

COMPANY :	Invictus energy Limited (IVZ)	Date: 14 Aug 2023
MCAP / SHARE PRICE	\$195m / \$0.165/share	Desk Note Update
RECOMMENDATION	Speculative Buy; Price Target \$0.30/share	High Risk Rating
EVENT	Update Report – DecH'2023 activity ramps-up	

Rig moving to site to Mukuyu-2 for, Mid-Sept Startup | Corporate “what if” metrics

KEY POINTS – Mukuyu-2 to start Mid-September

Invictus Energy Limited (IVZ) is an Australian listed group focussed on exploring plus developing petroleum with carbon-offset projects to sustainably supply energy to Africa’s fast-growing economy and population.

IVZ’s is now in the process of moving the rig to its second well at the now fully prepared Mukuyu-2 site:

- Conditions are favourable for the two weeks to complete the 6.8km move and then rig-up on site.
- Perhaps a further week to install and commission new integrated mud-system.
- First drill turning date for Mid-September, is unchanged for a ~55-day drill program.

IVZ is seeking to declare a discovery by obtaining fluid samples and reservoir quality data. This is to test from ~13 zones of gas and petroleum liquids shows observed in the Cabora Bassa Basin's first "wildcat" well, Mukuyu-1.

- Mukuyu-2 is 6.8 km north-east from, and 400 metres up-dip of Mukuyu-1. The location was chosen to optimally test the Main target, the Triassic-Aged Upper Angwa, this time with a simpler near vertical well.
- While Mukuyu-2 is an appraisal well it has elements of exploration well as it drills a discrete horst block on the giant >200 km² structure and aims to penetrate an added target - the Lower Angwa Formation.
- Discovery of an active petroleum system and learnings from drilling the first well considerably reduce risks for this drilling campaign.

Key risks – while IVZ’s Mukuyu-1 found much evidence of an active petroleum system, risk remains in drilling. This includes mechanical on adverse geological drilling problems. Mukuyu-2 play relies upon fault-seal closure and finding quality reservoirs within a hydrocarbon column.

For more details on the Mukuyu prospect see our major update note: [Link to RR IVZ 230725](#)

KEY DRIVERS – Corporate “what if”... scenarios

While not making many headlines, the Australian Oil & Gas scene has seen high activity with corporate deals and mergers and acquisition. This recently includes asset deals and farmins such as Woodside (Scarborough), ADX Energy (Austria), Carnarvon Energy (Dorado) and takeovers of Talon Energy and Warrego.

While a takeover of IVZ or asset sale remains far too early for IVZ, however, “what if”...

Mukuyu-2 is a success that ushers in follow-up finds in its prospect-rich and dominant position in the Cabora Bassa Basin in northern Zimbabwe? We see IVZ as highly leveraged play on success due to:

- IVZ is the basin master, with big 80% ownership position with operatorship of the entire sub-basin in Zimbabwe.

- East African Rift Systems are hot plays with *big offshore-sized resource potential with cheaper onshore costs*. Now also comes with *growing gas/fuels markets through Africa*.
- Oil Majors will pay big money for geologically de-risked plays especially if they come with operatorship. The country location does not matter much it seems.

NOTE – while it will take many wells to determine a large resource, Mukuyu-2 could provide the essential proof of concept could easily see values per 1% of equity move from token to the US\$5m to US\$10m range.

Using a flat NPV of US\$7/bbl of oil equivalent (boe) this is ~71 m boe to 140m boe of implied reserves.

On my table below that suggests a IVZ valuation of between \$A\$0.37/share and \$0.74/share. Further success would see valuations tend to rise well in excess of \$1 per share.

This compares to our fully diluted valuation after project risking of \$0.30/share. Unrisked our valuation rises to \$1.23/share. The unrisked value . See *below section in this update note*.

What does success look like for IVZ using past African corporate deals?

Corporate Takeout Scenario Analysis	Valn of Equity/1%	Implied discovey NPV US\$/boe	IVZ Equity + operator	IVZ Equity AUDUSD	IVZ Fully Diluted # Securities	IVZ Fully Diluted # Securities
Invictus Energy (success case)	1%	\$7.00	80%	0.675	1,228.798	1,601.993
Past deal guides	US\$m	mil boe	US\$m	A\$m	A\$/share	A\$/share
Token deal	2.5	36	200	296	\$0.24	\$0.18
Token deal	5	71	400	593	\$0.48	\$0.37
WDC offshore Senegal	10	143	800	1,185	\$0.96	\$0.74
BP offshore Senegal	20	286	1,600	2,370	\$1.93	\$1.48
Maersk onshore Kenya	30	429	2,400	3,556	\$2.89	\$2.22
Egyptian gas/some oil	40	571	3,200	4,741	\$3.86	\$2.96
Mozambique offshore	100	1,429	8,000	11,852	\$9.65	\$7.40
Invictus' Pre-Drill Prospective Resource potential						
Central Fairway targets		4,295				
Basin Margin Prospects & Leads		1,200				
IVZ Share price						\$0.165

Source of table: general IVZ presentation on deals (below). PAC Partners scenario analysis with approximate estimates noting a SUCCESS Case for IVZ.

Details provided by IVZ of past African Corporate transactions are as follows:

TRANSACTIONS ON FRONTIER AFRICA EXPLORATION SUCCESS

Exploration success provides superior returns

BUYER	SELLER	COUNTRY	WORKING INTEREST PURCHASED (%)	TRANSACTION COST (\$M)	IMPLIED VALUE per WI% (\$M)
PTTE	COVE	Mozambique	9	1900	224
Exxon	ENI	Mozambique	25	2800	112
ONGC	Anadarko	Mozambique	10	2600	260
BP	Kosmos	Senegal-Mauritania	33-62	916	20
Woodside	Conoco Phillips	Senegal	35	430	12
BP	Eni	Egypt	10	375	37.5
Rosneft	Eni	Egypt	30	1125	37.5
Maersk	Africa Oil	Kenya	25	907	36.3

Invictus current implied value per WI% of <\$1M provides significant upside

12x to 224x IVZ's implied value per WI%

INVESTMENT VIEW

Confirmation that Mukuyu is capable of producing in commercial quantities both upgrades Mukuyu structure and may upgrade several other identified structures. Re-rating could also come from the following:

- More activity – IVZ's aim would be to retain the rig for rapid resource delineation drilling.
- A farmout may be possible on conclusion of the Petroleum Production Sharing Contract with Zimbabwean authorities, hopefully this year.
- We expect MOU's for gas offtake will be refreshed and others added, on a successful Mukuyu-2 result.

A ~425 km seismic survey to be completed by mid-August has potential to add to its exploration leads and prospects to the east of Mukuyu. It could add considerable value and farmout appeal to its newly acquired exploration licences EPO 1848 and 1849.

A farmout would place both a value and 3rd party endorsement of IVZ's petroleum assets, while advancing the project's development.

We re-affirm our recommendation of **Speculative Buy, high risk rating**. Our risked NPV valuation has risen and offset dilution of 2023 capital raise of ~\$35m resulting in an unchanged price target of **\$0.30/share**.

Links to previous major Update note: [RR IVZ 230725](#)

Note, see important Disclaimers and Disclosure of Corporate Involvement including PAC Partners has acted as Joint Lead Managers for Invictus energy raisings – below and in our full Update Report.

PAC Partners Risked and Unrisked Valuations of IVZ

Our valuation fully diluted at our target price is \$0.30/share. Interestingly, the unrisksed valuation comes to \$1.23/share and would be based upon a delineation of 310 mm bbl of oil equivalent development.

This has some resonance in the corporate “what if” tables explored above.

Invictus Energy Ltd PAC Partners Valuation	Risked Valuation A\$m.	Risked Valuation A\$/sh	Risk Factor %	Unrisked Valuation A\$/sh
1.0 TCF Case	213.3	0.17	33%	0.53
1.5 TCF Case	154.8	0.13	20%	0.63
Baobab Basin Margin	29.1	0.02	20%	0.12
Basin Margin other	29.1	0.02	20%	0.12
Net Cash	-7.7	-0.01	100%	-0.01
Options Exercise	6.5	0.01	100%	0.01
Corporate Costs	-23.5	-0.02	100%	-0.02
Total	401.6	0.33		1.37
Valuation at Target Price	425.1	0.30		1.23

Source of valuation PAC Partners estimates

Key Risks Remain – fault seal, reservoir quality and hydrocarbon column

- Mukuyu-2 is testing a different fault block to Mukuyu-1. There is risk that hydrocarbon migration paths have been altered.
- Mukuyu-2 relies upon fault-seal to create gas and liquid hydrocarbons trap.

Mukuyu-2 planned well path is below:

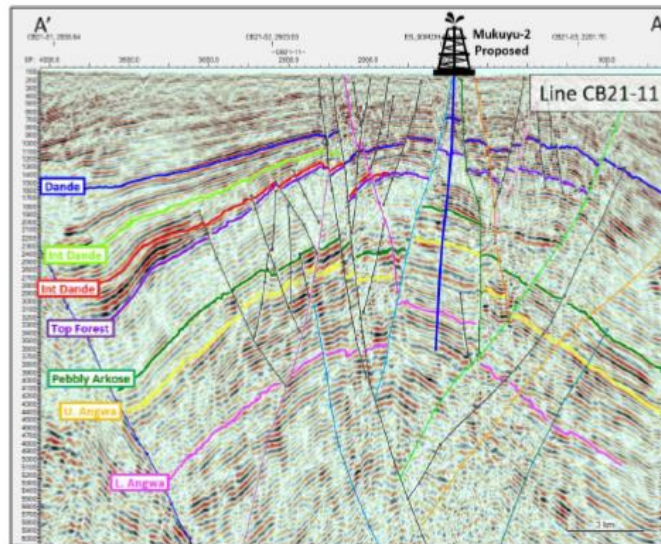


Figure 2 - Mukuyu-2 planned well trajectory and seismic cross section

KEY RISKS - For an expanded risks section - please refer to Page 13 of the Update report.

IVZ is an oil and gas exploration and development company. At this stage it has yet to make a commercial discovery capable of development and largely relies on equity or farmouts for its operations. Exploration is inherently risky, and investors should be aware of the following risks which include, but are not limited to:

- While Mukuyu-1 indicated multiple levels of hydrocarbon shows, it has yet to be determined that there are adequate quality reservoirs with high saturations of hydrocarbons.
- Drilling operations at Mukuyu-1 and its sidetrack well demonstrate there are challenges in drilling and data retrieval.
- IVZ operates in Zimbabwe, which has little experience of petroleum exploration and development. While its new fiscal and operating codes appear competitive with peer African petroleum producing countries, the implementation of rules are untested.
- Changing Ministers or Governments in forthcoming elections may present unanticipated changes. Endorsement of the Petroleum Production Sharing Agreement may be subject to delays. This may impact upon IVZ's ability to raise capital or attract farmout parties.
- Expensive drilling is required to discover, appraise and develop IVZ's growing prospect inventory. Unforeseen issues can prolong drilling and operations cost beyond IVZ's cash resources.
- There are no guarantees that a commercial development proposal will be able to attract funding or debt at reasonable costs.

The information contained in this report is to be read in conjunction with other important disclosures at the end of the Initiation of Research document and in this email's Disclaimers below.

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Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield. A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view. **Speculative buy** = We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have strong capital appreciation but also has a high degree of risk and there is a significant risk of capital loss.

Buy	Hold	Sell
>20%	20% – 5%	<5%

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