG plant and produced first gas in late September. The plant was temporarily halted in October to repair a utility issue detected while commissioning the helium plant, but to date **has performed above specifications**. The helium plant continues to be commissioned and will be producing first liquid helium shortly. This is the major milestone for RLT, becoming South Africa's (SA) first commercial LNG plant and shortly first liquid helium producer. RLT's LNG will be key in reducing the SA's carbon footprint while becoming a supplier to the needy global helium market.

## Deal Lapsed but RLT's LNG Still an Option for IVN

Following Ivanhoe's (IVN) initial investment to become a 4.35% shareholder in RLT, a 120-day period was established to finalise an agreement to have seen IVN entitled to subscribe to 25% of RLT (and up to 55% on a post-dilution basis). The 120-day period, intended to be used to complete further due diligence and various regulatory approvals, ended without the regulatory conditions being met in full and the agreement lapsed. IVN will explore the potential for RLT's LNG to be part of a cleaner, reliable energy solution for its South African Platreef mine (SA's main utility's (Eskom) coal-based generation is ranked the 5th worst CO<sup>2</sup> emitter globally. Buyers of SA metals are looking for cleaner sources).

## Strong Phase 2 Funding Alternatives Presented

RLT's huge reserves base enables flexibility in the size of Phase 2. RLT is considering a gross gas production profile of ~15x Phase 1 with an estimated capex of ~US\$1b; reserves are sufficient to increase this to >20x. RLT has had strong interest from potential funding providers, including the US government for US\$500m and commercial bank potential funding interest of an additional US\$700m. The company has stated its total debt target as US\$750m, giving ample options.

## RLT Sale of 10% of Project: Due Diligence Complete

RLT has entered a non-binding agreement to sell 10% of the Virginia Gas Project to the state-owned Central Energy Fund (CEF) for ZAR1bn (A\$91.6m). Due diligence has been completed on the transaction. This transaction implies a valuation of A\$916m for the project or A\$7.39 per share. RLT anticipates FID for Phase 2 in early CY2023 and expect this transaction will close around the same time.

## Exploration Drilling to Become a Focus

RLT's gas and helium reserve covers a mere 14% of the total project's area of 187k hectares. Phase 2 will consume less than 30% of the total reserve over the life of the license, giving significant upside potential. RLT will commence a major exploration program to further increase the project's already substantial reserves base.

## Helium Market: Big Squeeze Continues; SA Energy Crisis

Several events at major producers have seen the supply of helium fall significantly with supply remaining tight. LNG prices have risen sharply. SA has regular blackouts of up to 8 hours per day, impacting many operations. Reenergy's LNG comes online at an ideal time to become a solution for cleaner energy and energy security to many companies.

## Valuation: A\$6.89 (Previous A\$7.12); Helium a Rare Commodity

Our fully diluted risked valuation is A\$6.89/ZAR76.78 (un-risked A\$7.75), with successful Phase 2 expansion the key driver. Key catalysts: completion of first helium from Phase 1, successful Phase 2 funding and FID, start of Phase 2 construction. Risks: Phase 1 delays, more COVID issues, delays in Phase 2 funding/development.



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.

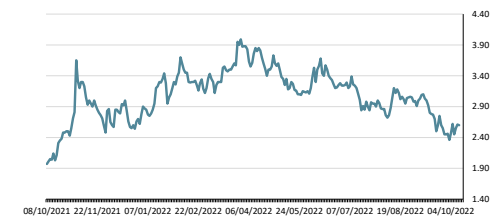
Stock	RLT.ASX/REN.JSE
Price	A\$2.23/ZAR27.63
Market cap	A\$308m
Valuation/share	A\$6.89/ZAR76.78 (Previous A\$7.12)

### Next steps

CY2022: Ramp up Phase 1 Production

CY2022: Exploration drilling

### RLT share price (A\$) – 1 year



Source: FactSet.  
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**Exhibit 1 – Regeneren company summary (year-end 28 February)**

Regeneren Limited				RLT.AX	
Year end 28 February					
MARKET DATA				12 month relative performance versus S&P/ASX Small Ordinaries Index	
<b>Price</b>	\$	<b>2.23</b>	<b>ZAR</b>	<b>29.00</b>	
<b>Valuation (diluted)</b>	A\$/ZAR	<b>6.89</b>	<b>ZAR</b>	<b>76.78</b>	
<b>Market Capitalisation</b>	A\$/ZARm	<b>301</b>	<b>ZAR</b>	<b>3919</b>	
52 week high / low	\$	3.99/1.38			
Shares on issue (basic)	m	135.1			
Options / Performance shares	m	5.3			
Other equity (Phase 2 capital raising)	m	90.0			
Potential shares on issue (diluted)	m	230.4			

