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ASX: KKO

QUARTERLY OPERATIONS REPORT ENDING 31 DECEMBER 2018

SUMMARY OF HIGHLIGHTS

- The Company completes entitlement issue raising \$801k (before costs).
- World leaders¹ in the design and provision of process control and pumping systems Endress & Hauser AG and Franklin Electric Co. Inc teamed up to provide an innovative pumping, separation and control package that was trialled on the previously flow-tested well KA-03PT.
- Joint estimated cost of tests amounts to approximately US\$675,000 (AUD\$950,000) which was fully funded by Endress & Hauser AG and Franklin Electric Co.
- Substantial results included the equipment achieved enhanced new high level of water gas separation efficiency and an absolute open flow rate of 300Nm³/hr at a 2.15bar wellhead pressure without any well clean up or other optimised parameters.
- Gas quality at the exceptional level of 95.5% methane was over 1% above previous levels and could eliminate the need for treatment before commercial trading.
- The efficiency of the tested well head separator and control systems suggests there could be major commercial advantages for field development with one separator and control system package serving multiple wells.
- The Company continued its engagement with the South African Industrial Development Corporation (IDC) and other potential funders to explore a variety of

¹ Endress+Hauser is a Swiss-based instrumentation and process automation company. Endress+Hauser operates in the instrumentation market with offices around the world, producing instruments measuring level, volume flow, mass flow, density, pressure, and temperature

funding alternatives for the Amersfoort project. The IDC reconfirmed its support to funding the project once issues unrelated to the project have been resolved; and

- **Kinetiko, on behalf of Afro Energy, submitted renewal applications for exploration rights ER38 and ER56 for a further two-year period. The applications are currently under review by PASA.**

RIGHTS ISSUE COMPLETED

During the quarter the Company completed a 1 for 4 non renounceable entitlement offer at an issue price of \$0.02 per share. The Company is delighted by the significant ongoing support of its shareholders expressed through the strong take up of rights.

Including additional shares applied for, shareholders subscribed for a total of 40,073,288 shares totalling \$801,466. This comprised 37,174,731 entitlement shares and 2,898,557 of additionally subscribed shares. In accordance with section 2.3 of the Offer Document dated 5 November 2018, the Company may, during the three month period following the Closing Date, place the Shortfall Shares which were not taken up by Eligible Shareholders.

OPERATIONS (Amersfoort Project South Africa - KKO 49%)

12/3/56ER

As part of an ongoing exploration and appraisal on its Amersfoort project, Kinetiko has commenced with activities alongside two international experts, Endress & Hauser AG, a global leader in the design and marketing of systems that are used in artificial lifting, separation and flow control in gas production and Franklin Electric Co. Inc2., another global business that provides flow control instrumentation used in real-time measurement of gas, fluids and particulates (Figure 2).

Initial indications from the equipment testing are a 95% recovery of gas from produce groundwater, a significant increase from previously used separation equipment. A 99.5% methane content on the produced gas, an improvement of 1%, suggests that gas treatment could be eliminated in the commercial trading of the gas. The improved efficiency of the equipment tested further suggests that multiple wells could be produced through a single separator, another major commercial benefit.

The Endress Hauser engineering review of the equipment tests remains outstanding. The test results will enable Kinetiko to conduct planned optimised flow tests following well clean up procedures.

² Franklin Electric, situated nearby Fort Wayne, Indiana in the USA, is a class leading manufacturer of submersible pumps, submersible electric motors, and components for application in flow control instrumentation used in real-time measurement of gas, fluids and particulates..

Endress & Hauser/Franklin Electrical Test Equipment



Figure 1

Kinetiko, on behalf of Afro Energy, submitted a renewal application for exploration rights ER56 for a further two-year period.

Kinetiko submitted a work program in the renewal application consisting of a 1,334 line-kilometre high-resolution aeromagnetic survey (60km²) (Figure 3) which will be obtained over a pre-defined area within ER56 to supplement the 145 km² previously obtained in the area. In addition, and as an initial phase, Afro Energy proposed the drilling of one zone interval well under the existing approved EMP within ER56. Its positioning will be predicated on the results of the aeromagnetic survey and its interpretation. As a second phase the drilling of a further 7 wells within ER56, also under the currently approved EMP, will be determined by the outcome of the aeromagnetic survey and the geological interpretation of the interval well drilling program. The application for renewal of the exploration rights remains under review by PASA.

