KEFI Gold and Copper

Code word imminent

Metals and mining

17 July 2025

Since our last note at the end of March, KEFI has appointed BCM as its preferred mining contractor and raised £7.6m in equity (supported by Konwave, Phoenix, Premier Miton, RAB and Ruffer, among others) to expedite the launch of the Tulu Kapi project. On site, it has constructed a new access road, a temporary construction camp, security camps and logistics control rooms, as well as drilling water boreholes and completing contractors' certifiers' inspections. New host lands have been allocated for all local residents requiring resettlement, and property surveys for compensation for Phase 1 resettlement, for a temporary construction camp, security camps and for a new access road have all been completed. This week, it announced the triggering of compensation payments to the resettling community. As a result, its US$320m financing package is now entering its final stages, with independent certifications targeted for completion this month and definitive agreements next month, followed by drawdown and mobilisation shortly thereafter. With contractual finalisation imminent, KEFI's shares are at a key inflection point, with the company now targeting first gold in late FY27.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/23	0.0	(4.6)	(0.21)	0.00	N/A	N/A
12/24	0.0	(8.9)	(0.21)	0.00	N/A	N/A
12/25e	0.0	(14.6)	(0.17)	0.00	N/A	N/A
12/26e	0.0	(0.9)	0.03	0.00	17.0	N/A

Note: PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Valuation: 1.41p/share on risked EV/NPV multiples

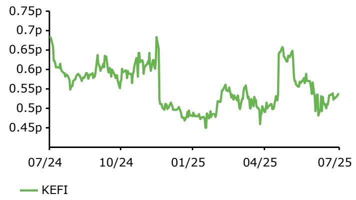
In March, KEFI calculated an updated project NPV_5 for Tulu Kapi of c US$690m at construction start at a long-term gold price of US$2,400/oz, of which KEFI's c 80% share is worth US$552m pro rata, or £412m (4.40p/share). On the same (unrisked) basis, Jibal Qutman and Hawiah potentially add a further 0.50p/share, to take the total to 4.89p/share, to which KEFI's shares are trading at a discount of nearly 90%. After risk adjusting for the projects' various stages of development, we calculate that a valuation of 1.41p/share is nevertheless appropriate at this stage.

Valuation: 1.65p/share on discounted dividends

At our long-term gold price of US$1,866/oz from FY30 (in real, 2025 US$ terms), we calculate that Tulu Kapi (plus its 15% residual interest in its Saudi Arabian joint venture, GMCO) could generate average annual free cash flow to KEFI of c £99.4m in FY29–34 (cf £88.2m in FY28–33 previously), making average (maximum potential) dividends of 0.54p/share pa possible in FY30–34. Discounting this flow of dividends to shareholders to present value at a discount rate of 10% pa suggests a valuation for KEFI of 1.65p/share. This is lower than our previous valuation of 2.03p largely owing to a delay in assumed first gold from early to late FY27 as well as the effect of the recent equity raising. However, the potential for an underground mine at Tulu Kapi adds 0.20p/share (or 12.1%) to our valuation. Moreover, at current metals prices, our valuation increases to 5.46p now (plus a further 0.75p/share for the underground mine) and to 7.33p in FY29, implying an IRR of 66.7% to buyers of the shares at their current price in sterling terms over the next 12 years.

Price	**0.54p**
Market cap	**£50m**
	US$1.3413/£
Net cash/(debt) at end-December 2024	£(0.6)m
Shares in issue	9,362.6m
Free float	92.3%
Code	KEFI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.1	6.6	(17.8)
52-week high/low		0.8p	0.5p

Business description

KEFI Gold and Copper is an exploration and development company focused on gold and copper deposits in the highly prospective Arabian-Nubian Shield – namely the Tulu Kapi project in Ethiopia (projected 80% interest) and the Hawiah and Jibal Qutman projects (15%) held via its associate GMCO in Saudi Arabia.

Next events

Tulu Kapi project launch	H225
Tulu Kapi mining commissioning	Late 2026
First gold	Q427

Analyst

Lord Ashbourne +44 (0)20 3077 5700

mining@edisongroup.com

Edison profile page

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Recent developments

Tulu Kapi is located in the Oromia regional state (the biggest in the country) and in the Ghimbi/Gimbe zone of western Ethiopia, approximately 360km west of Ethiopia's capital, Addis Ababa. Since our last note at the end of March, the company has:

- Appointed BCM as its preferred mining contractor in April.
- Provided two project updates on Tulu Kapi in May.
- Raised £7.6m to expedite the launch of Tulu Kapi in an equity raise supported by, among others, Konwave, Phoenix, Premier Miton, RAB and Ruffer also in May.
- Provided a corporate update and an updated investor presentation, in April and June, respectively.
- Announced its FY24 results.
- Announced its AGM at 10am on Thursday 17 July in London.