INVESTMENT FUNDAMENTALS		FY20A	FY21A	FY22A	FY23E	FY24E
Reported NPAT	ZARm	(52.6)	(42.6)	(33.8)	(87.2)	(23.4)
Underlying NPAT	ZARm	(52.6)	(42.6)	(33.8)	(87.2)	(23.4)
EPS Reported (undiluted)	ZARm	(38.9)	(36.3)	(28.0)	(62.3)	(9.9)
<b>EPS Underlying (undiluted)</b>	<b>ZARm</b>	<b>(38.9)</b>	<b>(36.3)</b>	<b>(28.0)</b>	<b>(62.3)</b>	<b>(9.9)</b>
Underlying EPS growth	%	35.6%	6.8%	22.9%	-122.9%	-84.1%
P/E Reported (undiluted)	x	nm	nm	nm	nm	nm
<b>P/E Underlying (undiluted)</b>	<b>x</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>
Operating cash flow / share	ZAR	(27.7)	(18.1)	(58.6)	(13.4)	61.3
<b>Price to operating cash flow</b>	<b>x</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>47.3</b>
<b>Free cash flow</b>	<b>ZARm</b>	<b>(353.3)</b>	<b>(210.8)</b>	<b>(386.1)</b>	<b>(398.3)</b>	<b>(17,137.8)</b>
Free cash flow per share	ZAR	(261.5)	(156.0)	(285.8)	(294.8)	(12,683.2)
<b>Free cash flow yield</b>	<b>%</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>

PROFIT AND LOSS ZAR	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Sales</b>	<b>2.7</b>	<b>2.8</b>	<b>6.4</b>	<b>61.8</b>	<b>300.2</b>
<b>Operating Expenses</b>	<b>(66.5)</b>	<b>(46.5)</b>	<b>(38.2)</b>	<b>(77.1)</b>	<b>(169.1)</b>
<b>Gross profit</b>	<b>(63.8)</b>	<b>(43.7)</b>	<b>(31.9)</b>	<b>(15.3)</b>	<b>131.1</b>
Other income					
Other operating costs	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>(63.8)</b>	<b>(43.7)</b>	<b>(35.0)</b>	<b>(15.3)</b>	<b>131.1</b>
Depreciation & amortisation	(3.5)	(3.1)	(3.4)	(69.2)	(106.2)
<b>EBIT</b>	<b>(67.3)</b>	<b>(46.8)</b>	<b>(38.4)</b>	<b>(84.5)</b>	<b>24.9</b>
Net interest	0.0	(4.0)	(3.9)	(2.7)	(48.2)
<b>Pretax Profit</b>	<b>(67.3)</b>	<b>(50.8)</b>	<b>(42.3)</b>	<b>(87.2)</b>	<b>(23.4)</b>
Tax expense	14.7	8.2	(8.6)	0.0	0.0
<b>NPAT</b>	<b>(52.6)</b>	<b>(42.6)</b>	<b>(33.8)</b>	<b>(87.2)</b>	<b>(23.4)</b>
Adjustments & Significant items					
<b>Underlying NPAT</b>	<b>(52.6)</b>	<b>(42.6)</b>	<b>(33.8)</b>	<b>(87.2)</b>	<b>(23.4)</b>

BALANCE SHEET ZAR	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	141.0	130.9	95.1	156.7	239.6
Receivables	5.5	7.8	27.0	27.0	27.0
Inventory	0.0	0.0	0.0	0.0	0.0
Other	10.4	16.1	34.3	34.3	34.3
<b>Current assets</b>	<b>156.9</b>	<b>154.8</b>	<b>156.4</b>	<b>218.0</b>	<b>300.9</b>
PPE, Development and Exploration	350.8	475.6	807.0	1,138.1	18,252.6
Other	118.8	150.0	201.3	256.3	256.3
<b>Non current assets</b>	<b>469.6</b>	<b>625.6</b>	<b>1,008.3</b>	<b>1,394.4</b>	<b>18,508.9</b>
<b>Total Assets</b>	<b>626.5</b>	<b>780.4</b>	<b>1,164.7</b>	<b>1,612.4</b>	<b>18,809.7</b>
Accounts Payable	16.4	27.3	21.6	21.6	21.6
Borrowings	0.0	0.0	49.8	49.8	49.8
Other	4.7	5.2	3.0	3.0	3.0
<b>Current liabilities</b>	<b>21.1</b>	<b>32.5</b>	<b>74.4</b>	<b>74.4</b>	<b>74.4</b>
Borrowings	351.2	534.3	773.1	848.1	13,668.5
Provisions	7.0	7.2	30.9	30.9	30.9
<b>Non current liabilities</b>	<b>358.1</b>	<b>541.5</b>	<b>803.9</b>	<b>878.9</b>	<b>13,699.4</b>
<b>Total Liabilities</b>	<b>379.3</b>	<b>574.0</b>	<b>878.4</b>	<b>953.4</b>	<b>13,773.9</b>
Share Capital	452.3	453.1	563.9	1,023.8	5,424.0
Reserves	8.1	9.1	12.0	12.0	12.0
Accumulated Profits / (Losses)	(213.1)	(255.8)	(289.5)	(376.8)	(400.1)
<b>Total Equity</b>	<b>247.2</b>	<b>206.4</b>	<b>286.3</b>	<b>659.0</b>	<b>5,035.9</b>