Exploration Rights Renewals

Kinetiko, on behalf of Afro Energy, further submitted a renewal application for exploration rights ER38 for a further two-year period.

The Kinetiko board approved the inclusion of a work program in the renewal application consisting of a 10,229 line-kilometre high-resolution aeromagnetic survey (460km²) (Figure 3) over a pre-defined area within ER38. In addition, and as an initial phase, Afro Energy proposed the drilling of one zone interval well under the existing approved EMP within ER38. The positioning will be predicated on the results of the aeromagnetic survey and its interpretation. As a next phase the drilling of a further 7 wells within ER38, also under the currently approved EMP, will be determined by the outcome of the aeromagnetic survey and the geological interpretation of the interval well drilling program. The application for renewal of the exploration rights remains under review by PASA. Except for an updated Environmental Compliancy



Report, which Kinetiko contracted SLR Consulting to conduct, PASA required no further clarification of the renewal application.

ER270, 271 & 272

PASA received the outcome of the Regional Mining Environmental Committee meeting regarding the Exploration Rights applications of tenements ER270, ER271 & ER272 and has submitted a recommendation for approval to the Department of Mineral Resources. PASA is currently awaiting a response from the DMR.

PROJECT FUNDING

Kinetiko is progressing the fundraising campaign to underpin the above-mentioned programs and has to date achieved the following;

- Notwithstanding the decision by the IDC's Executive Policy Committee not to fund the development of the Project at this time due to an issue unrelated to KKO or the Project, the IDC management has confirmed its support for funding the project once the above-mentioned issue has been resolved; and
- Since the commercial viability of the Project remains robust, both Kinetiko Energy and Badimo Gas are currently exploring alternative funding opportunities for the Amersfoort Project and associated activities.

CORPORATE

Activities at the Amersfoort Project are carried out through Afro Energy Ltd, owned by Kinetiko Energy Ltd (49%) and its South African shareholder Badimo Gas Ltd (51%).

The Company continues to work toward the reinstatement of its shares to trading on the ASX.