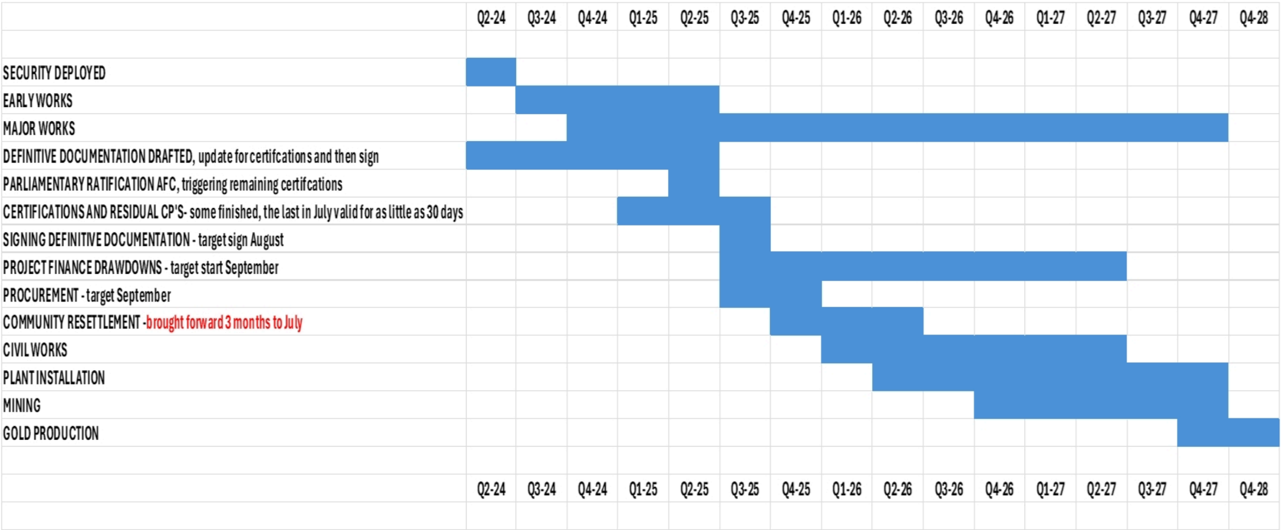
While we had not anticipated its £7.6m (US$10.2m at prevailing forex rates) equity raise in May and while it was stated to expedite the launch of Tulu Kapi inasmuch as it will allow the expedited payment of various closing preparation costs including legal costs, bank commitment fees and various other launch-related requirements such as certifications of costs and schedules, the financing could just as easily be interpreted as:

- Militating against a sale of KEFI's 15% interest in GMCO.
- Reflecting development capital already expended to date on Tulu Kapi plus preparing for more, such as compensation for the community (see Exhibit 3).
- Substantially pre-funding KEFI's share of GMCO development capital.
- Catering for a 3.3% variance in the project's development capital expenditure of US$320m

It followed the announcement in May of Ethiopian Country Membership having been ratified in the Ethiopian parliament for both the company's project finance banks, which was a key milestone, unlocking the final stages of project financing and enabling the sequencing of contractual closings. As a result, KEFI's US$320m in financing is now entering its final stages, with independent certifications and definitive agreements targeted for completion this month and next month, respectively (ie July and August), followed by drawdown and mobilisation shortly thereafter. In the meantime, construction preparations are already underway and field activities are ramping up, with all parties focused on disciplined execution notwithstanding regional complexities. During Q225, a new access road, a temporary construction camp, security camps and logistics control rooms were constructed, as well as water boreholes drilled and contractors' certifiers' inspections completed. In addition, new host lands have been allocated for all local residents requiring resettlement and property surveys for compensation for Phase 1 resettlement, for a temporary construction camp, for security camps and for a new access road have all been completed. Within this context, this week's announcement of the start of community compensation is material in that it marks a 'no turning back' point regarding the community.

A Gantt chart of the project's summary schedule and future milestones is therefore now as follows:

Exhibit 1: Tulu Kapi project summary schedule



Source: KEFI Gold and Copper.

The project is expected to scale to c 160,000oz in the first full year of production, with potential to exceed 200,000oz annually with the contribution from the underground mine. As such, with contractual finalisation imminent, KEFI is at a key inflection point, now targeting first gold in late FY27.

Community resettlement

The government owns all land in Ethiopia and every Ethiopian is entitled to land (effectively, on a long lease) at the age of 18, although the land is allocated to the family at an earlier stage. As a result, the landscape is characterised by a large number of small landholdings and any initiative such as the development of a mining project at Tulu Kapi will require a programme of resettlement including, where appropriate, infrastructure such as roads and schools etc. The process is concluded under the auspices of the government (not least because it is not in the government's interest to create a precedent for inflated relocation compensation) and is a common aspect of life in Ethiopia.

At Tulu Kapi, the number of households needing to be relocated is c 360, representing c 1,300 people from the mine licence area. The acting government entity is the Regional Government of Oromia, its Zonal Administration of Ghimbi and its local municipality or Wereda called Genji. Over the years, KEFI has been involved in extensive community consultation and stakeholder engagement, with the result that its Resettlement Action Plan (RAP) has been approved as part of the Mining Agreement signed between the company and the government. The first compensation package has been paid for the initial construction camp area and the community property surveys on the balance of the land have also now been completed, with some already agreed and signed off. Phase 1 payments have been triggered this week.

