

Price: C\$0.19

Target: C\$0.45

KAINANTU RESOURCES LIMITED (KRL:TSXV)

Options	4.4M
Warrants	16.5M
Cash (June/2021)	US\$ 1.6M
Debt (March/2021)	0M
Deferred Shares	5M
Shares Outstanding	45.3M
Diluted shares	66.9M
Market Cap	C\$ 8.8M
EV	C\$ 7.2M

Outstanding Assets in a Proven Region

Papua New Guinea (PNG) has exported gold since the 1930s and has been among the top gold producers in the world. The Kainantu district a.k.a “Kainantu Goldfields” has a long history of gold mining. KRL is focused on two projects in Kainantu closely located near the tremendously successful K92 gold mine currently producing over 120 koz/pa. KRL’s tenement package totals to several Exploration Licenses (ELs) covering an area of more than 700 Km² in north and south of the K92 mine.

Well-Funded

Recently, the company has secured a US\$ 3.24 million financing and is currently sitting on C\$ 1.6 million of cash to finance the rest of its plans for 2021.

Strong Management

The leaders come from some of the most successful companies in the Asia-Pacific, and poses a deep understanding of the intricacies of PNG mining. Although insider ownership is strong (58.8%), the liquidity needed for retail investors to get in is still available.

Low Sovereign Risk

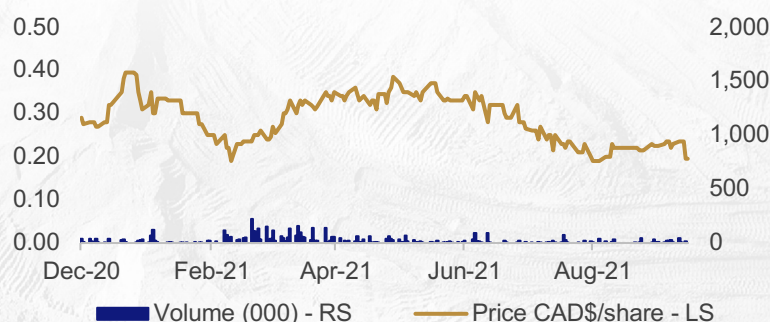
A partnership with Asia Pacific Energy Ventures (APEV), who has a strong operating experience in PNG, mitigates the sovereign risks and enables successful drilling in remote PNG.

Early-stage exposure

Kainantu Resources stock just began trading on TSX-V and offers early-stage access to a remarkable gold district with a reasonable price at a time when precious metals have a promising outlook.

Kainantu Resources Ltd

Ticker	KRL.V
Price (CAD\$)	0.19
Target Price (CAD\$)	0.45
Mkt Cap (CAD\$ mn)	8.83M
Avg value CAD\$	7,182
12-mth low	0.18
12-mth high	0.39
Price chg. 3-mth	-39.1%
Price chg. 12-mth	N/A



Source: Yahoo Finance, Pricing as of September 24, 2021



KAINANTU RESOURCES LIMITED: OVERVIEW



PNG, a Natural Resource Based Economy

More than 26% of Papua New Guinea's GDP and around 86% of the country's exports come from natural resources. There is a deep oil and gas/mining culture present with long established laws and dispute resolution frameworks. PNG is well-known for its resource and mining partnerships, with deep ties to minerals, oil, and gas extraction firms including Exxon-Mobil, Newcrest Mining (TSX: NCM), Barrick Gold Corp. (TSX: ABX), Vale (NYSE: VALE), and Rio Tinto Ltd. (ASX: RIO). The area is rich with gold mineralization, host to a few truly world-class mines:

1. The Kainantu mine: operated by K92 Mining Inc. (TSX-V: KNT), which contains an estimated 5.2 Moz of resources at a grade of 9.6 gr/t of gold, remarkably low All-In Sustaining Costs (AISC) of US\$ 615/oz, and the fourth-highest gold production head grade in the world, averaging 17 grams of gold per tonne in 2020.
2. The Lihir mine, producing almost half of PNG's gold output, acquired by Newcrest Mining for \$9 billion in 2010, which produced 933,000 ounces of gold in fiscal 2019, with an AISC of US\$ 1,352/oz.
3. The Porgera mine, a joint venture between Barrick Gold Corp. (TSX: ABX) and Zijin Mining, which produced 284,000 ounces of gold in 2019.

