

PROSPECTUS 2011



KINETIKO

ENERGY LTD

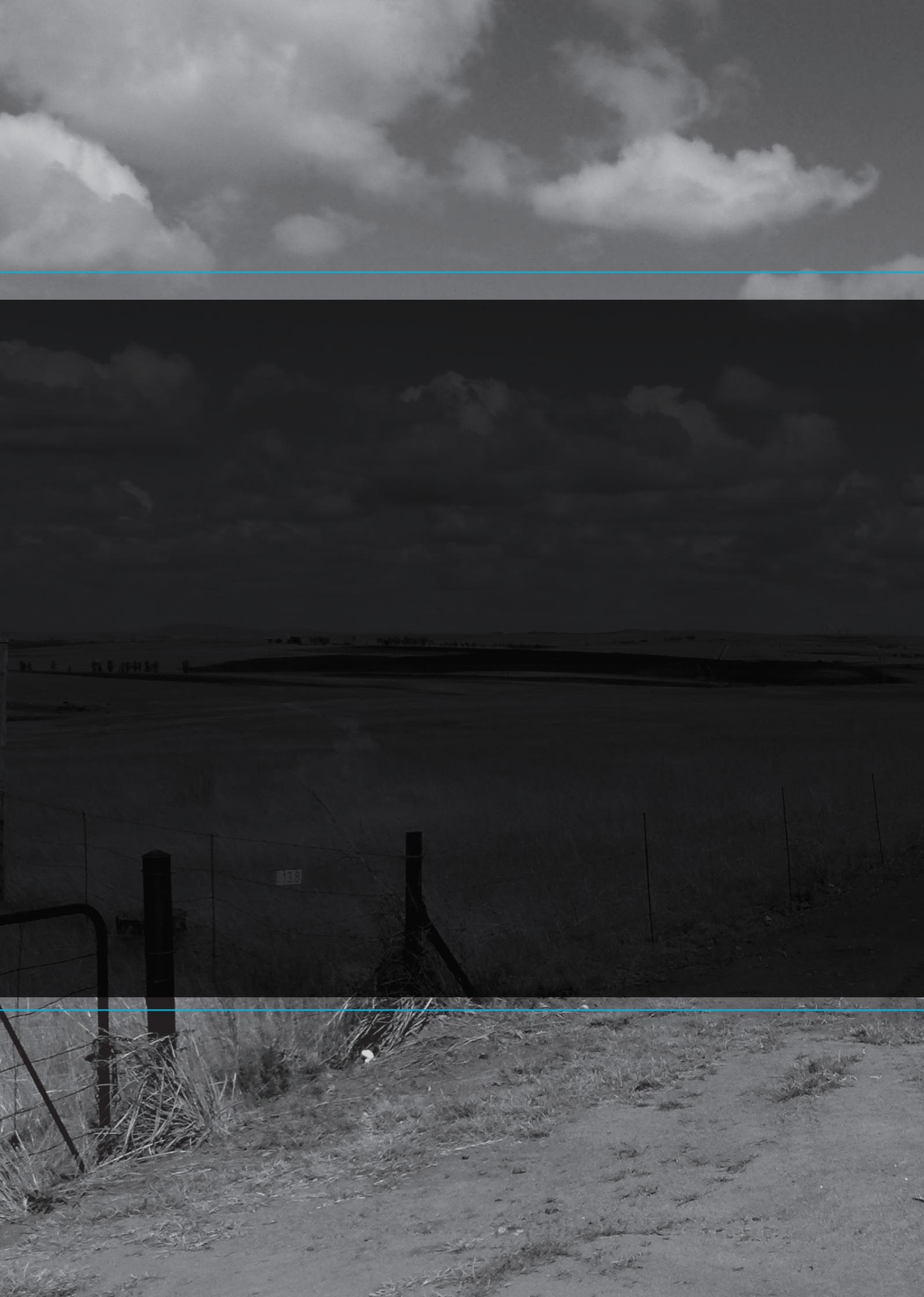
ACN 141 647 529

An Offer of up to 40,000,000 Shares at a price of 20 cents per Share each to raise up to \$8,000,000 with the right to accept over subscription of a further 10,000,000 Shares to raise a further \$2,000,000

Important Information

This is an important document and investors should read the document in its entirety and are advised to consult with their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

Any investment in the Company under this Prospectus should be considered speculative in nature.



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Majuba Power Station,
located adjacent to the
Amersfoort Project Area

The Prospectus has been issued by the Company and is dated 2 June 2011.

A copy of the Prospectus was lodged with ASIC on 2 June 2011. Neither ASIC nor ASX take any responsibility for the contents of this Prospectus.

No Shares will be issued on the basis of this Prospectus later than thirteen (13) months after the date of this Prospectus. Application will be made within seven (7) days after the date of this Prospectus for the Shares offered pursuant to this Prospectus to be admitted for quotation on the ASX.

Applicants should read this document in its entirety and, if in doubt, consult with their professional advisors before deciding whether to apply for Shares. There are risks associated with an investment in the Company and the Shares offered under this Prospectus must be regarded as a speculative investment. The Shares offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the Shares.

No person is authorised to give any information or to make any representation in relation to the Offer, which is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by the Company in connection with the Offer.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make an offer.

Photographs used in the Prospectus are for illustration only and should not be interpreted to mean that any person shown endorses the Prospectus or contents or that the assets shown in them are owned by the Company.

Exposure Period

In accordance with Chapter 6D of the Corporations Act, this Prospectus is subject to an Exposure Period of seven (7) days from the date of lodgement of the Prospectus with ASIC. This period may be extended by the ASIC for a further period of seven (7) days. The purpose of this Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds, which examination may result in the identification of deficiencies in this Prospectus. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with section 724 of the Corporations Act. Applications received prior to the expiration of the Exposure Period will not be processed until after the Exposure Period. No preference will be conferred upon Applications received during the Exposure Period.

Electronic Prospectus

This Prospectus will be issued in paper form and as an electronic Prospectus, which may be viewed online at www.kinetiko.com.au. The Offer of Shares pursuant to this Prospectus is available to persons receiving an electronic version of this Prospectus in Australia. The Corporations Act prohibits any person from passing onto another person the Application Form unless it is attached to or accompanied by the complete and unaltered version of this Prospectus. During the Offer Period, any person may obtain a hard copy of this Prospectus by contacting the Company by email at prospectus@kinetiko.com.au.

Any investments in the Company should be considered speculative. Applicants should read this document in its entirety and persons considering applying for Shares pursuant to the Prospectus should obtain professional advice.

A number of terms and abbreviations used in this Prospectus have defined meanings, which appear in Section 11 of this Prospectus.

Directors

Adam Sierakowski -Non-Executive Chairman
Andrew Lambert - Managing Director (proposed)
Dr. Donald James Searle - Non-Executive Director
Agapitos Marcus (Geoffrey) Michael - Non-Executive Director

Company Secretary

Stephen Hewitt-Dutton

Registered Office

C/- Trident Capital Pty Ltd
Level 24, St Martin's Tower
44 St Georges Terrace
PERTH WA 6000

Solicitors

Price Sierakowski Corporate
Level 24, St Martin's Tower
44 St Georges Terrace
PERTH WA 6000

Investigating Accountants

BDO Corporate Finance (WA) Pty Ltd
38 Station Street
SUBIACO WA 6000

Corporate Advisors

Trident Capital Pty Ltd
Level 24, St Martin's Tower
44 St George's Terrace
PERTH WA 6000

Independent Geologist

Gustavson Associates
5757 Central Ave., Suite D,
Boulder, CO 80301 USA

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6000

Share Registry

Security Transfers Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

Proposed ASX Code

KKO



KINETIKO ENERGY LTD

Dear Investor,

It is with great pleasure I invite you to become an investor by subscribing to the initial public offer of Kinetiko Energy Ltd.

CBM or Coal Bed Methane is natural gas produced from coal, and the Eastern Transvaal coalfield is one of the Republic of South Africa's biggest and geologically well understood, with the Amersfoort Project strategically located in the suitably deeper coal measures in the Eastern Transvaal coalfields to the South. CBM is a proven process with successful commercial examples of commercial production established particularly in North America and Eastern Australia.

The Company has been fortunate to secure the opportunity to joint venture with an established Black Economic Empowerment (BEE) partner Badimo Gas (Pty) Limited and to participate in the commercialisation of the CBM Exploration Rights in the Amersfoort Area. Kinetiko sees the opportunity to become an early mover in the Republic of South African CBM exploration and commercialisation. The Amersfoort Project is ideally located close to the major population and manufacturing centre of Johannesburg and is surrounded by a major portion of the Republic of South African energy generation infrastructure and the coal and gas to liquid fuels industry, in a growing and energy hungry economy.

With an exciting land position and contingent resource definition supported by the independent Gustavson Associates report, existing adjacent infrastructure and potential domestic customers, Kinetiko has the strong foundation for development and growth of its CBM project and the ability to be a clean energy supplier to increasing immediate markets.

Finally Kinetiko shall focus on increasing its contingent resource base by both exploration and acquisition where suitable and we believe that the Company is ideally placed with its BEE partner to take advantage of significant opportunities that present in Sub-Saharan Africa.

I therefore encourage your investment in our company and look forward to welcoming you as a Shareholder.

Yours faithfully

Adam Sierakowski
Non-Executive Chairman

HIGHLIGHTS

- » Advanced resource definition with 854 coal exploration drill holes in the Amersfoort Area, which provides a preliminary picture of coal seam distribution, thickness and depth.
- » Historic underground colliery operations 10 km's South of the town of Amersfoort nearby has indicated gas contents and coal seam conditions.
- » Independent calculation of 1.7 Tcf gas in place and 1.12 Tcf contingent resources. Gas identified in coal formations generally equivalent in age and rank to Australian CBM coals.
- » The Amersfoort Project is located in the heart of South African energy infrastructure and major domestic markets with immediate access to potential established customers and their infrastructure.
- » Escalating energy demand / supply gap in the Republic of South Africa, with a heavy reliance on energy generation from domestic coal reserves.
- » Commercially and technically astute JV partner Badimo which originally secured tenure in the Amersfoort Area and has established access to top echelons of the Republic of South African government, regulators and utilities, through its chairman Mr Don NCube.
- » An experienced technical and geological team with a balance of qualifications to lead operational outcomes.

RISKS

There are risks associated with an investment in the Company, which are discussed in Section 8 of this Prospectus. Some of the specific risks include:

- » The Company's primary assets are its interests in the Amersfoort Project held pursuant to the Transaction Agreement which is summarised in Section 9.4.1. Should Badimo fail to comply with the terms of the Transaction Agreement, the Company's interests in the Amersfoort Project may be adversely affected.
- » The Amersfoort Project comprises two exploration rights. On 4 May 2011 an application was submitted by Badimo and Kinetiko to the Minister of Mineral Resources (South Africa) pursuant to the Mineral and Petroleum Resources Development Act (Act 20 of 2002) for her consent to the first renewal of exploration right 30/5/2/3/38ER in view of the expiry of the initial exploration period on 6 May 2011. In addition, exploration right 30/5/2/3/38ER stipulates that no less than 20% of the exploration area must be relinquished at the end of the initial exploration period. In the renewal application, an application has been made for the waiver of this relinquishment obligation. There is no guarantee that application for first renewal of this exploration right or the waiver applied for will be granted.
- » There can be no assurance that exploration of the Amersfoort Project in which the Company has acquired an interest or other exploration properties that may be acquired by the Company in the future will result in the discovery of an economic resource. Even if an economic resource is discovered, there is no guarantee that the resource will be able to be commercially exploited by the Company.
- » Title to the Amersfoort Project in which the Company has acquired an interest is subject to the interest holders complying with the terms and conditions of the relevant legislation. A summary of the legal title terms and conditions attaching to the Amersfoort Project is set out in the Solicitor's Report on CBM Rights & Title in Section 6 of this Prospectus.
- » Operational appraisal and possible production activities in respect of the Amersfoort Project may be affected by factors such as geological conditions, availability of drilling rigs and other machinery and technical difficulties encountered in drilling and possible production activities.
- » Investment risks including economic risks such as changes in commodity prices, interest rates and exchange rates. In particular volatile commodity prices and exchange rates as has been evident in recent years can adversely affect financial returns for the Company.
- » The Company may be unable to obtain additional capital on satisfactory terms or at all.
- » Reliance on key executives and management personnel are also specific factors that could adversely affect the Company's objectives.

Prospective investors should carefully review the Risk Factors set out in Section 8 of this Prospectus and consult their professional adviser with any questions.

01

INVESTMENT
OVERVIEW

1.1. IMPORTANT NOTICE

This section is not intended to provide full information for investors intending to apply for Shares offered under this Prospectus. This Prospectus should be read and considered in its entirety.

1.2. SUMMARY OF THE OFFER

The Company is seeking to raise funds of \$8,000,000 by the issue of 40,000,000 fully paid ordinary shares at 20 cents per share.

1.3. MINIMUM AND OVER SUBSCRIPTION

The minimum subscription to be raised pursuant to this Prospectus is \$8,000,000. No Shares will be allotted by the Company until minimum subscription has been reached. The Company may accept over subscriptions to a maximum of 10,000,000 shares, raising a further \$2,000,000.

1.4. USE OF FUNDS

Funds raised pursuant to this Offer will be used to fund the operation, management and administration of the Company, to secure, establish and develop the Exploration Rights. For the details please see Section 2.6. of this Prospectus.

1.5. INDICATIVE TIMETABLE

Dates shown in the table below are indicative only and may be varied. The Company reserves the right to vary the Opening Date and the Closing Dates without prior notice, which may have a consequential effect on the other dates. Applicants are therefore urged to lodge their Application Forms as soon as possible. The Company also reserves the right not to continue with the Offer at any time before the allotment of Shares to successful Applicants.

Indicative Timetable	
Lodgement of this Prospectus with ASIC	2 June 2011
Opening Date for Offer	10 June 2011
Closing Date of Offer	1 July 2011
Dispatch of Statements of Shareholding	3 July 2011
Expected date for Shares to commence trading as ASX	8 July 2011

1.6. PRO FORMA CAPITAL STRUCTURE

The pro forma capital structure of the Company at completion of the Offer is summarised below

	Minimum Subscription	Maximum Subscription
Originating and vendor Shares -	50,000,000	50,000,000
Seed Shareholders -	10,000,000	10,000,000
Shares issued pursuant to Offer	40,000,000	50,000,000
Total Shares on Completion of Offer	100,000,000	110,000,000

1.7. APPLICATIONS FOR SHARES

To apply for Shares offered pursuant to this Offer, the Application Form accompanying this Prospectus must be completed in accordance with the instructions accompanying it. The Company reserves the right to decide whether or not to make offers and to issue Shares to such persons as the Company determines in its absolute discretion.

1.8. RESTRICTED SECURITIES

Subject to the Company being admitted to the Official List, certain of the Shares on issue may be classified by the ASX as restricted securities and may be required to be held in escrow for up to 24 months from the date of the company being admitted to the official list and may not be transferred, assigned or otherwise disposed of during that period.

02

DETAILS OF
THE OFFER

2.1. THE OFFER

By this Prospectus, the Company offers 40,000,000 Shares at an Offer Price of 20 cents per Share to raise \$8,000,000 before expenses of the Offer. The Company may accept over subscriptions to a maximum of 10,000,000 shares, raising a further \$2,000,000.

The Shares to be issued pursuant to this Prospectus are of the same class and will rank equally in all respects with the existing Shares in the Company. The rights and liabilities attaching to Shares are further described in Section 9.2. of the Prospectus.

Under the Offer, members of the general public may apply for Shares pursuant to this Prospectus. Applications for Shares under the Offer can only be made on the Application Form contained at the back of the Prospectus.

Applications under the Offer must be for a minimum of 10,000 Shares (\$2,000) and then in increments of 1,000 Shares (\$200). No brokerage, stamp duty or other costs are payable by applicants. Refer to Section 2.2. below for payment and lodgement details.

2.2. PAYMENT AND LODGEMENT DETAILS

All Application Forms must be completed in accordance with the instructions accompanying the Application Form and must be accompanied by a cheque in Australian dollars for the full amount of the Application Monies being 20 cents per Share. Cheques must be made payable to "Kinetiko Energy Limited - Trust Account" and should be crossed "Not Negotiable". All Application Monies will be paid into a trust account.

Completed Application Forms and cheques must be received by the Share Registry before 5.00pm WST on the Closing Date.

Applicants are urged to lodge their Application Forms as soon as possible, as the Offer may close early without notice.

Application Forms may be delivered or posted to:

Mailing Address:

Security Transfers Registrars Pty Ltd
PO Box 535
APPLECROSS WA 6953

Delivery Address:

Security Transfers Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

An original, completed and lodged Application Form for Shares together with a cheque for the Application Monies, constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in each Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may not be treated by the Company as valid. The Directors' decision as to whether to treat such an application as valid, and how to construe, amend or complete the Application Form is final. However an Applicant will not be treated as having applied for more Shares than is indicated by the amount of the cheque for the Application Monies.

2.3. MINIMUM SUBSCRIPTION

The minimum level of subscription pursuant to the Offer is \$8,000,000.

No Shares under the Offer will be allotted or issued by the Company until the Minimum Subscription has been achieved. If the Minimum Subscription has not been reached within three (3) months from the date of this Prospectus, all Applications and Application Monies will be dealt with in accordance with the requirements of the Corporations Act.

2.4. OFFER NOT UNDERWRITTEN

The Offer is not underwritten. The Company reserves the right to pay a fee of up to 6% of the value of the Shares to holders of an AFSL licence in respect of Shares placed to their clients under the Offer.

2.5. PURPOSE OF THE OFFER

The principal purposes of the Offer are to:

- » facilitate the listing of the Company's Shares on ASX;
- » provide funding to explore and advance the development of the Company's projects;
- » provide funds for project generation and the assessment of further potential acquisitions;
- » provide funds to meet operational costs and working capital; and
- » provide funds to meet costs associated with the Offer.

2.6. PROPOSED APPLICATION OF FUNDS RAISED

The Company seeks to raise \$8,000,000, with over subscriptions of up to \$10,000,000, pursuant to this Prospectus. The Company intends to apply the funds raised from the Offer as follows:

Use of IPO funds	\$8M raising		\$10M raising	
	Year 1	Year 2	Year 1	Year 2
Badimo reimbursement of past costs	1,400,000	-	1,400,000	-
Amersfoort Project drilling and test well operations	1,800,000	1,800,000	1,800,000	1,800,000
Project generation	0	20,000	200,000	350,000
Commercialisation and marketing	0	50,000	100,000	200,000
Corporate and technical overheads	1,000,000	1,000,000	1,000,000	1,000,000
Expenses of issue	755,500		889,500	
Working Capital on Hand		174,500		1,260,500
TOTAL	5,000,000	3,000,000	5,990,000	4,010,000
TOTAL		8,000,000		10,000,000

Investors should appreciate that all exploration, operation and administration budgets are subject to change and are highly dependent on the results achieved. As at the date of this Prospectus the budget and the programs planned are considered by the Directors to be reasonably stated and a fair estimate.

Following completion of the Offer, the Company will have sufficient working capital to carry out their stated objectives over the next two years.

The use of further equity funding or Share placements will be considered by the Directors where it is appropriate to accelerate a specific project. It is also possible that future acquisitions that may be contemplated may exceed the current or projected financial resources of the Company and it is expected that these acquisitions would be funded by project finance and/or equity issues (subject to shareholder approvals where required).

2.7. ALLOCATION AND ALLOTMENT OF SHARES

The Directors reserve the right to reject any Application or to allot a lesser number of Shares than that applied for. If the number of Shares allocated is less than that applied for, or no allotment is made, the surplus Application Monies will be promptly refunded without interest.

Subject to ASX granting approval for quotation of the Shares, the allotment of Shares will occur as soon as practicable after the Offer closes. Statements of shareholding will be dispatched as required by ASX. It is the responsibility of applicants to determine their allocation prior to trading in the Shares.

Applicants who sell the Shares before they receive their statement of shareholding will do so at their own risk.

2.8. APPLICATION MONIES TO BE HELD IN TRUST

The Application Monies for Shares to be issued pursuant to the Offer will be held in a separate bank account on behalf of applicants until the Shares are allotted. If the Offer has not reached the Minimum Subscription within a period of three (3) months from the date of this Prospectus (unless extended in accordance with the terms of the Corporations Act), the Application Monies will be refunded in full without interest, and no securities will be allotted pursuant to this Prospectus. All interest earned on Application Monies (including those which do not result in allotment of securities) will be retained by the Company.

2.9. ASX LISTING

The Company will apply to ASX no later than seven (7) days from the date of this Prospectus for ASX to grant official quotation to the Shares issued pursuant to this Prospectus.

If the Shares are not admitted to quotation within three (3) months after the date of this Prospectus, no Shares will be issued. Application Monies will be dealt with in accordance with the requirements of the Corporations Act.

Neither ASX nor ASIC take responsibility for the contents of this Prospectus. The fact that ASX may grant official quotation to the Shares issued pursuant to this Prospectus is not to be taken in any way as an indication by ASX as to the merits of the Company or the Shares.

2.10. RESTRICTED SECURITIES

Shares on issue as at the date of this Prospectus may be subject to the restricted securities provisions of the Listing Rules. Accordingly, a proportion of such securities may be required to be held in escrow for up to 24 months and may not be transferred, assigned or otherwise disposed of during that period. These agreements will be entered into in accordance with the Listing Rules. Based on their experience, the Directors expect that a substantial number of the Shares on issue at the date of this Prospectus will be subject to escrow restrictions.

2.11. CHES AND ISSUER SPONSORSHIP

The Company will apply to CHES. The Company will operate an electronic CHES sub-register and an electronic issue sponsored sub-register. These two sub-registers will make up the Company's register of Shares. The Company will not issue certificates to shareholders. Rather, holding statements (similar to bank statements) will be dispatched to shareholders as soon as practicable after allotment. Holding statements will be sent either by CHES (for shareholders who elect to hold shares on the CHES sub-register) or by the Company's Share Registry (for shareholders who elect to hold their shares on the issuer sponsored sub-register). The statements will set out the number of Shares allotted under the Prospectus and provide details of a shareholder's Holder Identification Number (for shareholders who elect to hold shares on the CHES sub register) or Shareholder Reference Number (for shareholders who elect to hold their shares on the issue sponsored sub-register). Updated holding statements will also be sent to each shareholder following the month in which the balance of their shareholding changes, and also as required by the Listing Rules or the Corporations Act.

2.12. RISKS

As with any share investment, there are risks associated with investing in the Company. The principal risks that could affect the financial operational and market performance of the Company are detailed in Section 8 of this Prospectus. The specific risk factors set out in Section 8.3. to 8.14. should be considered fully along with other general risks applicable to all investments in listed securities not specifically referred to, may in the future effect the value of the Shares.

The Shares on offer under this Prospectus should be considered speculative. Accordingly, before deciding to invest in the Company, Applicants should read this Prospectus in its entirety and should consider all factors in light of their individual circumstances and seek appropriate professional advice.

2.13. OVERSEAS INVESTORS

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or to extend such an invitation. No action has been taken to register this Prospectus or otherwise to permit a public offering of Shares in any jurisdiction outside Australia. It is the responsibility of non-Australian resident investors to obtain all necessary approvals for the issue to them of Shares offered pursuant to this Prospectus.

2.14. PRIVACY DISCLOSURE

Persons who apply for Shares pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess applications for Shares, to provide facilities and services to shareholders, and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, applications for Shares will not be processed. In accordance with privacy laws, information collected in relation to specific shareholders can be obtained by that shareholder through contacting the Company or the Share Registry.

2.15. EXPOSURE PERIOD

In accordance with Chapter 6D of the Corporations Act, this Prospectus is subject to an exposure period of 7 days from the date of lodgement with ASIC. The exposure period may be extended by ASIC by a further period of up to 7 days.

The purpose of the exposure period is to enable the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in the Prospectus. If deficiencies are detected, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act. During the exposure period, the Prospectus may be viewed online at the Company's website or a hard copy of the Prospectus will be made available upon request to the Company. Applications received during the exposure period will not be processed until after expiration of the exposure period. No preference will be conferred on applications received during the exposure period and all such applications will be treated as if they were simultaneously received on the Opening Date.

2.16. ELECTRONIC PROSPECTUS

In addition to issuing the Prospectus in printed form, a read-only version of the electronic Prospectus is also available on the Company's website, www.kinetiko.com.au. There is no facility for online applications. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia. The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus.

2.17. FORECASTS AND CASH FLOW PROJECTIONS

Given the speculative nature of exploration and the status of the Company's projects, there are significant uncertainties associated with the future revenue potential of the Company and the timing and sustainability of cash flow. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus.

2.18. ENQUIRIES

This document is important and should be read in its entirety. Persons who are in any doubt as to what course of action to be followed should consult their stockbroker, solicitor, accountant or other professional advisor without delay.

Questions relating to the Offer can be directed to the Company on (08) 6315 3500.

Questions relating to the completion of the Application Forms can be directed to the Share Registry on (08) 9315 2333

COMPANY &
PROJECT OVERVIEW

03

3.1. BACKGROUND

Kinetiko is an Australian unlisted public company formed to pursue advanced CBM opportunities in rapidly developing gas markets outside of Australia. Over the last 2 years the directors have conducted a series of country by country evaluations of regions with advanced CBM potential, strong energy markets and infrastructure in Sub-Saharan Africa. The known gassy coalfields and extensive energy infrastructure of the Republic of South Africa was identified as the preeminent locality for a nascent CBM industry. CBM exploration and evaluation is in its infancy in the Republic of South Africa. For many decades there has been well-documented occurrences of gas seeps from coal exploration drill holes and holes drilled through the coal measures in search of deep gold mineralisation. Methane emissions levels coal seams during both open cut and underground operations has also been well-documented. However only since about 2007 has onshore gas exploration licence tenure been granted to allow CBM evaluation drilling to commence.

Kinetiko, after preliminary assessment confined its focus to an evaluation of all the South African coal basins for CBM potential. The Amersfoort Area of the Eastern Transvaal Coal Field between Johannesburg and Durban was identified as one of the most prospective areas with well documented gassy coal measures (Figure 1). Kinetiko approached a Republic of South Africa private company Badimo Gas (Pty) Ltd holding granted gas Exploration Rights covering 1,800 km² in the Amersfoort Area and succeeded in securing farm out and operating agreements on the Amersfoort Project. Under the terms of the Transaction Agreement Kinetiko will earn a 49% interest in the Amersfoort Project by spending ZAR26 million on exploration. Under the terms of the Operating Agreement Kinetiko will be the operator and will manage the exploration programs. A summary of these agreements is set out in Section 9.4.

Independent oil and gas consultants Gustavson Associates of Boulder Colorado in a report dated 20 April 2011 have estimated a CBM gas in place (GIP) potential resource of 1.7Tcf of which 1.12Tcf is estimated to be prospective resources.

Kinetiko sees the opportunity to become an early mover in the Republic of South African CBM exploration and commercialisation. The Amersfoort Project is ideally located close to the major population and manufacturing centre of Johannesburg and is surrounded by a major portion of the South African energy generation infrastructure and the coal and gas to liquid fuels industry, in a growing and energy hungry economy.

Kinetiko will initially focus on the Amersfoort Project but will also use its understanding of Sub Sahara African CBM potential and local information collated to seek out further CBM opportunities.

3.2. BADIMO GAS (PTY) LTD OVERVIEW

The Company's joint venture partner is Badimo Gas (Pty) Ltd (South African Registration No (1999/025070/07) is a pioneer of Republic of South African CBM. Badimo is one of the largest applicants and holders of potential CBM areas in South Africa, with approximately 9,000 km² of area held in the following.

Exploration Rights:

Amersfoort Project - 1,800 km² to be held in joint venture 51% Badimo and 49% Kinetiko in accordance with the terms of the Transaction Agreement.

Badimo's pending applications for exploration rights in the areas of:

Springbok Flats - 1,803 km²

Evander - 2,169 km²

Free State - 1,873 km²

Molteno - 1,241 km²

Total area = 7,086 km²

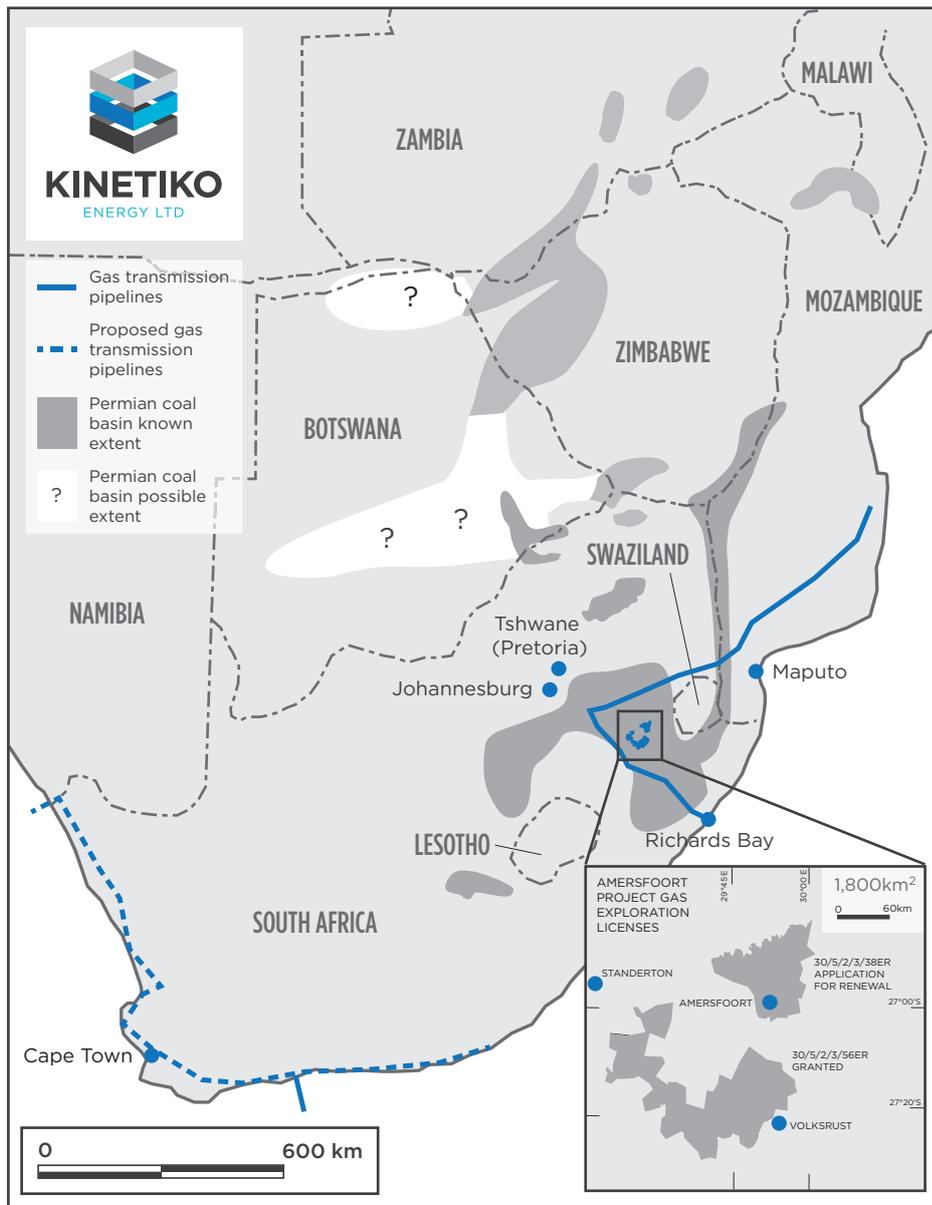


Figure 1 - Location of the Amersfoort Project and the Permian coal basins of Southern Africa.