In negotiating the RAP, the government originally offered the villagers 17 potential site options, of which three were chosen by the villagers. The most favoured sites have evolved into those nearest Tulu Kapi in order to take advantage of the economic opportunities created by the mine.

A new access road to the site of the new kebele (smallest administrative unit or ward) has now been completed. Now that compensation is being paid, residents have a statutory 90-day time limit to relocate, which should coincide with major civil works commencing at the end of the current wet season in the October 2025 to May 2026 dry season.

In consideration of the whole RAP, the long-term livelihood restoration programme and the community development programme, KEFI has budgeted US$24.7m, which is included in its capex estimates and deductible against future tax liabilities.

Assumptions

Commissioning at Tulu Kapi is still anticipated to commence in late 2026, albeit first gold is now anticipated by the company in late FY27, rather than our assumption of early FY27 previously. Thereafter, our operational assumptions are shown in Exhibit 2. In formulating our forecasts, we have brought our mine plan as closely as possible into line with the detailed technical and financial information disclosed on KEFI's website, at https://www.kefi-goldandcopper.com/projects/ethiopia/tulu-kapi. Edison's assumptions and modelling are based on the original definitive feasibility study (DFS) plus a number of intervening iterations. However, they differ from KEFI's in that the company's mine plan includes an initial contribution from the underground mine, whereas Edison's 'base case' assumptions consider the open pit, with the option to bring an underground mine plan into production only in FY29 (however this is considered in our 'Sensitivities' section, below).

Exhibit 2: Tulu Kapi mine plan and cost assumptions

	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Current									
Waste (kt)		18,600	19,500	20,500	19,600	18,600	11,600	5,000	0
Stripping ratio		5.7	5.6	9.8	6.3	7.6	4.7	3.5	N/A
Ore processed (kt)		2,000	2,000	2,000	2,000	2,000	2,000	2,000	0
Grade (g/t)		2.33	2.86	2.40	3.10	2.77	2.69	2.45	0.00
Contained gold (koz)		149.7	184.2	154.3	199.2	178.2	173.2	157.4	0.0
Recovery (%)		83.16	93.88	93.80	93.91	93.87	93.85	93.78	0.00
Recovered gold (koz)		124.5	172.9	144.7	187.0	167.2	162.5	147.6	0.0
Operating costs (US$/t processed unless otherwise indicated)									
Mining (US$/t mined)*		3.82	4.22	4.77	5.04	5.09	5.37	6.44	0.00
Milling (oxide, US$/t)		10.75	13.75	13.79	0.00	13.90	13.93	14.01	0.00
Milling (fresh ore, US$/t)		10.54	11.54	11.59	11.65	11.70	11.76	11.81	0.00
Milling (hard ore, US$/t)		0.00	13.75	13.79	13.85	13.92	13.99	14.07	0.00
Total (US$/t)		57.92	67.79	73.56	76.63	73.96	57.58	40.75	N/A
Gold price (US$/oz)	2,068	1,863	1,727	1,866	1,866	1,866	1,866	1,866	1,866
Sustaining capex (US$000s)	0	12,195	13,393	7,915	8,917	5,470	2,630	3,144	0
Previous									
Waste (kt)	15,338	18,737	20,335	19,397	19,180	13,693	6,251	586	0
Stripping ratio	4.7	5.4	9.7	6.2	7.9	5.6	4.4	3.9	N/A
Ore processed (kt)	1,500	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Grade (g/t)	2.33	2.86	2.40	3.10	2.77	2.69	2.45	0.96	0.62
Contained gold (koz)	112.3	184.2	154.3	199.2	178.2	173.2	157.4	61.8	40.1
Recovery (%)	83.16	93.88	93.80	93.91	93.87	93.85	93.78	100.24	110.90
Recovered gold (koz)	93.4	172.9	144.7	187.0	167.2	162.5	147.6	62.0	44.5
Operating costs (US$/t processed unless otherwise indicated)									
Mining (US$/t mined)*	3.82	4.22	4.77	5.04	5.09	5.37	6.44	30.12	-
Milling (oxide, US$/t)	10.75	13.75	13.79	0.00	13.90	13.93	14.01	0.00	15.12
Milling (fresh ore, US$/t)	10.54	11.54	11.59	11.65	11.70	11.76	11.81	12.48	12.40
Milling (hard ore, US$/t)	0.00	13.75	13.79	13.85	13.92	13.99	14.07	14.13	14.26
Total (US$/t)	65.33	66.18	73.17	76.12	75.44	63.20	41.83	18.11	15.32
Gold price (US$/oz)	1,988	1,791	1,660	1,794	1,794	1,794	1,794	1,794	1,794
Sustaining capex (US$000s)	12,195	13,393	7,915	8,917	5,470	2,630	3,144	0	0

Source: KEFI Gold and Copper, Edison Investment Research. Note: *Includes waste.

KEFI's proposed mining method and equipment specification at Tulu Kapi are considered straightforward and technically sound by the lenders' independent technical expert. Within this context, it is significant that less than 10% of the total material movement is categorised as 'selective' under the draft mining contract specifications, indicating that the mining methods to be used are generally very standardised.

