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ASX: KKO

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ASX ANNOUNCEMENT

**UPDATE ON INDUSTRIAL DEVELOPMENT CORPORATION
OF SOUTH AFRICA (IDC) PROJECT FUNDING**

- By way of letter to Afro Energy (Pty) Ltd ("AE") dated 8 June 2016, the IDC ("Letter") advised of its support for the Amersfoort project ("the Project") and the strategic importance of introducing indigenous gas as a much needed energy source into the South African energy mix and its preparedness to fund such projects.
- IDC, having completed a thorough 8 month technical, financial, commercial and legal due diligence on the Project, reached agreement with AE to provide funding for a pilot production development. This agreement was subject to, *inter alia*, IDC Executive Policy Committee approval which met on 2 June 2016.
- The IDC Letter also advised of its Executive Policy Committee decision not to fund the development of the Project at this time due to an issue unrelated to KKO or the project, being pending litigation with a major stakeholder of AE;
- KKO remains confident, despite the delays suffered, that the commercial viability of the Project remains robust and has commenced working with its South African partners and corporate advisers to address the current delay as outlined below.

Project Funding Mechanism

Chronology of funding steps

- 7 July 2015 – IDC submit a non-binding Letter of Interest for participating in the Project;
- 4 August 2015 – IDC commence with technical, financial, commercial and legal due diligence (“DD”);
- November 2015 – Following successful completion of technical DD, and input from IDC, AE makes submission to IDC to fund the Project.
- 15 February 2016 – AE and IDC sign an Equity Term Sheet on the terms and conditions for funding of the Project (See summary below);
- 21 May 2016 – IDC decision on the submission postponed due to clarification requirements on identified potential litigation between a Badimo stakeholder and IDC;
- 2 June 2016 – IDC Executive Policy Committee decide not to proceed with the funding of the Project due to its intent to pursue litigation against a Badimo stakeholder.
- 8 June 2016 – IDC Letter received by AE.

Having completed a lengthy and comprehensive due diligence process the IDC Letter states as follows:

“The IDC believes that your project has the potential to contribute significantly to South Africa’s current need for a clean alternative energy source for power generation, industrial, commercial and domestic usage, as well as the transportation sector”

Amersfoort Project Update

KKO, as a 49% shareholder in AE, has focused on proving commercial credibility of the Project and has pursued next phase funding from a credible South African institution focused on delivering first gas reserves, gas production, gas sales revenues and providing a funding partner with the capacity to develop multiple large production fields. The IDC was considered to be the best candidate to fulfill this objective.

The next proposed phase of the Project will include both a monetization drilling and zone isolation drilling program conducted concurrently and in a way that one activity would not compromise the other. This will be achieved by locating the respective activities in separate but proximal, aeromagnetically defined compartments. The work described above comprises 19 wells which consists of two zone isolation wells (DST wells) and seventeen appraisal/development wells within the ER56 tenement.

This pilot production field represents approximately 12km² which is only 2% of the potential prospective geology situated on the ER56 tenement.

Chronology of Production Initiatives

- 24 August 2015 – the South African Department for Minerals and Energy grants a bulk sampling permit to sell gas from the ER 38 and ER56 tenements;
- 08 August 2015 – AE executes Memorandum Of Cooperation with potential gas off-taker Gigajoule international (Pty) Ltd (Gigajoule) for investigating the supply and purchase of methane-rich gas from the Project;
- 19 October 2015 – PASA approves development of a pilot production field;
- 28 January 2016 – AE executes Memorandum Of Cooperation with potential gas off-taker Virtual Gas Network (Pty) Ltd (VNG) for investigating the supply and purchase of methane-rich gas from the Project;
- 29 January 2016 – VGN submits Letter of Interest for the development of a CNG distribution project;
- 02 February 2016 – Gigajoule International submits a non-binding Expression of Interest for the purchase of methane-rich gas from AE;
- 17 February 2016 – Increased resource estimate on the Project. Being a 55% increase in the GIP P50 in gas contained in the sandstones and 28% increase in the GIP P50 in the total resource estimate; and
- June 2016 – VGN and AE are currently negotiating a Heads of Agreement for the supply and purchase of methane-rich gas from the Project