Value Creation for Shareholders

Although there is ample raw potential in KRL's assets and PNG region, turning this into value for investors will require further inputs. The technical expertise of KRL's management team combined with a history of success in the Asia-Pacific region, and clear similarities to K92's success story takes KRL's potential a step closer to material value. Kainantu Resources brings the expertise of some of the best leaders of the Asia-Pacific Region, responsible for a US\$600 million takeover and the creation of \$980 million in enterprise value.

A fine shareholder structure with significant management and insider holdings (58.8%) while having enough liquidity for new investors is another step toward value creation. The company also sits on a sufficient cash balance of US\$ 1.6M to meet its exploration budget next year. The partnership with Asia Pacific Energy Ventures (APEV) with a strong in-country operating experience neutralizes the country risk. These factors all build upon KRL's asset potential and lead to a good start for a junior exploration company to start drilling and developing its high potential assets in sufficient details to deliver tangible value to its shareholders.



FIGURE 1: KRL Projects

Project Detail

KRL North, Papua New Guinea (PNG)

Located North East to K92 Mining's 'Kainantu' mine, one of the highest-grade gold ore bodies in the world, KRL North is comprised of a 40.92 sqKm region.

Mineralization in the Kainantu District includes gold, silver and copper occurring in quartz-Au telluride veins, sulphide Au-Cu-Ag veins, porphyry Cu-Au-Mo systems, Au-base metal skarns and alluvial Au. Most of these styles have been identified in KRL South leases.

The bulk of exploration effort within the Kainantu district has focused on the Bilimoia field, where several distinct high-grade Au, Ag & Cu lodes were discovered since the mid 60's to the present day. Highland Pacific Ltd. conducted mining operations in the Kainantu District from '05 to '09. K92 has also acquired a mine from Barrick Gold that turned out to be very successful.

Key stats from the neighbouring high-grade K92 gold mine:

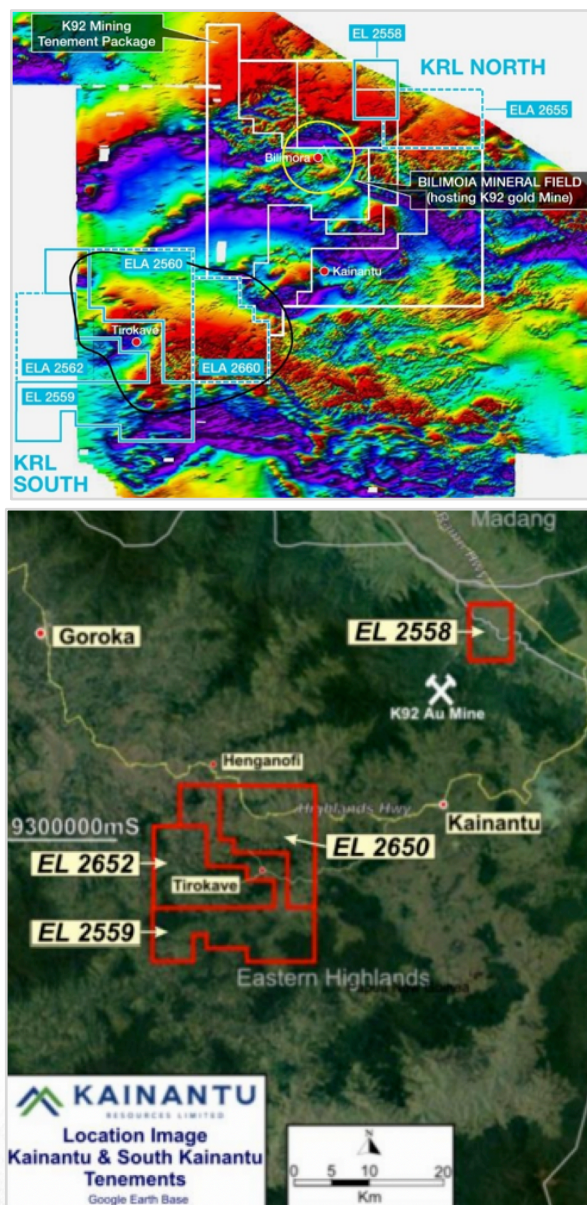
- +20.8 g/t Au feed grade (top 4 mine globally for high grades)
- \$615/oz Au Eq AISC
- 5.2Moz resource at grade of 9.6 g/t Au
- 2020 production forecast 120koz/pa.