Additional costs include a 7% government mining royalty, US$14.88/oz in offsite refining, insurance, transport and offtake costs and an US$11.6m provision for closure. Onsite general and administrative costs are forecast to be US $68.6m over the seven-year life of the mine. Overall, therefore, including offsite costs and the 7% government royalty, we calculate an average cash cost per ounce for Tulu Kapi of US$953/oz over the life of the open pit.

At the corporate level, we continue to assume head office costs of £1.0m per year (unchanged). A carried-forward tax loss of US$95m has also been applied to future pre-tax profits before tax is payable.

Capex and funding mix

Our pre-production capex estimate (excluding financial items) remains unchanged at US$285.8m.

KEFI's approach to its funding requirements has been consistent in seeking to share risk with contractors and to minimise dilution. During 2014 and 2015, it revised its inherited DFS as a precursor to opening project construction and mining to international tender, with the specific intent of reducing upfront capex by introducing contract mining. Since then, it has introduced project-level equity (eg the government of Ethiopia and a consortium of Ethiopian investors) as well as senior secured debt provided by banks that are already working in Ethiopia, committed to the country and familiar with local market conditions and many of Tulu Kapi's stakeholders. In this case, the adoption of senior secured debt is considered to be more compatible with Tulu Kapi's consortium of financiers than other forms of finance. It is also anticipated to result in material savings in the cost of debt servicing, administration and other charges, especially during the project's development and start-up period. As such, the development capital requirement of KEFI's Ethiopian subsidiary is anticipated to be financed largely at the project level, approximately as follows:

Exhibit 3: Tulu Kapi sources of funding

Item	Last published (March 2025)		Current				
	US$m	£m**	US$m	Change (%)	Change (US$m)	£m**	Percent of total (%)
Senior secured debt	240.0	186.5	240.0	0.0	0.0	178.9	75.0
Subordinated debt linked to offtake rights	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Ethiopian government participation at project level	20.0	15.5	20.0	0.0	0.0	14.9	6.3
Other project level equity	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Subordinated loan convertible into KEFI equity after four years	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Contractor charges convertible into KEFI equity after three years	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Convertible note	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Cost overrun facility	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Preference shares and equity risk notes	60.0	46.6	50.0	(16.7)	(10.0)	37.3	15.6
Sub-total	**320.0**	**248.6**	**310.0**	**(3.1)**	**(10.0)**	**231.1**	**96.9**
Parent company level equity*	0.0	0.0	10.0	N/A	10.0	7.5	3.1
Pre-commercial production internal cash generation	0.0	0.0	0.0	N/A	0.0	0.0	0.0
Total	**320.0**	**248.6**	**320.0**	**0.0**	**0.0**	**238.6**	**100.0**

Source: KEFI Gold and Copper, Edison Investment Research. Note: *Already effected in May 2025. **At US$1.3413/£ (cf US$1.2870/£ previously). Totals may not add up owing to rounding.

In late 2023, Ethiopia's central bank issued a directive exempting certain strategic industries – including mining – from foreign exchange controls, which satisfied the last major condition precedent for the issuance of final approval by the project finance lenders. Since then, the secured lenders for the project have updated terms and conditions relating to the US$240m financing facilities at the same time as early works for security and community preparations have successfully completed and selected major works have been initiated to further de-risk the construction schedule. In addition, the company has now received sufficient expressions of interest in its preference shares (in alignment with the updated finance plan) and preparations are advancing for the local listing of these bonds. With the funding package and timing now established, the formalities of confirmations are underway, including final checks of prices and terms and conditions for the construction and mining services agreements. Credit committee and board approvals were granted by both banks in March (with one bank currently refreshing the approval for the larger facility being offered), subject to the other formalities of signing, the payment of success and commitment fees and the issuance notices to proceed to the various contractors and service providers. In the meantime, Ethiopian country membership for the second co-lending bank was approved at the ministerial level in May and went through parliamentary ratification after top-level meetings in Addis Ababa in February. This form of protection places both co-lenders on the same in-country footing and is the preferred procedure between countries and their most aligned multilateral development financial institutions. Remaining administrative procedures are proceeding in parallel with detailed definitive agreements being assembled for signature by the end of August, including:

- Government field support and the administrative confirmations required were recently presented by KEFI to the highest levels of federal and regional governments.
- Refreshed contractual confirmations for process plant and mining services are in train, so that signings can occur with up-to-date fixed-price and other relevant components.
- First community compensation has been paid for a construction camp and this week's announcement of Phase 1 resettlement of the community establishes important precedents after the fabrication of the initial construction camp.

- Local government has completed the Community Property Survey for Phase 1 resettlement so that the full community re-settlement budget is now set, thus avoiding any potential for misalignment after major works are launched.
- Activities taken to reduce construction schedule risk include:
  - An alternative access road from highway to site has been completed in order to improve efficiency and security.
  - The initial construction camp has been fabricated.
  - Increased water supply for the community and works has been installed, triggering Phase 1 of community resettlement.