These granted and pending application areas of Badimo are all located in areas and locations of coal mining and known coal fields that are suitable for exploration and investigation for potential CBM projects. This magnitude of influence over prospective areas for potential CBM occurrences and the tight hold by other parties on the remaining prospective areas in the Republic of South Africa makes Badimo one of the primary participants and an ideal partner for Kinetiko in the exploration and potential development of the Amersfoort Project.

Badimo is a black empowerment controlled entity. The company is controlled by its majority shareholder and Chairman Mr Donald Ncube. Mr Ncube is widely acknowledged and respected as a leader in black empowerment business issues in the Republic of South Africa both by Government and the business community. He has a long involvement with the mining industry in the Republic of South Africa extending back to senior management positions with Anglo Gold Ltd in the apartheid era. Mr Ncube has subsequently held many prominent business and government board positions including Executive director of Cincinatti Mining and is currently a director of Gold Fields Limited.

Previously, he was an alternate director of Anglo American Industrial Corporation and Anglo American Corporation, a director of AngloGold Ashanti as well as Non-Executive Chair of South African Airways.

The technical Director of Badimo is Mr. Paul Tromp BSc, MSc AAPG, petroleum geologist with over 20 years' experience in exploration & production of CBM in North America and in Africa. As technical Director of Badimo and the current lead technical advisor for the Amersfoort Project, Mr. Tromp will represent Badimo on the Joint Operating Committee for the Amersfoort Project. Mr Tromp will provide on the ground technical input to exploration and evaluation programs.

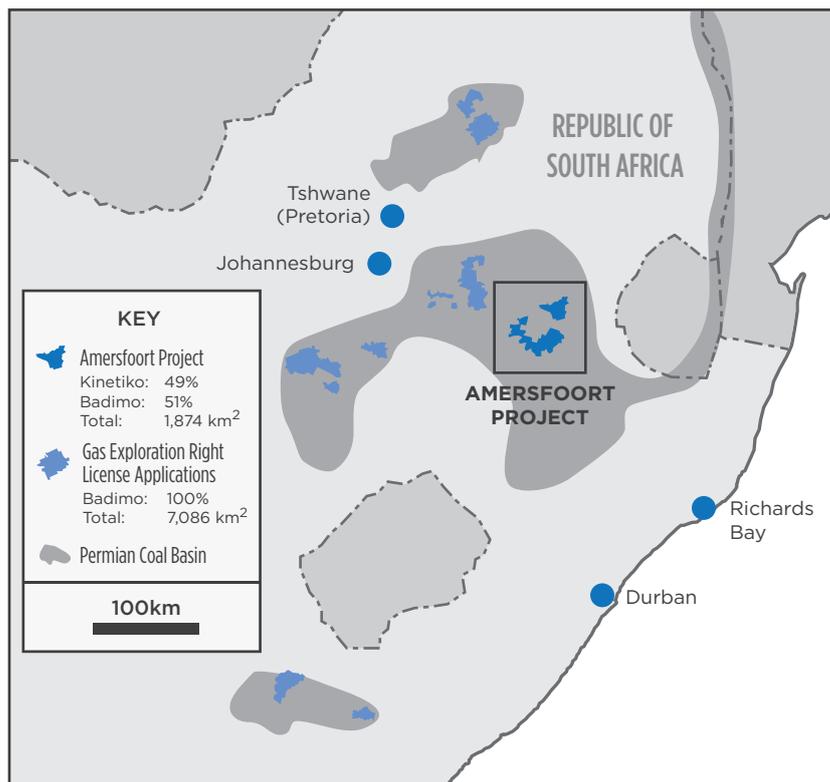


Figure 2 - Amersfoort gas licenses and Badimo Gas Ltd's exploration license application areas.

Badimo originally was granted 4 exploration rights to explore for CBM in the Amersfoort Area covering in total 1,800 km² by the Petroleum Agency of South Africa ("PASA") at various dates over the last 3 years. After discussions between PASA, Badimo and Kinetiko subsequently applied for the consolidation of the 4 exploration rights into 2 exploration rights which lead to exploration rights 30/5/2/3/11ER and 30/5/2/3/38ER becoming 30/5/2/3/38ER and exploration rights 30/5/2/3/56ER and 30/5/2/3/41ER becoming 30/5/2/3/56ER. Refer to Section 6 of this Prospectus, for a detailed summary of the legal title and interest in the Amersfoort Project.

3.3. AMERSFOORT PROJECT

The most productive coal measures of Southern Africa are Permian in age contained within the extensive Permo-Triassic basins containing the Karoo Supergroup. These temperate climate coals are generally equivalent to the similarly aged coals of Eastern Australia. At Amersfoort Area the most significant coal seams are contained within the Vryheid Formation of the Ecca Group. The shales and sandstones of the Vryheid are intruded by dolerite sills and dykes.

The Amersfoort Project is located in the Eastern Transvaal Coalfield within the coal bearing region of Permian coals that has been supplying a significant portion of Southern Africa's energy needs for over a century.

The Majuba Colliery, an underground operation adjacent to the Amersfoort Project was intended to supply the nearby Majuba Power Station (Figure 3), however a range of technical factors, including excessive methane gas, terminated colliery operations in 1993. Coal for the power station is now transported from other more distant mining colliery operations. Exploration drilling for coal during the early 1980's in the deeper parts of the Eastern Transvaal Coalfield around the Amersfoort Area has defined with considerable detail the distribution and depth of the seams beneath the Amersfoort Project and the geology of overlying sandstones and intruding dolerite dykes and sills. As part of this exploration 854 diamond core holes were drilled on or near the Amersfoort Project. This data has provided detailed information on coal depths and thicknesses and host rock geology within area.

Average depths to the most significant coal seams range from 315 to 385 m, total coal thicknesses range from less than 1 to 16 m. The coals range from high volatile bituminous to medium bituminous. As discussed in the Independent Geologist's Report (Section 5) gas contents at Amersfoort are around 9.4m³/t.

Evidence for the conventional gas potential in the Amersfoort Area is indicated by the escape of gas that has been occurring from a number of the coal exploration drill holes that have not been sealed (Figures 4 and 5). Gas can be seen vigorously bubbling up through the standing water in the drill holes, and reports from local farmers indicate this has been occurring continuously since the holes were drilled nearly 30 years ago. The gas is unlikely to be derived by desorption from the coal seams as hydrostatic pressure would be keeping the CBM in place.

Gustavson Associates of Boulder, Colorado USA ("Gustavson") is a global consulting firm with extensive experience in the technical and economic evaluation of CBM properties. They have completed an independent report and estimate of CBM resources on the Amersfoort Project areas, which is detailed in this Prospectus at Section 5.

Gustavson calculate a P50 gas in place (GIP) resource for the Amersfoort Project of 1.7 Tcf and P50 Prospective Resources of 1.12 Tcf. Based on the observation of spontaneous gas emissions from coal exploration holes in the Amersfoort Area Gustavson also note that conventional gas accumulations associated with CBM resources such as in the San Juan Basin (USA) can add substantially to the gas produced. However the Gustavson estimates do not include any estimate of conventional gas accumulations.



Figure 3 - View across a portion of the Kinetiko-Badimo gas licences at Amersfoort towards the Majuba Power Station.

The abundance of existing coal exploration drill holes in the Amersfoort Area means there is limited need for drilling to define coal distribution in greater detail on the Amersfoort Project. Exploration can commence with core drilling to recover material from already defined coal sequences for CBM desorption testing and rapidly progress to site selection for production test wells. Completion of production test wells in tandem with commercialisation studies will then potentially enable the certification of reserves for the project.

Kinetiko considers this progression could be achieved within 2 years.

3.4. EXPLORATION AND EVALUATION STRATEGIES

Kinetiko has focussed and clearly defined exploration and evaluation strategies that will be funded by the monies raised under this Prospectus. The aim is to provide within 2 years a first demonstration of the technical and commercial parameters of CBM production from the Amersfoort Project.

With previous coal exploration drilling providing good definition of the coal distribution in the Amersfoort Project a 16 hole coring program will be undertaken. The aim of this initial program will be to test already defined areas of satisfactory coal thickness and distribution for optimal placement of between 5 and 6 permeability test wells. The coring program will produce core samples of coals and shaley coals which will be subjected to desorption tests to determine the rate and ultimate quantity of gas produced from the samples as pressure is steadily decreased under constant temperature conditions. It is anticipated that up to 40 core samples will be analysed in this manner from each core hole. Completion of the desorption process can take from one month to over 6 months.

The gas contents and other coal parameters will be used to select the sites for between 5 and 6 permeability test wells. Permeability test wells are designed to demonstrate the flow of gas to the surface from the intersected coal seams in response to dewatering. The permeability of coals is one factor that will significantly influence the rate of gas production. The wells will be cased and prepared so that water and then gas can flow from the target seams. As down hole pumps remove water from the wells gas liberated from the coal by the decreasing pressure will then begin to flow to the surface.

The amount of water produced and the rate of gas flow in response over time are some of the fundamental commercial parameters of CBM production. On going rates of water pumping to maintain gas flow can be extremely variable. The quality of the water can also be variable ranging from potable to saline. Water samples from bores in the Amersfoort Project suggest it may be nearly potable or at least good quality for agricultural purposes. However this will have to be confirmed during the permeability tests. Permeability test wells drilled in close proximity can also provide additional information on the behaviour of the coal seams under production scenarios that can help design the optimal production well spacing.

The aim of this two year program will be to provide the commercial parameters that will guide the subsequent feasibility study for development of initial commercialisation of the Amersfoort Project. Subject to the feasibility study it is envisaged that initial commercial development will involve between 50 to 100 wells. This could then be scaled up with other similar sized production centres developed in various parts of the project area. CBM production wells can have productive life spans of 10 or more years.

3.5. INFRASTRUCTURE AND OPERATIONAL RESOURCES

Proximity to major mining, manufacturing & industry:

The Amersfoort Project is adjacent to the townships of Amersfoort and Volksrust. These towns are home to mining services companies and labour that resource the surrounding collieries and power generation facilities.

With the Republic of South Africa's largest city Johannesburg with an urban population exceeding 5,000,000 being only approximately 250km to the Northwest of the Amersfoort Project, access is a short distance to a multitude of drilling and mining services providers. Johannesburg itself could potentially provide a large urban consumer base for the use of CBM gas produced on the Amersfoort Project.



Figure 4 - Local farmer demonstrating the flammability of gas seeping from a coal exploration borehole in the Amersfoort Area.



Figure 5 - Coal exploration drill hole with gas bubble visible at the standing water table a few metres below surface.

Power generation and transmission infrastructure:

The Eastern Transvaal and adjacent coalfields are an area with more than 22 collieries and 10 power stations. The power stations operated by the state owned electricity utility Eskom, produce approximately 90% of the Republic of South Africa's electricity requirements.

A key element of the sustainability of the country's electricity supply relies on the infrastructure that facilitates the transportation of the coal from the collieries to the power stations, which is accomplished by both road and rail. In particular the well maintained road infrastructure provides good reliable access to the Amersfoort Project.

The existence of a significant power transmission network from the power generation network described above allows immediate access to electricity and power supply.

3.6. GAS MARKETS IN SOUTH AFRICA

The Amersfoort Project is located at the heart of South Africa's energy, mining and transport infrastructure. To the north west are the major population and manufacturing centres of Johannesburg and Pretoria, and to the south east Richards Bay and Durban (Figure 6). Ten of South Africa's largest operating coal fired power stations are located within approximately 250 km of the Amersfoort Project, fed by the coals mined from the Eastern Transvaal and adjacent coalfields (Figure 6). The Majuba Power station with a 4,110MW capacity is located immediately adjacent to the Amersfoort Project. An electricity transmission grid links the power stations to the nationwide network and the broader network that links the countries of the Southern Africa Power Pool (SAPP).

All the power stations are operated by Eskom, the state owned and controlled electricity generator. In total Eskom has 13 coal fired power stations with an installed capacity of 37,755 MW. It has a further 1,930 MW capacity from Africa's only nuclear power station. A further 2,000 MW is provided by two hydro power

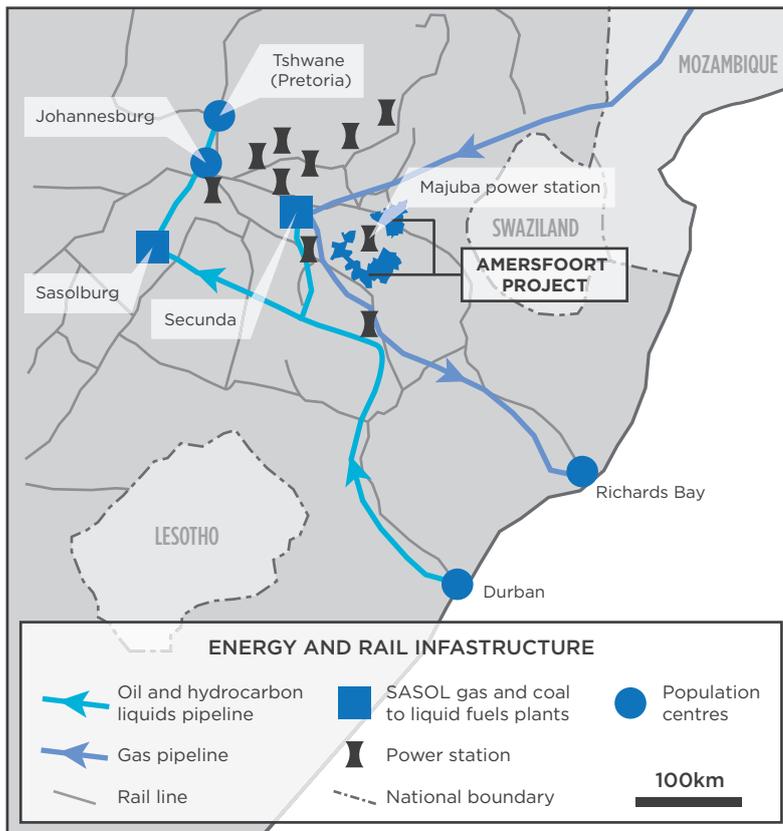


Figure 6 - The Amersfoort Project is located at the heart of South Africa's energy infrastructure.

facilities and two stored water hydro facilities. Eskom also has what it terms four quick reaction gas turbine power stations with 2,426 MW located in the Eastern and Western Cape regions in the south of the country. Eskom has stated that it is constantly investigating other forms of energy to broaden its generating mix. It has also stated that it has sought and received numerous expressions of interests from commercial parties for electrical power co-generation projects.

SASOL operates major coal and gas to liquid fuels and petrochemical complexes at Secunda (87 km north west of Amersfoort and Sasolburg 80km south of Johannesburg (Figure 6 and 7). An 865km gas transmission pipeline brings gas from the Tamane onshore field in Mozambique to Secunda. The pipeline is 50% owned by SASOL, 25% by the South African government and 25% by the Mozambique government. At Secunda the gas is used as a supplementary feed in the coal to liquid liquids process. The gas is also supplied to Sasolburg where it feeds a dedicated gas to liquids facility. Gas from the Mozambique pipeline and gaseous products from the SASOL plants are also distributed through a 2,118km pipeline distribution network to 550 industrial customers in Gauteng, Free State, and KwaZulu-Natal, provinces of the Republic of South Africa.

A gas transmission pipeline operates from Secunda to Richards Bay and through distribution pipelines to Durban and other centres This pipeline passes 5km kilometres south of the Amersfoort Project (Figure 6). The pipeline is operated by Transnet Pipelines, whose operations and tariffs are regulated by the National Energy Regulator of South Africa (NERSA). Transnet are required to give carriage on request, without preference and with one set tariff. Tariffs are set on the basis of a return on assets managed at a level overseen by NESRA and benchmarked against pipeline tariff around the world.

There are many potential commercialisation scenarios for the Amersfoort Project made possible by the location of the project in relation to existing infrastructure. Kinetiko has begun to evaluate a wide range of commercialisation scenarios that include but are not limited to :

- » Exploring the potential with Eskom for supplying gas for flame modulation in existing coal fired power plants or to new or existing gas or gas and coal fired facilities.
- » Supply of gas to aspiring power generators that have already expressed interest to Eskom in cogeneration power projects feeding the existing grid.
- » Supplementary feed to SASOL for their existing gas and gas to liquids businesses.
- » Gas sales to a broad industrial customer base serviced by the existing pipeline infrastructure, either directly or through existing gas distribution companies. This could include customers such as major mines and manufacturing facilities seeking to generate their own electrical power independently or supplemental to the grid supply and in some cases supplanting their existing and more costly diesel generation facilities.
- » Supply of compressed natural gas (CNG) to centralised transport facilities, using the existing pipeline networks to feed CNG compressor facilities owned by the customer or the company. The Gauteng provincial transport authorities servicing Johannesburg have a major trial underway converting buses to run on CNG.



Figure 7 - Secunda coal and gas to liquid fuels complex 87 km north west of Amersfoort Project.

DIRECTORS &
COMPANY OFFICERS

04

The Directors and Company Secretary of the Company collectively have significant experience in the resources and corporate sectors. Brief summaries of the profiles of the Directors and Company Secretary are set out below.

Mr Adam Sierakowski
(Non-Executive Chairman)

Adam Sierakowski is a lawyer and founding director of the legal firm Price Sierakowski. He has over 17 years' experience in legal practice, much of which he has spent as a corporate lawyer consulting and advising on a range of transactions to a variety of large private and listed public entities. He is the co-founder and director of Perth based corporate advisory business, Trident Capital, where he has for years advised a variety of large private and public companies on structuring their transactions and coordinating fundraising both domestically and overseas.

Mr Sierakowski has held a number of board positions with ASX listed companies and is currently a non executive director of Triangle Energy (Global) Limited and non executive chairman of Coziron Resources Limited. He is a member of the Australian Institute of Company Directors and the Association of Mining and Exploration Companies.

Mr Andrew Lambert - BSc, MSc, MMgt
(Managing Director - proposed)

Andrew Lambert's career began in O&G (Petroleum Geology) with Total and Conoco Phillips, Aberdeen on contract roles. These positions involved stratigraphic analysis, wireline log and 2D/3D seismic interpretation.

Mr Lambert relocated to Perth, Australia to work with Western Geco (Schlumberger) as an Exploration Geophysicist. He subsequently moved into hard rock and evaluated Rio Tinto's Robe River iron ore deposits as a Mining Exploration Geologist for two years, where he led Exploration programs and drill rig crews and interpreted regional Geoscience data. Following completion of his MSc, Mr Lambert worked in a Business Development capacity for PGS (a global petroleum services company) with a growth portfolio across MENA. This involved Seismic Acquisition, Data Processing, Seismic Interpretation as part of studies and Consulting.

Mr Lambert then pursued Commercial account management roles (BT Wholesale and Telecom NZ). Following his Masters of Management, he worked with KPMG's Transaction Services team with a focus on Commercial Due Diligence and Resources.

Mr Lambert joined a boutique advisory firm; Mainsheet Corporate in 2006 and via acquisition joined PwC Consulting, where he has focussed on O&G and Resources. He has been seconded to Brisbane and Abu Dhabi to develop the O&G Consulting practices. He has been an active member of the Petroleum Club of WA, Western Australian Club, PESGB and AAPG.

Donald James Searle - B.Sc., PhD, MAusIMM, MAICD
(Non-Executive Director)

Dr. Searle is a geologist, mining company executive and consultant with over 30 years experience worldwide in precious and base metals and energy minerals. As an exploration geologist he has directed and participated in a number of exploration programs resulting in significant commercial gold discoveries. Corporately he has been involved at senior management and board level leadership in resource project identification, acquisition, financing, development and management in Australia and overseas. Dr. Searle was CEO and Executive Director of ASX listed Nordic goldminer Dragon Mining Ltd for 8 years until 2005, and was instrumental in the company acquiring, financing and developing gold mining projects in Sweden and Finland.

In the energy sector Dr. Searle has been involved in oil and gas exploration and research into modern marine sedimentation analogues of hydrocarbon reservoirs. He has also provided consulting advice to major marine engineering project proponents, governmental and international agencies on coastal and near shore dynamics in Australia and South East and Southern Asia.

Dr. Searle has served on the boards of a number of stock exchange listed mining and exploration companies in executive and non executive capacities over the last 14 years.

**Agapitos Marcus (Geoffrey) Michael - B.A.
(Non-Executive Director)**

Mr Michael's expertise and commercial experience lie in the areas of project development, consulting and delivery in Australia, Europe and South East Asia. He has experience in running projects and enterprises in multi jurisdictional scenarios and putting together a best for project team of professionals for delivery and operation.

Mr Michael has been responsible for the creation and management of various joint venture companies, investment syndicates / companies and business start-ups across a range of asset classes, from property investment, through mining services and drilling to engineering and resources for over 20 years.

Prior to this, Mr Michael had been involved with a family owned contracting business, with operations specializing in earthmoving, plant and equipment hire and civil construction on a large scale. This involvement has endowed Mr. Michael with practical construction and civil contracting experience with relevance to the mining and resources industry.

Partners and clients include: Multiplex Constructions Pty Ltd Australia and United Kingdom, Grange Resources Ltd, British Telecom PLC, BT Syntegra Benelux BV, Kantor Fond De Netherlands, Delta Health Care, Kailis Consolidated, Barrington Partners, Shangri-La Hotels and Resorts / Kerry City Properties Shanghai, Kimberly Metals Group and Clough Projects International for Exxon Mobil, along with numerous private clients, investment syndicates and partners.

Mr Michael's other relevant Directorships include; Director of the engineering and construction contractor Unison Holdings Ltd servicing the resources, construction and engineering sectors, Director of Ageus Ltd, a boutique business advisory practice, and Director of Metaliko Resources Ltd, an ASX listed advanced gold exploration company operating in the Eastern Goldfields of Western Australia.

**Stephen Hewitt-Dutton - B.Bus, CA, SAFin
(Company Secretary)**

Mr. Hewitt-Dutton has over 20 years of experience in corporate finance, accounting and company secretarial matters. He is an Associate Director of Trident Capital and holds a Bachelor of Business from Curtin University, is an affiliate of the Institute of Chartered Accountants and a Senior Associate of FinSIA.

Before joining Trident Capital, Mr. Hewitt-Dutton was an Associate Director of Carmichael Corporate where he assisted clients by providing equity market, IPO and M&A advice and assistance. He has also held Financial Controller and Company Secretary positions for both public and private companies for in excess of 15 years.

**Resource Evaluation Report
On Kinetiko Energy's Coalbed Methane Licenses
Amersfoort, South Africa**

Prepared on Behalf of
Kinetiko Energy Ltd



20 April 2011

Submitted By:



**Resource Evaluation Report
On Kinetiko Energy's Coalbed Methane Licenses
Amersfoort, South Africa**

Prepared on Behalf of
Kinetiko Energy, Ltd.



20 April 2011



A handwritten signature in blue ink, appearing to read "Letha C. Lencioni".

Letha C. Lencioni
Registered Petroleum Engineer
State of Colorado #29506
State of Wyoming #8493



1. EXECUTIVE SUMMARY

This report provides estimates of the coalbed methane (CBM) resource potential for an area in South Africa composed of two licenses referred to as the Amersfoort Project Area.

Analysis conducted for this study resulted in a P₅₀ probabilistic estimate of Gas Initially In Place (GIIP) for the Amersfoort Project Area is 48.4 Billion Cubic Meters (1,709 BCFG) and P₅₀ estimate of total CBM Contingent Resources of 31.7 Billion Cubic Meters (1,120 BCFG). A summary of the results is shown in the table below.

	Resource Type	Billion Cubic Feet			Billion Cubic Meters		
		P ₉₀	P ₅₀	P ₁₀	P ₉₀	P ₅₀	P ₁₀
Gas In Place	Adsorbed Gas	1,392.2	1,638.8	1,904.0	39.4	46.4	53.9
	Free Gas	45.9	69.9	99.2	1.3	2.0	2.8
	Total	1,461.2	1,709.1	1,977.5	41.4	48.4	56.0
Total Contingent Resources	Adsorbed Gas	889.9	1,062.5	1,256.4	25.2	30.1	35.6
	Free Gas	36.7	56.0	79.6	1.0	1.6	2.3
	Total	946.8	1,119.5	1,316.7	26.8	31.7	37.3
Net Contingent Resources	Adsorbed Gas	436.1	520.6	615.6	12.3	14.7	17.4
	Free Gas	18.0	27.4	39.0	0.5	0.8	1.1
	Total	463.9	548.6	645.2	13.1	15.5	18.3

Contingent Resources are defined as follows¹:

“Those quantities of petroleum estimated, on a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies.”

There is no certainty that it will be commercially viable to produce any portion of the resources. The contingencies associated with these resource estimates are that although the coals in the Amersfoort license area are known accumulations that have been drilled and logged, with positive indications of CBM, results cannot yet be deemed to have proven the commerciality of future development, or to have clearly defined the quantities of CBM likely to be produced from any of the existing wells. Thus, the Amersfoort license area does not yet have any reserves.

¹ *Petroleum Resources Management System*, Society of Petroleum Engineers (SPE), March 2007

Data used for the CBM resource estimate in this report were from numerous boreholes drilled throughout the area for the purpose of coal mining exploration. The subject coalbeds are known as the Karoo coals of Permian-Jurassic age and are widespread in sub-Saharan Africa. These coals are actively mined and are now being evaluated for CBM as an energy resource on the African continent. CBM has successfully been produced in North America for decades.

The above stated resource estimates are based on certain assumptions. Specifically, the gas content information was obtained from published sources about the region rather than direct measurements from any nearby well control. Also, direct porosity values were assumed based on analogous data in order to estimate the anticipated amount of free gas due to the lack of such data in the study area. While these assumptions are considered reasonable, the availability of new information will likely necessitate the revision of our coalbed methane resource estimates.

The study area is located within the Eastern Transvaal Coal Field between Johannesburg and Durban, in Mpumalanga Province. The project area was originally comprised of four license areas known as Amersfoort North Extension consisting of 45,797 hectares (113,166.8 acres), Amersfoort Townlands consisting of 10,580 hectares (26,143.7 acres), Amersfoort East consisting of 53,032 hectares (131,044 acres) and Amersfoort NWS consisting of 77,985 hectares (192,705 acres). The four licenses have been merged into two licenses. The Amersfoort North Extension and the Amersfoort Townlands licenses have been merged and will now be referred to as the Amersfoort North Extension/Amersfoort Townlands license consisting of 56,377 hectares (139,310.5 acres). The Amersfoort East and the Amersfoort NWS licenses have been merged and will now be referred to as the Amersfoort East/Amersfoort NWS license consisting of 131,017 hectares (323,749 acres).

In the San Juan Basin (USA), methane gas migrated from the coal seams into nearby conventional traps, which have yielded four times the gas production as compared to that of coal seam gas alone. In Amersfoort, adjacent conventional accumulations are merely hypothetical at this stage, but are quite possible based upon gas emissions from numerous historic exploration core holes. If conventional accumulations of natural gas derived from CBM resources are found

to occur in the Amersfoort area, these resource estimates may require significant upwards revisions.

Kinetiko Energy Ltd and Badimo Gas Ltd have entered into a farm out agreement whereby Kinetiko has acquired a 49% interest in the 2 coal seam gas exploration licenses in the Amersfoort area. The 2 licenses Amersfoort North/Extension and Amersfoort East/NWS are an amalgamation of 4 pre-existing licenses held by Badimo. Under the terms of the farm out agreement Kinetiko will spend R26 million on an agreed exploration and evaluation program on the licenses within an 18 month period. In addition Kinetiko will reimburse past costs to Badimo of R10 million. After the initial exploration expenditure of R26 million Kinetiko and Badimo will fund on-going exploration and development in proportion to their interest in the licenses.

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3. INTRODUCTION

3.1 AUTHORIZATION

Gustavson Associates LLC (the Consultant) has been retained by Kinetiko Energy Ltd. (Kinetiko, the Client) to prepare a Report regarding the Client's coalbed methane licenses located in South Africa. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, the 2005 edition of the VALMIN Code.

3.2 INTENDED PURPOSE AND USERS OF REPORT

The purpose of this Report is to quantify resources held by the Client in South Africa, and for inclusion in a prospectus to be issued by Kinetiko to be lodged with the Australian Securities and Investment Commission on or about the 9th of May 2011.

3.3 OWNER CONTACT AND PROPERTY INSPECTION

This Consultant has had frequent contact with the Client including contact up to the date of this Report. The Consultant has not visited the property as it is considered that this would not provide further information not readily verifiable by other means.

3.4 SCOPE OF WORK

This Report is intended to describe and quantify the potential coalbed methane (CBM) resources contained within the Client's licenses located in South Africa.

The work performed consisted of review and analysis of data provided by Badimo and our research of the literature. The data supplied by Badimo consisted of spreadsheets that contained core analysis, well coordinates and coal seam intervals assembled by the South African Council for GeoSciences. While we note that these data are not the original source data, we have

checked the data for internal consistency and audited random drill holes in the digital records against available copies of the original drill hole logs.

The data on the individual coal seam thickness along with the well coordinates were input into a computer mapping program to generate isopach maps and to calculate coal volumes. These volumes were then used to calculate gas in place resources for the Amersfoort licenses.

We note that our work is limited to a review of the underlying data for estimating coalbed methane resources. We have not investigated any land title issues or issues related to economics or markets. We do not attempt to calculate a value for these concessions.

3.5 APPLICABLE STANDARDS

This Report has been prepared in accordance with Australian Securities Exchange. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, the 2005 edition of the VALMIN Code. It is also compliant with the Petroleum Resources Management System² issued jointly by the Society of Petroleum Engineers (SPE), the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG), and the Society of Petroleum Evaluation Engineers (SPEE) as required by clause 75 of the VALMIN Code.