KRL South, PNG

The KRL south is comprised of three different regions that sum up to 494.45 sqKm located south east of the K92 gold mine.

KRL currently holds three exploration licenses for this region which is renewed each two years. KRL south is the main focus of exploration now. Two exploration license applications totaling 190.96 sqKm contiguous with the current granted exploration licenses are pending.

Location of KRL Projects



Source: Company website & Independent Technical Report



FIGURE 2: Kainantu Resources Limited Management

Chairman and Director	
Marcus Engelbrecht	Marcus is a Canadian born mining executive with 37 years of experience in the industry. He was the CFO for the BHP Diamonds and Specialty Products group with global responsibilities across six continents. Marcus later went on to be CFO/Acting CEO for OceanaGold Corporation (TSX: OGC) and Managing Director of Archipelago Resources plc and several other listed companies. He has extensive board and corporate experience with a detailed understanding of how to operate in developing countries; having overseen the successful commissioning of the Toka Tindung gold mine, amongst other projects.
Chief Executive Officer	
Matthew Salthouse	Matthew has over 25 years of executive experience in the natural resource sector and has been integral in developing and operating gold mines across Asia Pacific, including the Didipio and Toka Tindung gold mines. He has successfully originated and executed a range of capital market and corporate development initiatives, focusing on commodities and mining in Asia Pacific. Matthew is also the current Commercial/Mining Director for PEC and has previously held senior executive roles in various public mining ventures, including OceanaGold Corporation (TSX: OGC), Archipelago Resources plc and REA Holdings plc. Mr. Salthouse holds a B.Ec. and LL.B. from Monash University.
Director	
Geoff Lawrence	Geoff has over 18 years of executive experience in the managed services and energy sector, most recently over the last 7 years as the CEO of PEC, a fully owned subsidiary of APEV, in Papua New Guinea. Under the guidance of Geoff, PEC has emerged as the lead mid-market EPC contractor in Papua New Guinea, delivering significant projects of national interest, including a newly constructed 45 MW gas fired power station located in Port Moresby. He brings a wealth of knowledge to operating in Papua New Guinea, the Pacific Islands, and South East Asia, having amassed an extensive list of key government and corporate contacts within those areas.
Director	
David Loretto	David is an exploration geologist and entrepreneur, having received a B.Sc (Hons) in Geological Sciences from Queen's University and was an exploration team member on the Brucejack deposit with Pretium Resources Inc. (TSX: PVG). He currently serves as President and a director for Kingfisher Resources Ltd., as well as a director for Interlapse Technologies Corp. (TSXV: INLA) and PLB (TSXV: PLB.P).