In the meantime, equity-capital preparations at subsidiary-company levels are advancing in line with the timetable, with government investment proceeding as planned and specialist African investors assembling for the product offering of the KEFI Minerals preference shares, which are denominated as a local-currency investment, but offer US dollar-linked protection for both principal and yield along with gold upside participation.

Otherwise, the government's policy directive requiring a maximum 50% debt gearing (defined as debt/[debt+equity]) for new projects has been waived in the case of Tulu Kapi, which has prior approval to expand the debt portion of its funding requirement to 80% of the total. In addition, clarification received from the regulator (the National Bank of Ethiopia) indicates that historical exploration spend on the project of c US$95m will be deemed to contribute towards equity for the purposes of this determination.

For the purposes of our valuation (below), Edison has assumed that KEFI will maintain its 15% interest in GMCO until such time that we become aware of the terms of any sale of its interest. In the absence of further information, we assume that its aggregate equity contribution of c US$13m will be funded via debt rather than any additional parent company equity financing.

Valuation

Company valuation based on project NPVs

In March 2025, KEFI calculated an updated project NPV_5 for Tulu Kapi of c US$690m at construction start at a long-term gold price of US$2,400/oz (cf US$159m at a gold price of US$1,800/oz previously), of which KEFI's c 80% share is US $552m pro rata, or £412m. Taken together with the equivalent valuations for Hawiah and Jibal Qutman (unchanged from the time of our last note), these translate into valuations per currently outstanding KEFI share – on both a risked and an unrisked basis – as shown in Exhibit 4 below.

Exhibit 4: KEFI project-based valuations (US cents and pence per KEFI share)

Assets	Tulu Kapi	Hawiah	Jibal Qutman	Total
Stage of development	**BFS**	**PFS**	**Internal PEA**	
Gold price (US$/oz)	**2,400**	**1,989**	**1,850**	
NPV (US$m)	690	300	113	
KEFI interest (%)	80	15	15	
Attributable NPV (US$m)	552	45	17	614
Ditto (£m)	412	34	13	458
US cents per share	5.90	0.48	0.18	6.56
Pence per share	4.40	0.36	0.14	4.89
Percentage valuation for stage of development (%)	30.90	9.90	11.70	
Implied valuation (US cents per share)	1.82	0.05	0.02	1.89
Ditto (pence per share)	1.36	0.04	0.02	1.41

Source: KEFI Gold and Copper, Edison Investment Research (per share data).

Note that our risk-adjusted valuation factors, of 30.9% of enterprise value (EV) for a project at bankable feasibility stage (BFS) stage of development, 9.9% for a project at PFS stage of development and 11.7% for a project at preliminary economic assessment (PEA) stage of development, are derived from our report Gold stars and black holes (see Exhibit 166 on page 82), published in January 2019. Post-funding, these risk-adjusted NPVs may be expected to jump materially. Pre-production, they should be expected to jump materially again.

Company valuation including corporate functions

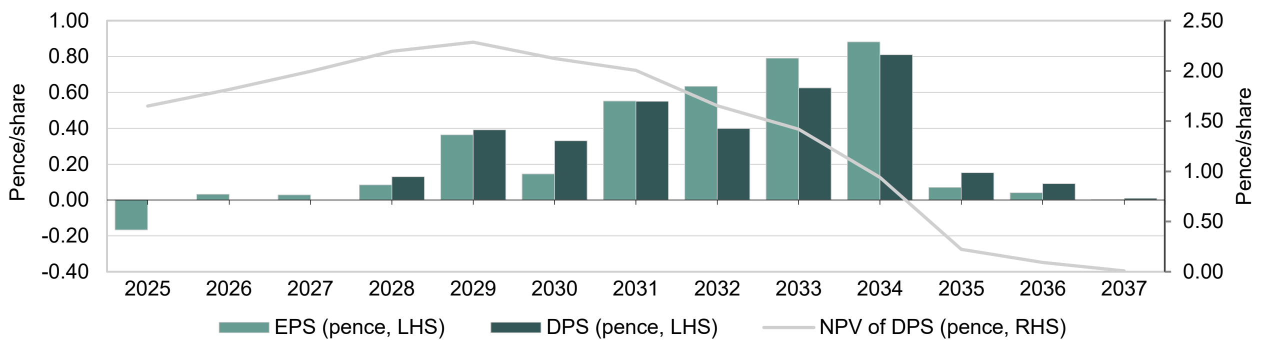
Edison's valuation of single asset mining companies at pre-production stage is typically based on the value of dividends that a shareholder could expect to earn from their investment if they were to hold their shares from the moment of purchase until the end of the life of the mine, discounted to present value. Discretionary exploration investment is ordinarily excluded from the financial forecasts when this method is used, as it is presumed to be at least value adding. In practice therefore, the dividends in question are 'maximum potential dividends' (subject to assumptions about precious metals prices and the discount rate being applied). However, the resulting net present value should be considered a conservative valuation since it omits the optionality of blue-sky exploration success during the operation of the mine. This method was typically used to value South African mines that were listed in London, such as Driefontein, Kloof, Vaal Reefs, Beatrix and Western Deep Levels etc (albeit with different accounting practices), prior to 1995 when the South African mining house system of mine financing and development began to change.