3.6 ASSUMPTIONS AND LIMITING CONDITIONS

This Report is limited to a characterization of the potential discovered and undiscovered CBM resources on the subject licenses located in South Africa as of the effective date of this report. This Report does not attempt to place a value thereon.

The license maps included in the report are based on information supplied by Badimo Gas and other sources. The size of the individual leases may not be to scale on the maps.

² http://www.spe.org/spe-site/spe/spe/industry/reserves/Petroleum_Resources_Management_System_2007.pdf

Gustavson Associates reserves the right to revise its opinions of reserves and resources, if new information is deemed sufficiently credible to do so.

The accuracy of any estimate is a function of available time, data and of geological, engineering, and commercial interpretation and judgment. While the resource estimates presented herein are believed to be reasonable, they should be viewed with the understanding that additional analysis or new data may justify their revision and we reserve the right to make such revision.

3.7 INDEPENDENCE/DISCLAIMER OF INTEREST

Gustavson Associates LLC has acted independently in the preparation of this Report. The company and its employees have no direct or indirect ownership in the property appraised or the area of study described.

Our fee for this Report and the other services that may be provided are not dependent on the amount of resources estimated.

To the best of our knowledge, full, accurate and true disclosure of all material information was provided to us by the Client and Badimo Gas Ltd, and all necessary access to the Client's and Badimo's records was assured.

4. DISCLOSURES REGARDING PROSPECTS

4.1 OVERVIEW

The Amersfoort Project Area is located southeast of Johannesburg and originally consisted of four license areas in Mpumalanga Province, South Africa. The four licenses have been merged into two licenses. These licenses are located in the Transvaal Coal Fields, where coal is mined from the northeastern margin of the Karoo Basin. Coals have been mined in the Karoo Basin and other Permian through Jurassic age Karoo basins in southern Africa since the 1800's and was primarily used to fuel steam locomotives. Today mined coal is used to fuel electric power plants and industry. Coal bed methane (CBM) or coal mine methane (CMM) has long been known to be associated with most of these coal deposits and has posed a hazard to mining operations. Production of CBM has been successful in North America for many years and the techniques and exploration knowledge derived is now being applied to CBM exploration and production worldwide.

There is direct evidence of the presence and depth of the coal bearing strata in the Amersfoort Project Area. Badimo Gas provided data from more than 900 coal exploration boreholes in the Amersfoort area to be used in the analysis and resource estimates in this project area. Although no wells have been drilled specifically for CBM in the area, there is ample evidence of free gas associated with many of the boreholes used in the analysis. Coal depth and thickness are known and coal quality indications come from coal mining data. Permian age coals do produce CBM in the Sydney Basin, Australia and this basin would be a reasonable analog to the Karoo Basin.

4.2 LOCATION AND BASIN NAME

The Amersfoort exploration area is located in the Eastern Transvaal Coalfields in Mpumalanga Province (Figure 4-1) near the northeastern edge of the Karoo Basin (Jordan, 1986). The exploration area was originally comprised of four license areas. The four licenses have been merged into two licenses. These licenses consist of the Amersfoort North Extension/Amersfoort

Townlands license (56,377 hectares or 139,310.5 acres) and the Amersfoort East/Amersfoort NWS license (131,017 hectares or 323,749 acres) totaling 187,394 hectares or 463,060 acres.

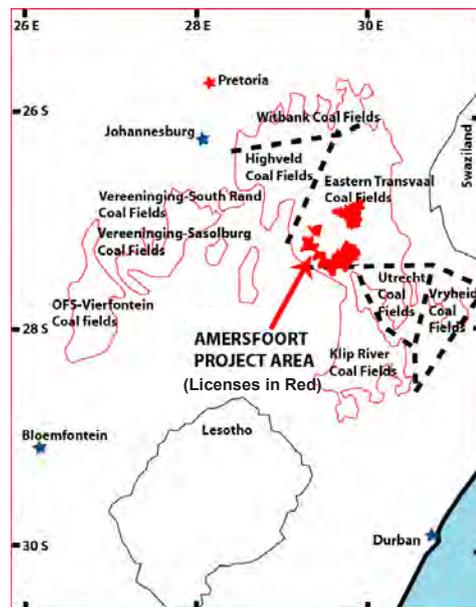


Figure 4-1 Location Map of the Amersfoort Project Area

4.3 KINETIKO ENERGY'S GROSS AND NET INTEREST IN THE PROPERTIES

Kinetiko Energy Ltd and Badimo Gas Ltd have entered into a farm out agreement whereby Kinetiko has acquired a 49% interest in the two coal seam gas exploration licenses in the Amersfoort area. The two licenses Amersfoort North/Extension and Amersfoort East/NWS are an amalgamation of four pre-existing licenses held by Badimo. Under the terms of the farm out agreement Kinetiko will spend R26 million on an agreed exploration and evaluation program on the licenses within an 18 month period. In addition Kinetiko will reimburse past costs to Badimo of R10 million. After the initial exploration expenditure of R26 million

Kinetiko and Badimo will fund on-going exploration and development in proportion to their interest in the licenses.

4.4 OVERVIEW OF THE KAROO BASIN

Coal deposits in southern Africa have been known and used for many years. In 2004, 268 million short tons of coal were produced in South Africa (Energy Information Administration, 2008). Coal mining in southern Africa ranges from surface and underground mines, to informal digging. These coals are found in Permian age continental and marginal marine sediments of the Karoo (Karoo) Super Group (d'Engelbronner, 1996, Johnson et al., 1996, Smith et al., 1993). Recently, coals in southern Africa have been examined with the expectation that coalbed methane associated with many of the coal deposits could be produced prior to mining. Coalbed methane (CBM) is a significant energy resource that has been producing in the United States for a number of years. The technology and exploration and production knowledge developed in the United States is now being applied world-wide in the exploration for potential CBM resources.

The Permian through Jurassic age Karoo Super Group sediments and volcanics are distributed in Africa from the Democratic Republic of Congo south to South Africa (Figure 4-2, from Cairncross, 2001). Karoo age sediments also occur in South America, India, Australia and Antarctica since these five continents were together as the super continent of Gondwana during deposition (Scheffler, 2004). Although coals in the Permian age portion of the Karoo Super Group are geographically widespread, the coals are related to two different depositional settings. The Karoo Basin is located across the southern portion of South Africa and was a marine, foreland basin during deposition of the deltaic, delta plain and marginal marine coals. Much of the remaining coals across Africa were deposited in deltaic, delta plain and marginal lacustrine settings associated with half-graben continental rift basins.

Karoo coals are considered high-latitude, cold climate coals, which differ from Carboniferous age coals mined in many other parts of the world, primarily in the Northern Hemisphere. The Karoo Super Group strata record the end of the Dwyka ice sheet, the drift into lower latitudes and then the tectonic breakup of Gondwana. Volcanic activity increased in the Jurassic and ash

and lava flows are interbedded with sandstone and shale of the Clarens Formation. The Karoo Basin was then filled by basaltic lavas of the Drakensberg Group of Jurassic age to a thickness of at least 1400 m. Volcanic activity increased generally in southern Africa reflecting Middle Jurassic break up of African Gondwana and the formation of rifted continental margin basins and rifted continental basins within the continent.

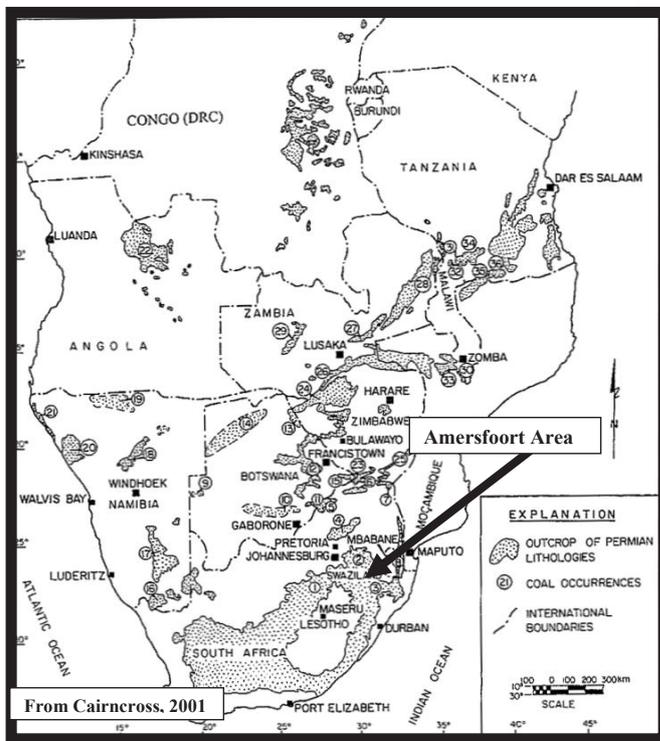


Figure 4-2 Map of Permian Age Karoo Basins and Coal Occurrences in Africa

The Karoo Basin is the successor to the Cape Basin that was a passive margin (Johnson, et al., 1997). Deposition of the Cape Supergroup consisted of a southward-thickening wedge of Ordovician to Early Carboniferous age strata of mudrocks and sandstones. The Karoo Basin is a

retro-arc foreland basin containing a wedge composed of flysch and molasse thinning out to the north. The Cape Fold Belt, oriented east-west along the southern margin of the Karoo Basin, set up the foreland basin and deposition from Late Carboniferous through Triassic time with an ice sheet, first a grounded ice shelf and later a floating sheet, covering the area during the Late Carboniferous to Early Permian. Subduction from south to north has been suggested as the cause of intervals of folding and thrusting and granite intrusions that formed the Cape Fold Belt (Johnson, et al., 1997).

4.5 AMERSFOOT AREA GEOLOGY

4.5.1 General Area Geology

Formation names vary across the Karoo Basin due to lateral facies changes and local depositional environments. These local terms have not been entirely correlated. The terminology used in this report is based on formation names generally applied to the northeastern portion of the Karoo Basin and other less used, formerly used, or coal mine terms will be noted where possible.

The primary coal bearing strata in the northeastern part of the Karoo Basin is the Vryheid Formation, formerly termed Middle Ecca (Figure 4-3). The Vryheid Formation consists of a deltaic and fluvial complex deposited by drainage systems flowing from the north and northeast to east (Roberts, 1988) and building a clastic wedge into the basin to the south (Johnson et al., 1997). In the proximal position, the Vryheid is deposited on underlying glacial deposits of the Dwyka Group or oversteps Dwyka and is deposited directly on pre-glacial basement. In the distal position, the Vryheid is deposited on shallow-shelf sediments of the underlying Pietermaritzburg Formation, formerly termed Lower Ecca, consisting of shales, siltstones and mudstones (Johnson, et al., 1997). The Volksrust Formation, formerly termed Upper Ecca, is composed of beds of shale, siltstone and sandstone that represent marine conditions flooding the area and transgressing over the Vryheid deposits. The Volksrust and the Pietermaritzburg formations merge basinward of the Vryheid deltaic complex.

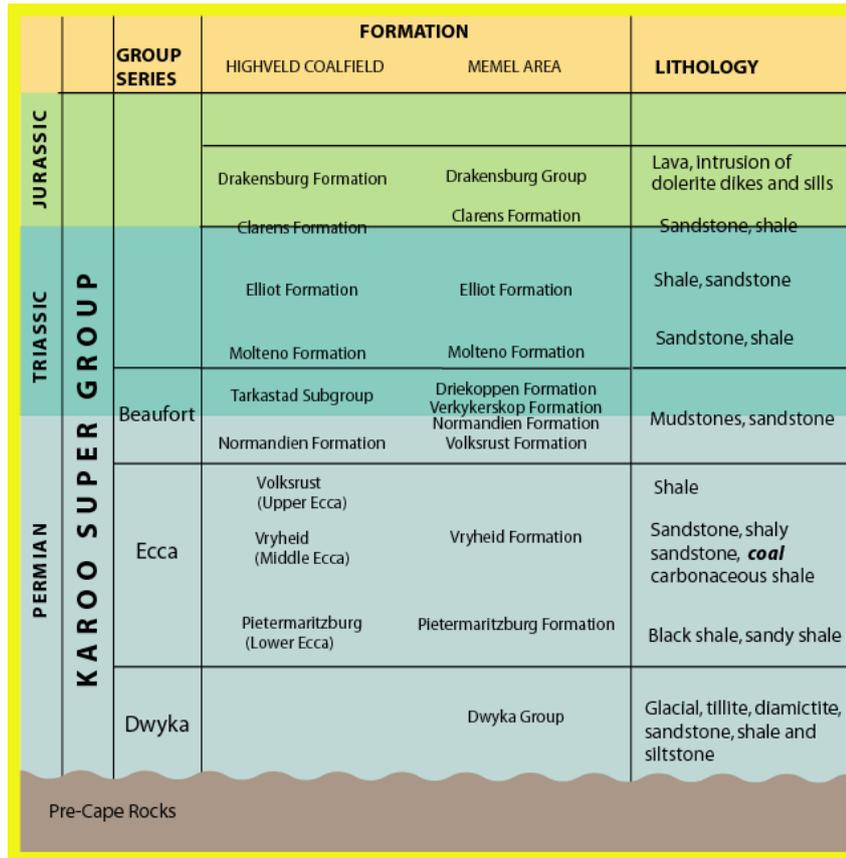


Figure 4-3 Generalized Stratigraphic Column, Amersfoort Project Area.

4.5.2 Vryheid Formation

The Vryheid Formation consists of strata formed by deltas, delta plains, shorelines, interdistributary bays, alluvial plains and fluvial systems that entered the marine basin from separate highlands to the north and northwest, and the east. There are five bituminous coal

seams within the 660 foot thick gross coal bearing strata in the Eastern Transvaal Coal Fields area where the Amersfoort Exploration area lies.

The depositional sequence of the Vryheid Formation is summarized by Johnson et al. (1997) and in the KwaZulu-Natal region by Roberts (1988). In the northeastern part of the Karoo Basin, the formation consists generally of an interval of prograding deltaic strata in places topped by a fluvial interval. A second deltaic interval is deposited over the fluvial facies and is in turn transgressed by the marine Volksrust Formation.

Several coal seams are present within the Vryheid Formation. Due to the influence of several contemporaneous deltas sourced from different directions, the coal seams may be difficult to correlate, however Roberts (1988) suggests the coals were widespread and formed in raised swamps. Johnson et al. (1997) and Roberts (1988) both base their facies descriptions on strata in an area near Newcastle, Utrecht, and Zoetmelksrevier south of the Amersfoort license area. The distribution of the lowest seam in the north part of the Karoo Basin is controlled in some areas by pre-depositional topography and the upper seam has been removed in places by modern erosion. The seams from deepest to shallowest are generally termed E, D, C Group, B Group, and A in the Eastern Transvaal Coalfield (Table 4-1). To the west in the Highveld Coalfield the beds are suggested to be comparable with No. 2, No. 3, No. 4 Lower and No. 4 Upper, No. 4A, and No. 5. In the Utrecht Coalfield to the south, the suggested nomenclature is Targas, Coking, Dundas, Gus, Alfred, and Eland (Greenfields, 1986, Billencamp, 1988). These comparisons are shown in Table 4-1.

Table 4-1 Published Suggested Coal Seam Comparisons for the Amersfoort Project Area

Eastern Transvaal	Highveld	Utrecht
A	No. 5	Eland
B Group	No. 4A	Alfred
C Group	No. 4 Upper	Gus
D	No. 4 Lower	Dundas
E	No. 3	Coking
	No. 2	Targas

4.5.3 Previous Investigations

The consultant reviewed borehole data supplied by Badimo that included a spreadsheet with coal tops and bases. This data and other reports, both published and from the Council for GeoSciences, Republic of South Africa were used to derive the most likely CBM parameters to be used in the probabilistic resources estimates in Section 5 of this report. An important part of the input parameters is the thickness of the coals. Boreholes used for coal exploration and evaluation are numerous in the Amersfoort Project Area. A total of 854 boreholes, which were drilled for coal exploration purposes, were used to determine the total thickness of the coal (Figure 4-4). These borehole data are composed of a spreadsheet listing 2,219 individual coal seams for which tops and bottoms were recorded in the data. There was also information from several boreholes in the area, which was verified in person by Badimo, that gas is being released to the atmosphere or is capped and used by the property owner. These data indicate free gas is a feature of much of the area. There is currently no onshore commercial gas production in South Africa.

4.5.4 Mapping

Top depth and base depth of 2,219 coal seams from 854 boreholes recorded by the Council for GeoSciences in the Amersfoort area were correlated using the nomenclature comparisons noted in Table 4-1. Several of the boreholes had no record of the names of the coal seams. The locations of the boreholes and the top and base depths of each seam were sorted and entered into a PETRA® database. The individual coal seam thicknesses were summed in order to obtain a net coal thickness for each borehole. The net thickness for each borehole was plotted and was used to create an isopach map in order to estimate total coal volumes (Figure 4-5, 4-6, 4-7). The net thickness for the data set ranged from 0.004 to 15.853 meters with an average of 3.433 meters.

A net thickness of two meters was assumed for one coal seam from boreholes 3050220 and 3021811, and for two coal seams from borehole 3008482. The original data set for these three boreholes had depths that were either overlapping with other coal seams or had questionable

depth ranges when compared to directly adjacent boreholes. In the original data set supplied by Badimo, borehole 3022959 (North Extension) was listed with a coal thickness of 38.320 meters. Borehole 3021809 from the Amersfoort East/Amersfoort NWS Extension had the second thickest interval with a net coal thickness of 15.853 meters (Figure 4-5). The net coal thickness of 38.320 meters from bore hole 3022959, shown as a red square on Figure 4-4, appeared to be an outlier; therefore, a net coal thickness of three meters was assumed for this data point.

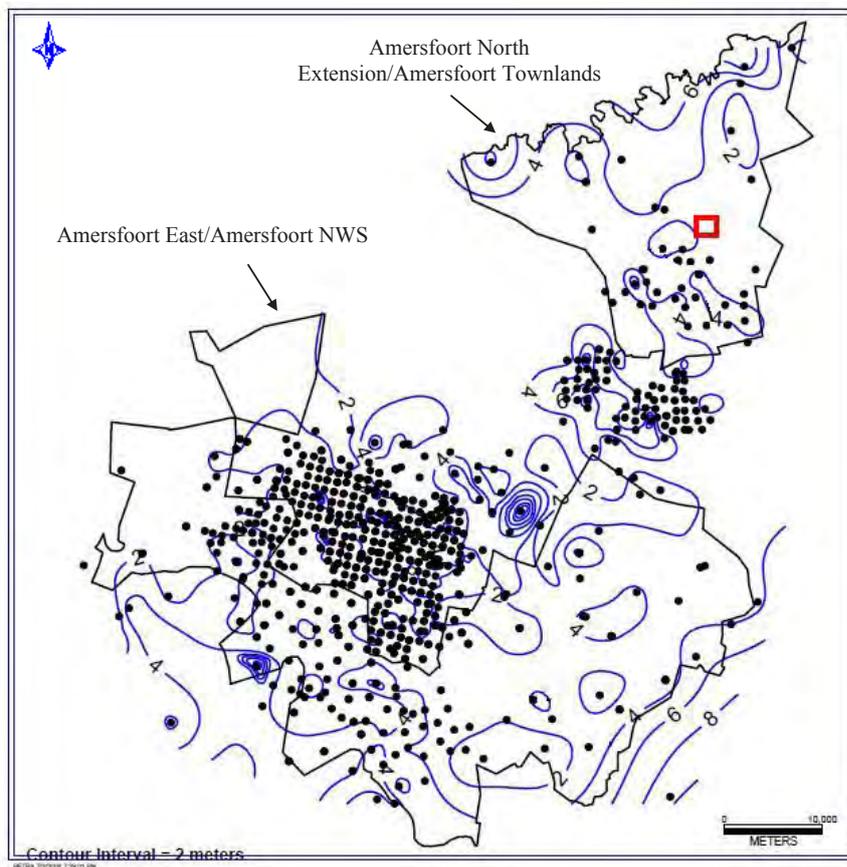


Figure 4-4 Amersfoort Project Area showing Borehole Locations used for Mapping

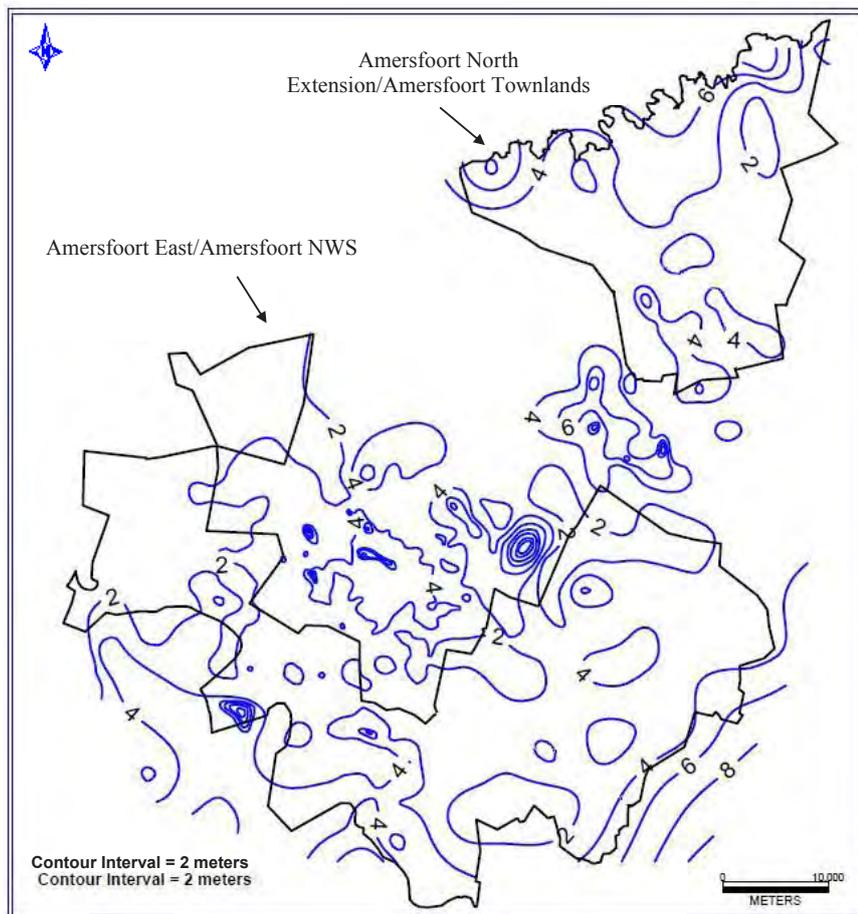


Figure 4-5 Contour Map of Total Coal Thickness in Meters All Amersfoort Project Areas

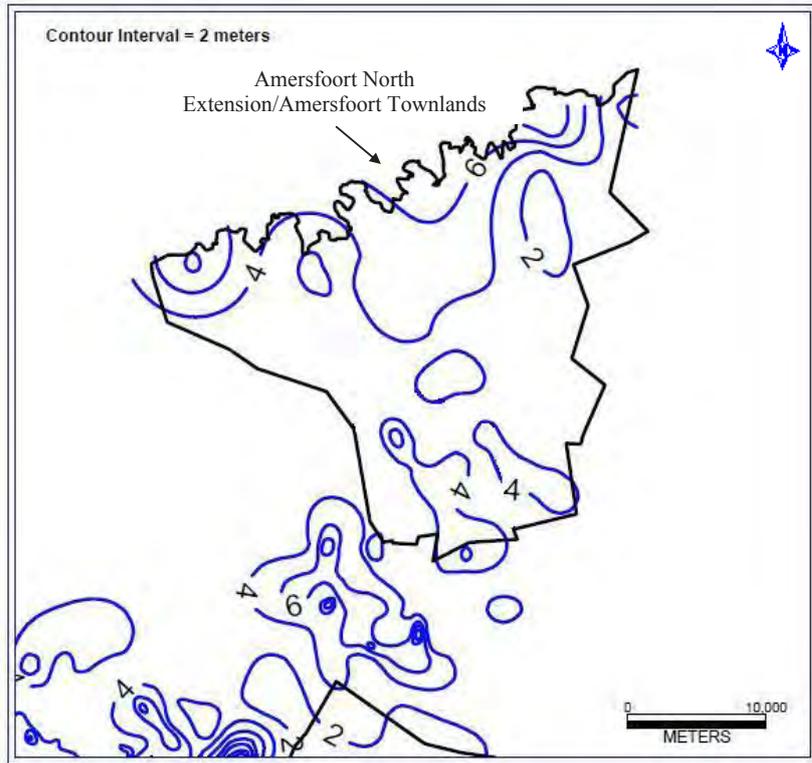


Figure 4-6 Coal Thickness Map of Amersfoort North Extension/ Amersfoort Townlands

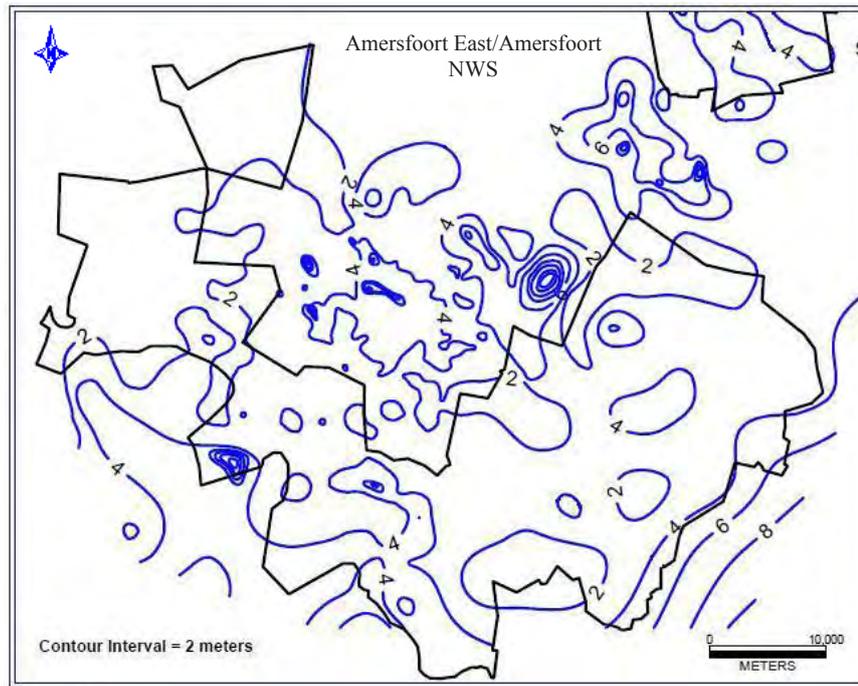


Figure 4-7 Coal Thickness Map of Amersfoort East/Amersfoort NWS

4.6 PRODUCED WATER

Water disposal is always a concern with CBM projects. Most produced water is injected underground, evaporated in holding ponds, discharged on the surface or used for irrigation and livestock. If water is of sufficient quality it may also be used as drinking water.

Water from nine boreholes in the Leandra-Grootvlei area was tested by M & L Laboratory Services (Pty) Ltd of Johannesburg. These test results were provided by Badimo Gas. There was a wide range in water testing results; therefore, the water will require further evaluation in the subject area prior to disposal. The water analyzed from the nine boreholes consistently contains less than 2,400 mg/L of total dissolved solids (TDS), which is the maximum allowable

limit for domestic use as set forth by the South African Bureau of Standards 241. For comparison, in the United States potable drinking water is limited to less than 500 mg/L TDS and agriculture is limited to 1,000-2,000 mg/L TDS (Rice and Nuccio, USGS FS-156-00, 2000).

Without further data in the project area it is difficult to determine the best disposal method for produced water. If the water meets potable drinking water standards it could be used to meet domestic use requirements. If the water has higher TDS, it may be usable in agriculture or for livestock.

4.7 ANALOG

Sydney Basin is a close analog to the Karoo Basin since the coals are also Permian age high latitude coals. Sydney Basin is located in southeast Australia and is of Permian-Triassic age. Coal depths range from outcrop to 1,005 meters (3,300 feet) deep. Sydney Gas Ltd. has CBM wells that are currently producing from depths of 380 meters to 730 meters (1,250 feet to 2,400 feet). Coals in the Amersfoort project area typically run from the surface to 365 meters (1,200 feet) with some areas having coals up to 730 meters (2,400 feet) deep. The coal depths for the Amersfoort project area are similar to the Sydney Basin and several basins that are producing CBM in the United States.

Coal rank in the Sydney Basin ranges from high-volatile bituminous to medium-volatile bituminous coal. Coal rank for the Amersfoort project area also ranges from high-volatile bituminous to medium bituminous coal.

Net coal thickness for the Sydney basin is approximately 18 meters (60 feet) with some areas reaching more than 55 meters (180 feet) thick. Though data is limited, gas content is reported to range from 11 m³/Mg to 14 m³/Mg (350 cf/ton to 450 cf/ton). In the Amersfoort project area net coal thickness ranges from less than one meter to 16 meters (52 feet) (Figure 4-5). Gas content is in the range of 9.4 m³/Mg (300 cf/ton) (Schwochow, 1997).

4.8 COALBED METHANE IN CONVENTIONAL ACCUMULATIONS

In the Raton Basin of Southern Colorado and Northern New Mexico, the San Juan Basin of New Mexico, and the Piceance Basin of Colorado, CBM has migrated into conventional and low permeability traps (Higley, 2004; Peterson et al. eds., 2003; Bishop et al. eds., 2005). Since gas migrated out of CBM accumulations has been shown to occur in conventional accumulations in the above basins and others, similar possibilities exist in the Amersfoort area. The numerous unplugged, uncompleted and unpumped coal core holes in the area, which have for years emitted gas, certainly support this potential. However, the presence, size and types of traps, the types and competence of seals, and the quality of possible reservoirs that would be necessary for conventional accumulations in sandstones above or below the coals are largely unknown from data that was provided for the Amersfoort area. Sandstones interbedded within the coals could potentially provide sealed reservoirs for conventional accumulations. Dolerite intrusions in the area cross cut the coal intervals and could locally increase the grade of the coal and also act as traps for conventional accumulations of gas. Sandstones adjacent to the coals could also be water aquifers and thus interfere with CBM production.

This possibility of CBM in conventional accumulations in the Amersfoort area could significantly increase the resource potential, as it has in the San Juan Basin where conventional gas production is triple the amount of CBM production. Since the current data is not sufficient to assess possible conventional traps and to what degree the sandstones might contribute to the gas accumulations, resources were not assigned to any potential conventional accumulation in this report.