Chief Financial Officer

Bart Lendrum

Bart is a Chartered Accountant with over 20 years of Australian and international experience in the mining, resources and services industries across the Australian and London Stock Exchanges with a particular focus on the Asia Pacific region. He commenced his career at PricewaterhouseCoopers in professional services and has held a number of senior financial management roles including as Group Financial Controller of Archipelago Resources plc. His experience and responsibilities have included corporate finance, commercial and procurement, project evaluation and corporate governance, and he has been instrumental in establishing business systems to transition assets from project development phase through to successful production. Mr. Lendrum is a member of the Australian Institute of Chartered Accountants and holds a Bachelor of Commerce degree from the University of Western Australia as well as post graduate qualifications from the Financial Services Institute of Australia and the Governance Institute of Australia.

Corporate Secretary

Giuseppe (Pino) Perone

Pino is a lawyer by background and has extensive corporate experience that stems from practicing as corporate counsel, as well as serving as an executive and director, for various public and private companies in the resource and technology sectors. He currently acts as General Counsel and Corporate Secretary of TAG Oil Ltd. (TSXV: TAO), as President, Corporate Secretary and a director of Interlapse Technologies Corp. (TSXV: INLA), as CEO, CFO, Corporate Secretary and a director of PLB (TSXV: PLB.P) and as a director of McorpCX, Inc. (TSXV: MCX). Pino holds a B.A. from the University of Victoria and an LL.B. from the University of Alberta and has been a member in good standing of the Law Society of British Columbia since 2006.

Principal Geologist

Graeme Fleming

Graeme is a senior minerals exploration geologist with over 35 years' experience in precious and base metals investigation within orogenic terrains of Australasia. He has participated in and led a number of highly successful campaigns from grass roots exploration programs (discovery of the Miwah Au-Cu prospect, Aceh), through initial diamond drill programs (Co-o Au deposit, Mindanao) to more advanced & mine development programs (Toka Tindung Au mine, North Sulawesi). Graeme is a member of AIG and holds a B. App. Sc. (Geol) from the NSW University of Technology.

Source: Company Website



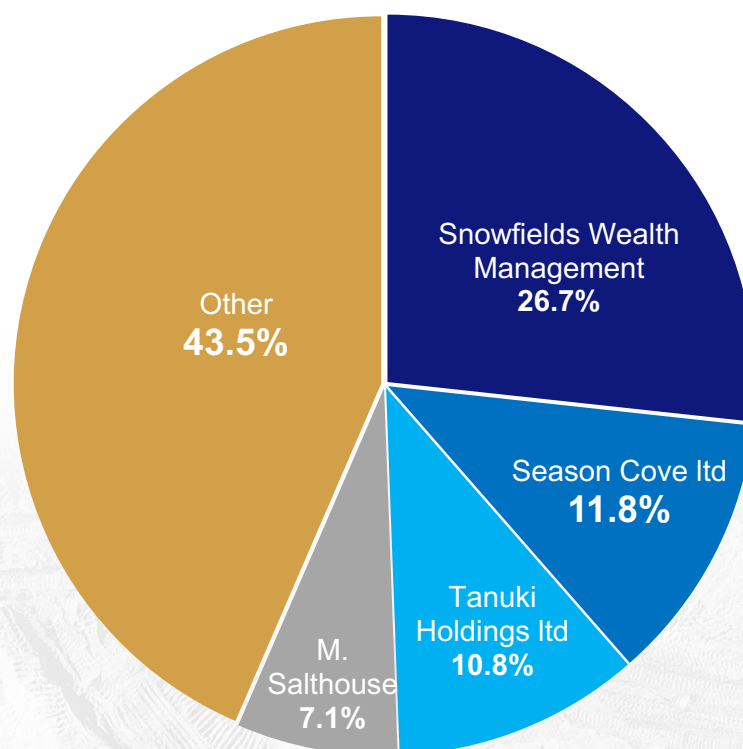
COMMON SHARES

The company was incorporated on July 4, 2018 under the policies of TSX Venture Exchange. On December 3, 2020 KRL announced that it had completed the acquisition of all the issued and outstanding shares of Kainantu Resources Pte. Ltd. (Kainantu) which resulted in the reverse takeover of the Company by the shareholders of Kainantu. Pursuant to this transaction the Company issued an aggregate of 20M Company shares to the founding holders of Kainantu on the basis of one Company share for each Kainantu Share. In addition, the company issued 5M common shares to the founding holders of Kainantu.