Compared with the alternative discounted cash flow (DCF) method of analysis, it more purely reflects the returns that an equity shareholder may expect to receive. Hence, it is possible to calculate an internal rate of return (IRR) pertaining to an investment in a company's equity at any particular price and any particular point in time, rather than calculating an IRR for a project as a whole (which typically aggregates debt and equity returns and is therefore independent of a company's share price). In its application it can also be made to naturally accommodate future equity dilution in calculating returns to shareholders. Being based on only one unit of measurement (forecast future dividends), its manipulation to estimate a value (and hence share price) at some point in the future is also relatively simple in comparison with a DCF valuation, which typically requires three inputs (namely, forecast future cash flows, net debt/cash and minority ownership). In theory though, the difference between the result of a discounted dividend valuation and that of a DCF valuation should not be large. Both are provided in our valuations below.

Within the context of our valuation of KEFI, it is worth noting that the company's financing arrangements will leave it with zero debt at the parent company level, with group subsidiaries directly servicing any senior and/or mezzanine debt. As a result, dividends to KEFI shareholders from as early as FY28 should be possible. For these purposes, we have assumed KEFI will distribute 60% of group cash flow in FY28–32, of which 80% (less a 10% Ethiopian dividend withholding tax) will be attributable to KEFI shareholders. To this end, KEFI has secured a special exemption from exchange controls from Ethiopia and has agreed a London clearing account controlled by its TKGM operating subsidiary (note: there are no exchange controls in Saudi Arabia).

Based on our unchanged long-term gold price assumptions (albeit updated to reflect real 2025 money), we calculate that all three of its projects are capable of generating a combined free cash flow to KEFI of c £99.4m per year for six years, from 2029 to 2034 (inclusive). This, in turn, will allow average (maximum potential) dividends of 0.54p/share for the period FY30–34 to be paid to shareholders (after deduction of a presumed 20% minority interest) and implies a valuation for KEFI of 1.65p/share (cf 2.03p/share previously) when discounted back to FY25 at Edison's customary rate of 10% per year. This valuation then rises to a peak of 2.29p/share on the cusp of KEFI's first (assumed) material dividend in FY29, as shown below:

Exhibit 5: Edison estimate of life of mine KEFI EPS and maximum potential DPS (pence/share), FY25-37e



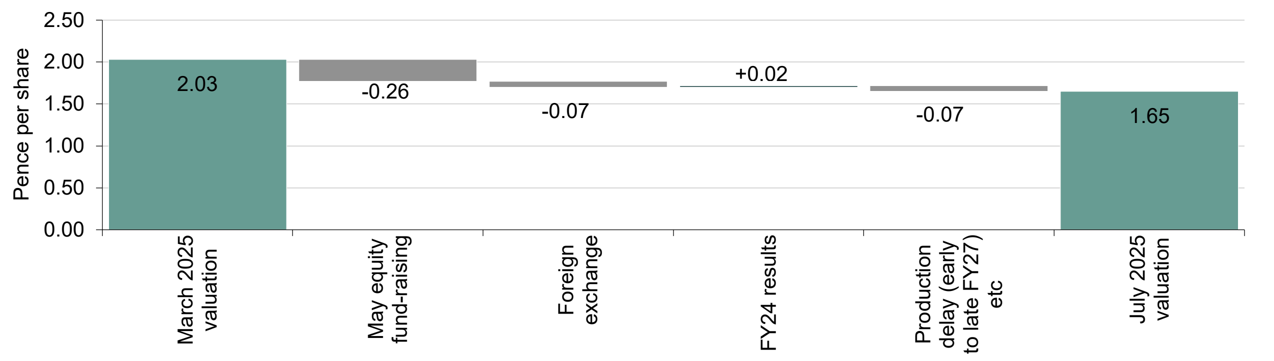
Source: Edison Investment Research.

Our estimate of KEFI's peak earnings of 0.88p/share in FY34 would put it on a P/E ratio of just 1.1x in that year (relative to its valuation in the same year) or 0.6x at its current share price. Hence, we estimate that an investment in KEFI shares in FY25 at a price of 0.536p will generate an IRR for investors of 33.7% over the next 12 years to 2037 in sterling terms.

Note that our equivalent DCF valuation of KEFI (including forecast FY24 year-end net debt) is 1.52p/share – conducted at a similar 10% discount rate – which is within 10% of our discounted dividend valuation of 1.65p/share. This is as expected, given that the discount rate applied to a DCF valuation should be lower than that for a discounted dividend valuation, given that the former's cash flows relate to combined debt and equity financing, whereas the latter's relate to equity financing only and the cost of debt should typically be at a discount to that of equity.