Terms of Proposed Project Funding

AE proposed that IDC co-invest in the commercialisation of gas from Block 1 within ER56 on a 50:50 basis. Block 1 is a production-only entity which ring-fences IDC's exposure from AE's exploration activities. AE has invested initial capital of US\$7.8 million (audited) towards exploration of this gas. IDC will fund an initial cost to obtain its 50 percent shareholding in the project. The balance of the funds will subsequently be invested pro rata to the parties' shareholding. IDC has also secured the first right of refusal to invest up to 50% equity in the next 300 production wells that Afro Energy brings to market.

Company Funding

KKO anticipates undertaking a capital raising in the immediate future and is reviewing several fundraising strategies which include completing a further sophisticated placement or undertaking a non renounceable rights issue or combination of both.

Market update

The South African government recently expressed serious intent to introduce natural gas as an alternative energy feedstock for the energy starved economy, emphasising the strategic value it places on developing the gas market in South Africa. Minister Rob Davies (Minister of Trade and Industry) declared gas as a pillar of industrialisation in the latest Industrial Policy Action Plan (IPAP).

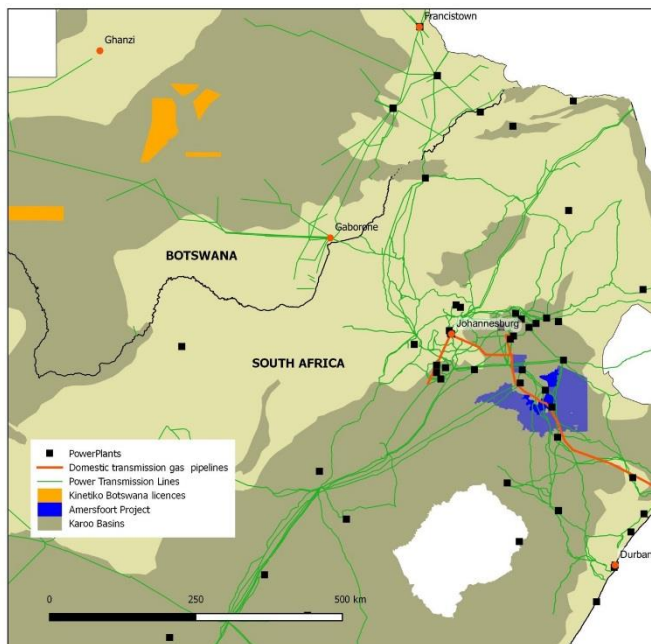
The South African Department of Trade and Industry has subsequently formed the Gas industrialisation plan, an initiative designed to maximise the multiplier effects of natural gas for power generation in SA. The Minister announced a 3 125MW gas-to-power programme for 2016/2017. The IDC Letter recognises this and states as follows:

“The development of projects like Afro Energy are aligned to the industry development goals of the IDC and also fits into the gas industrialisation plan of the Department of Trade and Industry”

About Kinetiko Energy and Afro Energy

Kinetiko Energy is an Australian gas explorer focused on advanced shallow conventional 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.

Afro Energy (Pty) Ltd. was incorporated as a joint venture founded in 2015 by Badimo Gas (Pty) Ltd of South Africa as majority owner (51%) and Kinetiko Energy Ltd (49%) in order to continue to explore, develop, and market gas from several Exploration Rights licenses and Technical Corporation Permits in the Amersfoort and adjacent Volksrust areas of South Africa. Afro Energy is the operator of the subject license.



For more information visit: www.kinetikoenergy.com.au or contact, Kinetiko Energy Limited on 08 6315 3500