4.9 PRODUCT TYPES REASONABLY EXPECTED

The main product type reasonably expected from the licenses is natural gas, consisting of methane gas and small amounts of heavier hydrocarbon gases (ethane) and carbon dioxide present in the reservoirs.

4.10 ESTIMATED DRILLING AND TESTING COSTS

Development of the resource will require careful mapping of existing geological data followed by drilling and testing of coalbed methane reservoirs. Kinetiko plans to initially drill 8 core holes. The total estimated cost for the eight well program to drill and test the target coals is approximately R5,800,000 as estimated and reported by Kinetiko Energy.

4.11 EXPECTED TIMING OF DRILLING AND COMPLETION

Kinetiko has agreed to an initial 2-part CBM evaluation program. The first part of the program is the Initial License Period during which time, 8 core holes will be drilled and core sample gas desorption will be completed before December 12, 2012. The second part of the program is the First License Renewal Period which begins after the application for renewal is approved. This renewal can be granted for a period of two years during which time Kinetiko plans to drill between 2 and 3 permeability test wells. Kinetiko expects commercial production within the next 7 years.

4.12 EXPECTED PRICES

It was beyond the scope of this assignment to estimate natural gas prices. It is expected that ultimate commercial use of the gas produced in this area may be to generate electricity in a gas-fired power plant; thus, the price paid must yield a competitive price for the electricity generated by the project.

4.13 EXPECTED MARKETING AND TRANSPORTATION ARRANGEMENTS

A detailed evaluation of the gas market is beyond the scope of this Report. However, the market for natural gas is expected to be the electricity sector and large industrial customers such as mining companies. The Amersfoort CBM Project is located close to the majority of South Africa's power generation infrastructure and the major population and manufacturing center of Johannesburg. The Majuba Power Station, a 4,110 mega watt coal fired facility is

located within sight of the Amersfoort CBM Project. Originally the power station was to be fed by the Majuba Colliery in the Amersfoort area before the colliery was closed prematurely for technical reasons that included methane gas issues.

4.14 IDENTITY AND RELEVANT EXPERIENCE OF THE OPERATOR

The operator of the licenses is currently Kinetiko Energy. Kinetiko is an emerging energy company focused on developing a coal bed methane (CBM) field (known as unconventional gas) in the Eastern Transvaal Coal Field between Johannesburg and Durban, in Mpumalanga Province, South Africa.

4.15 RISKS AND PROBABILITY OF SUCCESS

The risks are economic, technical, and geological. The probability of success is high for encountering gas in coal and coaly shale reservoirs. The expected thickness of the CBM reservoirs within the target interval can be reasonably predicted from exploratory drilling. The main risk is in the quality of production (flow rates and expected ultimate recoveries or EURs) that may be encountered. Production rates and EURs are functions of many factors including, but not limited to aggregate coal, gas content, hydrology, and natural reservoir permeability.

5. PROBABILISTIC RESOURCE ESTIMATE

5.1 GENERAL

A probabilistic reserve analysis is most applicable for projects such as evaluating the potential resources of the subject area, where uncertainty exists in the geology and reservoir parameters. The uncertainty in the reservoir data is quantified by probability distributions, and an iterative approach yields an expected probability distribution for potential resources. This approach allows consideration of most likely resources for planning purposes, while gaining an understanding of what volumes of resources may have higher certainty, and what potential upside may be for the project.

This method involves estimating probability distributions for uncertain reservoir parameters and performing a statistical risk analysis involving multiple iterations of reserve calculations generated by random numbers and the specified distributions of reservoir parameters. To do this, each parameter incorporated in our resource calculations was evaluated for its expected probability distribution. The parameters for these input distributions were selected based on a review of all available data.

The analysis for this project was carried out considering uncertainty for all parameters in the coalbed methane volumetric reserve equations. For the area evaluated, insufficient data were available to estimate or confirm detailed probability distributions for the reservoir parameters. Therefore, the simple triangular probability distributions were used, with input of minimum, maximum, and most likely values.

It has been noted that free gas is present in several of the core holes drilled to gather data on these coal deposits. This indicates that free gas is likely present in the cleat and natural fracture system of the coals in addition to the gas adsorbed within the matrix of the coals. This also suggests that the coals are saturated with gas, and that no dewatering should be required before additional gas can desorb from the coal and be produced. Therefore, Contingent Resources of free gas were calculated in addition to Contingent Resources of adsorbed coalbed methane.

All the estimates described herein represent the potential size of hydrocarbon deposits in the Amersfoort Project area. The risk of failure has not been incorporated into this analysis.

5.2 INPUT PARAMETERS

Triangular distributions were used for all inputs. The most likely area and total coal volumes were calculated from maps created from coal borehole data. Badimo acquired the data from the Council for GeoSciences, Republic of South Africa. Ranges for other reservoir parameters were taken from either reported test results or published sources, or based on Gustavson's experience with similar coal reservoirs.

The input parameters used in the resource estimates are presented in Table 5-1. The average depth to mid-coal is used as an input with pressure and temperature gradients to calculate reservoir conditions and gas formation volume factor for the free gas resource estimate, but is included here to give an indication of likely drilling depths that may be required for this resource. The resulting distribution of this parameter is shown in Figure 5-1 and Figure 5-2.

Table 5-1 Input Values for Gas Resource Calculations

Item	Units	Minimum	Most Likely	Maximum	SI Unit	Minimum	Most Likely	Maximum
Total Coal Volume,	Millions of Acre-ft	4.11	4.57	5.25	Billions of M ³	5.07	5.63	6.48
1. Volume of Townlands	Millions of Acre-ft	0.26	0.29	0.34	Billions of M ³	0.33	0.36	0.42
2. Volume of North Extension	Millions of Acre-ft	1.40	1.56	1.79	Billions of M ³	1.73	1.92	2.21
3. Volume of East Extension	Millions of Acre-ft	1.12	1.25	1.44	Billions of M ³	1.39	1.54	1.77
4. Volume of NWS Extension	Millions of Acre-ft	1.32	1.47	1.69	Billions of M ³	1.63	1.81	2.08
Average Depth to Mid-Coal	Feet	1,033	1,148	1,263	Meter	315	350	385
Coal Density	g/cm ³	1.20	1.35	1.50	g/cm ³	1.20	1.35	1.50
Gas Content	SCF/ton	100	180	300	M ³ /Mg	3.12	5.62	9.36
Coal Fracture Porosity		10%	20%	40%		10%	20%	40%
Initial Water Saturation		5%	60%	100%		5%	60%	100%
Adsorbed Gas Recovery Factor		50%	65%	80%		50%	65%	80%
Free Gas Recovery Factor		70%	80%	90%		70%	80%	90%

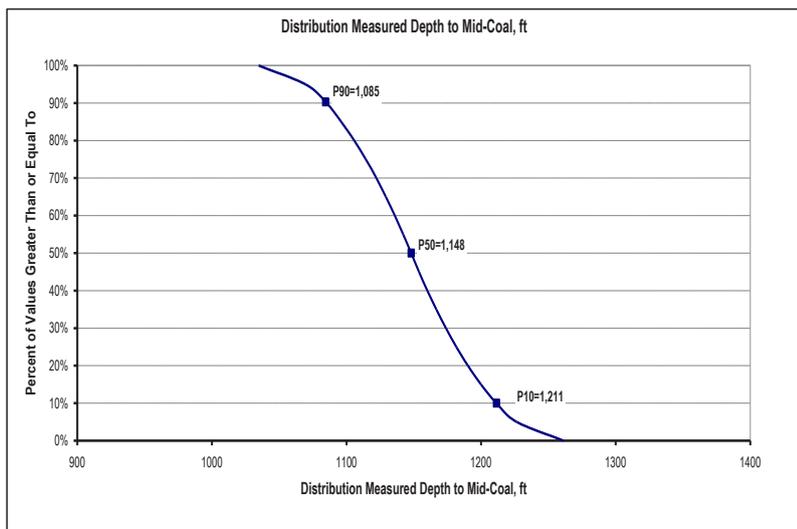


Figure 5-1 Distribution of Average Depth to Mid-Coal (SI Unit)

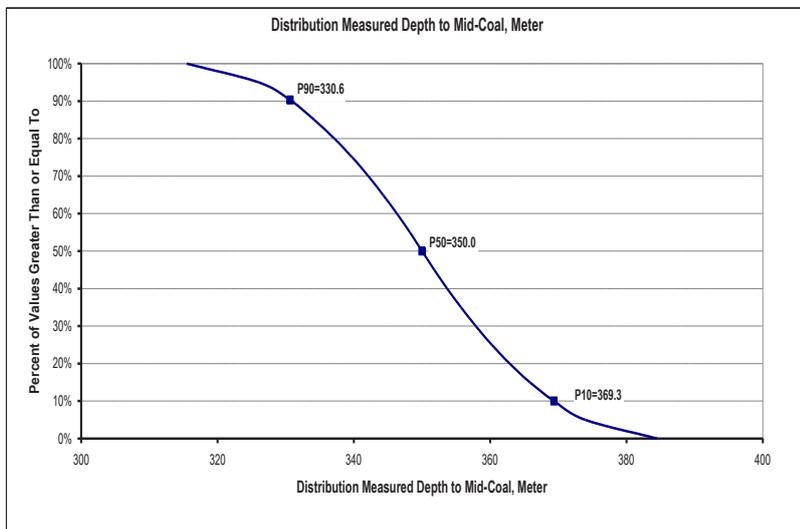


Figure 5-2 Distribution of Average Mid-Coal (Field Units)

A minimum recovery factor of 50%, most likely recovery factor of 65%, and a maximum recovery factor of 80% were used. This range of recovery factors is based on Gustavson's knowledge and experience with similar CBM reservoirs, and supported by recovery factors reported by Williams Production Mid-Continent Company for their CBM wells producing from Pennsylvanian age coals in the Arkoma Basin, Southeastern Oklahoma.³

5.3 PROBABILISTIC SIMULATION

Probabilistic reserve analysis was performed using the Monte Carlo simulation software called "@ Risk". This software allows for input of a variety of probability distributions for any uncertain parameter. Then the program performs a large number of iterations, either a large number specified by the user, or until a specified level of stability is achieved in the output. The results include a probability distribution for the output, sampled probability for the inputs, and sensitivity analysis showing which input parameters have the most effect on the uncertainty in each output parameter.

After distributions for input parameters were defined, a series of simulations were run wherein points from the distributions were randomly selected and used to calculate one iteration of estimated potential resources. The iterations were repeated until stable statistics (mean and standard deviation) result from the resulting output distribution, after 5,000 iterations.

5.4 RESULTS

The output distributions were then used to characterize the Contingent Resources. Graphs of cumulative probability versus gas in place and Contingent Resources were constructed. Results for the total adsorbed gas and the total free gas are presented in Figure 5-3 and Figure 5-4 in field units, with the distribution summarized in Table 5-2 below.

The results for the two new license areas are based on the results of the original four license areas and have been added together. The results for the original four blocks, Townlands, East

³ Mutalik, P.N., and W.D. Magness, 2006.

Extension, North Extension and NWS Extension, are presented in the Appendix to this report. Key points from the resource distribution include the 50 percent or P₅₀ point (most likely), the 90 percent or P₉₀ point (downside case) and 10 percent or P₁₀ point (upside potential case). The P₅₀ probability value for each distribution is considered the most likely estimate of potential resources.

Table 5-2 Summary of Results

Coal Block	Resources	Resources Type	Unit=Billion Cubic Feet			Unit=Billion Cubic Meter		
			P90	P50	P10	P90	P50	P10
Total	Gas In Place	Adsorbed Gas	1,392	1,639	1,904	39.4	46.4	53.9
		Free Gas	46	70	99	1.3	2.0	2.8
		Total	1,461	1,709	1,978	41.4	48.4	56.0
	Contingent Resources	Adsorbed Gas	890	1,063	1,256	25.2	30.1	35.6
		Free Gas	37	56	80	1.0	1.6	2.3
		Total	947	1,120	1,317	26.8	31.7	37.3
Townlands /North Extension	Gas In Place	Adsorbed Gas	477	655	870	13.5	18.6	24.6
		Free Gas	11	27	50	0.3	0.8	1.4
		Total	504	685	901	14.3	19.4	25.5
	Contingent Resources	Adsorbed Gas	303	424	577	8.6	12.0	16.3
		Free Gas	9	21	40	0.3	0.6	1.1
		Total	324	447	601	9.2	12.7	17.0
East Extension/ NSW Extension	Gas In Place	Adsorbed Gas	698	964	1,279	19.8	27.3	36.2
		Free Gas	16	39	74	0.5	1.1	2.1
		Total	739	1,007	1,323	20.9	28.5	37.5
	Contingent Resources	Adsorbed Gas	444	623	845	12.6	17.6	23.9
		Free Gas	13	31	59	0.4	0.9	1.7
		Total	476	658	880	13.5	18.6	24.9

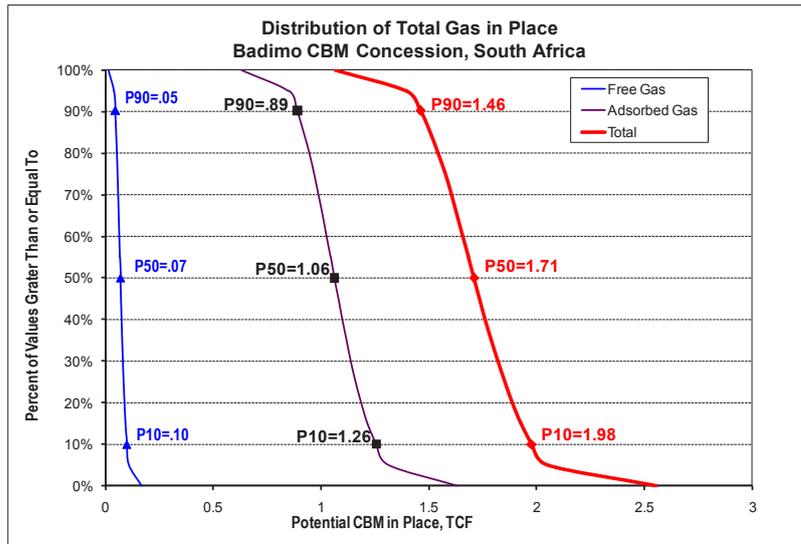


Figure 5-3 Distribution of Gas In Place, Total (Field Units)

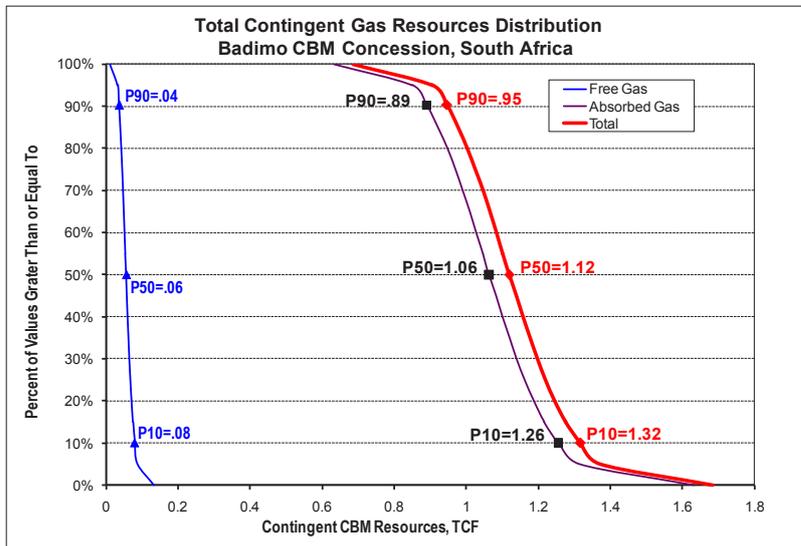


Figure 5-4 Distribution of Contingent Gas Resources, Total (Field Units)

There is no certainty that it will be commercially viable to produce any portion of the resources.

Note that the separate results from the adsorbed gas and the free gas resource estimates do not add yield to the total resource estimates. This is due to the nature of probabilistic analysis: the only parameter of a distribution that is additive is the mean. Because most of the input parameters are independent, it is not likely that the adsorbed gas resources will consistently be low when the free gas resources are low. Thus, the P_{90} from the total distribution will be higher than the sum of the two component distributions, whereas the converse is true for the P_{10} values. The above stated resource estimates are based on certain assumptions and data. Specifically, the gas content information was obtained from published reports about the region rather than direct measurements from any nearby well control. Also, we did not have any direct porosity measurements and porosity values were assumed based on coal rank in order to estimate the anticipated amount of free gas. While these assumptions are considered reasonable, the availability of new information will likely necessitate the revision of our coalbed methane resource estimates.

6. COMPETENT PERSON'S CONSENT FORM

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on the information compiled by and under the supervision of Letha Chapman Lencioni, who is a Professional Engineer. Ms. Lencioni is employed by Gustavson Associates. She has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms. Lencioni consents to the inclusion of the report of the matters based on her information in the form and context in which it appears.

Gustavson Associates LLC and Letha Lencioni hereby consent to the use of all or any part of this Resource Evaluation Report for the Client's leaseholds in South Africa, as of 1 February 2011, in any document filed with any Australian Securities Commission by Kinetiko Energy Ltd.

I, Letha Chapman Lencioni, Professional Engineer of 5757 Central Avenue, Suite D, Boulder, Colorado, 80301, USA, hereby certify:

- I am an employee of Gustavson Associates, which prepared a detailed analysis of the CBM properties of Kinetiko Energy Ltd. The effective date of this evaluation is 1 February 2011.
- I do not have, nor do I expect to receive, any direct or indirect interest in the securities of Kinetiko Energy Ltd or its affiliated companies, nor any interest in the subject properties.
- I have read and understood the requirements of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, the 2005 Edition of The VALMIN Code.
- I am a Competent Person as defined by clause 20 of the 2005 VALMIN Code. I attended the University of Tulsa and I graduated with a Bachelor of Science Degree in Petroleum Engineering in 1980; I am a Registered Professional Engineer in the States of Colorado and Wyoming, and I have in excess of 30 years' experience in the conduct of evaluation and engineering studies relating to oil and gas fields.
- I have reviewed the Report to which this Consent Statement applies.

I verify that the Report is based on and fairly and accurately reflects in the form and context in which it appears, the information in my supporting documentation relating to Petroleum Resources.

CONSENT

I consent to the release of the Report and this Consent Statement by the directors of:

.....
Gustavson Associates, LLC



[Handwritten Signature]

Signature of Competent Person:

21/04/2011

Date:

Registered Professional Engineer, State of Colorado
Registered Professional Engineer, State of Wyoming
Professional Membership:

29506

8493

Membership Number:

[Handwritten Signature]

Signature of Witness:

Michele Bishop
Boulder, CO USA

Print Witness Name and
Residence (e.g. Town/Suburb):

Additional Deposits covered by the Report for which the Competent Person signing this form is accepting responsibility:

None.

Additional Reports related to the deposit for which the Competent Person signing this form is accepting responsibility:

None.

Signature of Competent Person:

Date:

Professional Membership:
(insert organization name)

Membership Number:

Signature of Witness:

Print Witness Name and Residence (e.g.
Town/Suburb):

7. CERTIFICATE OF QUALIFICATION

I, Letha Chapman Lencioni, Professional Engineer of 5757 Central Avenue, Suite D, Boulder, Colorado, 80301, USA, hereby certify:

1. I am an employee of Gustavson Associates, which prepared a detailed analysis of the gas properties of Kinetiko Energy Ltd. The effective date of this evaluation is February 1, 2011.
2. I do not have, nor do I expect to receive, any direct or indirect interest in the securities of Kinetiko Energy Ltd. or its affiliated companies, nor any interest in the subject property.
3. I attended the University of Tulsa and I graduated with a Bachelor of Science Degree in Petroleum Engineering in 1980; I am a Registered Professional Engineer in the States of Colorado and Wyoming; I have been a member of the Society of Petroleum Evaluation Engineers since 1998; and I have in excess of 30 years' experience in the conduct of evaluation and engineering studies relating to oil and gas fields, including estimating quantities of reserves and resources.
4. As a Registered Professional Engineer in the States of Colorado and Wyoming and a member of the Society of Petroleum Evaluation Engineers, I am subject to the codes of ethics / rules of conduct of all these associations/boards.



Letha Chapman Lencioni

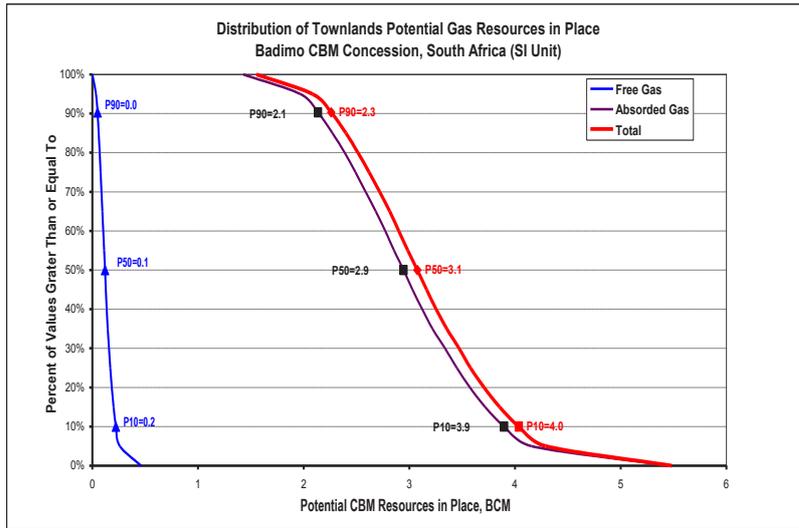
Letha Chapman Lencioni
 Vice-President, Petroleum Engineering
 Gustavson Associates, LLC
 Colorado Registered Engineer #29506
 Wyoming Registered Engineer #8493

8. REFERENCES

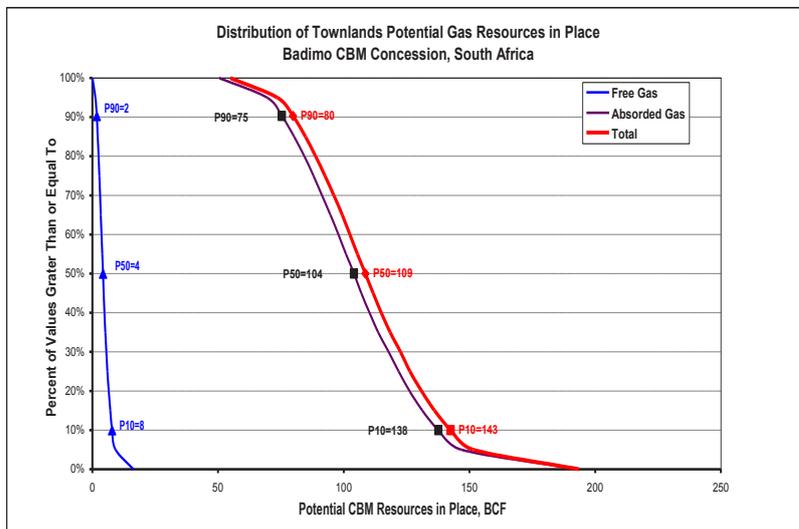
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APPENDIX

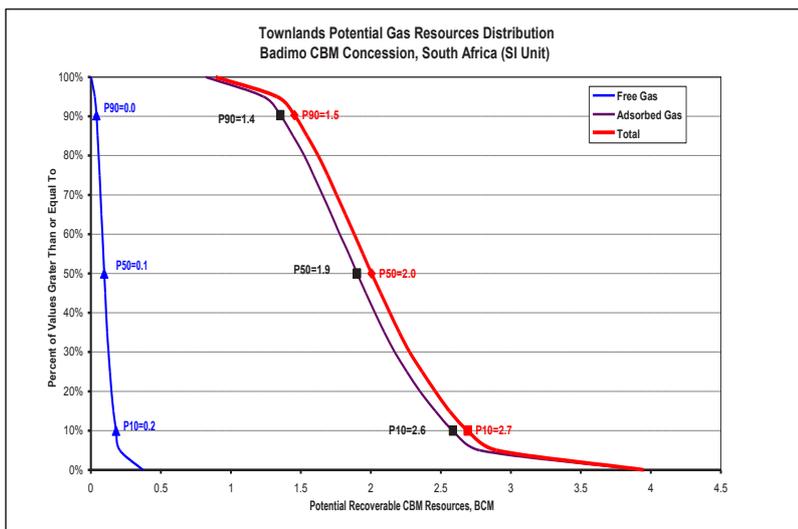
**RESOURCE DISTRIBUTION BY
BLOCK**



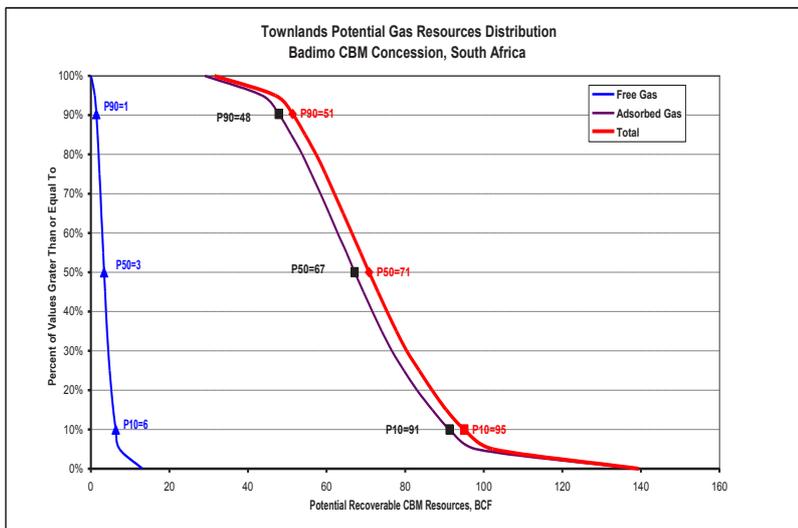
Distribution of Gas In Place, Townlands (SI Units)



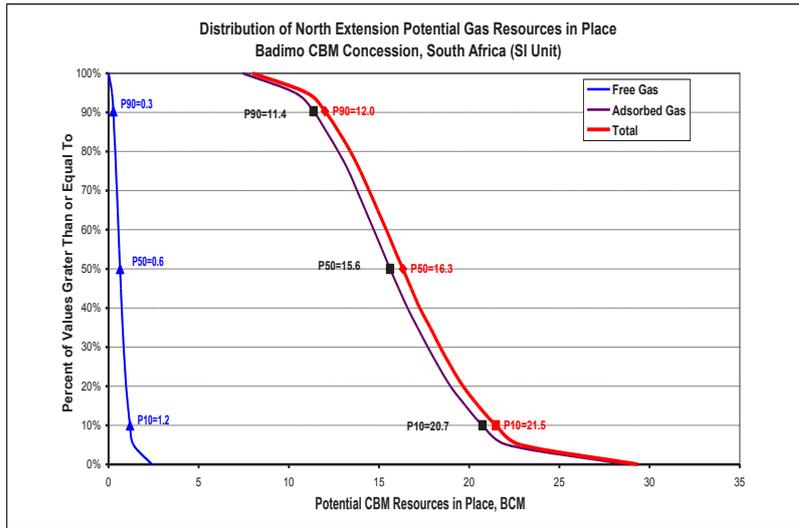
Distribution of Gas In Place, Townlands (Field Units)



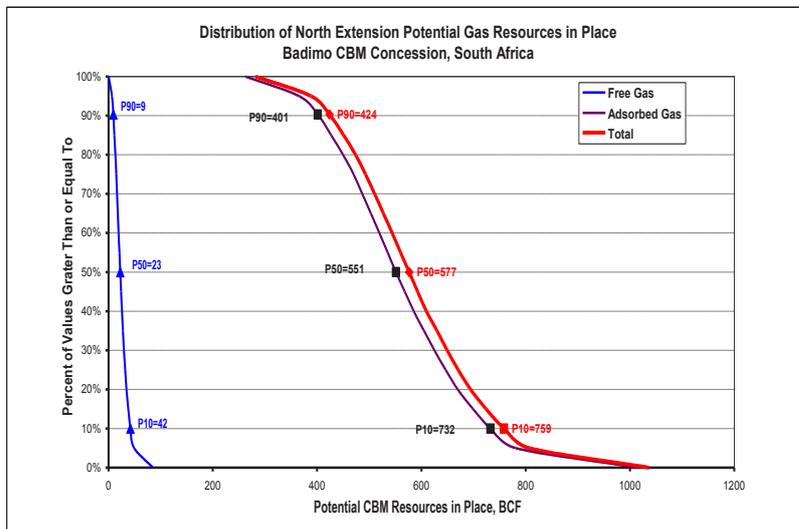
Distribution of Contingent Gas Resources, Townlands (SI Units)



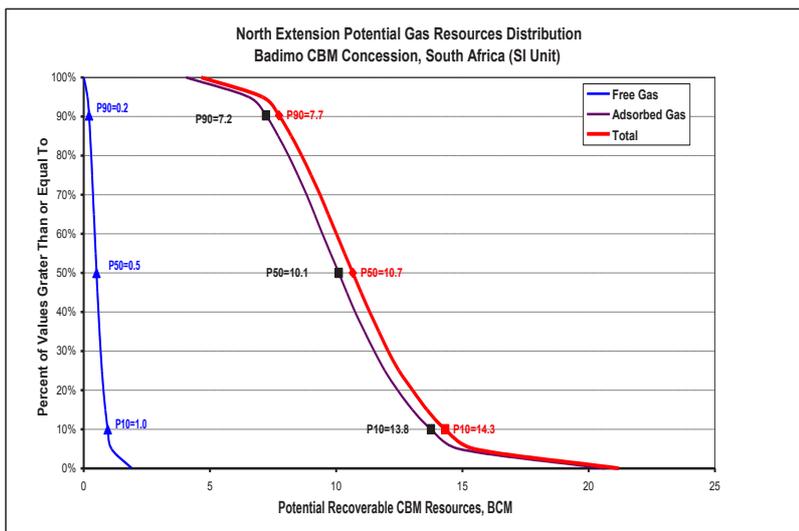
Distribution of Contingent Gas Resources, Townlands (Field Units)