A summary of the major factors in the change to our 'base case' valuation is as follows:

Exhibit 6: Major components of KEFI valuation change, March-July 2025 (pence/share)

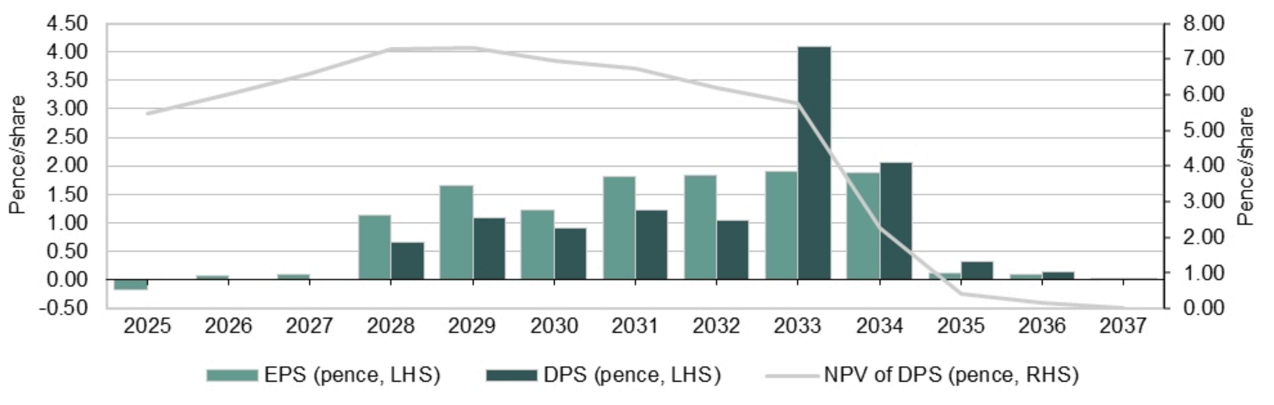


Source: Edison Investment Research.

Sensitivities

Quantitatively, KEFI's most significant valuation sensitivity is towards the gold price. Whereas our valuation is 1.65p at Edison's long-term gold price of US$1,866/oz (real, 2025 US dollars), it trebles to 5.46p/share at the currently prevailing gold price of US$3,300/oz. Moreover, this 5.46p/share valuation itself rises to a peak of 7.33p/share in FY28, as shown in the graph below (directly comparable to Exhibit 5, above):

Exhibit 7: KEFI life of mine EPS and maximum potential DPS (pence/share) at spot metals prices, FY25-37e



Source: Edison Investment Research.

In this case, we estimate that an investment in KEFI shares in FY25 at a price of 0.536p would generate an IRR for investors of 66.7% over the next 12 years to 2037 in sterling terms. Note that the dividend spike in FY33 in Exhibit 7, above, is a direct consequence of management's assumed policy of paying out 60% of cash flow in dividends up to that point in time, thus building up a cash balance, which is then released in FY33 when total distributable funds are paid out (NB this also has the unintended consequence of depressing the valuation of the shares).

Underground

KEFI's business plan is also to access the underground deposit at Tulu Kapi as quickly as possible and it has PEA level plans to this effect, making a contribution to the combined operation at a steady-state rate of c 50koz per year. For the purposes of this note, Edison has ignored any contribution from the underground mine to its valuation, choosing instead to focus on the initial open pit. If it is included from FY29 with an operating cash cost of US$1,032/oz and capex of US $38m however, it increases our 'base case' valuation by 12.1%, or 0.20p/share, from 1.65p/share to 1.85p/share.

At prevailing metals prices, it increases our valuation by 13.7%, or 0.75p/share, from 5.46p/share to 6.21p/share.

Financials

As is typical for exploration companies, KEFI has funded its pre-development activities with regular equity raisings. It had £0.6m in net debt on its balance sheet as at 31 December 2024 (cf £2.0m as at 30 June 2024 and £1.9m as at 31 December 2023), after £6.8m in operating and investing cash outflows and after having raised £4.4m (net) in equity. To date in FY25, we estimate that it has raised a further £12.7m (gross) in equity to fund development plans and also to strengthen its balance sheet.

Hereafter, we expect the government of Ethiopia to subscribe its US$20m in equity investment at the project level for a 20% (total) minority interest in Tulu Kapi and regional and sector investors to subscribe for a further US$50m in preference shares and equity risk notes (treated as debt in the analysis above in the absence of known terms) ahead of final debt funding of US$240m (as per Exhibit 3). On this basis, we forecast a maximum net debt funding requirement overall for the group of £200.4m or US$268.7m in FY27, equating to leverage (net debt/[net debt+equity]) of 85.7%. Obviously, debt financing of this order of magnitude is not without risk for a group with a relatively small equity base and a project located in Ethiopia. However, we believe that this risk is mitigated by the fact that the term sheet regarding KEFI's bank loan is already reported to have been signed and is subject now only to credit approval formalisation by the co-lenders (credit approval from both banks having already been advised, to our understanding). As such, this form of funding is considered to be more easily compatible with the project's consortium than a number of other alternatives. Hence, KEFI expects the definitive agreements to be signed imminently with drawdowns/disbursement of equity to commence shortly thereafter followed by committed debt as and when required.