CASH FLOW ZAR	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Operating cash flow</b>	<b>(37.5)</b>	<b>(24.5)</b>	<b>(79.2)</b>	<b>(18.1)</b>	<b>82.9</b>
PPE and Exploration	(315.8)	(186.3)	(307.0)	(380.2)	(17,220.7)
<b>Investing cash flow</b>	<b>(315.8)</b>	<b>(186.3)</b>	<b>(307.0)</b>	<b>(380.2)</b>	<b>(17,220.7)</b>
Debt Raised / (Repaid)	296.0	216.3	239.7	0.0	12,820.5
Proceeds from issue of shares	151.0	0.0	110.5	459.9	4,400.2
Other	(35.6)	(12.6)	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>411.3</b>	<b>203.7</b>	<b>350.2</b>	<b>459.9</b>	<b>17,220.7</b>
Net Increase/Decrease	58.1	(7.1)	(35.9)	61.6	82.9
Cash at Beginning of Year	98.0	141.0	130.9	95.1	156.7
Ex Rates	(15.0)	(3.0)			
<b>Year end cash</b>	<b>141.0</b>	<b>130.9</b>	<b>95.0</b>	<b>156.7</b>	<b>239.6</b>

Source: RLT, MST Access.

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%

## Major Milestone: RLT a Producer – Phase 1 LNG Switched On

RLT has reached a major milestone with the Virginia Gas Project ('the project') operational, establishing RLT as a producer of LNG and soon to be liquid helium. The company has completed a very thorough and detailed commissioning process which has entailed testing and retesting the plant's processes and systems. The plant was temporarily paused in October while RLT was commissioning the helium plant as a precautionary measure (had RLT continued to helium production without pausing the risk to the whole plant was significant). An issue was detected with an oil system providing lubrication and heating to the plant, the system was not providing consistent heating as it had been incorrectly installed. The decision was made to turn the entire plant off, correct the issue and reinstall the oil system. The oil system has now been fully tested and is operating within specification

With the entire plant down while the repair was being conducted, RLT has taken the opportunity to connect 4 new wells to the system increasing plant output to 65% of maximum design specification. This has meant the LNG plant is now ahead of the planned ramp up schedule as a result of the early temporary shut-down.

The process, from here is to pressurise the pipeline, prime the utilities and turn on the plant for steady state production, with LNG commencing first, and liquid helium turning on thereafter

RLT stated the LNG plant having operated for around a month or so, **to date it has exceeded design specifications.**

The longer-than-anticipated commissioning process has enabled RLT to minimise the risk of production and safety issues within the plant. The liquid helium plant will begin production in the near term.

RLT has begun the process of filling bulk storage tanks to begin delivery of product to customers and will ramp up to full production of 350kg of helium and 50 tonnes of LNG per day over the coming months.

The project is South Africa's first commercial LNG and liquid helium plant and is set to demonstrate RLT's capacity to become a global supplier of liquid helium and a significant local supplier of LNG. It should also reduce the country's carbon footprint by substituting diesel in trucks and for commercial users.

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



Source: RLT.

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Exhibit 3 –RLT’s Virginia Gas Project, Phase 1

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Source: RLT.

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Exhibit 4 –RLT’s Virginia Gas Project, Phase 1

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Source: RLT.

## Potential Ivanhoe Mines Investment to 55% Lapsed; IVN to Pursue RLT as a Potential Supplier of LNG for Power

Following Ivanhoe's (IVN) initial investment to become a 4.35% shareholder in RLT, a 120-day period was established in order to finalise a strategic agreement which would have seen IVN entitled to subscribe to 25% of RLT (and up to 55% on a post-dilution basis). The 120-day period, which was intended to be used to complete further due diligence and various regulatory approvals, ended without the conditions being met in full and the agreement has lapsed. (See Appendix 2 for details of the original agreement)

IVN is a Canadian listed diversified mining company with a market cap of ~C\$14bn.