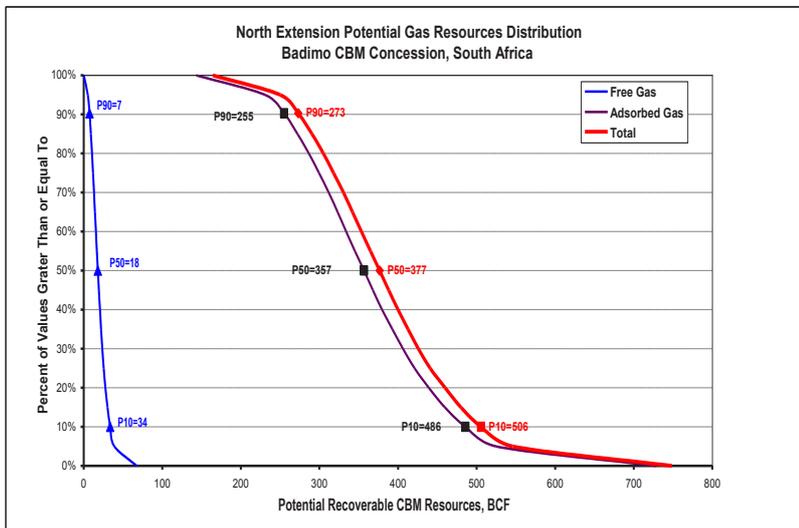
Distribution of Gas In Place, North Extension (SI Units)



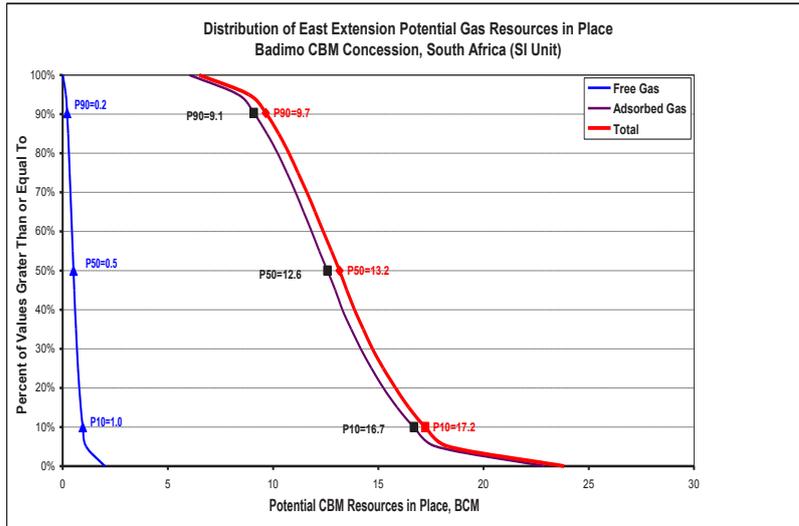
Distribution of Gas In Place, North Extension (Field Units)



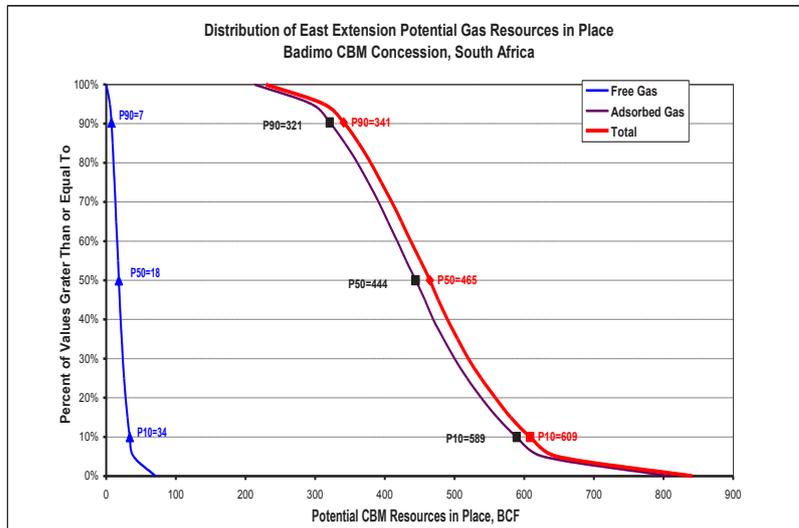
Distribution of Contingent Gas Resources, North Extension (SI Units)



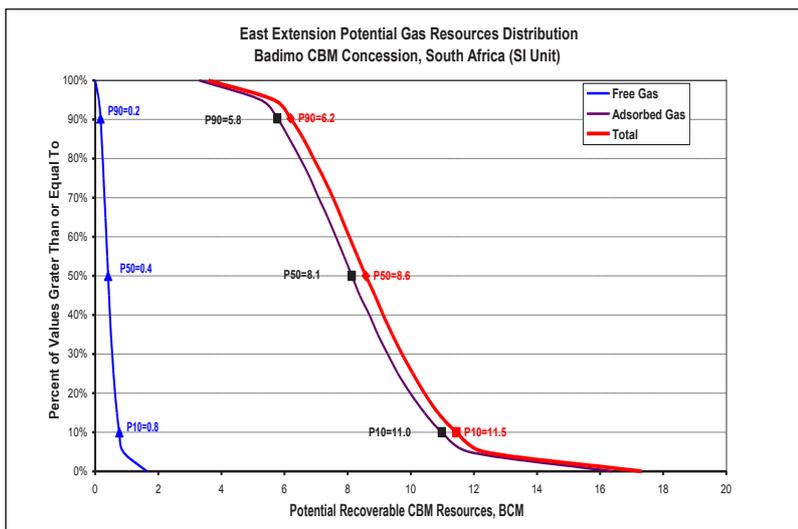
Distribution of Contingent Gas Resources, North Extension (Field Units)



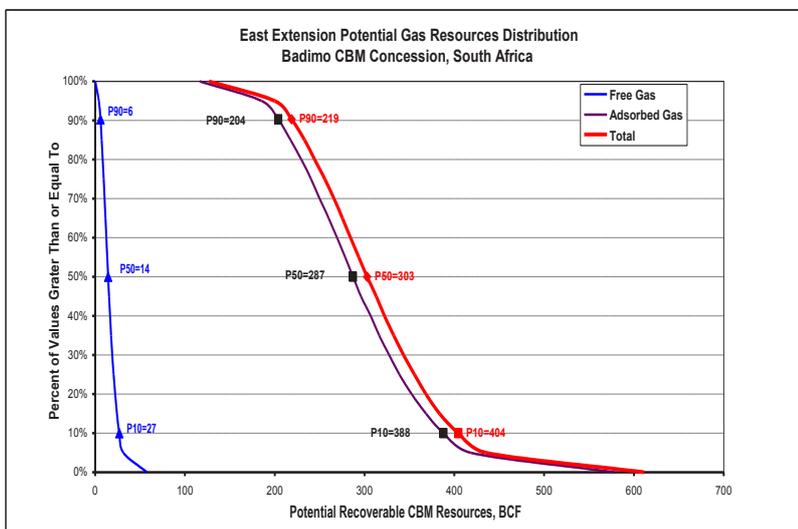
Distribution of Gas In Place, East Extension (SI Units)



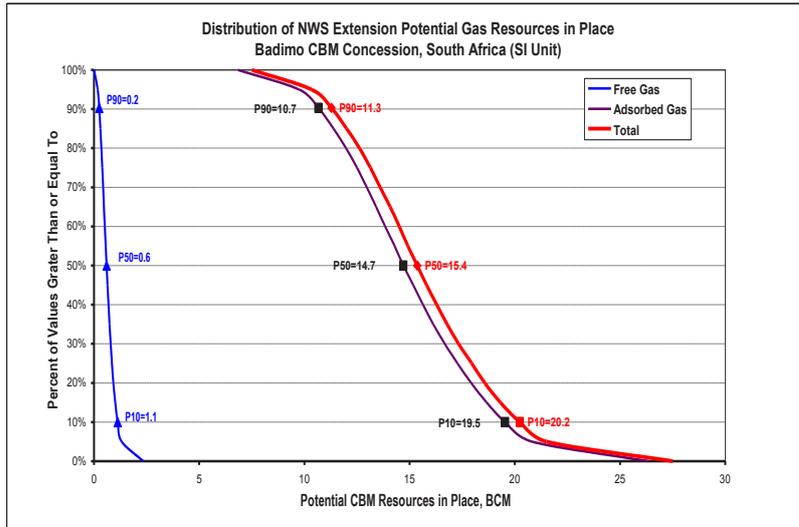
Distribution of Gas In Place, East Extension (Field Units)



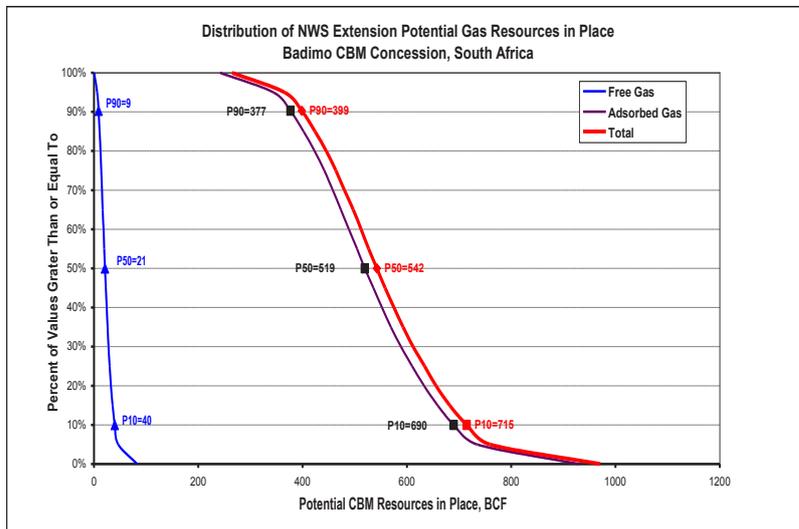
Distribution of Contingent Gas Resources, East Extension (SI Units)



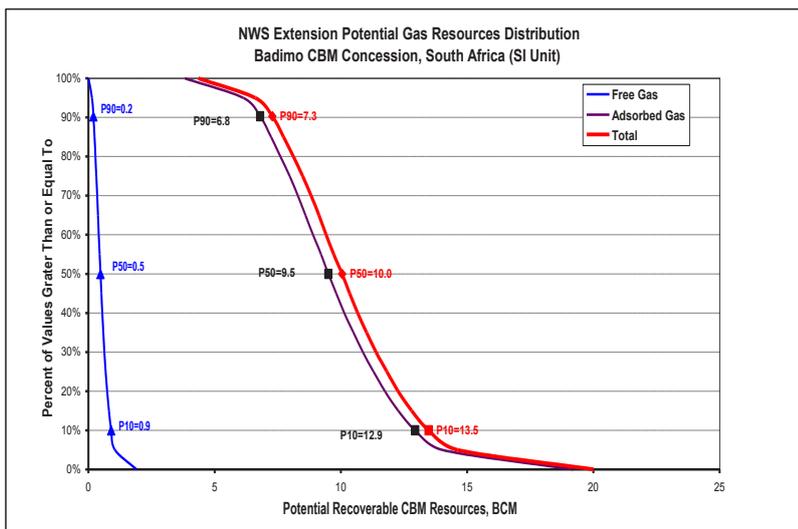
Distribution of Contingent Gas Resources, East Extension (Field Units)



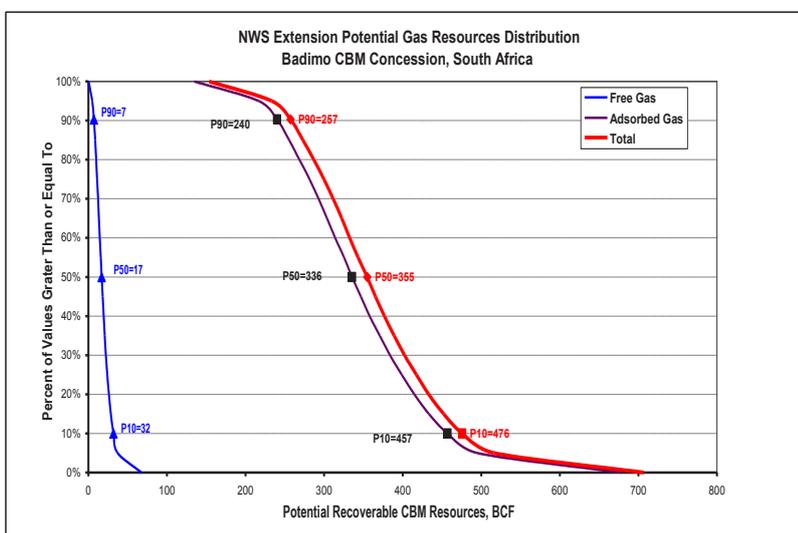
Distribution of Gas In Place, NWS Extension (SI Units)



Distribution of Gas In Place, NWS Extension (Field Units)



Distribution of Contingent Gas Resources, NWS Extension (SI Units)



Distribution of Contingent Gas Resources, NWS Extension (Field Units)

SOLICITOR'S REPORT
ON CBM RIGHTS & TITLE

06



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 Telephone +27 (21) 480 7800, Fax +27 (21) 424 1688
 Web www.bowman.co.za Docex 29 Cape Town

REPORT ON THE ACQUISITION BY KINETIKO ENERGY LIMITED OF UNDIVIDED PERCENTAGE INTERESTS IN COAL BED METHANE EXPLORATION RIGHTS HELD BY BADIMO GAS (PROPRIETARY) LIMITED IN THE REPUBLIC OF SOUTH AFRICA.

Bowman Gilfillan Attorneys are the duly appointed South African attorneys of Kinetiko Energy Limited (hereinafter referred to as "Kinetiko") engaged in terms of an engagement letter dated 1st April 2010.

Bowman Gilfillan Attorneys have been advised that Kinetiko intends raising funding in an amount of not less than AUD\$8 000 000.00 (eight million Australian Dollars) and not more than AUD\$10 000 000.00 (ten million Australian Dollars) on the Australian Securities Exchange by way of a public offering. This report is prepared pursuant to such advice for inclusion in the prospectus that will be issued by Kinetiko on or about 2nd June 2011.

This report consists of the following parts and annexures:

Part I	Badimo Gas (Proprietary) Limited and the Exploration Right
Part II	Legal framework governing exploration rights in South Africa relevant to the Acquisition Transaction
Annexure A	Standard Disclaimers
Annexure B	List of Legislation and Documents
Annexure C	Material terms of the Acquisition Transaction
Annexure D	Material terms of the exploration rights and exploration work programme
Annexure E	Material terms of the Operating Agreement

Bowman Gilfillan Inc. Reg. No. 1998/021409/21 Attorneys Notaries Conveyancers Patent and Trade Mark Attorneys

Directors JH Schlosberg (Chairman) DB Aftaway AG Anderson DP Anderson J Banoobhai AM Barnes-Webb TL Beira ARL Bertrand F Bhatist LM Botha CM Bouwer JVD Brand IL Brink REW Burman VMM Cadman RM Carr PM Carter GN Charnock LA Clater RA Cohen AJ Colegrave CN Cunningham GH Danant RA Davey MEC Davids DM Dees D de Klerk ID Dhladhla TC Dira CR Douglas HD Duffey SR du Plessis L Dyer S Esterhuysen K Fazel J Flandro L Fleiser KA Fulton BJ Garven DJ Gerál M Gerber AA Gordon TJ Gordon-Grant K Goss A Hale M Haman AS Harris P Hart-Davies GB Higgins PA Hirsch E Honey FB Joffe JR Kaapu AJ Keep CP Kennedy MG Khojane FJ Khoza JS Kruger R Labuschagne HY Laher T Laubscher RA Legh DA Lotter PM Maduna M Makoko DL Marriot A McAlister JM McKinnell JF Meijer L Meyer PH Modi KG Modise SNI Molokoe RPM Monson HL Mwangi E Muldely AV Munro-Smith UEBU Naumann HB Ngoobo L Oberholzer D Olivier LD Parker NF Pereira BB Petersen JD Prain DM Pretorius MA Purchase C Reddy ND Riski NS Russ GJ Rughton JW Sahli MY Sias KM Savage TR Seroto LC Shawe RZ Shein JS Smit CD Stein PW Stelling R Straughan BGM Strydom V Subben TM Sukazi MS Sulaiman CFN Todd CE Tucker CL van Heerden FA van Hoogstraten RJ van Voore NC van Zuylen SHE Voigt Cvon Ludwig ER von Witt DS Webb FE Wlehan HJ Wilsenach SG Wilson DD Yull H Zondo-Kabini
Consultants V Mogg NG Tunbridge
Special Counsel MW Adcock CL Valkim | **Chief Executive Officer** LA Kruger | **Chief Financial Officer** H Wright

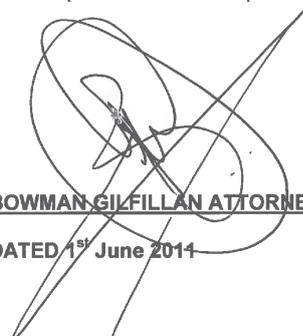
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This report is issued, subject to the standard disclaimers of Bowman Gilfillan Attorneys, which are contained in Annexure A hereto and after perusal and consideration of relevant legislation and documents as listed in Annexure B hereto.

This report is given solely for the benefit of Kinetiko and the directors of Kinetiko in connection with the issue of the prospectus and is not to be relied on or disclosed to any person or used for any other purpose or quoted or referred to in any public document or filed with any government body or other person without the prior written consent of Bowman Gilfillan Attorneys.



BOWMAN GILFILLAN ATTORNEYS

DATED 1st June 2011

PART I

1. BADIMO GAS (PROPRIETARY) LIMITED AND THE EXPLORATION RIGHTS

- 1.1 Badimo Gas (Proprietary) Limited (hereinafter referred to as "Badimo") is a privately owned company (Registration number 99/25070/07), duly incorporated in the Republic of South Africa, with its registered offices located at 2201 ABSA Centre Heerengracht, Cape Town, South Africa, 8001.
- 1.2 On 30th August 2010 Kinetiko entered into a farm-out agreement (hereinafter referred to as the "Acquisition Transaction") with Badimo. Attached hereto as Annexure C is a summary of the material terms of the Acquisition Transaction.
- 1.3 As at the date of the Acquisition Transaction, Badimo was the holder of four (4) exploration rights to explore for coal bed methane in the Republic of South Africa. A summary of the material terms of the exploration rights including their respective work programmes are contained in Annexure D hereto.
- 1.4 The Acquisition Transaction was made subject to certain conditions precedent that once fulfilled, and/or waived as appropriate, would result in Kinetiko becoming the owner of an undivided 49% (forty nine per cent) percentage interest in the said exploration rights.
- 1.5 Prior to conclusion of the Acquisition Transaction, it was determined jointly by Badimo and Kinetiko that certain amendments to the exploration rights were necessary to reflect the scope and content of their negotiations.
- 1.6 The required amendments to the exploration rights are accordingly set out as conditions precedent in the Acquisition Transaction. These amendments were as follows:
- 1.6.1 the consolidation of the exploration areas forming part of exploration right 30/5/2/3/11ER and exploration right 30/5/2/3/38ER into one consolidated exploration area whether by way of absorption, unitisation or such other method as permitted in terms of the Mineral and Petroleum Resources Development Act (Act 20 of 2002) (hereinafter referred to as the "Act");
- 1.6.2 the consolidation of the exploration areas forming part of exploration right 30/5/2/3/41ER and exploration right 30/5/2/3/56ER into one consolidated exploration area whether by way of absorption, unitisation or such other method as permitted in terms of the Act;

- 1.6.3 in respect of the consolidated rights, the amendment and/or replacement of the exploration work programmes with a revised work programme in each of the exploration rights; and
- 1.6.4 the Minister of Mineral Resources' (hereinafter referred to as the "Minister") approval of the environmental management programmes in respect of each of the consolidated rights.
- 1.7 On 21st July 2010, applications were submitted by Badimo to the Minister for her consent to:
- 1.7.1 extend the exploration area of exploration right 30/5/2/3/38ER so as to include the exploration area of exploration right 30/5/2/3/11ER into one consolidated exploration area;
- 1.7.2 the revised work programme for the consolidated exploration area; and
- 1.7.3 the revised environmental management programme for the consolidated exploration area.
- 1.8 With regard to paragraph 1.7 above, we can confirm that as at the date of this report, all the necessary and required consents were obtained and the relevant parties executed all the necessary and required documents to give effect thereto.
- 1.9 On 21st July 2010, applications were submitted by Badimo to the Minister for her consent to:
- 1.9.1 extend the exploration area of exploration right 30/5/2/3/56ER so as to include the exploration area of exploration right 30/5/2/3/41ER into one consolidated exploration area,
- 1.9.2 the revised work programme for the consolidated exploration area; and
- 1.9.3 the revised environmental management programme for the consolidated exploration area.

- 1.10 With regard to paragraph 1.9 above, we can confirm that as at the date of this report, all the necessary and required consents were obtained and the relevant parties executed all the necessary and required documents to give effect thereto.
- 1.11 Pursuant to Section 11 of the Act, any disposal of interests in an exploration right requires the consent of the Minister. The consent of the Minister in terms of Section 11 of the Act was also made a condition precedent in the Acquisition Transaction.
- 1.12 On 21st July 2010, applications were submitted by Badimo to the Minister for her consent to transfer a 49% (forty nine percent) undivided share in exploration right 30/5/2/3/38ER (as consolidated) and exploration 30/5/2/3/56ER (as consolidated) to Kinetiko.
- 1.13 With regard to paragraph 1.11 above, we can confirm that as at the date of this report, all the necessary and required consents were obtained and the relevant parties executed all the necessary and required documents to give effect thereto.
- 1.14 The Acquisition Transaction sets out further conditions precedent that has to be fulfilled, and/or as appropriate waived, for the Acquisition Transaction to become effective.
- 1.15 We can confirm that as at the date of this report, all the conditions precedent have been fulfilled and or waived, Badimo and Kinetiko have executed the Completion Agreement and Kinetiko is the owner of a 49% (forty nine percent) undivided share in both exploration right 30/5/2/3/38ER (as consolidated) and exploration right 30/5/2/3/56ER (as consolidated).
- 1.16 We can confirm that Badimo and Kinetiko have also entered into an Operating Agreement which regulates their respective rights and obligations insofar as it relates to the joint exploration, appraisal, development and production within the exploration areas covered by the consolidated exploration rights. Attached hereto as Annexure E is a summary of the material terms of the Operating Agreement.
- 1.17 We can also confirm that in accordance with the terms of the Acquisition Transaction and Operating Agreement, Kinetiko is the duly appointed operator.
- 2. RENEWAL OF EXPLORATION RIGHT 30/5/2/3/38ER**
- 2.1. We can confirm that on 4th May 2011 an application was submitted by Badimo and Kinetiko to the Minister pursuant to the Act for her consent to the first renewal of exploration right

30/5/2/3/38ER in view of the impending expiry of the initial exploration period on 6th May 2011.

- 2.2. The consequence of the renewal application was that the work programme applicable to the first renewal period required amendment so as to incorporate the work programme for the initial period.
- 2.3. Having due regard to paragraph 2.2 above, we can confirm that in addition to the application referred to in paragraph 2.1 above, on 4th May 2011, an application was submitted by Badimo and Kinetiko to the Minister pursuant to the Act for her consent to the amendment of the exploration work programme.
- 2.4. Exploration right 30/5/2/3/38ER stipulates that not less than 20% (twenty percent) of the exploration area must be relinquished at the end of the initial exploration period. In the renewal application, an application was made for the waiver of this relinquishment obligation.
- 2.5. While in relation to the applications referred to in paragraphs 2.1, 2.3 and 2.4 above we express no opinion as to whether such applications will ultimately be granted (including obtaining the necessary ministerial consent) we can confirm that as at the date of this report and having due regard to the circumstances giving rise to these applications we have no reason to believe that applications and the required ministerial consent will not be granted.

PART II

LEGAL FRAMEWORK GOVERNING EXPLORATION RIGHTS IN SOUTH AFRICA RELEVANT TO THE ACQUISITION TRANSACTION

1. THE MINERAL AND PETROLEUM RESOURCES DEVELOPMENT ACT

- 1.1. The grant of petroleum exploration rights (which includes coal bed methane) in South Africa is regulated by the Mineral and Petroleum Resources Development Act 28 of 2002 (hereinafter referred to as the "Act") and the regulations (hereinafter referred to as the "Regulations") issued pursuant thereto.
- 1.2. In South Africa, mineral and petroleum resources belong to the nation with the government, duly represented by the Minister of Mineral Resources (hereinafter referred to as the "Minister") being the custodian thereof.¹ The Minister has designated the Petroleum Agency of South Africa (Pty) Ltd (hereinafter referred to as the "Agency") to act on her behalf.²
- 1.3. The Act provides for three types of granting instruments namely technical co-operation permits, exploration rights and production rights once the prescribed application and approval process has been followed.
- 1.4. Applicants for exploration rights must submit an application for such rights to the Agency for processing and approval.³ The Agency's powers are prescribed by the Act and discretionary powers are limited. Applicants are required to prove, *inter alia*, their technical and financial ability to conduct the proposed exploration operation optimally in accordance with the exploration work programme.⁴
- 1.5. Applicants are required to make financial provision for the remediation of potentially negative environmental impacts.⁵ The quantum of the financial provision is determined in accordance with guidelines published by the Department of Mineral Resources, from time to time, which includes a detailed itemisation of all costs as specified in the Regulations.⁶ Holders of exploration rights and/or production rights must annually assess their

¹ Section 3 of the Mineral and Petroleum Resources Development Act 28 of 2002

² Section 71

³ Section 79

⁴ Section 80(1)(a)

⁵ Section 41

⁶ Regulations 53 and 54 of the Mineral and Petroleum Resources Development Regulations, 2004

environmental liability and amend the financial provision as required.⁷ The financial provision must remain in force until the Minister issues a closure certificate.⁸ When a closure certificate is issued the Minister will retain such portion of the financial provision as is deemed appropriate for any future latent or residual environmental impacts.⁹

- 1.6. Exploration rights are granted for an initial period of three years and on application can be renewed for up to three further periods not exceeding two years each.¹⁰ An application for renewal of an exploration right must be granted if the holder of the exploration right has complied with the terms and conditions of the exploration right, the approved exploration work programme and the provisions of the Act.¹¹
- 1.7. An exploration right which is the subject of a renewal application will remain in force until such time as the application has either been accepted or rejected.¹²
- 1.8. There are no limitations to the size of an exploration area being the subject of an exploration right. However, the Act includes the "use it or lose it" / "use it and keep it" principle by requiring exploration right holders demonstrate optimal utilisation of their exploration area.
- 1.9. The holder of an exploration right must submit monthly, quarterly and annual progress reports regarding the exploration activities.¹³
- 1.10. The holder of an exploration right has the freedom to cede or assign the exploration right or an interest therein subject to the approval of the Minister.¹⁴ The holder has the exclusive right to remove and dispose of any petroleum samples found during the course of exploration operations for its own account in such quantities as may be required to conduct tests to identify or analyse it.¹⁵ The removal of bulk samples will require the approval of the Minister.¹⁶

⁷ Section 41 (4) of the Mineral and Petroleum Resources Development Act 28 of 2002

⁸ Section 41(5)

⁹ Section 41(6)

¹⁰ Sections 80(5) and 81(4)

¹¹ Section 81(3)

¹² Section 81(5)

¹³ Regulation 31 of the of Mineral and Petroleum Resources Development Regulations,2004

¹⁴ Section 11

¹⁵ Section 82(1)(c) and 20(1)

¹⁶ Section 20 (20)

- 1.11. The exploration right, environmental management programme and exploration work programme may not be amended or varied without the Minister's written consent.¹⁷
- 1.12. The terms and conditions of the exploration right are open for negotiation but must comply with the provisions of the Act and must be approved by the Minister.¹⁸ The holder must lodge the exploration right for registration at the Mining Titles Registration Office within 30 (thirty) days of the effective date. The effective date of the exploration right is not prescribed by law. However the standard terms and conditions of the exploration right define the effective date as the date of execution of the exploration right.
- 1.13. The registration of the exploration right in the Mining Titles Registration Offices is regulated by the Mining Titles Registration Act 16 of 1967 and its regulations. The regulations provide that the right must be registered by the Director General within 10 (ten) working days from date of lodgement.¹⁹ Whilst the provisions of the exploration right are binding on the State and the holder, registration thereof precludes claims by third parties.

2. MINERAL AND PETROLEUM AMENDMENT ACT

- 2.1. The Mineral and Petroleum Amendment Act 49 of 2009 (hereinafter referred to as the "Amendment Act") was signed by the President on 19th April 2009. However the Amendment Act will only come into operation on a date fixed by the President by proclamation in the Government Gazette. No such proclamation has yet been made. The most significant change that the Amendment Act will bring about is the replacement of the environmental provisions in the current Act with the provisions of the National Environmental Management Act 107 of 1998 (hereinafter referred to as "NEMA").²⁰
- 2.2. It is common cause that the limited environmental provisions in the Act created uncertainty for applicants and holders. Since NEMA is considered to be more comprehensive, its incorporation by reference into the Act will remove much of the aforementioned uncertainty. It should be noted that NEMA will impose greater environmental responsibility on the holders of exploration and production rights.

¹⁷ Section 102

¹⁸ Regulation 29 of the Mineral and Petroleum Resources Development Regulations

¹⁹ Regulations 34 and 35 of the Mining Titles Registration Act 16 of 1967 Regulations

²⁰ Section 94 of the Mineral and Petroleum Resources Amendment Act of 49 of 2009

3. THE ROYALTY ACT

- 3.1. The Mineral and Petroleum Resources Royalty Act 28 of 2008 (hereinafter referred to as the "Royalty Act") as well as the Mineral and Petroleum Resources Royalty (Administration) Act 29 of 2008 (hereinafter referred to as the "Royalty Administration Act") came into operation on 1st March 2010. Both govern the administration and payment of royalties to the State in respect of the transfer of mineral resources extracted from within the Republic.
- 3.2. The Royalty Administration Act provides that a person who holds an exploration right (in addition to other rights not relevant to this document) would need to register with the Commissioner for Revenue Services for the payment of royalties²¹. The Royalty Act provides further that a person who "wins or recovers" a "mineral resource" "extracted" from within the Republic of South Africa is also required to register for the payment of royalties in terms of the Royalty Act.²² Registration is done by the completion and submission of form MPR1.
- 3.3. The royalties are calculated in accordance with a prescribed formula.²³
- 3.4. Royalties are payable when mineral resources extracted from within the Republic, of South Africa are transferred. The "transfer" of the mineral resources is the trigger for the imposition of the royalty. The Royalty Act uses two variables to calculate royalty liability: (a) the value of the minerals (the tax base) and (b) the royalty percentage rate that is applied to the base.
- 3.5. Holders of exploration rights have to register in terms of the Administration Act, although they only become liable to pay royalties if they extract and transfer mineral resources.
- 3.6. Section 3 of the Royalty Act prescribes the manner in which the royalties imposed by Section 2 are calculated, and distinguishes between refined and unrefined mineral resources. The royalty liability arises when a base amount (i.e gross sales calculated in the manner prescribed in Section 6 of the Royalty Act) is multiplied by a percentage, which is calculated by applying the formula prescribed in Section 4 of the Royalty Act.²⁴
- 3.7. The formulae used to determine the royalty rate for refined mineral resources and unrefined mineral resources differ. The maximum royalty percentage is capped at 5% (five

²¹ Section 2(1)(a) of the Mineral and Petroleum Resources Royalty (Administration) Act 29 of 2008

²² Section 2 of the Mineral and Petroleum Resources Royalty Act, No 28 of 2008

²³ Sections 2 and 3 of the Mineral and Petroleum Resources Royalty Act 28 of 2008

²⁴ Section 3 and 4 of the Mineral and Petroleum Resources Royalty Act 28 of 2008

percent) for refined mineral resources and seven 7% (seven percent) for unrefined mineral resources.²⁵

- 3.8. Section 13 of the Royalty Act authorises the Minister of Finance to conclude binding fiscal stability agreements with an extractor in respect of an extractor's mineral resource right or in anticipation of the extractor acquiring a mineral resource right. Fiscal Stability Agreements are limited to specified mineral resource rights and include prospecting rights and exploration rights.
- 3.9. Fiscal stability agreements relating to prospecting or exploration rights can be freely assigned.²⁶
- 3.10. Section 8 of the Royalty Act exempts an extractor from the royalty in respect of mineral resources won or recovered by the extractor for testing, identification, analysis and sampling, provided that the gross sales in respect of the mineral resources does not exceed ZAR100 000.00 (one hundred thousand South African Rand) during a year of assessment.

4. COMPANIES ACT

- 4.1. Companies are highly regulated in South Africa. As at 15th April 2011, companies are regulated under the Companies Act 61 of 1973. A new Companies Act 71 of 2008 (hereinafter referred to as the "Companies Act 2008") is set to come into force in the short term, possibly as early as May 2011. The Companies Act 2008 will modernize South African company law and bring it into alignment with developments in more advanced jurisdictions.
- 4.2. Both Acts provide for strict corporate governance practices with the creation and issue of share capital being strictly regulated. The Companies Act 2008 will simplify the procedures for the creation and issue of share capital, but allows stricter processes to be applied if so provided in the memorandum of incorporation of the company under consideration.
- 4.3. Disposal by companies of a substantial part of their assets is strictly controlled, as are mergers and amalgamations.
- 4.4. Directors' duties are strictly regulated. The Companies Act 2008 places specific emphasis on the fiduciary duties of directors and statutorily regulates the circumstances in which directors can be held personally liable in greater detail than the Companies Act 1973.

²⁵ Sections 2, 3 and 4 of the Mineral and Petroleum Resources Royalty Act 28 of 2008
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- 4.5. The Companies Act 2008 specifically addresses the issues surrounding distressed businesses by having extensive provisions for the rescue of distressed businesses enabling them to continue trading despite financial difficulties and avoid liquidation.

5. TAXATION

- 5.1. From 1st January 2001, South Africa moved to a residence based income tax system and South African residents are taxed on their worldwide income.

- 5.2. The Income Tax Act 58 of 1962, as amended (hereinafter referred to as the "ITA") defines a resident, in relation to juristic or legal entities, to mean any person that is incorporated, established or formed in South Africa or which has a place of effective management in South Africa. Branches of offshore companies will not fall within the definition of resident.

- 5.3. Non-residents are taxed on income from a South African source, or from a source deemed to be South African and also on capital gains arising from:

- 5.3.1. the disposal of immovable property situated in South Africa held by that non-resident or any interest or right in immovable property situated in South Africa; as well as

- 5.3.2. in respect of the disposal by the non-resident of any asset which is attributable to a permanent establishment of that non-resident in South Africa

unless a Double Taxation Agreement (hereinafter referred to as a "DTA") exists and provides otherwise.

- 5.4. We are advised that Kinetiko will not have a branch, office or place of effective management in South Africa, but its exploration activities in South Africa will constitute a permanent establishment in terms of the DTA between South Africa and Australia.

- 5.5. The DTA between Australia and South Africa defines a permanent establishment as a fixed place of business through which the business of an enterprise is wholly or partly carried on and specifically includes a mine, an oil or gas well, a quarry or any other place relating to the exploration for or exploitation of natural resources.²⁷

- 5.6. Where business profits are generated by the exploration activities, only such income as is attributable to the South African permanent establishment will be taxed in South Africa.²⁸

²⁶ Section 13 of the Mineral and Petroleum Resources Royalty Act 28 of 2008

²⁷ Article 5

²⁸ Article 7

- 5.7. If Kinetiko sells the exploration rights, Article 6 of the DTA between South Africa and Australia will apply. Article 6 includes the right to explore for or exploit, mineral, oil or gas deposits, quarries or other places of extraction or exploitation of natural resources²⁹ in its definition of immovable property. Any income derived from the sale of the exploration rights, will be taxed in South Africa.
- 5.8. The Tenth Schedule to the ITA grants a special dispensation with regard to the taxation of an oil and gas company holding an oil and gas right in respect of oil and gas income.
- 5.9. The Tenth Schedule inter alia provides a cap the rate of taxation at 28% (twenty eight percent) in the case of residents and 31% (thirty one percent) in the case of non-residents. It furthermore caps the rate on dividends at 5% (five percent).
- 5.10. The Tenth Schedule authorises the Minister of Finance to conclude binding fiscal stability agreements with an oil and gas company which, subject to the provisions of the ITA, are transferrable.

6. EXCHANGE CONTROL

- 6.1. The cross border flow of capital is regulated by the Exchange Control Regulations, issued under the Currency and Exchanges Act 9 of 1933 (hereinafter referred to as the "Regulations"). The Financial Surveillance Department (hereinafter referred to as "FSD") of the South African Reserve Bank is responsible for the day-to-day administration of exchange control. The FSD from time to time issues rulings and circulars to provide further guidelines regarding the implementation of exchange controls.
- 6.2. Certain South African banks have been appointed to act as authorised dealers in foreign exchange matters and are permitted to process certain transactions without reference to the FSD.
- 6.3. Exchange control is expected to be largely academic during the exploration phase as there will be no repatriation of funds during this phase. To the extent that any repatriation of funds becomes possible, exchange control approval will be required. Generally, as long as the initial introduction of capital to South Africa can be proved, exchange control approvals in this regard will usually be a formality.
- 6.4. Once in production any company established for this purpose, would be entitled to expatriate profits by way of dividends subject to exchange control approvals having been

²⁹ Article 6

obtained. Exchange control approval in this context is initially in the form of endorsement of the share certificates issued by the company as “non-resident”. This is usually a formality provided that the introduction of capital to acquire the shares in question can be proved and the price paid for the shares is fair value. Repatriation of dividends is processed by an authorised dealer, which will be required to verify that the applicable requirements have been satisfied, including certification by an auditor.

- 6.5. Loans by a non-resident to a resident company require exchange control approval. Once approval has been obtained, capital and interest can be readily repatriated.

7. FOREIGN INVESTMENT

Natural or corporate persons, local or foreign may apply for an exploration right in South Africa. Foreign companies do not need to establish a local company or establish a local place of business. However should a foreign company establish a place of business in South Africa it will be required to register as an external company with the relevant Registrar.³⁰ The governments of the Republic of South Africa and Australia concluded a bilateral agreement on 1st July 1999 for the avoidance of double taxation and prevention of fiscal evasion with respect to income. The principle of non-discriminatory treatment as contained in the South African Constitution of 1996 as well as the aforementioned bilateral agreement ensures that foreign investors enjoy the same rights and guarantees as local investors.

8. RELATED MATTERS

8.1. Rights of Access

The Act provides that the holder of an exploration right may enter the land to which the right relates and may bring onto the land any plant machinery or equipment and may build or construct any surface or underground infrastructure for purposes of exploration.³¹ The holder must notify and consult with the land owner or lawful occupier of the land in question prior to commencement of the exploration activities.³² The Act provides for a mediation and arbitration process where a landowner refuses to allow the holder of an exploration right to enter the land or makes unreasonable demands in return for access to the land.³³ The holder of the exploration right may be required to pay compensation in situations where the landowner has suffered or is likely to suffer damages as a result of the

³⁰ Section 322 of the Companies Act of South Africa 61 of 1973

³¹ Section 5(3)(a) of the Mineral and Petroleum Resources Development Act 28 of 2002

³² Section 5(4)(c)

exploration operations.³⁴ If the parties fail to reach an agreement on the payment of compensation the amount will be determined by the arbitration process prescribed in the Arbitration Act 42 of 1965.³⁵

8.2. Water rights

The holder of an exploration right may, subject to the provisions of the National Water Act 36 of 1998, use water from any natural spring, lake, river or stream situated on, or flowing through, such land or from any excavation previously made and used for exploration on land within the exploration area.³⁶

³³ Section 54
³⁴ Section 54(3)
³⁵ Section 54(4)
³⁶ Section 3(d)

ANNEXURE A

STANDARD DISCLAIMERS

1 ADDRESSEES

- 1.1 This report has been prepared solely for the purposes of the prospectus and may not be used for any other purpose or matter, referred to or quoted from or made available to any person, without our prior consent in writing.
- 1.2 This report is given solely for the benefit of the Company and the directors of the Company in connection with the issue of the Prospectus and is not to be relied on or disclosed to any person or used for any other purpose or quoted or referred to in any public document or filed with any government body or other person without our prior consent.
- 1.3 This report speaks at the date specified on the front cover and at no later date.

2 EXCLUSIONS AND ASSUMPTIONS

- 2.1 This report, and the information and advice contained herein, is subject to the following exclusions, assumptions and qualifications:
- 2.1.1 We make no assessment of any possible actuarial, commercial, technical, financial or tax consequences arising out of any of the matters we have reported on.
- 2.1.2 Our findings and other information in this report are based solely on the documents that we have received and reviewed (as listed in Annexure B of the report). We have relied on the accuracy and completeness of the original and copy documents made available to us and we have assumed that the documents were when supplied, and remain, up to date, and are not misleading in any way. In particular, the terms of any agreement or arrangement may have been amended or terminated, either by means of another document not produced to us, or orally or by a course of conduct of which we are unaware, and there may be additional documents and oral arrangements of which we are unaware. We have also assumed that no relevant documents or information have been withheld from us.

- 2.1.3 Save as expressly referred to in this report we have solely relied on the information provided to us by Kinetiko and Badimo and we have not independently verified the accuracy of the facts or the bases of the opinions supplied to us (save as expressly referred to in this report).
- 2.1.4 We have assumed the corporate power of every relevant party to enter into and perform their obligations under every contract or arrangement we have investigated, that all necessary corporate action to authorise the signing and delivery of all relevant documents and the performance of every such obligation has been taken, that all such obligations are valid, binding and enforceable in accordance with their terms, and that the relevant parties have duly complied with every such obligation. We have also assumed that all relevant documents have in fact been duly signed by the parties who have purported to sign them.
- 2.1.5 We are qualified to advise on the laws of South Africa and this report does not contain any advice from Bowman Gilfillan Attorneys on the interpretation or application of any other laws of jurisdictions outside South Africa.
- 2.2 We cannot, and do not express any opinion concerning the value or condition of any assets.
- 2.3 Other than as expressly referred to in this report, we have not conducted any financial, commercial, tax, operational or technical review of Kinetiko and Badimo or of its books and records, nor any investigation of the parties except by reference to those documents received and reviewed (as listed in Annexure B of this report). We are unable to, and do not, express any opinion as to whether such operations are in compliance with any relevant laws (save as expressly referred to in this report), or as to the legal liabilities which may result from any such non-compliance.

ANNEXURE B

LIST OF LEGISLATION AND DOCUMENTS REVIEWED

LEGISLATION

1. Mineral and Petroleum Resources Development Act 28 of 2002.
2. Mineral and Petroleum Resources Amendment Act 49 of 2009.
3. Mining Titles Registration Act 16 of 1967.
4. Mineral and Petroleum Royalty Act 28 of 2008.
5. Companies Act 61 of 1973.
6. Companies Act 71 of 2008.
7. National Environmental Management Act 107 of 1998.
8. Currency and Exchanges Act 9 of 1933.
9. Arbitration Act 42 of 1965
10. National Water Act 36 of 1998.

DOCUMENTS

11. Exploration right 30/5/2/3/38ER granted to Badimo Gas (Pty) Ltd dated 6 May 2008.
12. Environmental Impact Assessment and Environmental Management Programme, dated 11 January 2007.
13. Letter of Guarantee issued by BoE Private Bank dated 20 December 2010.
14. Exploration right 30/5/2/3/11ER granted to Badimo Gas (Pty) Ltd dated 8 February 2008.
15. Environmental Impact Assessment and Environmental Management Programme dated 22 November 2007.
16. Exploration right 30/5/2/34/41ER granted to Badimo Gas (Pty) Ltd dated 8 February 2008.
17. Environmental Management Programme, dated 22 November 2007.

18. Exploration right 30/5/2/3/56ER granted to Badimo Gas (Pty) Ltd dated 11 December 2009.
19. Environmental Impact Assessment and Environmental Management Programme dated 22 November 2007.
20. Letter of Guarantee, issued by BoE Private Bank dated 20 December 2010.
21. Farm-out agreement concluded between Badimo Gas (Pty) Ltd and Kinetiko Energy Limited, dated 30 August 2010.
22. Addendum to Farm-out agreement dated 2 February 2011.
23. Operating agreement concluded between Badimo Gas (Pty) Ltd and Kinetiko Energy Limited dated 30 August 2010.
24. Completion agreement concluded between Badimo Gas (Pty) Ltd and Kinetiko Energy Limited dated 4th May 2011.
25. Section 11 and Section 102 applications in terms of the Mineral and Petroleum Resources Development Act 28 of 2002 dated 21 July 2010 in respect of 30/5/2/34/41ER and 30/5/2/3/56ER as well as 30/5/2/3/11ER and 30/5/2/3/38ER.
26. Renewal application in respect of 30/5/2/3/11ER dated 4 February 2011.
27. Renewal application in respect of 30/5/2/3/38ER dated 4th May 2011.
28. In respect of 30/5/2/3/11ER and 30/5/2/3/38ER as consolidated:
 - 28.1 Notarial Deed of Assignment dated 4th May 2011;
 - 28.2 Notarial Deed of Amendment dated 4th May 2011; and
 - 28.3 Revised Exploration Work Programme dated 4th May 2011.
 - 28.4 Revised Environmental Impact Assessment and Environmental Management Programme.
29. In respect of 30/5/2/34/41ER and 30/5/2/3/56ER as consolidated:
 - 29.1 Notarial Deed of Assignment dated 4th May 2011;
 - 29.2 Notarial Deed of Amendment dated 4th May 2011;
 - 29.3 Revised Exploration Work Programme dated 4th May 2011; and

29.4 The approved Environmental Impact Assessment and Environmental Management Programme.

ANNEXURE C

MATERIAL TERMS OF THE ACQUISITION TRANSACTION

1. SCOPE OF REVIEW AND INTRODUCTORY OBSERVATIONS

- 1.1 This review has been conducted at a high level and is intended for general informational purposes only. It aims to emphasize the material terms of the farm-out agreement (referred to as the "Acquisition Transaction"). The standard disclaimers (see Annexure A above) are applicable to this review.
- 1.2 We confirm that Kinetiko and Badimo (the "parties") signed the Acquisition Transaction and the exhibits thereto on 30th August 2010 and the Acquisition Transaction is effective accordingly from this date.

2. CONDITIONS PRECEDENT AND COMPLETION

- 2.1 The Acquisition Transaction requires fulfilment and or waiver of all conditions precedent by 31st December 2010.
- 2.2 The parties concluded an addendum to the Acquisition Transaction (referred to as the "Addendum"), extending the time period for fulfilment and or waiver of the conditions precedent to 30th June 2011. The parties agreed that notwithstanding the date of signature of the Addendum, its effective date is 31st December 2010.
- 2.3 We confirm that on 4th May 2011 all the conditions precedent as contained in the Acquisition Transaction were fulfilled and or waived. Accordingly, on 4th May 2011 the parties executed a Completion Agreement and Kinetiko is the owner of a 49% (forty nine percent) undivided shares in both exploration right 30/5/2/3/38ER (as consolidated) and exploration right 30/5/2/3/56ER (as consolidated).

3. FINANCIAL TERMS OF THE ACQUISITION TRANSACTION

- 3.1 Pursuant to the Acquisition Transaction, the consideration to be paid by Kinetiko is split into two parts, the initial consideration and the further consideration.

3.2 The initial consideration is an amount of ZAR10 000 000,00 (ten million South African Rand) being a partial reimbursement of Badimo's past costs. The initial consideration is to be paid by Kinetiko to Badimo after 4 May 2011 and within 10 business days of receipt of an invoice to be issued by Badimo.

3.3 The further consideration is an amount of ZAR26 000 000,00 (twenty six million South African Rand) which is to be paid by Kinetiko and expended in respect of the exploration work programmes for both exploration rights as and when cash called pursuant to the Operating Agreement referred to in paragraph 3.4 below.

3.4 We can confirm that once the expenditure threshold of ZAR26 000 000,00 (twenty six million South African Rand) has been reached each of Badimo and Kinetiko shall be liable to fund the respective exploration work programmes in accordance with their respective percentage interests.

4. LIABILITIES AND INDEMNITIES

4.1 The Acquisition Transaction provides that after the completion date the liability of the parties to each other shall be determined in accordance with the provision of the Operating Agreement.

4.2 We can confirm that, in accordance with the provisions of the Acquisition Transaction, Badimo has indemnified and holds Kinetiko harmless in respect of any cost, claim liability or expense that accrues and relates to any period prior to 4 May 2011.

5. SUCCESSORS AND ASSIGNS

The Acquisition Transaction acknowledges that Kinetiko is in the process and/or intends to structure itself and may wish to establish a South African subsidiary company which may ultimately be the holder of the transferred participating interest. In this regard we can confirm that the Acquisition Transaction contains Badimo's irrevocable consent and undertaking to execute all necessary documentation to give effect to such assignment.



6. GOVERNING LAW AND ARBITRATION

- 6.1 The Acquisition Transaction is to be construed, interpreted and applied in accordance with the laws of the Republic of South Africa.

- 6.2 In the event of a dispute the agreement requires that parties first engage in negotiation and compulsory mediation with the aim of concluding a final and binding settlement agreement. A period of 15 (fifteen) business days from date of the notice of dispute, or such longer period as the parties may agree, is allowed for negotiation and mediation. Whereafter the dispute shall be determined by final and binding arbitration. The seat of arbitration is Cape Town, South Africa.

- 6.3 The aforementioned proceedings shall, in the event of mediation, take place before a single mediator, and, in the event of arbitration, before a single arbitrator, who shall be agreed upon by the parties.

7. COUNTERPARTY EXECUTION

The Acquisition Transaction and its exhibits have been executed in 2 (two) original counterparts with each such counterpart deemed an original agreement.

ANNEXURE D

**MATERIAL TERMS OF THE EXPLORATION RIGHTS AND EXPLORATION WORK
PROGRAMME**

1. **EXPLORATION RIGHTS PRIOR TO CONSOLIDATION**

Reference number	Project name	Signature date	Expiry date
30/5/2/3/41ER	Amersfoort Townlands	08/02/2008	08/02/2011
30/5/2/3/56ER	Amersfoort North Extension	11/12/2009	11/12/2012
30/5/2/3/11ER	Amersfoort East	08/02/2008	08/02/2011
30/5/2/3/38ER	Amersfoort North West South ("NWS")	06/05/2008	06/05/2011

2. **EXPLORATION RIGHTS AFTER CONSOLIDATION**

Reference number	Project name	Signature date	Expiry date
30/5/2/3/56ER	Amersfoort North Extension	04/05/2011	11/12/2012
30/5/2/3/38ER	Amersfoort North West South ("NWS")	04/05/2011	06/05/2011

NOTE: Exploration Right 30/5/2/3/38ER is the subject of a renewal application that, if granted, will extend the expiry date by a further 2 (two) years.

3. WORK PROGRAMME IN RESPECT OF EXPLORATION RIGHT 30/5/2/3/56ER

Exploration Periods	Duration of Exploration Periods	Exploration Work Programme	Minimum Expenditure
Initial Period	36 months	Completion of 8 core holes and core sample gas desorption, with associated site selection work including but not limited to aeromagnetic data interpretation and ground magnetic data acquisition.	ZAR 5,800,000.00
First Renewal Period (if entered into)	24 months	Completion of 2 to 3 permeability test wells and associated site selection work including but not limited to aeromagnetic data interpretation and ground magnetic data acquisition.	ZAR 7,200,000.00
Second Renewal Period (if entered into)	24 months	Production trials based on 4 to 6 permeability test wells and 4 to 6 core holes to optimise the location of the permeability wells.	ZAR13,000,000.00
Third Renewal Period (if entered into)	24 months	Scale up and commercialisation demonstration with the development of a minimum production array of wells.	ZAR13,000,000.00

4. CURRENT WORK PROGRAMME IN RESPECT OF EXPLORATION RIGHT
30/5/2/3/38ER

Exploration Periods	Duration of Exploration Periods	Exploration Work Programme	Minimum Expenditure
Initial Period	36 months	Completion of 8 core holes and core sample gas desorption, with associated site selection work including but not limited to aeromagnetic data interpretation and ground magnetic data acquisition.	ZAR 5,800,000.00
First Renewal Period (if entered into)	24 months	Completion of 2 to 3 permeability test wells and associated site selection work including but not limited to aeromagnetic data interpretation and ground magnetic data acquisition.	ZAR 7,200,000.00
Second Renewal Period (if entered into)	24 months	Production trials based on 4 to 6 permeability test wells and 4 to 6 core holes to optimise the location of the permeability wells.	ZAR13,000,000.00
Third Renewal Period (if entered into)	24 months	Scale up and commercialisation demonstration with the development of a minimum production array of wells.	ZAR13,000,000.00

5. AMENDED WORK PROGRAMME IN RESPECT OF EXPLORATION RIGHT 30/5/2/3/38ER: SUBJECT GRANTING OF RENEWAL APPLICATION

Exploration Period	Exploration Work Programme	Minimum Expenditure
First Renewal Period	<p>Completion of 8 core holes and core sample gas desorption, with associated site selection work including but not limited to aeromagnetic data interpretation and ground magnetic data acquisition.</p> <p>Completion of 2 to 3 permeability test wells and associated site selection work including but not limited to aeromagnetic data interpretation and ground magnetic data acquisition.</p>	ZAR13,000,000.00
Second Renewal Period (if entered into)	Production trials based on 4 to 6 permeability test wells and 4 to 6 core holes to optimise the location of the permeability wells.	ZAR13,000,000.00
Third Renewal Period (if entered into)	Scale up and commercialisation demonstration with the development of a minimum production array of wells.	ZAR13,000,000.00

NOTE: The renewal application submitted in respect Exploration Right 30/5/2/3/38ER will require an amendment to the Exploration Work Programme.

6. Overview

6.1 The conditions to the exploration rights are contained in the host government contract as well as the Mineral and Petroleum Resources Development Act 28 of 2002 and the

regulations thereto. These conditions include but are not limited to the requirement that the holders of the exploration rights diligently conduct exploration operations in accordance with the exploration work programme, comply with the environmental management programme and pay all prescribed amounts due to the Government of the Republic of South Africa.

- 6.2 Our review of the exploration rights prior to consolidation identified certain non-compliances with the terms and conditions thereof and the governing legislation. These non-compliances, at the time that the various applications were submitted, were well known to the regulator. Notwithstanding, the foregoing we are able to confirm that by the Minister consenting to the amendments in respect of work programme obligations and approving the Section 11 applications these non-compliances have for all intents and purposes been condoned by the Minister and in our opinion should not have any prejudicial effect on the consolidated exploration rights as amended.
- 6.3 We confirm that the environmental obligations are addressed in the environmental management programmes and that such programmes are contained as an annexure to the host government contracts. To the best of our knowledge and belief there are no current, pending or threatened criminal, civil or administrative proceedings against Badimo in respect of non-compliance with the environmental management programmes.
- 6.4 The holders of an exploration right are required to pay prescribed annual exploration fees which are calculated in accordance with a formula linked to the size of the exploration area. We confirm that the exploration fees due and payable in respect of the exploration rights are calculated as follows:

Initial Exploration Period:

Category	A	B
Area in hectares	0-1000	1001 and greater
Year	Fixed annual (R)	Rate R/hectare
1	1000.00	1.00
2	1100.00	1.50
3	1200.00	2.00

Renewal Exploration Periods:

Category	A	B
Area in hectares	0-1000	1001 and greater
Year	Fixed annual (R)	Rate R/hectare
1	2800.00	5.00
2	2900.00	6.00
3	3000.00	7.00

- 6.5 Based on the aforementioned we can confirm that, in the absence of changes in the prescribed formula, a relinquishment of a percentage of the exploration area and/or voluntary abandonment, cancellation or suspension of the exploration activities, the liability for exploration fees in respect of Exploration Right 30/5/2/3/38ER and Exploration Right 30/5/2/3/56ER may be determined as follows:

Exploration Right 30/5/2/3/38ER

Period	Formula	Estimated Exploration Fee Liability
Renewal Year 1	131 148 x 5.00	ZAR 655, 740.00
Renewal Year 2	131 148 x 6.00	ZAR 786, 888.00
Renewal Year 3	131 148 x 7.00	ZAR 918, 036.00

Exploration Right 30/5/2/3/56ER

Period	Formula	Estimated Exploration Fee Liability
Initial Exploration Period Year 3	56 404 x 2.00	ZAR 112, 808.00
Renewal Year 1	56 404 x 5.00	ZAR 282, 020.00
Renewal Year 2	56 404 x 6.00	ZAR 338, 424.00
Renewal Year 3	56 404 x 7.00	ZAR 394, 828.00

- 6.6 The host government contract permits the exporting of data, acquired data and samples for processing or laboratory examination or analysis by the holder of the exploration rights or by third parties or for storage outside of the Republic of South Africa, provided that representative samples (equivalent in quality) and copies of the acquired data (equivalent in quality) have first been delivered to the Government of the Republic of South Africa and provided further that the prior written approval has been obtained. For the purpose of this paragraph the word "samples" shall mean 'physical samples of rock, fluid and other materials acquired by the holder in the course of conducting the exploration operations for the purpose of preserving and analysing such samples'.
- 6.7 We confirm that the host government contracts makes provision for the State to acquire up to 10 (ten) percent of the Participating Interest, within 90 (ninety) days from the effective date of a production right or gas market development period.
- 6.8 We confirm that the host government contract requires that the holders relinquish portions not less than 20% (twenty percent) of the exploration area at the end of the initial exploration period and not less than 15% (fifteen percent) at the end of the first and second renewal periods respectively.
- 6.9 Notwithstanding the requirement specified in paragraph 6.8 above we confirm the relinquishment obligation is capable of amendment by way of waiver exercised by the Minister of Mineral Resources and consent of the holders of the exploration rights. We also confirm that the Minister of Mineral Resources has at this stage approved the consolidation and section 11 applications with amended exploration work programme over the entire exploration areas without a specified relinquishment area. We further confirm that it is our understanding that the holders of the exploration will request a non-relinquishment based



on the lack of utilisation of the land and based on the above we have no reason to believe that this request will not be granted.

- 6.10 We confirm that to the best of our knowledge and belief there are no current, pending or threatened litigation, arbitration or regulatory agency action in relation to the exploration rights forming the subject matter of this report.

ANNEXURE E

MATERIAL TERMS OF THE OPERATING AGREEMENT

1 SCOPE OF REVIEW

This review has been conducted at a high level and is intended for general informational purposes only. It aims to emphasize the material terms of the joint operating agreement, and as such it does not intend to make any statement on issues of compliance or non-compliance with the terms, conditions and obligations of the Operating Agreement. The standard disclaimers of Bowman Gilfillan Attorneys (see Annexure A above) are applicable to this review.

2 INTRODUCTORY OBSERVATIONS

- 2.1 The Operating Agreement (the "agreement") as signed by Kinetiko and Badimo (the "parties") on 30 August 2010 (the "signature date") is based on the 2002 AIPN model form agreement and is presented as Annexure A to the Acquisition Transaction.
- 2.2 The agreement is effective from the signature date and continues in effect until of the termination of the exploration rights or the termination of the production rights issued pursuant to the exploration rights, whichever is the later.
- 2.3 The agreement does not intend to address government participation should such election be exercised and does not contain change of control limitations in respect of the corporate structures of the parties.

3 PARTICIPATING INTEREST: ADJUSTMENT, VOLUNTARY REDUCTION AND TRANSFER

- 3.1 The terms and conditions of the result in Kinetiko becoming the owner of an undivided 49% (forty nine per cent) participating interest in the exploration rights and accordingly Badimo retaining an undivided 51% (fifty one per cent) participating interest in the exploration rights. This is confirmed and repeated in the agreement.
- 3.2 The agreement makes provision for adjustment of the aforementioned participating interest in the following ways:
 - 3.2.1 partial or complete withdrawal by way of written notice;

- 3.2.2 forfeiture as a result of failure to make due payment in accordance with the participating interest ("default");
- 3.2.3 the election to be a non-consenting party to an exclusive operation in respect of the exclusive operation only;
- 3.2.4 voluntary election to reduce participating interest (see paragraph 3.4 below for discussion); or
- 3.2.5 transfer of a participating interest (see paragraph 3.5 below for discussion).
- 3.3 If the consequence of any of the aforementioned adjustments results in a party's participating interest being reduced to below 2% (two percent) then such participating interest shall accrue to the other party without consideration therefor.
- 3.4 The agreement allows a party to voluntarily reduce its participating interest by way of voluntary election or by way of funding. A voluntary election occurs if a party approves a work programme and budget and simultaneously notifies the other party that it elects not to pay its participating interest share of approved work programme and budget. In the event of such occurrence, the participating interest of the party making the voluntarily election shall be calculated as a fraction, the denominator of which shall be the total costs and expenditure charged to joint account and the numerator of which shall be the total costs and expenditures paid by the party concerned to the joint account. The available participating interest shall accrue to the other party without consideration therefor. In contrast, a voluntary reduction in participating interest by way of funding occurs when a party ("non funding party") approves a work programme and budget, but it is unable to fund and pay its share in accordance with its participating interest. In such event the other party ("funding party") may elect to fund and pay the share of the non-funding party. The funding party would be entitled to recover such funding together with interest compounded monthly multiplied by 1.5 (one point five) from the non-funding party's entitlement to petroleum.
- 3.5 The agreement permits the transfer of all or part of a party's participating interest subject to the requirements of the host government contract and consent of the other party (which consent can only be withheld if the transferee fails to establish that it is capable of performing its obligations under the host government contract and the agreement). Transfer to an affiliate does not require the consent of the other parties. The agreement makes provision for a right of first negotiation, which requires that a party wishing to transfer its participating interest first notify the other parties of its

intention and invite the submission of offers for the acquisition of such participating interest, prior to engaging in negotiations with third parties.

- 3.6 The agreement does not state that a change in control of a party shall be considered as a transfer.

4 THE OPERATOR

- 4.1 Kinetiko is designated as the Operator.
- 4.2 The model form rights of non-operators to access and observe the operations and the right to inspect the property and to conduct financial audits as provided in the accounting procedure are contained in the agreement.
- 4.3 Without limitation, the agreement allows the Operator to determine the number of employees and selection of employees. There is no requirement or provision for secondment of an employee of the non-operator.
- 4.4 The agreement stipulates that the Operator may, without seeking the approval of the operating committee, award contracts for the approved operations to best qualified contractors if the value of the contract is ZAR200 000.00 (two hundred thousand rand) or less. For contracts exceeding ZAR200 000.00 (two hundred thousand rand), the agreement requires that Operator comply with the tender processes as stipulated in the agreement.
- 4.5 The Operator is allowed the sole discretion to compromise or settle any material claims or suits that relate to the joint operations for an amount not exceeding the equivalent of ZAR100 000.00 (one hundred thousand rand) exclusive of legal fees.
- 4.6 The Operator as well as its affiliates, shareholders, directors, officers, employees, agents and consultants (the "indemnitees") are indemnified from liability to non-operators (except as a party to the extent of its participating interest), by the parties in accordance with their participating interests, for any and all damages, losses, costs, expenses and liabilities arising out of negligence, gross negligence, strict liability or other legal fault of the indemnitees whether in performance or as a result of failure to perform.
- 4.7 The parties furthermore defend and indemnify the Operator and the indemnitees for any and all damages, losses, costs, expenses (including reasonable legal costs, expenses and attorney's fees) and liabilities arising from claims brought by any person or entity which claims that the cause of action arose from the joint operations due to



negligence, gross negligence, strict liability or other legal fault of the Operator (or indemnitees) whether in performance or as a result of failure to perform.

- 4.8 The agreement provides two exceptions to paragraphs 4.6 and 4.7 above namely, where the Operator has breached the agreement or in the event gross negligence by a Senior Supervisory Personnel of the Operator or its affiliates where the conduct proximately causes the parties to incur damage, loss, cost, expense or liability for claims, demands or causes of action then the Operator shall bear such damages, losses and costs, expenses and liabilities. Except under no circumstances shall the Operators bear liability for consequential loss or other indirect damages and losses which shall include but not be limited to business interruption, reservoir or formation damage, inability to produce petroleum, loss of profits, pollution control and environmental amelioration or rehabilitation.
- 4.9 The agreement requires the Operator procure and maintain the required insurance for the exploration right, production right and any further insurances as may be specified by the operating committee from time to time. A party may elect not to participate in the insurance obtained by the Operator provided that such party procures and maintains its own insurance. Where a party has elected to obtain its own insurance such insurance must be adequate and must contain a waiver of subrogation in favour of all the other parties.
- 4.10 The Operator vacates its position in the event of resignation and removal by virtue of insolvency, bankruptcy and the like. Where the Operator becomes the holder of less than 25% (twenty five percent) participating interest the operating committee will vote on whether or not a successor Operator should be named.
- 4.11 The agreement does not state that assignment of the operatorship may occur in the event change of control in the party acting as Operator.

5 OPERATING COMMITTEE

- 5.1 Each party appoints one representative and one alternative representative to the operating committee.
- 5.2 The representative of a party, or in the representative's absence the alternate representative, shall have one vote equal to the participating interest of the party concerned. Such vote shall bind the parties to any matter which is within the powers of the operating committee which has been properly tabled before the operating committee.

- 5.3 The agreement makes provision for decisions, approvals and other actions of the operating committee to be determined as follows:

Function	Voting Procedure
Determining the functions of subcommittees (other than advisory function)	Unanimous consent required.
Waiver of notice periods for operating committee meetings	Unanimous consent required.
Consideration of items not on agenda	Unanimous consent required.
Appointment of a chairperson of operating committee and subcommittees	Party with the highest participating interest appointments these chairperson/s.
All other decisions, approvals and actions of the operating committee	Affirmative vote of two or more parties (which are not affiliates) having collectively at least 70% (seventy percent) participating interest is required.

6 WORK PROGRAMS AND BUDGETS

- 6.1 The agreement contains the following procedure for the tabling and approval of the work programme and budget ("WP&B"):

Exploration and Appraisal	
Delivery of proposed WP&B by Operator within 30 days of execution of agreement for remainder of current financial year and following financial year (if appropriate). Thereafter, three months prior to the commencement of the each financial year the Operator shall deliver a proposed WP&B to be performed in the following	Operating committee to meet and consider, approve, amend or reject such proposals within 60 days of receipt.

financial year.	
Operator to notify parties of discovery and deliver report containing details of the discovery and Operator's recommendation.	Within 30 days of receipt of the report the operating committee must meet to decide whether the discovery merits appraisal.
If the operating committee decides that the discovery merits appraisal, the Operator must deliver a proposed WP&B for the appraisal within 30 days of such decision.	Within 30 days of receipt of the appraisal WP&B, or earlier if required by the terms of the exploration/production right, the operating committee must meet to consider, approve, amend or reject the appraisal WP&B.
Discovery and Appraisal	
Operator to notify parties of discovery and deliver report containing details of the discovery and Operator's recommendation.	Within 30 days of receipt of the report the operating committee must meet to decide whether the discovery merits appraisal.
If the operating committee decides that the discovery merits appraisal, the Operator must deliver a proposed appraisal programme within 30 days of such decision.	Within 30 days of receipt of the proposed appraisal programme, or earlier if required by the terms of the exploration/production right, the operating committee must meet to consider, approve, amend or reject the proposed appraisal programme and revise the current WP&B accordingly.
Development and Production	
If the operating committee determines that a discovery may be commercial the Operator shall deliver a development plan together with the first annual WP&B as soon as possible.	On receipt of the development plan the operating committee shall meet to consider, approve, amend or reject the development plan and first annual WP&B

If the development plan is approved such work shall form part of the WP&B and the operator shall 3 months prior to the commencement of the financial year submit a WP&B for the production area for the following year.	The operating committee shall meet within 60 days of receipt and shall endeavour to agree to such WP&B including any necessary or appropriate revisions to the WP&B for the approved development plan.
Production	
3 months prior to the commencement of the financial year Operator must deliver a proposed production WP&B detailing the joint operations to be performed in the production WP&B and the projected production schedule for the following financial year.	Within 60 days of receipt the operating committee shall agree upon a production WP&B.

- 6.2 On approval of any WP&B by the operating committee, the Operator must seek Government approval. The operating committee may revise and must approve any amendments to the WP&B. Whereafter, the Operator will be required to submit such amendments to Government for approval (if required).

7 Exclusive Operations

- 7.1 The agreement does allow exclusive operations provided that such operations shall not be in conflict with the joint operation.
- 7.2 The following activities may be proposed and conducted as exclusive operations:
- 7.2.1 Drilling and/or testing of exploration and appraisal wells;
- 7.2.2 Completion of exploration and appraisal wells not then completed as productive of petroleum;
- 7.2.3 Deepening, sidetracking, plugging back and/or recompletion of exploration and appraisal wells;
- 7.2.4 Development as a consequence of a commercial discovery; and
- 7.2.5 Seismic acquisition and processing.

8 Governing Law and Arbitration

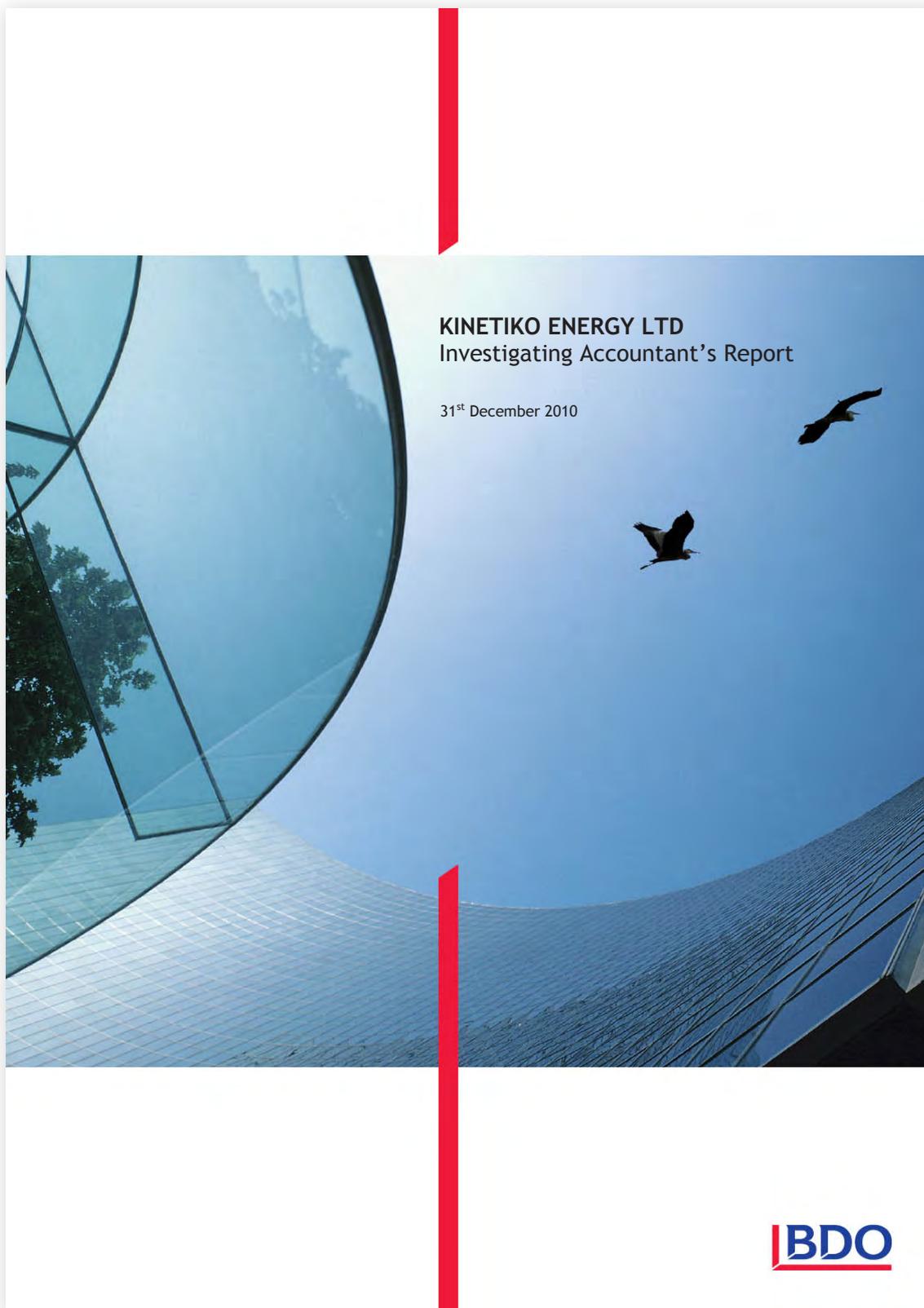
- 8.1 The agreement is to be construed, interpreted and applied in accordance with the laws of the Republic of South Africa.
- 8.2 In the event of a dispute the agreement requires that parties first engage in negotiation and compulsory mediation with the aim of concluding a final and binding settlement agreement. A period of 15 (fifteen) business days from date of the notice of dispute, or such longer period as the parties may agree, is allowed for negotiation and mediation. Whereafter the dispute shall be determined by final and binding arbitration. The seat of arbitration is Cape Town, South Africa.
- 8.3 The aforementioned proceedings shall, in the event of mediation, take place before a single mediator, and, in the event of arbitration, before a single arbitrator, who shall be agreed upon by the parties.

9 Accounting Procedure: Cash Call Process

- 9.1 The cash call process is contained in the accounting procedure which is presented as annexure A to the agreement.
- 9.2 It is a material term of the Acquisition Transaction, that a further consideration in the amount of ZAR26 000 000,00 (twenty six million South African Rand) is to be paid by Kinetiko and expended in respect of the exploration work programmes for the exploration rights as and when cash called pursuant to the agreement.
- 9.3 Once the expenditure threshold of ZAR26 000 000,00 (twenty six million South African Rand) has been reached each of the parties shall be liable to fund the respective exploration work programmes in accordance with their respective percentage interests as and when cash called.

INVESTIGATING
ACCOUNTANT'S REPORT

07





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Australia

19 May 2011

The Directors
Kinetiko Energy Limited
283 Rokeby Road
SUBIACO WA 6008

Dear Sirs,

INVESTIGATING ACCOUNTANT'S REPORT

1. Introduction

We have prepared this Investigating Accountant's Report ("Report") on historical financial information of Kinetiko Energy Ltd ("Kinetiko" or "the Company") for inclusion in the Prospectus. Broadly, the Prospectus will offer up to 50,000,000 shares at an issue price of \$0.20 ("the Offer"). Under the proposed issue \$10,000,000 will be raised before costs. The minimum subscription is for the issue of 40,000,000 ordinary shares to raise \$8,000,000 before costs.

2. Basis of Preparation

This Report has been prepared to provide investors with information on the Statement of Comprehensive Income and the Statement of Financial Position, the pro-forma Statement of Financial Position and the Statement of Changes in Equity as noted in Appendices 1, 2 and 3.

This Report does not address the rights attaching to the shares to be issued in accordance with the Prospectus, nor the risks associated with the investment, and has been prepared based on the complete Offer being achieved. Neither BDO Corporate Finance (WA) Pty Ltd nor its related entities ("BDO") has been requested to consider the prospects for the Company, the shares on offer and related pricing issues, nor the merits and risks associated with becoming a shareholder and accordingly has not done so, and does not purport to do so. BDO accordingly takes no responsibility for these matters or for any matter or omission in the Prospectus, other than responsibility for this Report. Risk factors are set out in the Prospectus.

Expressions defined in the Prospectus have the same meaning in this Report.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



3. Background

Kinetiko was incorporated on 25 January 2010 to identify and evaluate investment opportunities in the resources sector suitable for a public company. The Company raised \$585,000 via the issue of 55,800,000 fully paid ordinary shares to assist with the identification and evaluation of investment opportunities.

Kinetiko is looking to enter into the exploration of energy in South Africa. Kinetiko has executed joint operating agreements as well as a farm-in agreement with Badimo Gas Ltd (RSA) to which Kinetiko will hold 49% interest and Badimo Gas holds the remaining 51% interest in the Amersfoort Licenses located in South Africa. Consideration for the Acquisition will be satisfied by the payment of:

- \$1,400,000 being a partial reimbursement of Badimo's past costs; and
- \$3,600,000 in respect of the exploration work programmes.

4. Scope

You have requested BDO to prepare an Investigating Accountant's Report covering the following financial information:

- Kinetiko's reviewed statement of Comprehensive Income for the period from incorporation, 25 January 2010 to 31 December 2010;
- the Statement of Financial Position, Statement of Changes in Equity and proforma Statement of Financial Position as at 31 December 2010 reflecting the actual position as at that date, major transactions between that date and the date of our report and the proposed capital raising under the Prospectus; and
- the accounting policies applied by Kinetiko in preparing its financial statements.

The historical financial information set out in the appendices to this Report has been extracted from the financial statements of the Company for the period from incorporation to 31 December 2010.

The Directors are responsible for the preparation of the historical financial information including determination of the adjustments.

We have conducted our review of the historical financial information in accordance with the Australian Auditing and Assurance Standard ASRE 2405 "Review of Historical Financial Information Other than a Financial Report". We made such inquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents pertaining to balances in existence at 31 December 2010;
- a review of the assumptions used to compile the pro-forma Statement of Financial Position;
- a review of the adjustments made to the pro-forma historical financial information;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in the appendices to this Report; and
- enquiry of Directors and others.



These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our review was limited primarily to an examination of the historical financial information, the pro-forma financial information, analytical review procedures and discussions with both management and directors. A review of this nature provides less assurance than an audit and, accordingly, this Report does not express an audit opinion on the historical information or pro-forma financial information included in this Report or elsewhere in the Prospectus.

In relation to the information presented in this Report:-

- support by another person, corporation or an unrelated entity has not been assumed;
- the amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and
- the going concern basis of accounting has been adopted.

5. Conclusion

Statement on Historical Financial Information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the historical financial information as set out in the Appendices to this report does not present fairly the financial performance for the period ended 31 December 2010 or the financial position as at 31 December 2010 in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

Statement of Pro-forma Financial Information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the pro-forma financial information does not present fairly the financial position of the Company as at 31 December 2010, in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions had occurred on that date.

6. Subsequent Events

We have performed review procedures up to the date of signing and noted the following subsequent event:

- Issue of 4,200,000 fully paid ordinary shares to seed investors at an issue price of \$0.10 per share to raise \$420,000.

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.



7. Assumptions Adopted in Compiling the Pro-forma Statement of Financial Position

The pro-forma Statement of Financial Position post issue is shown in Appendix 2. This has been prepared based on the reviewed financial statements as at 31 December 2010 and the transactions and events relating to the issue of shares under this Prospectus:

- The issue of 50,000,000 fully paid ordinary shares at an issue price of 20 cents per Share to raise \$10,000,000;
- Capital raising costs totalling approximately \$600,000, to be offset against contributed equity; and
- Pursuant to the farm-in agreement, payment of \$1,400,000 being a partial reimbursement of Badimo's past costs.

8. Disclosures

BDO Corporate Finance (WA) Pty Ltd is the corporate advisory arm of BDO in Perth.

Neither BDO Corporate Finance (WA) Pty Ltd nor BDO, nor any director or executive or employee thereof, has any financial interest in the outcome of the proposed transaction except for the normal professional fee due for the preparation of this Report.

Consent to the inclusion of the Investigating Accountant's Report in the Prospectus in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully
BDO Corporate Finance (WA) Pty Ltd

Peter Toll
 Director



APPENDIX 1
KINETIKO ENERGY LTD
STATEMENT OF COMPREHENSIVE INCOME

	Reviewed For the period from 25 January 2010 to 31 December 2010 \$
Revenue from continuing operations	151
Other Income	-
Accounting Fees	(1,570)
Foreign exchange loss	(1,173)
Bank Charges	(213)
Consulting fees	(489,869)
Other expenses	(794)
Loss before income tax expense	(493,468)
Income tax expense	-
Net loss for the period attributable to members	(493,468)
Other comprehensive income for the period, net of tax	-
Total comprehensive income for the period attributed to members	(493,468)

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.



APPENDIX 2
KINETIKO ENERGY LTD
STATEMENT OF FINANCIAL POSITION

	Notes	Kinetiko Reviewed 31-Dec-10 \$	Subsequent Events \$	Pro-forma Adjustment \$	Pro-forma After Issue \$
CURRENT ASSETS					
Cash and cash equivalents	2	414,710	420,000	8,000,000	8,834,710
Trade and other receivables		20,796	-	-	20,796
TOTAL CURRENT ASSETS		<u>435,506</u>	<u>420,000</u>	<u>8,000,000</u>	<u>8,855,506</u>
NON-CURRENT ASSETS					
Exploration and evaluation expenditure	3	-	-	1,400,000	1,400,000
TOTAL NON-CURRENT ASSETS		<u>-</u>	<u>-</u>	<u>1,400,000</u>	<u>1,400,000</u>
TOTAL ASSETS		<u>435,506</u>	<u>420,000</u>	<u>9,400,000</u>	<u>10,255,506</u>
CURRENT LIABILITIES					
Trade and other payables		284,849	-	-	284,849
Borrowings		59,125	-	-	59,125
TOTAL CURRENT LIABILITIES		<u>343,974</u>	<u>-</u>	<u>-</u>	<u>343,974</u>
TOTAL LIABILITIES		<u>343,974</u>	<u>-</u>	<u>-</u>	<u>343,974</u>
NET ASSETS		<u>91,532</u>	<u>420,000</u>	<u>9,400,000</u>	<u>9,911,532</u>
EQUITY					
Contributed equity	4	585,000	420,000	9,400,000	10,405,000
Accumulated Losses		(493,468)	-	-	(493,468)
TOTAL EQUITY		<u>91,532</u>	<u>420,000</u>	<u>9,400,000</u>	<u>9,911,532</u>

The pro-forma Statement of Financial Position after Issue is as per the Statement of Financial Position before Issue adjusted for the transactions relating to the issue of shares pursuant to this Prospectus. The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4



APPENDIX 3
KINETIKO ENERGY LTD
STATEMENT OF CHANGES IN EQUITY

	Kinetiko Reviewed 31-Dec-10 \$	Subsequent Events \$	Proforma Adjustments \$	Pro-forma After Issue \$
Balance at 25 January 2010	-	-	-	-
<i>Comprehensive income for the period</i>				
Profit/(Loss) for the period	(493,468)	-	-	(493,468)
<i>Other comprehensive income for the period</i>	-	-	-	-
Total comprehensive income for the period	(493,468)	-	-	(493,468)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Contributed equity, net of transaction costs	585,000	420,000	9,400,000	10,405,000
Total transactions with equity holders	585,000	420,000	9,400,000	10,405,000
Balance at 31 December 2010	91,532	420,000	9,400,000	9,911,532

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.



APPENDIX 4
KINETIKO ENERGY LTD
NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION
FOR THE PERIOD ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical and pro-forma financial information included in this Report have been set out below.

(a) Basis of preparation of historical financial information

The historical financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board and Australian Accounting Interpretations.

The financial report has also been prepared on a historical cost basis.

(b) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The ability of the Company to continue as a going concern is dependent on the Company being able to raise additional funds as required to meet ongoing commitments and for working capital. The Directors may need to raise additional capital or realise assets as required to further explore and evaluate the current opportunities. The Directors believe that the Company will continue as a going concern. As a result the financial report has been prepared on a going concern basis. However should the Company be unsuccessful in undertaking additional raisings or realising assets, the entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of assets and liabilities that might be necessary should the Company not continue as a going concern.

(c) Foreign Currency Translation

The functional and presentation currency of Kinetiko is Australian dollars (A\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss.

(d) Revenue Recognition

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.



(e) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities, associates and interests in joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

(f) Impairment of Assets

At each reporting date the Company assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the Statement of Comprehensive Income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and bank balances.

(h) Payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms. They are recognised initially at fair value and subsequently at amortised cost.



(i) Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(j) Exploration and evaluation assets

Exploration and evaluation costs are accumulated in respect of each separate 'area of interest' or geographical segment. Costs are either expensed as incurred or capitalised as an exploration and evaluation asset provided exploration titles are current and at least one of the following conditions are satisfied:

- the expenditure is expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amounts exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. Impairment losses are recognised in profit or loss.

(k) Goods and Services Tax

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amounts due less any allowance for doubtful debts.



(m) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

(ii) Subsequent costs

The entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment 3 to 5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(n) Accounting estimates and judgements

In the process of applying the accounting policies, management has made certain judgements or estimations which have an effect on the amounts recognised.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of certain assets and liabilities within the next reporting period are:

Recoverability of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.



NOTE 2.	CASH & CASH EQUIVALENTS	Reviewed 31 Dec 2010 \$	Pro-forma After Issue \$
	Cash at bank and on hand	<u>414,710</u>	<u>8,834,710</u>
	<i>Adjustments arising in the preparation of the pro-forma cash balance are summarised as follows:</i>		
	Reviewed balance of Kinetiko at 31 December 2010		414,710
	<i>Subsequent events</i>		
	4,200,000 ordinary shares issued @ \$0.10 per share		420,000
	<i>Pro-forma adjustments:</i>		
	Proceeds from ordinary shares issued under this Prospectus		10,000,000
	Capital raising costs		<u>(600,000)</u>
			9,400,000
	Payment of \$1,400,000 being a partial reimbursement of Badimo's past costs.		<u>(1,400,000)</u>
	Pro-forma Balance		<u>8,834,710</u>

NOTE 3.	EXPLORATION AND EVALUATION EXPENDITURE	Reviewed 31 Jan 2011 \$	Pro-forma After Issue \$
	Exploration and Evaluation Expenditure*	<u>-</u>	<u>1,400,000</u>
	<i>Adjustments arising in the preparation of the pro-forma exploration and evaluation expenditure balance are summarised as follows:</i>		
	Reviewed balance of Kinetiko at 31 December 2010		-
	<i>Pro-forma Adjustment:</i>		
	Payment of \$1,400,000 being a partial reimbursement of Badimo's past costs.		1,400,000
	Pro-forma Balance		<u>1,400,000</u>

* In order for Kinetiko to acquire the 49% they are also required to spend an additional \$3,600,000 on exploration programmes as disclosed in note 6.



NOTE 4.	CONTRIBUTED EQUITY	Reviewed 31 Dec 2010 \$	Pro-forma After Issue \$
	Contributed Equity	<u>585,000</u>	<u>10,405,000</u>
a)	Ordinary Shares	Number	\$
	<i>Adjustments arising in the preparation of the pro-forma contributed equity balance are summarised as follows:</i>		
	Kinetiko fully paid ordinary share capital	55,800,000	585,000
	<i>Subsequent events</i>		
	4,200,000 shares issued @ \$0.10 per share	4,200,000	420,000
	<i>Pro-forma adjustments:</i>		
	Proceeds from shares issued under this Prospectus	50,000,000	10,000,000
	Capital raising costs		<u>(600,000)</u>
			9,400,000
	Pro-forma Balance	<u>110,000,000</u>	<u>10,405,000</u>

NOTE 5: RELATED PARTY DISCLOSURES
Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

NOTE 6: COMMITMENTS AND CONTINGENCIES
At the date of the report no material commitments or contingent liabilities exist that we are aware of, other than those disclosed in section 1, subsection 2.6 of the prospectus in relation to the farm-out agreement entered into with Badimo Gas (Pty) Ltd. Note the initial payment of \$1,400,000 has been included in the proforma statement of financial position, with as additional \$3,600,000 required to be spent on exploration programmes.

8.1. INTRODUCTION

An investment in the Company is not risk free and prospective investors should consider the risk factors described below, together with information contained elsewhere in this Prospectus. This list should not be considered to be exhaustive of the risks faced by the Company or investors in the Company. Before deciding to invest in the Company, potential investors should read the entire Prospectus, consider the following risk factors in light of their personal circumstances (including financial and taxation issues) and seek professional advice from their accountant, stockbroker, lawyer or other professional adviser before deciding whether to apply for Shares in the Offer.

Investors should note that an investment in shares is speculative and there is no guarantee in respect of profitability, dividends and return of capital, liquidity or the price the shares may trade on the ASX.

8.2. SPECIFIC RISKS

There are a number of specific risks associated with the Company, which may adversely affect the Company's financial position, prospects and price of its listed Shares. In particular, the Company is subject to risks relating to the exploration and development of CBM gas projects, which are not generally associated with other businesses.

Set out below in sections 8.3. to 8.4. are specific risks that potential investors should also consider when making an investment in the Company.

8.3. CONTRACT AND JOINT VENTURE RISKS

The Company is a party to a number of agreements with third parties. If the Company is unable to satisfy the terms and obligations or otherwise defaults in its obligations under those agreements, the Company's interest in the Amersfoort Project matter may be jeopardised. In addition, Badimo equally may be required to observe terms and obligations and if Badimo defaults in its obligations the standing of the Amersfoort Project may be adversely affected.

8.4. EXPLORATION RISK

Exploration for CBM gas is a speculative and high risk activity that may be hampered by circumstances beyond the control of the Company. There is no guarantee that exploration on the Amersfoort Project in which the Company has an interest will lead to a commercially viable discovery.

Adverse weather conditions over a prolonged period can adversely effect exploration and gas production operations and the timing of revenues.

Any of these events may cause the Company to incur substantial losses and potential liabilities to government departments and third parties. Such liabilities would reduce the funds available to the Company for further exploration and evaluation of the Exploration Rights.

The Company has had an independent review of the Amersfoort Project to determine the potential prospectivity of the Company assets at this stage. The independent geologist's report is in Section 5 of this Prospectus.

8.5. OPERATIONAL AND TECHNICAL RISKS

The current and future operations of the Company, including exploration, appraisal and possible production activities may be affected by a range of factors, including:

- » geological conditions;
- » limitations on activities due to seasonal weather patterns;
- » alterations to Joint Venture programs and budgets;
- » the availability of drilling rigs and other machinery in South Africa necessary for the Company to undertake its activities;

- » unanticipated operational and technical difficulties encountered in survey, drilling and production activities;
- » mechanical failure of operating plant and equipment, adverse weather conditions, industrial and environmental accidents, industrial disputes and other force majeure events;
- » unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment; and
- » prevention or restriction of access by reason of political unrest, outbreak of hostilities, and inability to obtain consents or approvals.

8.6. REGULATORY RISK

The Amersfoort Project comprises two exploration rights. On 4 May 2011 an application was submitted by Badimo and Kinetiko to the Minister of Mineral Resources (South Africa) pursuant to the Mineral and Petroleum Resources Development Act (Act 20 of 2002) for her consent to the first renewal of exploration right 30/5/2/3/38ER in view of the expiry of the initial exploration period on 6 May 2011. In addition exploration right 30/5/2/3/38ER stipulates that not less than 20% (twenty percent) of the exploration area must be relinquished at the end of the initial exploration period. In the renewal application, an application was made for the waiver of this relinquishment obligation.

There is no guarantee that the application for first renewal of this exploration right or the application for the waiver will be granted. A more detailed summary is provided in the Solicitors' Report at Section 6 of this Prospectus.

8.7. COMMERCIALISATION RISKS

Even if the Company discovers commercial quantities of natural gas, there is a risk the Company will not achieve a commercial return. The Company may not be able to transport the natural gas at a reasonable cost, or may not be able to sell the natural gas to customers at a rate which would cover its operating and capital costs. The Company has to receive regulatory and environmental approval to convert its exploration permits into production concessions. There is a risk that these approvals may not be obtained.

8.8. COMMODITY PRICE AND EXCHANGE RATE RISK

As the Company's potential earnings will be largely derived from the sale of natural gas, the Company's future revenues and cash flows will be impacted by changes in the prices of this commodity. Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include current and expected future supply and demand, domestic market conditions, production cost levels as well as macroeconomic conditions such as inflation and interest rates.

8.9. RESOURCE RISK

Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates which were valid when made may change significantly when new information becomes available. In addition, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter gas accumulations or formations different from those predicted by past sampling and drilling, resource estimates may have to be adjusted and production plans altered in a way which could impact adversely on the operations of the Company.

8.10. TITLE RISK

All exploration rights which the Company may acquire either by application, sale and purchase or farm-in are regulated by applicable legislation. There is no guarantee that applications will be granted or renewed as applied for. Various conditions may also be imposed as a condition of grant. In addition, government departments may need to consent to any transfer of licences to the Company.

8.11. FOREIGN EXCHANGE RATE RISK

The price of gas in South Africa is denominated in South African Rand while the Company cost base will be in Australian dollars and South African Rand. Consequently changes in the Australian dollar foreign exchange rate will impact on the earnings of the Company. The foreign exchange rate is affected by numerous factors beyond the control of the Company, including interest rates, inflation and the general economic outlook.

This is largely beyond the company's control. There may be strategies implemented to hedge currency but this will be a decision taken by directors after consultation with experts after the issue of the Prospectus.

8.12. MANAGEMENT RISKS

The responsibility of overseeing the Company's day-to-day operations and its strategic management depends substantially on its directors and key personnel. There is no guarantee that if one or more of the Company's directors or key personnel cease their association with the Company, there will not be a detrimental effect on the Company.

8.13. COMPLIANCE RISK

The Company has acquired an interest in various Exploration Rights. Title to these Exploration Rights is subject to the interest holders complying with the terms and conditions of each exploration right, including the minimum annual expenditure commitments. A summary of the terms and conditions attaching to the Exploration Rights is set out in the Solicitor's Report on CBM Rights & Title in Section 6 of this Prospectus. There is a risk that if the interest holders do not comply with the terms and conditions of each exploration right, the Company may lose its interest in the relevant exploration right.

The Company has implemented appropriate policies and practices to mitigate the risk of noncompliance with the terms and conditions attaching to each of the Exploration Rights in which the Company has acquired an interest.

8.14. FUTURE CAPITAL NEEDS

Further funding of projects may be required by the Company to support its ongoing activities and operations. There can be no assurance that such funding will be available on satisfactory terms or at all. Any inability to obtain funding will adversely affect the business and financial condition of the Company and, consequently, its performance.

8.15. GENERAL RISKS

There are a number of general risks associated with the Company, which may adversely affect the Company's financial position, prospects and price of listed Shares. While the general risks are not identified as specific to the Company's activities, they should still be considered carefully as outlined in sections 8.16. to 8.24.

8.16. INVESTMENT RISK

The Shares to be issued pursuant to this Prospectus should be considered speculative. They carry no guarantee as to payment of dividends, return of capital or the market value of the Shares. The prices at which an investor may be able to trade the Shares may be above or below the Offer Price paid for the Shares. While the Directors commend the Offer, prospective investors must make their own assessment of the likely risks and determine whether an investment in the Company is appropriate to their own circumstances.

8.17. SHARE MARKET

A number of factors affect the performance of share market investments that could also affect the price at which the Shares trade on the ASX. The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. These factors may materially affect the market price of the Company's Shares regardless of the Company's operational performance.

Stock market conditions are affected by many factors including but not limited to the following:

- » general economic outlook;
- » interest rates and inflation rates;
- » currency fluctuations;
- » mineral and other commodity price fluctuations;
- » changes in Government macro fiscal policies;
- » changes in investor sentiment toward particular market sectors;
- » the demand for, and supply of, capital;
- » terrorism or other hostilities; and
- » other factors beyond the control of the Company.

8.18. INSURANCE RISKS

The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

Insurance of all risks associated with mineral exploration and production is not always available and where available the costs can be prohibitive.

8.19. COMPETITION RISK

The industry in which the Company will be involved is subject to domestic and global competition. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

8.20. ENVIRONMENTAL RISKS

The Company's projects are subject to the laws and regulations of South Africa regarding environmental matters in that country. Many of the activities and operations of the Company cannot be carried out without prior approval from and compliance with all relevant authorities. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Company could be subject to liability due to risks inherent to its activities, such as accidental spills, leakages or other unforeseen circumstances.

8.21. ECONOMIC AND GOVERNMENT RISKS

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries including the exploration and mining industries, including, but not limited to, the following:

- » general economic conditions in South Africa and its major trading partners;
- » changes in Government policies, taxation and other laws;
- » the strength of the equity and share markets in Australia and throughout the world, and in particular investor sentiment towards the commodities (resources) sector;
- » movement in, or outlook on, interest rates and inflation rates; and
- » natural disasters, social upheaval or war in South Africa, Australia or overseas.

8.22. UNFORESEEN EXPENSES

While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.

This is an ongoing management function and it is intended to ensure that the company has systems and skilled administrative people in place to minimise the risks of unforeseen expenses as well as early warning systems should budget over runs be incurred. A system of quotation for major expenditure and requirement for expenditure authority will be implemented.

8.23. CREDIT RISKS

The Company intends to derive its primary revenue from gas sales. The sale of gas may occur to various customers under different contractual terms. This could expose the Company to trade credit and contractual performance risks.

8.24. NO PROFIT TO DATE

The Company has incurred losses since its inception and it is therefore not possible to evaluate its prospects based on past performance. Since the Company intends to continue investing in its exploration and development program the Directors anticipate making further losses in the foreseeable future.

While the Directors have confidence in the future revenue-earning potential of the Company, there can be no certainty that the Company will achieve or sustain profitability or achieve or sustain positive cash flow from its operating activities.

9.1. COMPANY INFORMATION

Kinetiko Energy Limited was incorporated on 25 January 2010 for the purpose of acquiring advanced CBM opportunities outside of Australia, but as at the date of the Prospectus has no significant operating activities.

9.2. RIGHTS AND LIABILITIES ATTACHING TO SHARES

The following is a general description of the more significant rights and liabilities attaching to the Shares. This summary is not exhaustive. Full details of provisions relating to rights attaching to the Shares are contained in the Corporations Act, Listing Rules and the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

Ranking of Shares

At the date of this Prospectus, all shares are of the same class and rank equally in all respects. Specifically, the Shares issued pursuant to this Prospectus will rank equally with Existing Shares.

Rights Attaching to Shares

Shares issued under this Offer will rank equally in all respects with all other Shares on issue. The rights attaching to Shares are derived through a combination of statute, the Company's Constitution, common law and other applicable legislation. The following is a broad summary (though not an exhaustive or definitive statement) of the rights which are attached to the Shares.

Voting Rights

At a general meeting each shareholder present in person or by proxy, company representative or attorney is entitled to one vote on a show of hands. Upon a poll, every shareholder present in person or by proxy, company representative or attorney is entitled to one vote for each fully paid share that the shareholder holds.

General Meetings

Each shareholder is entitled to receive notice of and to be present, to vote and to speak at any general meeting of the Company. Further, each shareholder is entitled to receive all notices, accounts and other documents required to be furnished to shareholders under the Constitution of the Company or the Corporations Act.

Dividend Rights

There is no entitlement to a dividend other than that determined by Directors from time to time. The Shares will rank equally with all other issued Shares in the capital of the Company for the purposes of participation in any dividend paid out of the profits of the Company. The Directors are not anticipating paying dividends at this stage of the Company's development.

Rights on Winding-up

The rights to any surplus arising on a winding-up of the Company will be divided in accordance with the winding-up provisions of the Corporations Act.

Transfer of Shares

Subject to the Constitution of the Company and the Corporations Act, Shares are freely transferable. Shares may only be transferred by a proper instrument in writing delivered to the Company, and the transferor is deemed to remain the holder of the Share until the name of the transferee is entered into the Company's register of members.

Future Increases in Capital

The allotment and issue of Shares is under the control of the Directors. Subject to restrictions on the allotment of Shares to Directors and their associates, the Constitution of the Company and the Corporations Act, the Directors may allot, issue or otherwise dispose of new Shares on such terms and conditions as they determine.

9.3. CORPORATE GOVERNANCE

The Board is responsible for the overall corporate governance of the Company, and it recognises the need for the highest standards of ethical behaviour and accountability.

The Board is committed to administering its Corporate Governance structures to promote integrity and responsible decision-making.

The following policies and procedures have been implemented and will be available in full on the Company's website at www.kinetiko.com.au or by writing to the Company:

- » Statement of Board and Management Functions;
- » Code of Conduct for Directors and key executives;
- » Share Trading Policy;
- » Continuous Disclosure Policy;
- » Risk Management Policy;
- » Shareholder Communications Policy.

The Board will consider on an ongoing basis its Corporate Governance procedures and whether there are sufficient given the Company's nature of operations and size.

9.4. MATERIAL CONTRACTS

Set out below is a summary of the contracts to which the Company is a party that may be material in terms of the Offer pursuant to the Prospectus for the operation of the business of the Company or otherwise may be relevant to a potential investor in the Company. The whole of the provisions of the contracts are not repeated in this Prospectus and any intending Applicant who wishes to gain full knowledge of the content of the material contracts should inspect the same at the registered office of the Company.

9.4.1. Transaction Agreement

A summary of the material terms of the farm out agreement between Badimo and Kinetiko dated 30 August 2010 is contained in the Solicitor's Report on CBM Rights & Title at Section 6 of this Prospectus.

9.4.2. Operating Agreement

A material summary of the terms of the Operating Agreement between Badimo and Kinetiko dated 30 August 2010 is contained in the Solicitor's Report on CBM Rights & Title at Section 6 of this Prospectus.

9.4.3. Andrew Lambert - Managing Director Employment Agreement

On 1 June 2011 the Company entered into an employment agreement with Mr Andrew Lambert ("Employment Agreement").

Under the Employment Agreement, the Company proposes to appoint Mr Lambert as the Company's Managing Director subject to and conditional upon the completion of the Company's IPO and fundraising on or before 31 August 2011.

The term of the Employment Agreement commences on 1 June 2011 and continues until terminated in accordance with the termination provisions of the Employment Agreement.

Mr Lambert's duties under the Agreement are to:

- (a) to effectively manage the Company including planning and coordinating the activities of the Company to reach pre-set objectives in terms of operational objectives and budgets in respect of business development, systems development, corporate positioning revenue and profitability and development of strategic alliances between the Company and Badimo Gas (Pty) Ltd; and
- (b) to otherwise manage the Company including the following duties and tasks:
 - (i) directing the activities of the Company for the achievement of short and long term business objectives;

- (ii) in conjunction with the Board, developing and imparting a vision to the Company which will inspire and motivate any employees to high levels of achievement;
- (iii) responsibility for profitable operations and continual improvements in corporate/operational/administrative functions and annual growth plans;
- (iv) use initiative to capitalise upon new business opportunities;
- (v) meet monthly deadlines and ensure monthly board papers and project reports are produced on time;
- (vi) monitor performance to budget and take appropriate action to rectify any potential problems and review performance and growth indicators; and
- (vii) oversee the efficient and effective administration of all activities.

Mr Lambert's remuneration under the Employment Agreement is as follows:

- (a) a salary of \$250,000.00 per annum plus statutory superannuation and reasonable travel and general expenses commencing on 1 June 2011; and
- (b) subject to completion of 12 months of service under the Employment Agreement, 1,000,000 performance rights which will entitle Mr Lambert to acquire 1 Share for every performance right held.

Subject to Company's admission to the Official List, quotation of the Company's Shares and shareholder and other regulatory approval, Mr Lambert will also receive the following incentive options:

- (a) 500,000 incentive options exercisable at 25 cents per share on or before 30 June 2014, vesting after 12 months service;
- (b) 750,000 incentive options exercisable at 50 cents per share on or before 30 June 2015, vesting after 24 months service; and
- (c) 1,000,000 incentive options exercisable at 75 cents per share on or before 30 June 2016, vesting after 36 months service.

The Employment Agreement otherwise contains terms and conditions considered standard for this type of agreement.

9.4.4. Ageus Limited Services Agreement

On 26 May 2011 the Company entered into a services agreement with Ageus Limited ("Ageus") ("Ageus Agreement").

Under the Ageus Agreement, the Company appointed Ageus Limited to provide consultancy services to the Company in the following areas:

- a) formulation of corporate strategy and implementation methodology;
- b) development of business plans and establishment of goals;
- c) generation of budgets and budget controls;
- d) direction of resource allocation and span of control;
- e) raising of capital or debt from external sources;
- f) determination of human resource requirements and recruitment;
- g) assemblage and co-ordination of other advisors as needed;
- h) general promotion to the financial and investment community;
- i) design of investor communications, in conjunction with any other advisors; and
- j) any other service or activity as reasonably requested by the Company.

The fees payable to Ageus Limited are a monthly retainer of \$15,000.00 exclusive of GST. Any additional services provided by or on behalf of Ageus Limited outside of the scope of the agreement will be charged on an hourly basis of \$200.00 per hour (excluding GST).

Ageus is also entitled to reasonable out of pocket expenses approved in advance by the Company (including travel and accommodation).

The Ageus Agreement is for an initial term of 12 months commencing on 26 May, 2011. Thereafter the Ageus Agreement will be automatically renewed for successive terms of 12 months unless either party provides the other party at least 30 days prior written notice of its intention for non- renewal of the Ageus Agreement.

The Ageus Agreement otherwise contains terms and conditions considered standard for this type of agreement.

9.4.5. Earthsciences Pty Ltd Services Agreement

On 26 May 2011 the Company entered into a service agreement with Earthsciences Pty Ltd (“Earthsciences”) (“Earthsciences Agreement”).

Under the Earthsciences Agreement, the Company appointed Earthsciences, to provide the following services to the Company:

- a) technical advice, direction, supervision and management;
- b) business plan development and goal establishment;
- c) Generation of budgets and budget controls;
- d) promotion of the Company and its projects to investors and equity markets; and
- e) other senior and technical management services as directed by the Board from time to time (“Services”).

Earthsciences must appoint Dr James Searle to carry out the above services.

The Earthsciences Agreement is for an initial term of 12 months commencing on 26 May 2011. Thereafter the Earthsciences Agreement will be automatically renewed for successive terms of 12 months unless either party provides the other party at least 30 days prior written notice of its intention not to renew the Earthsciences Agreement.

The fees payable to Earthsciences are charged at a daily rate of \$1,200.00 (exclusive of GST) for each day worked.

The Services are to be provided to the Company by Earthsciences for no less than 80 days per year. Any services provided by or on behalf of Earthsciences outside of the scope of the agreement will be charged on an hourly basis of \$200.00 per hour (excluding GST).

Earthsciences is also entitled to reasonable out of pocket expenses approved in advance by the Company (including travel and accommodation).

The Earthsciences Agreement contains terms and conditions considered standard for this type of agreement.

9.4.6. Trident Capital Pty Ltd Services Agreement

On 2 August 2010 the Company entered into a services agreement with Trident Capital Pty Ltd (“Trident Capital”) for the provision of corporate advisory services prior to the Company’s IPO (“Original Trident Mandate”). On 28 April 2011 the Company entered into an updated services agreement with Trident Capital for the provision of ongoing corporate advisory services subsequent to the Company’s IPO (“Updated Trident Mandate” and together with the Original Trident Mandate, the “Trident Mandate”).

Under the Trident Mandate, Trident Capital has agreed to provide the following services to enable the Company to be listed on the ASX:

- a) assistance and advice in relation to capital structure, the IPO process, ASX quotation process and management of a proposed capital raising;
- b) assistance with preparation of the prospectus;
- c) assistance with ASX and ASIC submissions when required;
- d) participation in the due diligence process as required;
- e) engaging and liaising with experts, service providers and other consultants; and
- f) introduction of appropriate equity providers to the Company and assistance with the selection of equity providers in order to meet capital raising requirements.

In addition to the services listed above, Trident Capital has agreed to provide the following post-IPO services to the Company:

- a) assistance with preparation of an investor presentation document which highlights the major aspects of the Company and assistance with any road shows;
- b) assistance and advice in relation to any post-IPO fundraising activities;
- c) assistance with the ongoing support and management of market participants; and
- d) advice in relation to the evaluation of any merger and/or acquisition opportunities that may arise.

The Original Trident Mandate was for an initial term of 5 months commencing on 2 August 2010 and was extended by the Updated Trident Mandate for a further term of 12 months commencing on 1 March 2011. The fees payable to Trident Capital for the above services are as follows:

- a) a monthly retainer of \$15,000.00 (excluding GST);
- b) capital raising fees equal to 6% of the funds raised by Trident Capital Pty Ltd in the IPO; and
- c) subject to the Company's prior approval, all reasonable out of pocket expenses including travel and accommodation.

The Trident Mandate otherwise contains terms and conditions considered standard for this type of agreement.

9.5. INTERESTS OF DIRECTORS

Other than as set out below or elsewhere in this Prospectus no Director has or has had, within two years before lodgement of this Prospectus with ASIC:

- » any interest in the formation or promotion of the Company; or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer; or in the Offer; and
- » no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director, either to induce him to become, or to qualify him as a Director, or otherwise, for services rendered by him in connection with the formation or promotion of the Company or the Offer.

Directors' Security Holdings

Set out in the table below are details of the Directors' relevant interests in the Shares and Options of the Company as at the date of this Prospectus.

Interests of the Directors and their related parties	Number of Shares
Mr. Adam Sierakowski	9,225,000
Dr. Donald James Searle	10,500,000
Mr. Agapitos Marcus (Geoffrey) Michael ¹	21,400,000

¹ Christina Michael as Trustee for the M & A Trust is the holder of 21,400,000 Shares in the Company. The M & A Trust is a discretionary trust of which Mr. Agapitos Marcus (Geoffrey) Michael is a beneficiary.

Directors Remuneration

The Constitution provides that each Director is entitled to such remuneration from the Company as the Directors decide, but the total amount provided to all non-executive directors must not exceed in aggregate the amount fixed by the Company in a general meeting. The aggregate remuneration for all non-executive directors has been set at an amount of \$250,000 per annum. At the Annual General Meeting held on 18 April 2011 the shareholders approved a resolution to increase the maximum aggregate remuneration of the non-executive directors to \$250,000. The Directors have resolved that non-executive director's fees will be \$60,000 per annum and \$72,000 per annum for the non-executive chairman, inclusive of statutory superannuation contributions.

In the two years prior to the date of this Prospectus, the Company has paid Trident Capital Pty Ltd - a company of which Mr Sierakowski is a director - \$75,000 for corporate advisory services provided and \$58,200 for capital raising fees. These services were provided to the Company on normal commercial terms.

In the two years prior to the date of this prospectus, the Company has paid Trident Management Services Pty Ltd - a related entity of Trident Capital Pty Ltd - \$13,920 for the company secretarial services. These services have been provided to the company on normal commercial terms.

In the two years prior to the date of this Prospectus, the Company has paid Price Sierakowski Pty Ltd - a company of which Mr Sierakowski is a director - \$60,000 for legal services provided. These services were provided to the Company on normal commercial terms.

In the two years prior to the date of this Prospectus, the Company has paid Earthsciences Pty Ltd - a company of which Mr Searle is a director - \$109,200 for geological and consulting services provided. These services were provided to the Company on normal commercial terms.

In the two years prior to the date of this Prospectus, the Company has paid Ageus Ltd - a company of which Mr Michael is a director - \$192,500 for company administration, finance and business consulting services. These services were provided to the Company on normal commercial terms.

9.6. INTERESTS OF EXPERTS AND ADVISERS

Other than as set out below or elsewhere in the Prospectus, no expert, promoter, underwriter or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with has or has, within two years before lodgement of the Prospectus with ASIC: had any interest in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer or in the Offer and not recorded any amounts or benefits or has not agreed to be paid benefits for services rendered by such persons in connection with the formation or promotion of the Company or the Offer.

Gustavson Associates has prepared the Independent Geologist's Report which is included as part of this Prospectus. Total fees payable to Gustavson Associates for work done in relation to this Prospectus are approximately \$16,000.

Price Sierakowski acted as Solicitors to the Issue and have provided legal advice and services to the Company since its incorporation. Total fees payable to Price Sierakowski for work done in relation over that period and in relation to this Prospectus are approximately \$60,000.

Trident Capital Pty Ltd has acted as corporate advisor to this Issue and have prepared this Prospectus. Total fees payable to Trident Capital Pty Ltd in relation to the provision of corporate advisory services are approximately \$75,000.

BDO Corporate Finance (WA) Pty Ltd has prepared the Investigating Accountant's Report which is included as part of this Prospectus. Total fees payable to BDO Corporate Finance (WA) Pty Ltd for work done in relation to this Prospectus are approximately \$20,000.

Bowman Gilfillan Attorneys prepared the Investigating Solicitor's Report on CBM Rights & Title which is included as part of this Prospectus. Total fees payable to Bowman Gilfillan Attorneys for work done in relation to this Prospectus are approximately \$42,000.

9.7. CONSENTS

The following written consents have been given in accordance with the Corporations Act with respect to the issue of this Prospectus in both paper and electronic form:

Gustavson Associates has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Independent Geologist and to the inclusion of the Independent Geologist's Report in Section 5 of this Prospectus in the form and context in which it is included, together with all references to that report in this Prospectus. Gustavson Associates has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than its report and any references to it.

Price Sierakowski has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as Solicitors to the Issue in the form and context in which it is included. Price Sierakowski has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

Bowman Gilfillan Attorneys has given, and has not before lodgement of this Prospectus withdrawn, its written consent to the Issue and to the inclusion of the Solicitor's Report on CBM Rights & Title in Section 6 of this Prospectus in the form and context in which it is included, together with all references to that report in this Prospectus. Bowman Gilfillan Attorneys has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than its report and any references to it.

BDO Corporate Finance (WA) Pty Ltd have given, and have not before lodgement of this Prospectus withdrawn, their written consent to be named in this Prospectus as Investigating Accountant and to the inclusion of the Investigating Accountant's Report in Section 7 of this Prospectus in the form and context in which it is included, together with all references to them and to that report in this Prospectus. BDO Corporate Finance (WA) Pty Ltd have not authorised or caused the issue of this Prospectus and take no responsibility for any part of this Prospectus other than their report and any references to it. BDO Audit (WA) Pty Ltd consent to be named as auditor.

Trident Capital Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as Corporate Advisors in the form and context in which it is included, together with all references to it in this Prospectus. Trident Capital Pty Ltd has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

Security Transfers Registrars Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named, together with all references to it in this Prospectus. Security Transfers Registrars Pty Ltd has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry. Security Transfer Registrars Pty Ltd has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

9.8. EXPENSES OF THE OFFER

The expenses of the Offer are expected to comprise the following estimated costs and are exclusive of any GST payable by the Company.

Expenses of the Offer	\$ Minimum	\$ Maximum
Capital Raising Fees	480,000	600,000*
ASX Listing Fees	40,000	54,000
Legal Fees	102,000	102,000
Independent Geologist Report	16,000	16,000
Investigating Accountant's Report	20,000	20,000
Corporate Fees	75,000	75,000
Printing and Postage	20,000	20,000
ASIC	2,500	2,500
Total Estimated Expenses	755,500	889,500

* Based on a maximum raising of \$10,000,000. For minimum raising of \$8,000,000 the Capital Raising Fees would amount to \$480,000, with all other amounts remaining constant.

9.9. ELECTRONIC PROSPECTUS

Pursuant to Class Order 00/044 the ASIC has exempted compliance with certain provisions of the Corporations Act 2001 to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company on 08 6382 5300 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at www.kinetiko.com.au

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

9.10. FORECASTS

The Company is an exploration company with intention to become a producer in the medium term. Given the speculative nature of exploration, mineral development and production, there are significant uncertainties associated with forecasting future revenue. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not been included in this Prospectus.

9.11. LITIGATION

To the Directors knowledge there is no litigation against the Company or initiated by the Company as at the date of this Prospectus.

9.12. TAXATION

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them in relation to the Offer, by consulting their own professional tax advisers. Neither the Company nor any of its Directors or officers accepts any liability or responsibility in respect of the taxation consequences of the matters referred to above.

DIRECTORS'
AUTHORISATION

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The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in this Prospectus by other persons, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, that those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with ASIC, or to the Directors' knowledge, before an issue of Shares pursuant to this Prospectus. This Prospectus is prepared on the basis that certain matters may reasonably be expected to be known to likely investors or their professional advisors.

The Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf the Company.



Agapitos Marcus (Geoffrey) Michael
Non-Executive Director

The following definitions apply throughout this document unless the context requires otherwise.

AUD \$ means Australian dollars. All amounts in this Prospectus are in Australian dollars unless stated otherwise.

Amersfoort Area means that area that is within a 100 km radius of the town of Amersfoort in the Republic of South Africa.

Amersfoort Project means the Exploration Rights.

Applicant means an applicant for Shares under this Prospectus.

Application means a valid application to subscribe for Shares.

Application Monies means the amount of money in dollars and cents payable for Shares at 20 cents per Share pursuant to this Prospectus.

Application Forms means the Application Forms attached to, and forming part of this Prospectus.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691 trading as the Australian Securities Exchange.

Badimo means Badimo Gas Pty Ltd registration number 99/25070/07.

Board means the Board of Directors of the Company.

CBM means Coal Bed Methane

Chairman means the chairman of the Company.

CHESS means ASX Clearing House Electronic Sub-register System.

Closing Date means the date the Offer closes which is 5:00pm WST on 1 July 2011 or such other date and time as the Directors determine.

Company means Kinetiko Energy Limited ACN 141 647 529.

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001.

Directors means the directors of the Company.

Existing Shares means the 60,000,000 Shares in the Company on issue at the date of this Prospectus.

Exploration Rights means the exploration right 30/5/2/3/38ER and the application for renewal of exploration right 30/5/2/3/38ER.

Independent Geologist means Gustavson Associates, 5757 Central Ave, Suite D, Boulder Colorado 80301 USA

Issue means the issue of Shares in accordance with the Offer.

Kinetiko means Kinetiko Energy Limited ACN 141 647 529.

Listing Rules means the listing rules of ASX.

Minimum Subscription means the raising of \$8,000,000 by acceptances of 40,000,000 Shares at 20 cents each pursuant to this Prospectus.

Offer means the issue of a minimum 40,000,000 Shares at 20 cents per Share pursuant to this Prospectus. The Company may accept over subscriptions to a maximum of 10,000,000 shares, raising a further \$2,000,000.

Offer Period means the period between the Opening Date and the Closing Date.

Offer Price means 20 cents per Share.

Opening Date means the first date for receipt of completed Application Forms which is 9:00am WST on 10 June 2011 or other such date and time as the Directors determine.

Operating Agreement means operating agreement between Badimo and the Company which governs each parties respective obligations in respect of the Amersfoort Project.

Prospectus means this Prospectus dated 2 June 2011.

Restricted Securities means Shares and Options classified by ASX as being subject to the restriction provision of the Listing Rules.

Section means a section of this Prospectus.

Share means an ordinary fully paid share in the capital of the Company.

Shareholder means a registered holder of a Share.

Share Registry means Security Transfer Registrars Pty Ltd ABN 95 008 894 488.

Transaction Agreement means the farm-out agreement between Badimo and the Company pursuant to which Kinetiko has earned a 49% interest in the Amersfoort Project.

WST means Perth Western Australian local time.

ZAR means South African Rand.

APPLICATION FORM
& INSTRUCTIONS

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GUIDE TO THE APPLICATION FORM

This Application Form relates to the offer of Shares in the Company pursuant to the Prospectus dated 2 June 2011. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus. The Prospectus contains information about investing in the Shares of the Company and it is advisable to read this document before applying for Shares. A person who gives another person access to this Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary prospectus (if applicable), and an Application Form on request and without charge.

Please complete the all relevant sections of the Application Form using BLOCK LETTERS. These instructions are cross referenced to each section of the Application Form. Further particulars in the correct forms of resistible titles to use on the Application Form are contained in the table below.

- A** Insert the number of Shares you wish to apply for. The Application must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares.
- B** Insert the relevant account Application Monies. To calculate your Application Monies, add the number of Shares applied for multiplied by 20 cents.
- C** Write the full name you wish to appear on the statement of shareholdings. This must be either your own name or the name of the Company. Up to three joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applicants using the wrong form of title may be rejected. Clearing House Electronic Sub-Register System (CHES) participants should complete their name and address in the same format as that presently registered in the CHES system.
- D** Enter your Tax File Number (TFN) or exemption category. Where applicable please enter the TFN for each joint Applicant. Collection of TFN(s) is authorised by taxation laws. Quotation for your TFN is not compulsory and will not affect your Application.
- E** Please enter your postal address for all correspondence. All communications to you from the Shares Registry will be mailed to the person(s) and address as shown. For Joint Applicants, only one address can be entered.
- F** Please enter your telephone number(s), area code, email address and contact name in case we need to contact you in relation to your Application.
- G** The Company will apply to the ASX to participate in CHES, operated by the ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHES, the Company will operate an electronic CHES subregister of securities holdings and an electronic issuer sponsored subregister of securities holdings. Together the two subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of securities allotted.

If you are CHES participant (or are sponsored by a CHES participant) and you wish to hold securities allotted to you under this Application in uncertified form on the CHES subregister, complete Section G or forward your Application Form to your sponsoring participant for completion of this section prior to lodgement. Otherwise, leave Section G blank and on allotment, you will be sponsored by the Company and an SRN will be allocated to you. For Further information refer to the relevant section of the Prospectus.

- H** Please complete cheque details as requested.

Make your cheque payable to "Kinetiko Energy Ltd - Trust Account" in Australian currency and cross it "Not Negotiable" Your cheque must be drawn on an Australian Bank, and the amount should agree with the amount shown in section B.

Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

- I Before completing the Application Form the Applicant(s) should read the Prospectus to which the Application relates. By lodging the Application Form, the Applicant(s) agrees that this Application is for shares in the Company upon and subject to the terms of this Prospectus, and agrees to take any number of Shares equal to or less than the number of Shares indicated in Section A that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Applications: Return your completed Application Form with cheque(s) attached to:

By post or in Person to:

Share Transfer Registrars Pty Ltd PO Box 535, APPLECROSS WA 6953

Application Forms must be received no later than the 1 July 2011 which may be changed immediately after the Opening Date at any time at the discretion of the Company.

Correct form of Registrable Title

Note that only legal entities are allowed to hold Shares and Options. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname are required for each natural person. The name of the beneficiary or any other non-registrable title may be included by way of an account designation if completed exactly as described in the example of correct forms of registrable title below:

Type of Investor	Correct form of Registrable Title	Incorrect form of Registrable Title
Individual - Use Names in full, no initials	Mr John Alfred Smith	JA Smith
Minor (a person under the age of 18) - Use the name of a responsible adult, do not use the name of a minor.	John Alfred Smith <Peter Smith>	Peter Smith
Company - Use Company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts - Use trustee(s) personal name(s), do not use the name of the trust	Mrs Sue Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates - Use executor(s) person name(s), do not use the name of the deceased	Ms Jane Smith <Est John Smith A/C>	Estate of Late John Smith
Partnerships - Use partners personal names, do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith and Son A/C>	John Smith and Son

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