On the asset side of KEFI's balance sheet, we note that the debt:equity ratio of development spending is approximately 90.6% in the form of debt (US$290m debt-funded ex-US$320m capex) if the preference shares and equity risk notes are considered as debt or 75% if they are considered as equity. In addition, we understand that KEFI is considering whether its write-off of nearly all historical expenditure remains appropriate in the light of project development (ie it is possible that its balance sheet may change significantly as project development gets underway). Notably, the TKGM balance sheet is projected to reflect approximately US$200m of shareholders' funds subscribed alongside debt facilities that peak at c US $240m for assets of c US$400m when historical, pre-development spending is also included. This equates to a balance sheet leverage (debt/[debt+equity]) ratio in the order of 60%. Therefore, given Tulu Kapi's NPV, management considers that there are ample grounds for a revaluation of the project at the parent company level.

Exhibit 8: Financial summary

£000s	2020	2021	2022	2023	2024	2025e	2026e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	0	0	0	0	0	0	0
Cost of Sales	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(1,000)	(1,000)
Gross Profit	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(1,000)	(1,000)
EBITDA	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(1,000)	(1,000)
Operating profit (before amort. and excepts.)	(2,706)	(2,274)	(2,768)	(3,556)	(6,492)	(1,018)	(1,018)
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	174	(47)	(268)	1,623	7,326	0	0
Other	0	0	0	0	0	0	0
Operating Profit	(2,532)	(2,321)	(3,036)	(1,933)	834	(1,018)	(1,018)
Net Interest	(100)	(1,121)	(527)	(1,000)	(2,410)	(13,601)	70
Profit Before Tax (norm)	(2,806)	(3,395)	(3,295)	(4,556)	(8,902)	(14,619)	(948)
Profit Before Tax (FRS 3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,576)	(14,619)	(948)
Tax	0	0	0	0	0	0	0
Profit After Tax (norm)	(2,806)	(3,395)	(3,295)	(4,556)	(8,902)	(14,619)	(948)
Profit After Tax (FRS 3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,576)	(14,619)	(948)
Minority interests	0	0	0	0	0	0	190
Net income (normalised)	(3,894)	(4,877)	(6,087)	(9,519)	(12,552)	(14,619)	2,947
Net income (FRS3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,576)	(14,619)	(758)
Average Number of Shares Outstanding (m)	1,663	2,179	3,537	4,508	5,891	8,789	9,363
EPS - normalised (p)	(0.23)	(0.22)	(0.17)	(0.21)	(0.21)	(0.17)	0.03
EPS - normalised and fully diluted (p)	(0.22)	(0.21)	(0.13)	(0.17)	(0.20)	(0.16)	0.03
EPS - (IFRS) (p)	(0.16)	(0.16)	(0.10)	(0.07)	(0.03)	(0.17)	(0.01)
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	-	-	-	-	-	-	-
EBITDA Margin (%)	-	-	-	-	-	-	-
Operating Margin (before GW and except.) (%)	-	-	-	-	-	-	-
BALANCE SHEET							
Fixed Assets	24,545	28,424	31,481	34,816	38,516	43,616	143,123
Intangible Assets	24,510	28,361	31,356	34,716	38,392	42,392	46,392
Tangible Assets	35	63	125	100	124	106	84,717
Investments	0	0	0	0	0	1,118	12,014
Current Assets	1,817	685	683	720	583	5,810	398
Stocks	0	0	0	0	0	0	0
Debtors	448	291	463	528	398	398	398
Cash	1,315	394	220	192	185	5,412	0
Other	54	0	0	0	0	0	0
Current Liabilities	(3,125)	(6,791)	(5,182)	(9,420)	(6,454)	(4,354)	(4,354)
Creditors	(3,125)	(5,556)	(4,002)	(7,307)	(5,715)	(3,615)	(3,615)
Short-term borrowings	0	(1,235)	(1,180)	(2,113)	(739)	(739)	(739)
Long-Term Liabilities	0	0	0	0	0	0	(91,338)
Long-term borrowings	0	0	0	0	0	0	(91,338)
Other long-term liabilities	0	0	0	0	0	0	0
Net Assets	23,237	22,318	26,982	26,116	32,645	45,072	47,829
CASH FLOW							
Operating Cash Flow	(2,092)	(329)	(2,634)	(861)	(345)	(3,100)	(1,000)
Net Interest	(100)	(1,121)	(527)	(1,000)	(2,410)	(13,601)	70
Tax	0	0	0	0	0	0	0
Capex	(4,389)	(3,064)	(5,245)	(3,257)	(4,031)	(5,118)	(95,820)
Acquisitions/disposals	0	54	0	0	0	0	0
Financing	6,996	826	6,405	2,550	4,427	27,046	0
Dividends	0	0	0	0	0	0	0
Net Cash Flow	415	(3,634)	(2,001)	(2,568)	(2,359)	5,227	(96,750)
Opening net debt/(cash)	814	(1,315)	841	960	1,921	554	(4,673)
HP finance leases initiated	0	0	0	0	0	0	0
Other	1,714	1,478	1,882	1,607	3,726	0	(0)
Closing net debt/(cash)	(1,315)	841	960	1,921	554	(4,673)	92,077

Source: Company sources, Edison Investment Research.

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom