



Kinetiko Energy Limited
ACN:141 647 529

283 Rokeby Rd
SUBIACO WA 6008
Phone: +61 8 6315 3500
Fax: +61 8 9481 1947

Email: info@kinetikoenergy.com.au
Web: www.kinetikoenergy.com.au

ASX: KKO

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JUNE 2014 QUARTERLY OPERATIONS REPORT

Perth-based energy exploration company Kinetiko Limited (ASX: KKO) is pleased to report on its activities at the Amersfoort Project in South Africa, as well as corporate developments, for the June 2014 quarter.

Quarter Highlights

Amersfoort Project, South Africa

- Interpretation of 3,555 line kilometres (145km²) of high resolution geophysical data has been completed.
- The greatly enhanced geological and structural modelling from the geophysical data is providing the basis for the next phase of test wells.
- A two well program is being engineered to test gas flows from multiple gas charged zones in isolation, subject to regulatory approval and equipment availability, the program is expected to commence in by October.

Corporate

- As reported to the ASX 5th June 2014 under the terms of the Amersfoort Joint Venture Operating Agreement (“JOA”) Badimo Gas (Pty) Ltd (“Badimo”) was issued with a withdrawal notice to exit exploration rights 30/5/2/3/38 and 30/5/2/3/56 and the JOA. Under the terms of such notice Badimo is deemed to have transferred its 51% participating interest to Kinetiko Energy Ltd (“Kinetiko”). Subject to compliance with South African regulatory requirements and approvals giving effect to such transfer, Kinetiko will hold a 100% participating interest in the Amersfoort Exploration Rights.
- Kinetiko Energy has signed a mandate with Standard Bank of South Africa appointing Standard Bank to advise Kinetiko on regulatory and funding issues relating to the Amersfoort Project, including commercialisation, gas market development, regulatory matters and stakeholder support.

September Quarter Plans

- **Prepare for a two well program designed to test multiple gas charged sandstone zones and coal seams in isolation.**
- **Commence concept engineering and layout design for a five well pilot field development to follow on from the two well program above.**
- **Progress the regulatory approval path for the pilot field.**
- **Continue negotiations with potential customers for the pilot field gas production trials.**

AMERSFOORT PROJECT, SOUTH AFRICA)

Kinetiko is the operator of two gas licences in the Amersfoort Project covering 1,601km². The project is located in the heart of South Africa's energy infrastructure in Mpumalanga, 250km east of Johannesburg, South Africa (Figure 1).

Mpumalanga is a highly-prospective area for coal-bed methane (CBM) with well documented, gassy coal measures and gassy sandstones overlying the coals. US-based independent, oil and gas consultant Gustavson Associates estimated the Amersfoort Project to have "Prospective Resources of Gas In Place" of 2.4tcf and Contingent Resource of 1.5tcf *. Exploration core drilling and production test well drilling continues to demonstrate that gas is widespread throughout the project area in the coal and as conventional accumulations in the adjacent sandstones. Gas pressures encountered down hole have often exceeded 16 bar (224 psi) (Figure 1).

*** Previously reported to the ASX on 13th August 2012, and Kinetiko Energy is not aware of any factors that may materially affect the resource estimate at this time.**

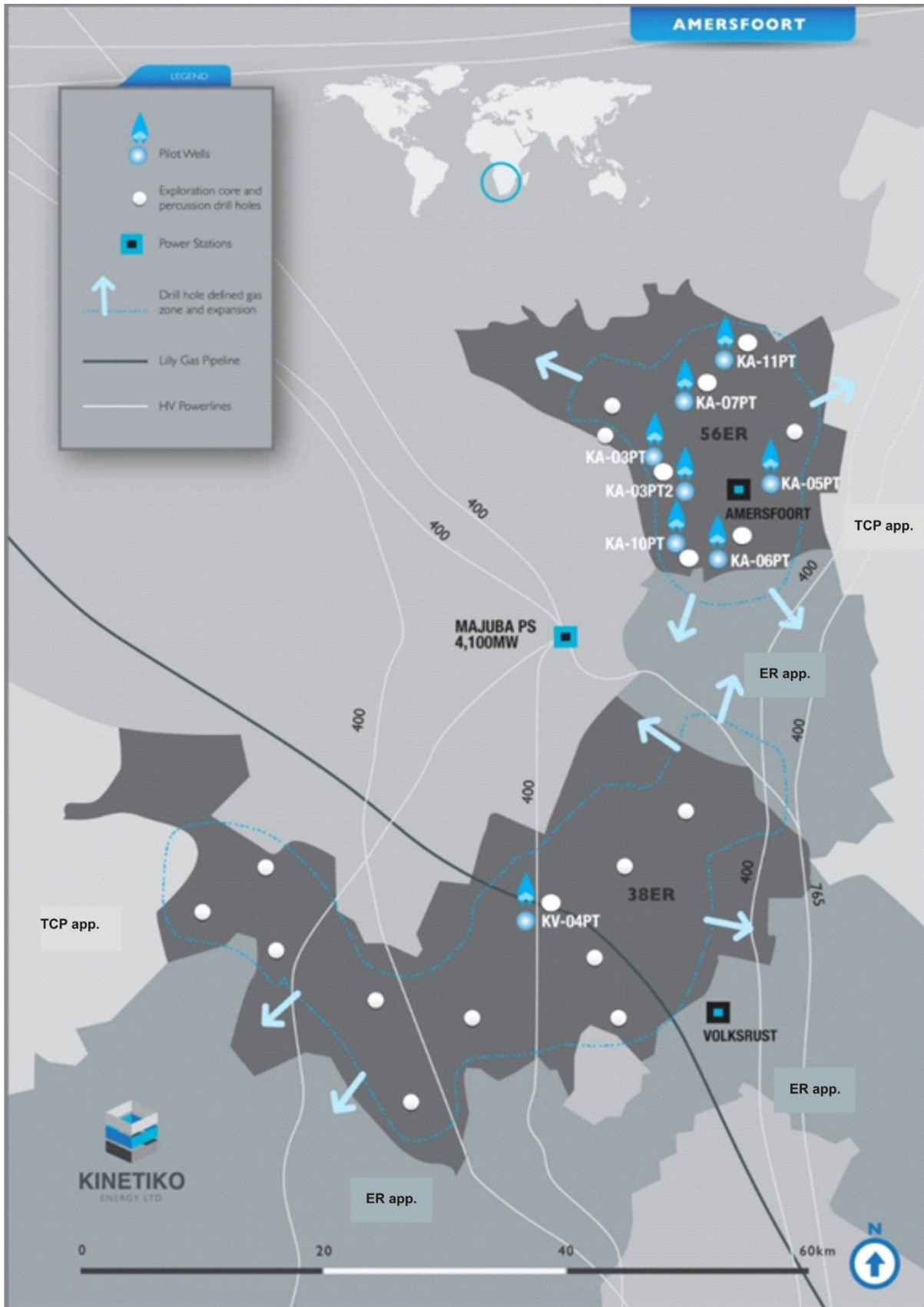


Figure 1 – Pilot test wells and core drilling, Amersfoort Project.

HIGH RESOLUTION AEROMAGNETIC SURVEY AND DATA INTERPRETATION

In April a 3,555 line kilometre (145km²) high resolution aeromagnetic survey was flown over an area of 145km² of the Amersfoort Project area (as reported to the ASX 5th June 2014). The survey covered an area within which Kinetiko is considering a pilot field development of a number of linked production test wells. The aim was to provide detailed geological data essential for the optimal placement of production wells and for more informed reserve calculations. The survey was flown and processed by Xcalibur Airborne Geophysics of Pretoria.

Processing and interpretation of the data to date has revealed unprecedented levels of geological detail in the survey area (Figures 2, 3,4 and 5) including the extensive dolerite sills that form seals over the gas prone sandstones above the already gassy coal measures. The magnetic contrasts between the intrusive dolerite sills and dykes and the Karoo Basin sediments has been captured in revealing images that will guide the design of on going well placement and ultimately the optimal design and development of the gas field. The enhanced geological information will also greatly assist reservoir definition and reserve calculations.

The survey utilized a specialized fixed wing aircraft with wing-tip magnetic sensors capable of safely flying at very low terrain. The sensors at each wingtip provided a large baseline for gradiometric analysis of the magnetic signal, resulting in enhanced interpolation between flight lines and in Horizontal Gradient Enhanced (HGE) gridding processes.



Survey parameters were as follows:

Line spacing: 50m

Tie line spacing: 500m

Line orientation: 135°/315°

Tie line orientation: 45°/225°

Flying Height: 35m mean terrain clearance

Figure 2 Amersfoort survey in progress April 2014

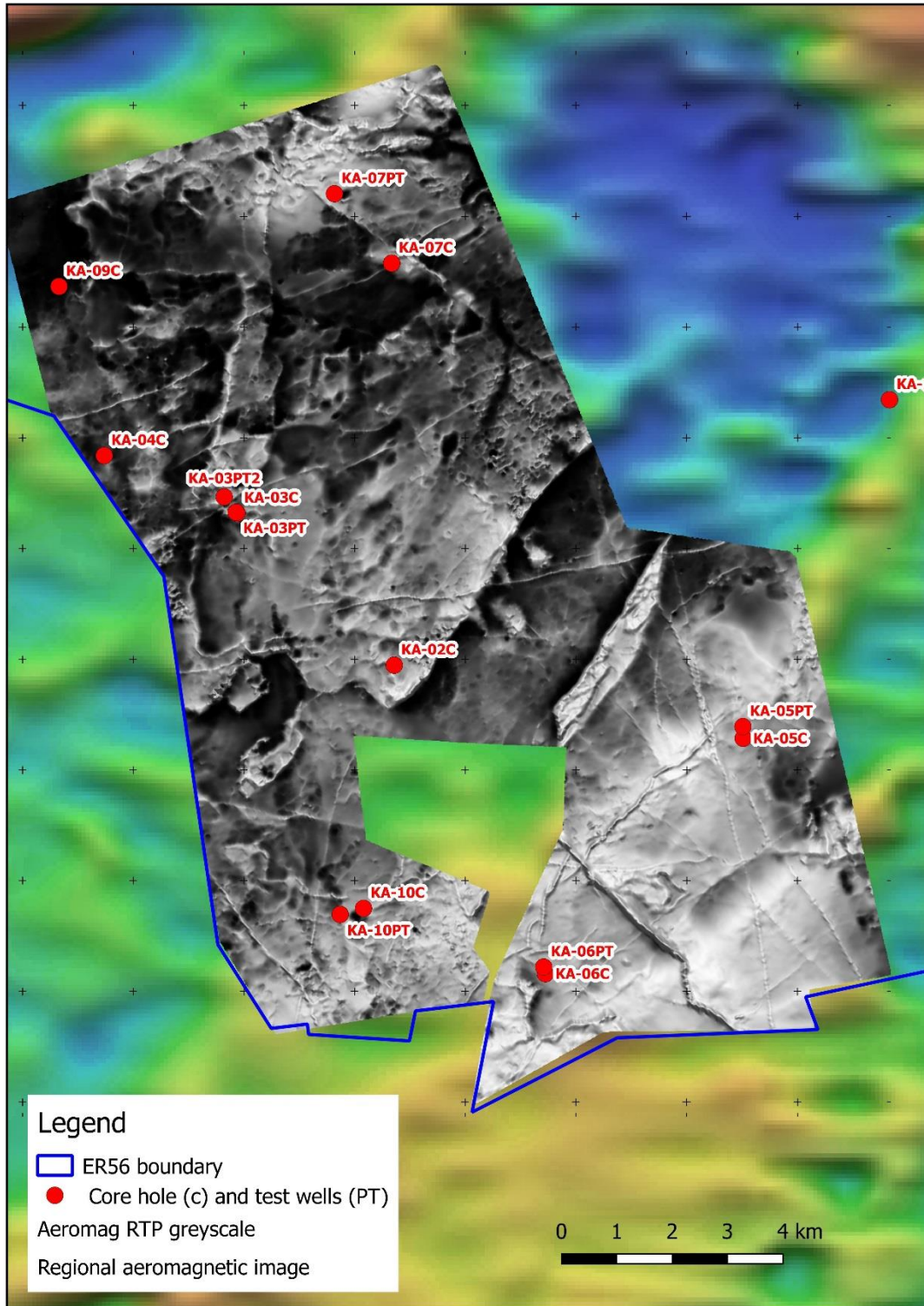


Figure 3 Greyscale VD1 image of aeromagnetic data Amersfoort Project.

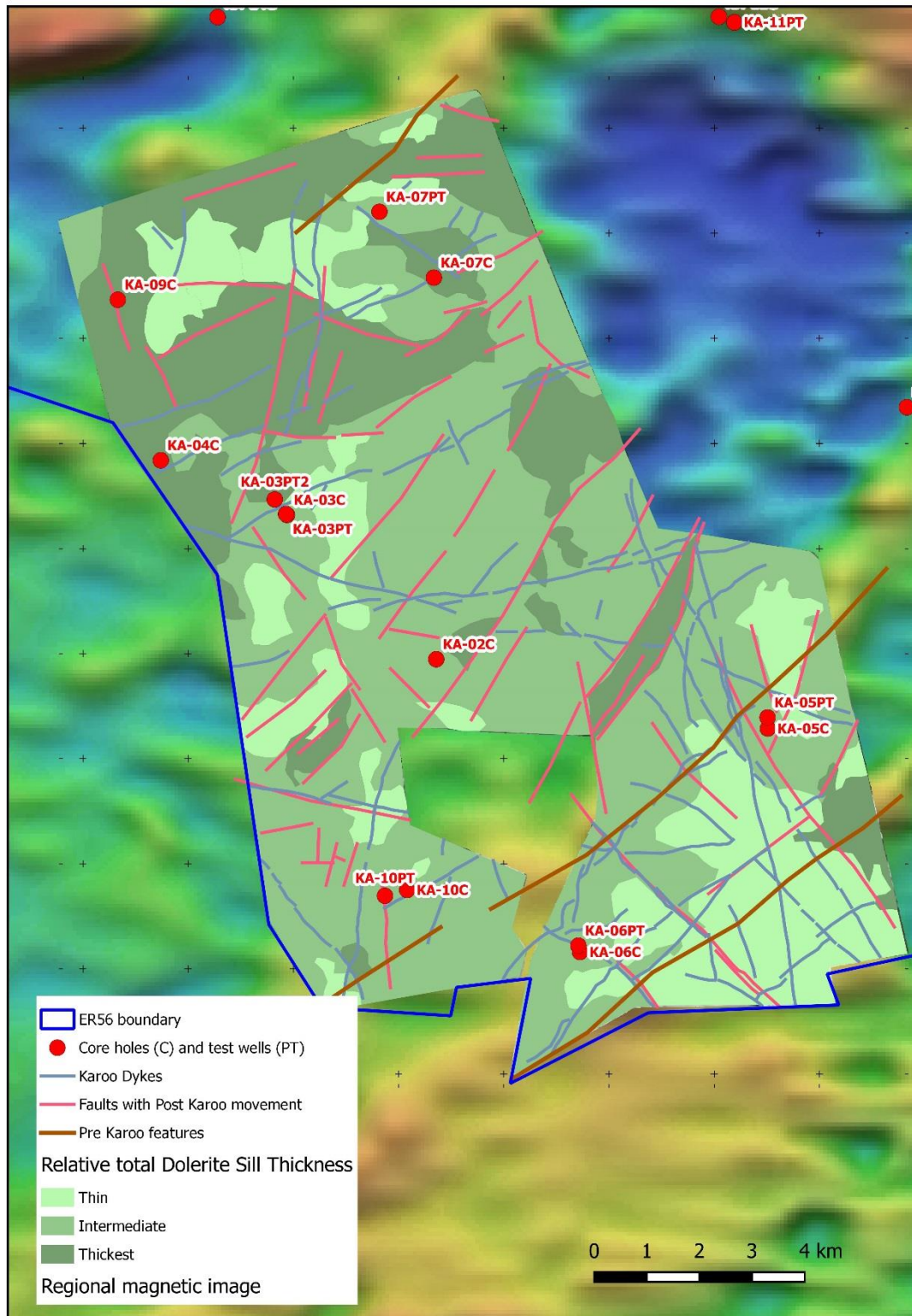


Figure 4 Relative thickness of dolerite sills, Karoo dykes, Post Karoo faults, and pre Karoo features.

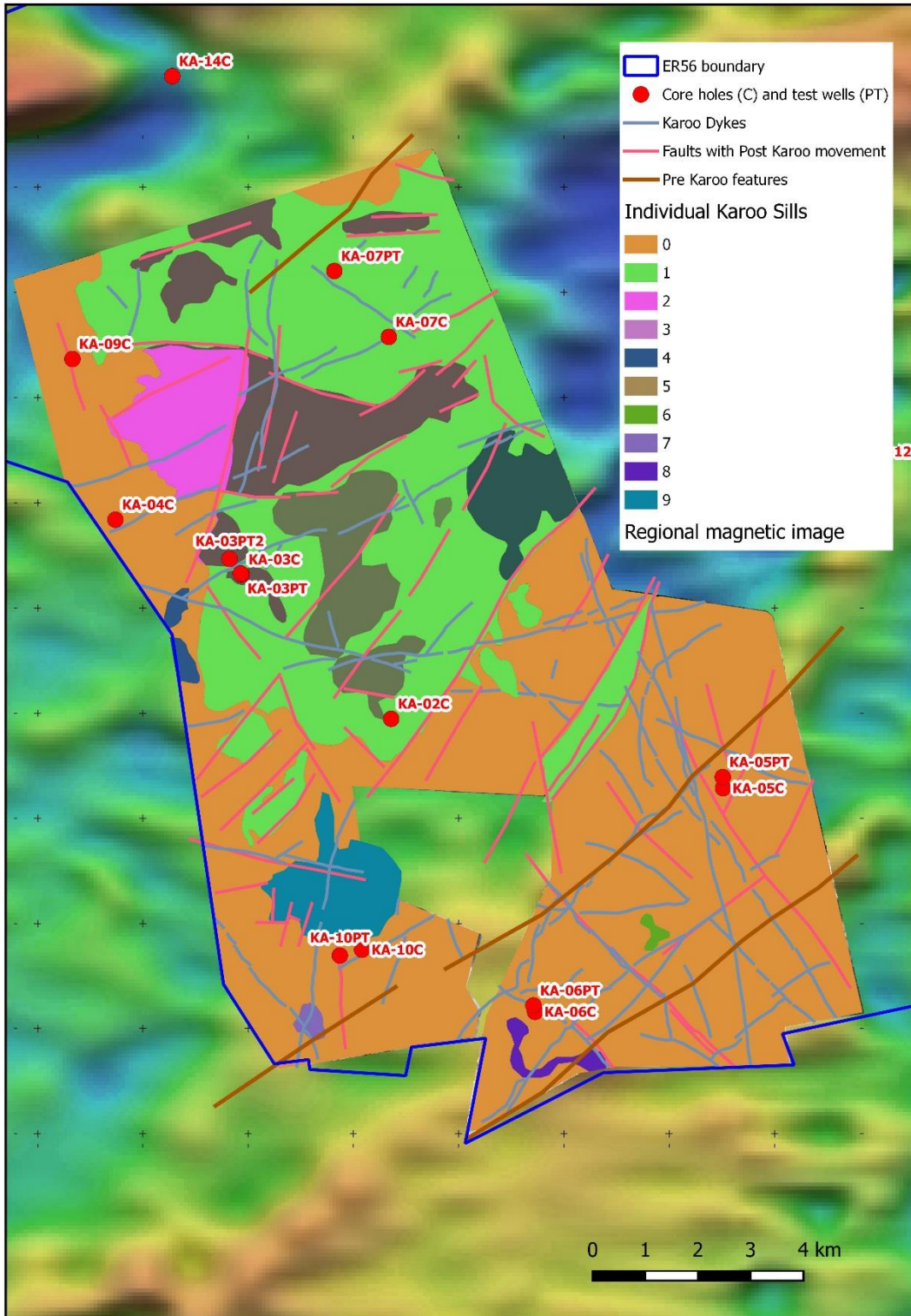


Figure 5 Interpretation of individual dolerite sill and structures.

INTERVAL TEST WELL PROGRAM

Following a review of work completed to date on the Amersfoort Project by gas exploration and production engineers General Petroleum Oil Tools (GPOT) of Brisbane it was concluded that the next stage of evaluation of the demonstrated widespread gas distribution in sandstones and coals was to undertake interval well tests. A program of two wells is being designed by GPOT that will test in isolation multiple gas charged zones in the sandstones sequences above and below the coal seams. The wells are also being designed to enable separate testing of the coal seams.

The open hole “barefoot” completion design of the test wells to date while effective in demonstrating the widespread distribution of gas in sandstones and high gas shut in pressures, is sub optimal for maximum gas flows from both the sandstones and the coals. While stabilized flows of up to 325,000scf/day (KA-03PT) were achieved by this method it is clear that to consistently minimize water production and maximise gas flows that downhole engineering has to allow for more selective production zones. The proposed two well program is being designed to allow isolation testing of components of the 60 to 80m (total) thickness gas prone zones which will enable an optimal production well format to be determined.

The interval test wells are likely to be sited about 1km apart and 1km from the previously operated test well KA-03PT. At least part of the proposed well testing program will involve simultaneous flow and interference testing from all 3 wells.

Data from the proposed testing program coupled with the enhanced geological modelling derived from the geophysical interpretation will form the basis for initial reserve modelling in the vicinity.

This interval testing program is a precursor to the development and operation of a 5 to 8 well pilot field development. The design of the interval test well will accommodate their potential redesignation as component production wells in the pilot field. Subject to the availability of drilling equipment and regulatory approval drilling of the interval test wells is being planned for commencement in the September Quarter. Completion of the wells and the flow testing program will occur in the December Quarter.

Tenure

Area of Interest	Tenure reference	Nature of interest	Interest
Amersfoort Project South Africa	30/5/2/3/38ER	Direct participating interest	49% *
	30/5/2/3/56ER	Direct participating interest	49% *

*Note * During the June Quarter Kinetiko Energy has applied to receive the transfer of the remaining 51% interest in these exploration rights. This is subject to compliance with South African regulatory requirements and approvals giving effect to such transfer.*



Corporate

Kinetiko Energy is pleased to announce the appointment of Standard Bank of South Africa Limited as an advisor to Kinetiko Energy with regards to the South African commercialization and financing strategy of the Amersfoort Project in the Mpumalanga province of South Africa.

The Standard Bank of South Africa oil and gas team based in Johannesburg will assist Kinetiko with special regard to:

- Working to introduce strategic South African funding partners and provide stakeholder support
- Liaising with Government and regulatory bodies
- Commercialisation models and strategies
- Gas market assessment and offtake opportunities

Standard Bank of South Africa is one of the largest financial institutions in South Africa and operates in 32 countries around the world including 19 African countries. The Standard Bank Oil and Gas Division has extensive experience in downstream and upstream oil and gas and in managing African risk issues.

At the end of the June Quarter Kinetiko had cash reserves of \$0.72m*.

**Includes South African VAT refunds for the Quarter received subsequent to the 30th of June.*

For more information visit: www.kinetikoenergy.com.au

Or contact Geoff Michael or James Searle, Joint Managing Directors, Kinetiko Energy Limited +618 6315 3500

Except where indicated by reference to previous resource announcement to the ASX, technical comments above have been compiled by James Searle BSc (hons), PhD, a Member of the Australian Institute of Mining and Metallurgy, and a Director of Kinetiko Energy Ltd with over 30 years experience in metallic and energy minerals exploration and development, including over 5 years experience in petroleum exploration. Dr Searle consents to the inclusion of this technical information in the format and context in which it appears.

About Kinetiko Energy

Kinetiko Energy is an Australian gas explorer focused on advanced gas and coal bed methane (CBM) opportunities in rapidly developing markets in Southern Africa. South Africa has extensive gassy coal basins, extensive energy infrastructure and a growing gas demand, making it an attractive area for investment. The Company has a large potential exploration area, of which 9,491Km² is granted and being explored.