Entity	Ownership %	Country of incorporation	Nature/Activities	Functional Currency
Kainantu Resources Ltd	-	Canada	Listed company	CAD
Kainantu Resources Pte Ltd	100%	Singapore	Holding company	SGD
Kainantu Resources Limited	100%	Papua New Guinea	Mineral exploration	USD

During the period ended June 30, 2021, the company issued 20,500,000 common shares and 10,250,000 share purchase warrants as part of the Concurrent Financing in conjunction with the reverse acquisition transaction for total proceeds of C\$ 4.1M.

FIGURE 3: SHAREHOLDER STRUCTURE AS OF SEPT 2021



Source: Company Filings



OPERATIONAL PROGRESS

Particular Focus on Kainantu Region

The company's principal projects are in aggregate 726 Km² in size and located in the highly prospective Kainantu region in PNG. The Company's core project tenements are EL (Exploration License) 2558 (20 kilometres NE of Kainantu town) and EL 2559 (25 kilometres SW of Kainantu town). At the commencement of 2021, these were transferred to the Company in its own right, in accordance with PNG law (with such tenements previously held by the wholly-owned subsidiary of Asia Pacific Energy Ventures, APEV, Pacific Energy Consulting Limited, PEC).

The following summarizes the company's tenements and rights to explore:

KRL Reference	Exploration License Number	Current Holder*	Size (km ²)	Current Term Ending	Term: First or Second**
KRL North	EL 2558 EL 2655	KRL PEC	40.92 88.66	Aug 28, 2022 Nov 11, 2022	Second First
KRL South	EL 2559 EL 2650 EL 2660 EL 2652	KRL PEC PEC PEC	225.06 143.22 102.3 126.17	Aug 28, 2022 Aug 13, 2022 Nov 11, 2022 Aug 13, 2022	Second First First First

* = PEC holds tenements subjects to exclusive options agreement in favor of KRL

** = First term is for 2 years; second term is for 2 years with ongoing rights to extend under PNG law

Source: Company MDA

The Company focused exploration efforts at KRL North and KRL South to provide a foundation to establish credible drill targets at both projects. The primary focus has been on mapping and sample collection, in 2020 around 2000 samples were collected and in 2021 more than 2600 samples were collected until 30 June, 2021. While a large area has been covered by the taken samples, many samples yet await to be processed by third party laboratories experiencing COVID related delays.

The company's focus remains on determining drilling targets around the Tirokave area in KRL south. One sample collected in this region showed an encouraging gold content of 40 g/t.



FINANCES AND SHARE STRUCTURE

Liquidity and Capital Resources

The Corporation's cash and cash equivalents balance was US\$1,641,000 as of June 30, 2021 compared to US\$2,816,869 as of February 28, 2021. Current assets as at June 30, 2021 were US\$1,761,000 and total assets as of June 30, 2021 were US\$5,674,000. For the seven months ended in June 30, 2021, the company spent US\$684,000 for operating activities, spent US\$ 614,000 for investing activities, mainly for exploration and evaluation, and raised US\$ 2,939,000 in financing activities, mostly by the concurrent financing. Proceeds from warrant and option exercise is also a source of funding for the company in the coming years.

Details of Share purchase warrants are as follows:

2021		
	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	100,000	C\$ 0.10
Granted	10,250,000	0.40
Granted	1,486,900	0.20
Granted	490,000	0.40
Exercised	(100,000)	0.10
Outstanding, end of the year	12,226,900	C\$ 0.38

Source: Financial Statement Footnotes

All outstanding warrants can be exercised until 3 Dec, 2023. At this price, the exercise of outstanding warrants can inject around US\$3.6M new financing into the company.