### Key Conditions of the Proposed Strategic Agreement – And Why It Didn't Proceed

The key conditions of the proposed agreement were:

- the successful completion of due diligence by IVN within 120 days of the signing of the agreement to determine the extent and the scalability of the helium natural gas projects, including the Virginia Gas Project
- obtaining certain regulatory and shareholder approvals within the same 120-day period.

The strategic agreement with IVN did not proceed, as the relevant regulatory approvals had not been received within the time period set out in the agreement.

Given the transaction was signed prior to the war in Europe and subsequent change in global macro factors, the deal had the impact of diluting existing shareholders too much, and we consider that the deal lapsing was a better result for RLT than having the deal proceed.

### Where Does This Leave IVN's Relationship with RLT?

IVN is focused on lowering its carbon footprint and is searching for cleaner energy generation to power its projects. The company is continuing to explore the potential for RLT's LNG to be part of a cleaner, reliable energy solution for the Platreef palladium, rhodium, nickel, platinum, copper and gold mine, located in South Africa.

IVN remain a 4.35% shareholder in RLT and holds one position on RLT's Board of Directors.

### Is IVN's Situation Unique Amongst Corporate SA?

SA's ageing and underinvested power generation (predominantly coal) infrastructure reflects a nation facing a significant energy crisis and is creating substantial issues for SA companies, with many resorting to diesel power and adding to already significant carbon issues. Solutions have to be found, with LNG for transport, power and industry a short and long-term, lower-carbon solution to SA's energy needs.

Renegen has indicated that the modest LNG revenue from the 10 buses has shown a higher price per gigajoule being achieved and give early indication of improvement to Phase 2's already strong economics.

## Reergen Sources Attractive Alternative Finance for Phase 2

RLT has had significant interest from several funding sources to provide funding for Phase 2. The IVN agreement, had it proceeded, had the potential to provide up to US\$250m of funding for the Phase 2 project. However, although the IVN agreement had some attractive terms, we consider the deal may have been excessively dilutionary for existing RLT shareholders at such an early stage of the project's development. We are positive about the alternative sources of capital that are on offer for RLT as it looks to fund Phase 2 of the Virginia Gas Project'.

### Alternative Funding Sources for Phase 2

#### US International Development Finance Corporation (DFC) – US\$500m

RLT has signed a Retainer Letter with the DFC, a development arm of the US Government (and the same organisation that provided US\$40m for the funding of Phase 1), to evaluate making a loan of up to US\$500m to finance the development of Phase 2 at the Virginia Gas Project. DFC has conducted a preliminary screening of the proposal for Phase 2 financing. RLT and DFC are currently in the process of further analysis on the project, including on-site due diligence now that the Phase 1 plant has become operational.

#### Commercial banks and other providers of project finance – US\$700m

RLT has also received multiple Letters of Intent ('LOIs') to co-lend alongside the DFC for Phase 2 operations from additional lenders. The LOIs have a cumulative value of over US\$700m in senior debt, which will exceed the remaining debt requirement. The lenders are currently in the data room and will be conducting an onsite inspection of Phase 1 operations as part of the due diligence for the debt funding of Phase 2.

### Target of US\$750m Debt for the Project

RLT has preliminary estimates of the cost of Phase 2 to be approximately US\$1b. RLT has stated that the project will have a target debt ratio of 75%, meaning the current preliminary debt offers are more than sufficient to meet that target.

The remaining funding will consist of equity funding and will include the sale of 10% of the project to CEF (see page 7 for details), generating approximately US\$65m.

RLT will then be required to fund 90% of the project, leaving US\$235m to finance via equity arrangements. During the Phase 1 build, not all the equity was raised upfront, and we anticipate in order to minimise dilution RLT is likely to take a staged approach in raising the equity during the Phase 2 build.

Alternatives available to RLT include:

- further project selldown
- convertible notes
- listing on alternative exchanges such as Nasdaq
- equity raisings on ASX and JSE
- strategic investors
- prepaid sales contracts.