Proposed aeromagnetic surveys 2018

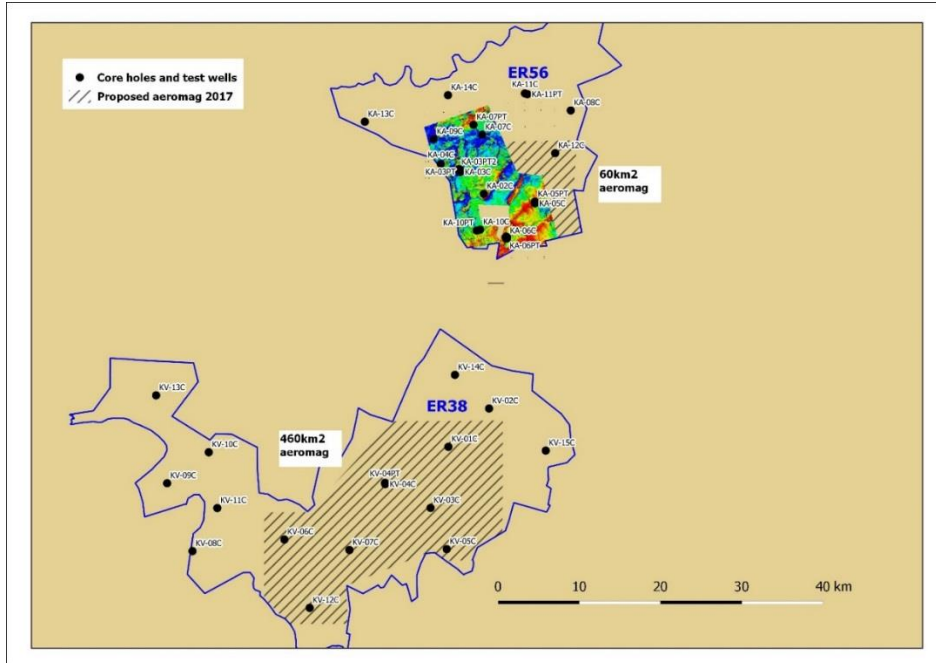


Figure 3

Afro Energy Exploration Rights & Applications

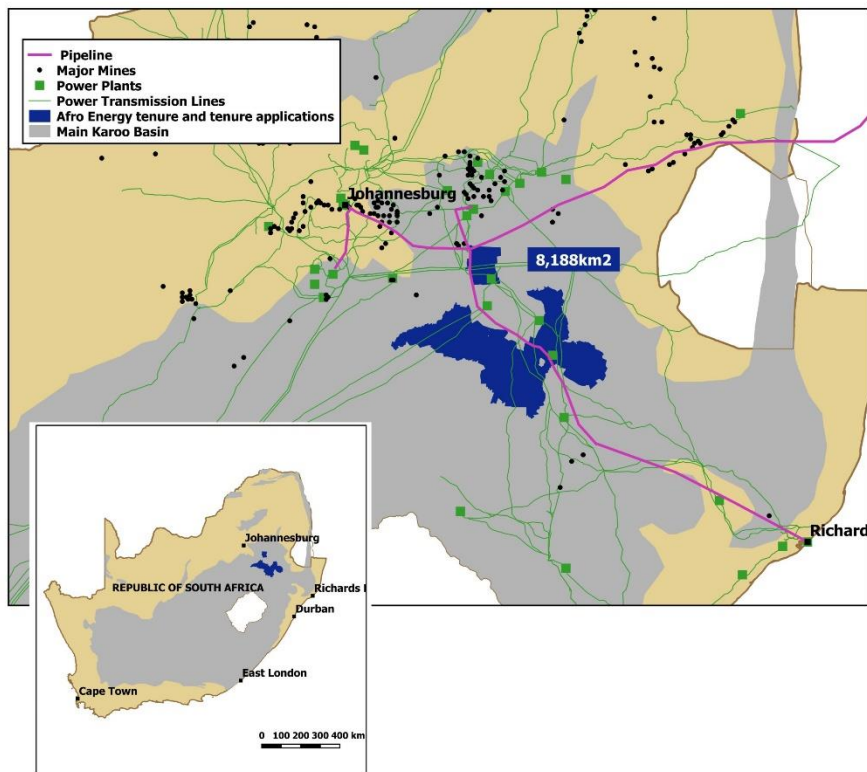


Figure 4

TENURE STATUS

Clause	Area of Interest	Tenement reference	Nature of interest	Interest Dec 2018
Interest	Amersfoort Project – South Africa			
		30/5/2/3/38ER	2 nd renewal period granted. Under 3 rd renewal application.	49%
		30/5/2/3/56ER	1 st renewal period granted. Under 2 nd renewal application.	49%
		ER320 (TCP 106)	Application for conversion from TCP to exploration right approved by regulator. PASA granted an application for extension for EIA due to regulatory delays.	49%
		ER 270	Recommended by Petroleum Agency of South Africa to Department of Mineral Resources.	49%
		ER 271	Recommended by Petroleum Agency of South Africa to Department of Mineral Resources.	49%
		ER 272	Recommended by Petroleum Agency of South Africa to Department of Mineral Resources.	49%



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. Its flagship Amersfoort project which is conducted through Afro Energy and its co shareholder Badimo Gas is being developed around the infrastructure rich and energy starved industrial region of South Africa. South Africa has extensive gassy coal basins, extensive energy infrastructure and a growing gas demand, making it an attractive area for investment.

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

*Or contact Geoff Michael or James Searle, Joint Managing Directors, Kinetiko Energy Limited
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** On the 17/2/2016 Kinetiko reported in full to the ASX the Gustavson and Associates LLC the new resource for ER56 at the Amersfoort Project. This resource remain current.*

Except where indicated, 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.