FIGURE 4: FINANCIALS

Kainantu Resources Ltd. U\$\$mm	Q4/20	Q1/21	Q2/21
Income Statement			
Revenue			
COGS			
S,G&A		(450)	(157)
Operating income		(450)	(157)
Other, Financial, Tax		(302)	83
Net Income		(752)	(74)
Balance Sheet			
Cash	-	2,817	1,641
Other assets	3,430	3,422	4,033
Total assets	3,430	6,239	5,674
Current liabilities	866	829	866
LT Liabilities	-	-	-
Liabilities	866	829	338
Equity	2,564	5,410	5,336
Total Liabilities, Equity	3,430	6,239	5,674
Cash Flow Statement			
Operating cash flow		(77)	(607)
Investing cash flow		(46)	(569)
Financing cash flow		2 940	-
Net cash flow		2,817	(1,176)

Source: Company Financial Statements

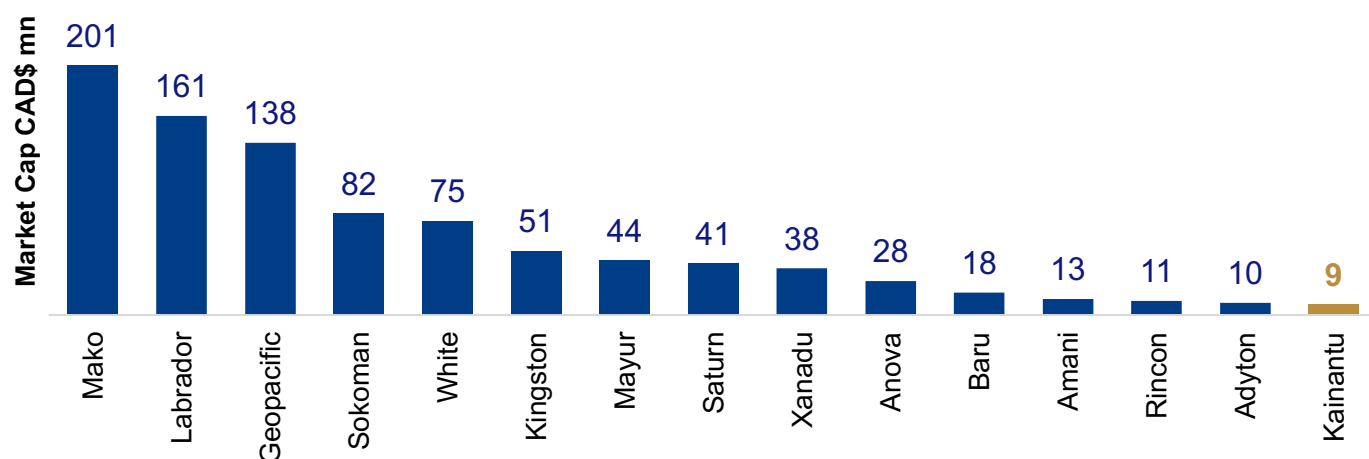


VALUATION

An Early-Stage Exposure at a Reasonable Price

In Figure 5, the market cap of junior explorers is displayed. With the exception of Rincon, Adyton and Kainantu all other companies are in the drilling stage and some have measured and indicated resources. The companies with a market cap above C\$100M are non-producers conducting aggressive drilling campaigns to expand their mineral resource estimates in sufficient detail. While KRL is an early-stage explorer with no tangible value, it is well positioned for success and offers great potential at a reasonably low price.

FIGURE 5: MARKET CAP OF KRL AND COMPARABLES



Source: Yahoo Finance

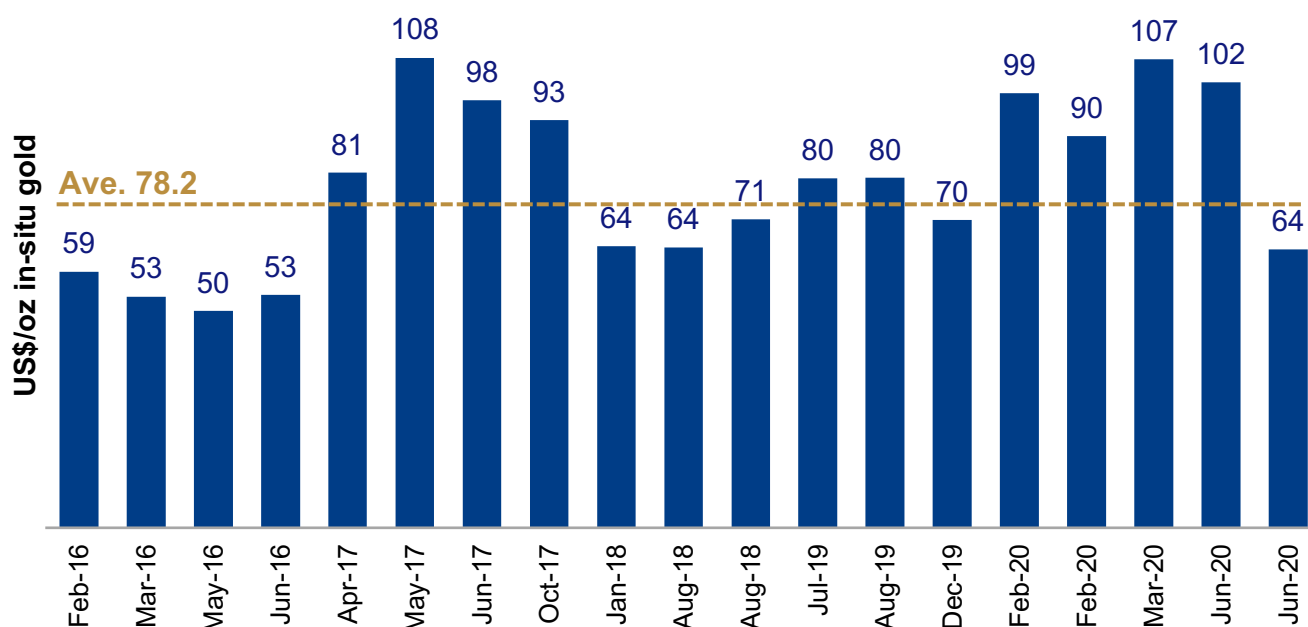
The In-Situ Gold Valuation

Another approach to valuing gold explorer assets is by considering the in-situ value of gold using past M&A deals as a benchmark for industry valuation. Figure 6 shows the average EV per oz of in-situ gold paid in takeover deals. In reality, this number could be ranging from a low of US\$20 per ounce of in-situ gold to a historic high of slightly above US\$200/oz. Many factors affect a gold mine valuation with one of the most decisive factors being the All in Sustaining Cost (AISC) of gold production. Mines with AISC above US\$1,200 could receive valuations from buyers as low as US\$20/oz while tier-1 mines with AISC below US\$850 could be valued well above US\$100/oz. Using the industry average for valuing any future indicated resources of KRL would be conservative in this case, because we expect the Au grade of Kainantu to resemble tier-1 gold mines. Using the current cash balance and the future proceeds from the current warrants being exercised (US\$3.6M) we can assume that the outstanding shares will be diluted to 66.9M. Assuming KRL is able to successfully infer 300,000 oz of resources by drilling the prospective grounds using all the available it currently has, and multiplying that with an industry average of US\$78.2/oz of in-situ gold to value the inferred resources we reach a price target of C\$0.45.

Indicated Resources (koz)	200	250	300	350	400
Enterprise Value (C\$)	19.9	24.8	29.8	34.8	39.7
Price Target at 66.9M diluted shares (C\$)	0.30	0.37	0.45	0.52	0.59



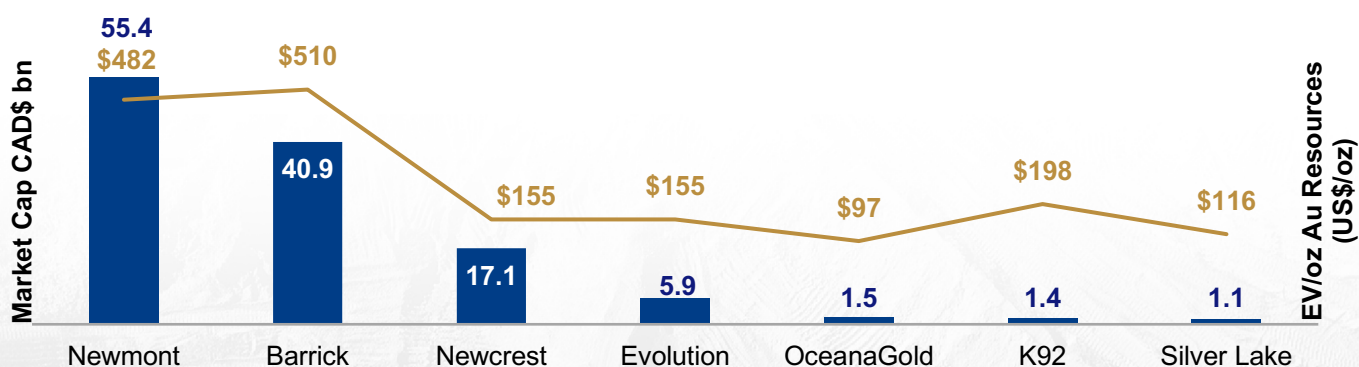
FIGURE 6: ENTERPRISE VALUE PER OZ PAID IN TAKEOVERS



Source: Seeking Alpha – Taylor Dart

Another proxy for estimating a fair value for every ounce of gold reserve is by studying the Enterprise Value (EV) of comparable peers who have reached the production stage. In figure 7, market cap in Canadian dollars and EV in USD per ounce of gold reserves (MI&I) is shown:

FIGURE 7: EV PER OZ GOLD FOR PRODUCERS



As shown in the chart, well developed mature companies such as Newmont and Barrick who have several producing mines around with aggregate output roughly around 5 Moz, receive a higher valuation relative to their resources (around US\$ 500/oz). While younger producers with a smaller scale receive lower valuations with a range of US\$100 – US\$200 per ounce of resources. Hence, using US\$78.2/oz in our valuation is relatively reasonable if not conservative. Oceana Gold, a company where several KRL directors were involved with in the past, demonstrated KRL's senior management abilities. K92, with the most similar resources to KRL, is valued the highest (US\$198/oz) among the junior producers because of its low cost high grade Kainantu mine.



Further Expansion Potential

KRL is also pursuing the acquisition of May River project in the world-renowned copper-gold district of Freida River, PNG. The acquisitions involve KRL acquiring two holding companies from separate unrelated entities: the respective subsidiaries of Niuminco Group Limited ("Niuminco") and Hardrock Limited ("Hardrock"). **May River tenements details are shown in the following table:**

Exploration Licence/Name	Size	Current Holder	Prospects/ Anomalous Areas
EL2603 – May River	331km ²	Hardrock	Skiraisa, Foya, Mountain Gate
EL2623 – Hotmin	1272km ²	Hardrock	Various Au-Cu drainage anomalies
EL2527 – Iku Hill	94km ²	Niuminco (ND) Ltd.	Iku Hill

The deal entails KRL taking full ownership and control by consolidating the three tenements as the May River Project. This consolidation is expected to be supported by local PNG stakeholders and the National government.

May River Project key features:

- 15km from the PanAust owned world-renowned Frieda River Project
- previous drilling has demonstrated significant gold potential: 54m at 1.83g/t Au; 109m at 1.53g/t Au and 96m at 0.89g/t Au

The current owners will take an equity interest in KRL and continue to collaborate with the company. Also, the parties involved have reached an agreement to complete this transaction by Oct 31, 2021.