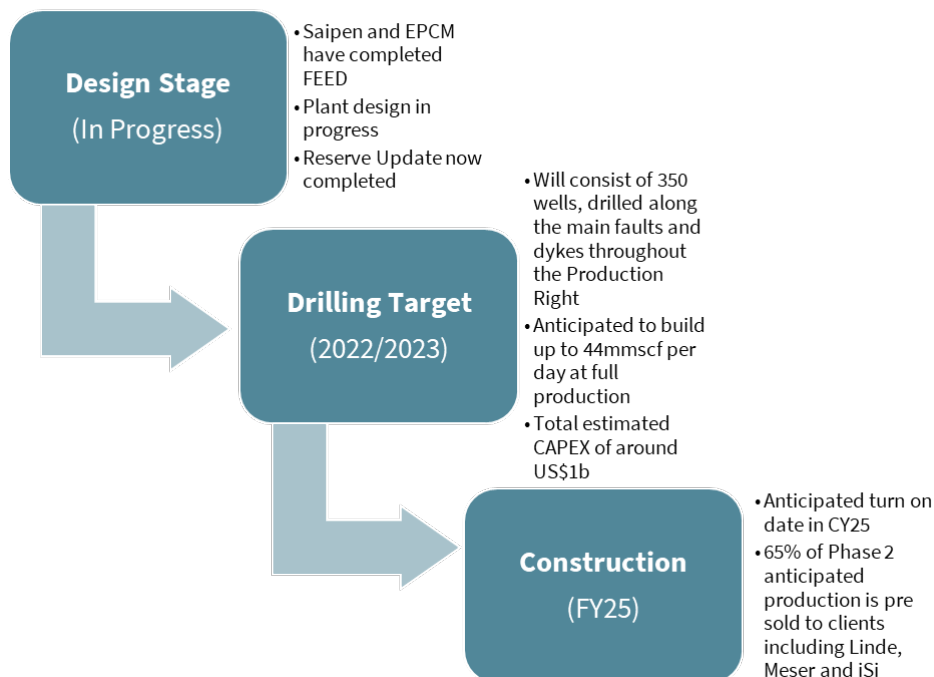
Given RLT's supply into energy and helium markets, we see a strong possibility for both domestic and international support for the project in terms of grants and tax relief.

## 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 5 – Phase 2 project phases



Source: RLT. MST estimate

### Phase 2 – Aiming to Be 15x Bigger than Phase 1 – Demand Suggests Could Go Larger

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. Phase 1 and Phase 2 combined will consume less than 90% of the Virginia Gas Project’s P1 reserves, indicating there is still significant upside within the current reserve.

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.

### Construction – Set to Commence in CY2023

Construction of the Phase 2 plant and surrounding pipelines and infrastructure is set to commence in CY2023. We expect the construction to be around 2 years with first gas in CY2025.

## Agreement to Sell 10% of the Project to State-Owned Energy Fund – Due Diligence Completed; See-Through Value A\$916m (A\$7.39/share)

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

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

CEF 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.

CEF has completed due diligence on its agreement to invest ZAR1bn (~A\$86m) for a 10% ownership stake in the Virginia Gas Project (the project). This is a major step forward in finalising the agreement between RLT and CEF. Both parties have now commenced engaging with their respective stakeholders to obtain final approvals to complete the transaction. The successful conclusion of the due diligence signifies strategic nature of the project and further marks another significant step forward in closing out the capital required for its Phase 2 operations. RLT has stated the deal is now subject to their relevant stakeholder approvals, which will include the SA government and the US DFC as the primary lender.

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\$2.75.

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.'

## Exploration – Seeking Further Reserves for Beyond Phase 2

### Major Program to Commence Outside Current Reserve

The Virginia Gas Project covers ~187,000 hectares in area. The current reserve covers only 14% of the project.

RLT has engaged a surveying technique which effectively shows areas of potential high helium contact as a different colour pattern to the areas with low or zero helium contact.

Early testing of the technique has highlighted areas outside the reserve that test as potentially higher helium concentrations than in the reserve.

RLT will conduct an exploration program targeting those highlighted areas with the purpose of defining gas and helium from outside the current reserve.



## 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 had expected 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 the remainder of 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 US Bureau of Land Management (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 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. Rocketry continues to grow with each rocket launch using 2.6 mmscf. A mere 100 launches a year consumes almost 5% of global consumption.

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 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 2021 before taking a planned shutdown that was originally expected to last for a month or two. Trains 1 and 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. (The issues at Amur were during the commissioning stage. We note that RLT has now completed the commissioning stage of Phase 1 without incident.)

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.

### Qatar – at maximum capacity

A new helium plant at Qatar was originally planned to start up in 2017 but has been delayed. In early 2022, the US Government requested a status report from Qatar on the new plant. Significant pipeline issues have delayed the plant's operations until 2026. 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.

### 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 bids were due by September 30, 2022.

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.

To add further supply-side issues, a small helium production plant in Kansas had a fire and is now out of commission as well.

### Algeria – reduced capacity

In order to supply Europe with natural gas through the pipeline into Spain, the gas is bypassing the liquefiers which means the helium cannot be separated, taking a significant amount of global production out of the mix until Europe has secured alternative sources of natural gas.

## LNG Markets – Global Energy Shortage Drives Demand and Prices

### Global LNG Markets – Demand Is Strong and Supply Tight

Demand and LNG prices have increased due to higher Northern Hemisphere demand, and supply has tightened, particularly in Europe, driving a higher LNG price.

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 continues to work to shore up gas supply for Europe through LNG imports from the US and allied nations, including Australia.

In Asia, importers of LNG are paying record prices to secure supplies. 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.

As indicated by IVN's continue interest in RLT's LNG, RLT may well be selling LNG for power generation and may look to sell at 'LNG export parity price'.

## Valuation: Funding and Pricing Supports Phase 2

Valuation A\$6.89/ZAR76.78 (previous A\$7.12/ZAR77.96) – un-risked valuation A\$7.55

The key driver of our valuation (Exhibit 6) is the successful implementation of the Phase 2 expansion.

Our valuation does not take into account the sell down of 10% of the project to CEF for ZAR1b, as this still requires regulatory approval, we will adjust our valuation on this agreement becoming binding.

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 as more than sufficient reserves to cover the life extension.

We give the Phase 2 project a 90% probability rating. As Phase 1 commissions and proves reliable production capacity, the probability rating will increase providing upside to our valuation.

We have also taken into consideration the increase in equity from 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 25% of funding is covered by the equity raising. This will be offset by the inflow from the CEF and the fact that RLT will only need to fund 90% of the capex.

We apply a relatively high 12% discount rate. See Exhibit 6 below for other key assumptions.

### Exhibit 6 – RLT valuation per share – risked NPV and major assumptions

Valuation Summary	Unrisked Valuation		Risk	Risked Valuation		Previous Valuation	
	A\$	ZAR	Weighting	A\$	ZAR	A\$	ZAR
Stage 1 Valuation	0.67	7.38	100%	<b>0.67</b>	<b>7.38</b>	<b>0.90</b>	<b>9.90</b>
Stage 2 Valuation	7.67	84.32	90%	<b>6.81</b>	<b>75.89</b>	<b>7.15</b>	<b>78.63</b>
SG&A	-0.32	-3.56	100%	<b>-0.32</b>	<b>-3.56</b>	<b>-0.57</b>	<b>-6.25</b>
Net Debt	-0.27	-2.93	100%	<b>-0.27</b>	<b>-2.93</b>	<b>-0.36</b>	<b>-3.93</b>
<b>Total Valuation</b>	<b>7.75</b>	<b>85.21</b>		<b>6.89</b>	<b>76.78</b>	<b>7.12</b>	<b>77.96</b>

ASSUMPTIONS	
<b>Well Depletion Rate</b>	
Well Depletion Rate	5%
<b>Helium Percentage</b>	
Helium Percentage Phase 1	3%
Helium Percentage Phase 2	3%
<b>Inflation Rates</b>	
Transport LNG	5%
Wholesale LNG	5%
Gas Extraction	5%
Gas Liquefaction & Pipeline	5%
Gas Transportation	5%
Maintenance Capex Growth	5%
<b>Financial Assumptions</b>	
ZAR/USD	17
ZAR/AUD	11
Discount Rate	12%
Interest on Loans	US Treasury + 4%

Source: MST estimates.

## Phase 2 component of valuation – on a whole new scale

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 as very high given the very strong demand for RLT’s products, particularly helium – the project is almost a necessity for the market. As a result, we have applied a probability factor of 85% to Phase 2.

**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.

**Capex estimate:** We have assumed capex for the Phase 2 project is predominantly spent FY24, with some drilling occurring in FY23 and more in FY24 and plant capex in FY24. We ramp up assumed production with our first full year being FY26.

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 350 wells inclusive of Phase 1.

Exhibit 7 – Phase 2 capex assumptions – initial capex

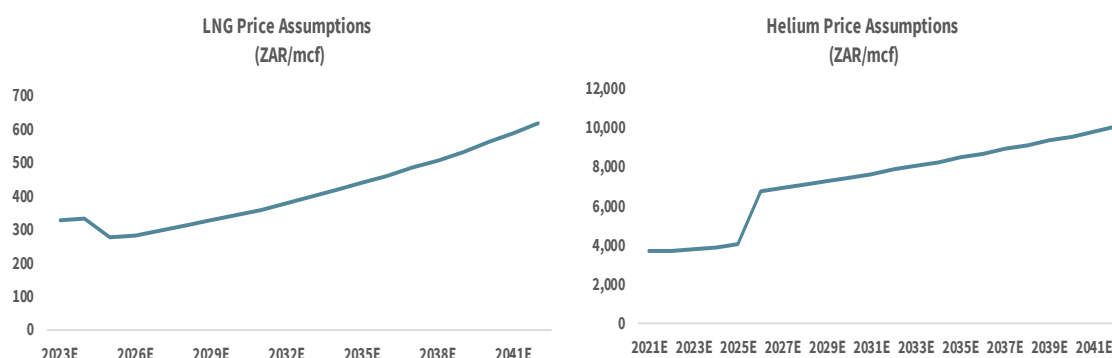
CAPITAL REQUIREMENTS	Total	
	ZAR m	USD m
New Well Drilling and Completion Capex	702	50
Pipeline and Liquification Plant Capex	13,316	951
Cost of Stage Two Expansion	14,018	1,001

Source: MST estimates.

## Pricing assumptions

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

Exhibit 8 – LNG pricing assumptions (ZAR/mcf) (LHS), Helium pricing assumptions (ZAR/mcf) (RHS)



Source: MST estimates.

**LNG pricing:** LNG pricing (see Exhibit 8, LHS) 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.

**Helium pricing:** 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 (see Exhibit 8, RHS).

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.

## Further Potential 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 which could increase our valuation:

- **Proven gas production and sales from Phase 1:** First gas has been produced from the system. Ramp up of production and sales from Phase 1 would represent proof of concept of the plant and increase confidence in a large-scale Phase 2.
- **Funding and FID for Phase 2:** Phase 2 represents a significantly larger project than Phase 1. With capex of around US\$1b, 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.

## 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.

### 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.

### 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.

### 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

### 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.

### 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 South African 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.

### 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.

### Further COVID issues

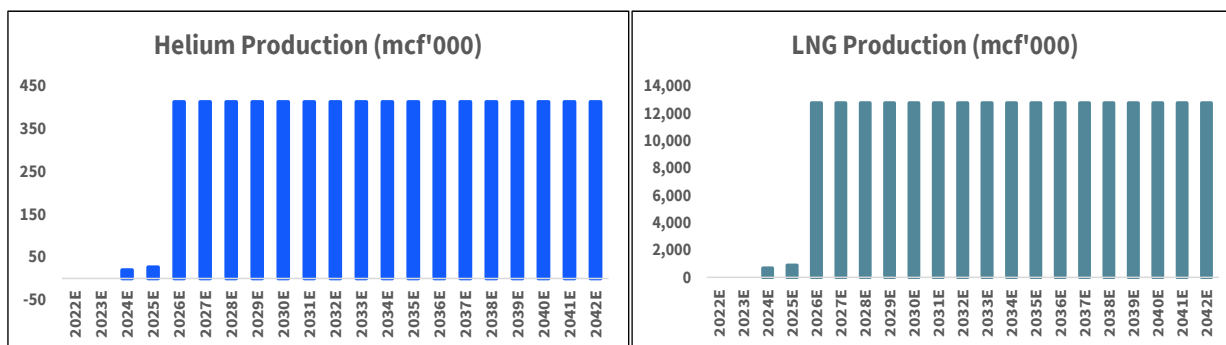
Further COVID issues add risk to timing and cost.

## Financials: Projected Revenue and EBITDA

### Project Production Flow and EBITDA

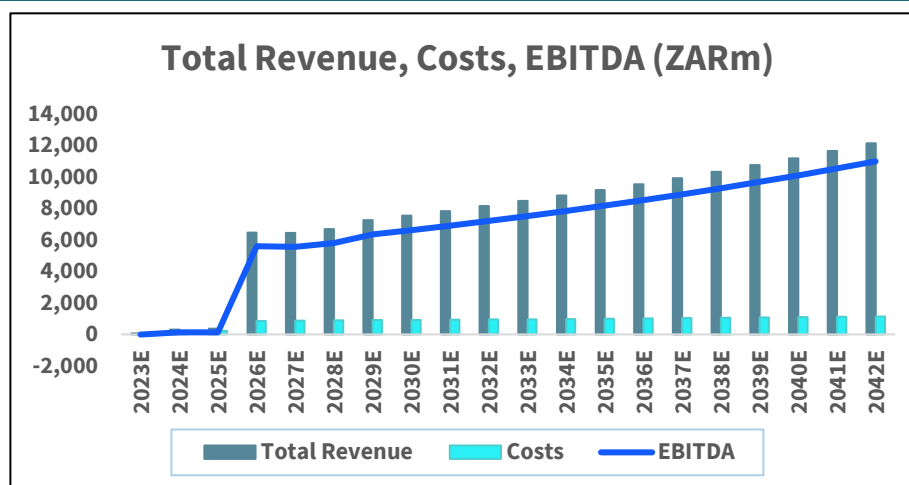
We assume Phase 2 will commence production in FY25 and will ramp up to full production rates over a period of 24 months.

Exhibit 9 – Production estimates: helium (LHS) and LNG (RHS)



Source: MST estimates.

Exhibit 10 – Revenue, costs and EBITDA (ZARm)



Source: MST estimates.



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

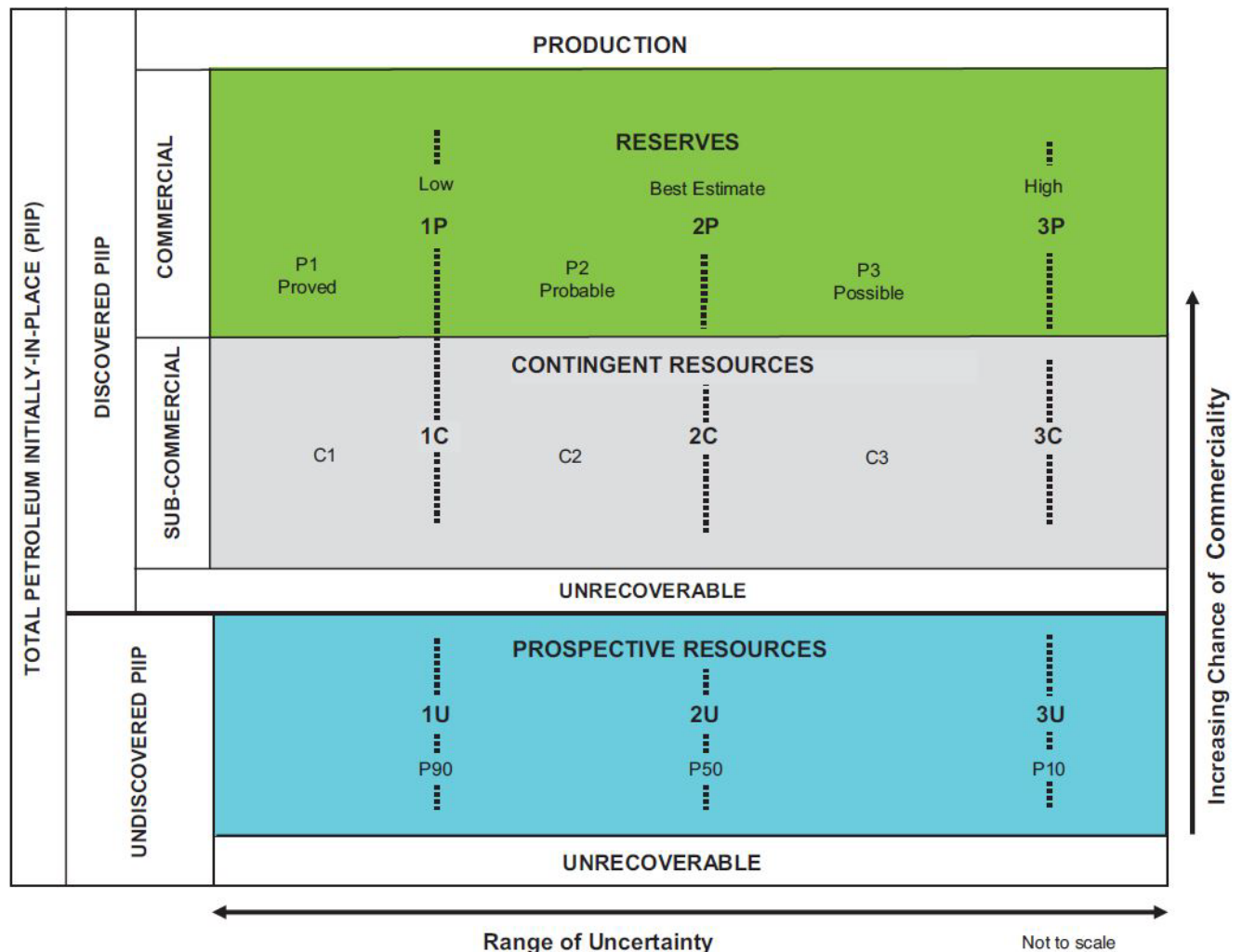
Estimated quantities of potentially recoverable helium can be placed into three categories. In order of increasing certainty, they are Prospective Resources, Contingent Resources and Reserves.

**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 11 – Classification of petroleum (including helium) reserves and resources



Source: Sproule (Renergen Prospectus).

## Appendix 2: Details of Lapsed Ivanhoe Strategic Agreement

### Breakdown of the IVN Investment – What was Proposed

#### 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 took 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 established 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 second subscription was to 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% on a post-dilution basis, 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.

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