KINETIKO ENERGY LTD

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KINETIKO ACQUIRES 100% OF SOUTH AFRICAN GAS PROJECT

HIGHLIGHTS

- **KKO has executed a binding terms sheet with Badimo to acquire the remaining 51% of Afro Energy (Pty) Ltd, making KKO the 100% owner of all South African exploration rights and production approvals.**
- **Consideration to acquire is the issue 595,577,619 KKO shares.**
- **The acquisition significantly de-risks the development of the South African projects and brings together all the experience and expertise of the historic joint venture parties and will streamline the exploration and development of nearly 7,000km^2 of the geologically and infrastructure rich land position which hosts a 4.9Tcf (2C) resource.**
- **Transaction structured to expedite development financing from South African and global institutions and funds.**
- **The respective boards and major shareholders of both Badimo and KKO are supportive of the acquisition, with Badimo representatives and experienced South African energy and gas directors Donald Ncube and Robert Bulder to join the Board.**

INTRODUCTION

7 May 2021: Perth-based energy exploration company Kinetiko Energy Limited (ASX: "**KKO**" or "**Kinetiko**") is pleased to announce the execution of a binding terms sheet for the acquisition of the remaining 51% interest in Afro Energy (Pty) Ltd ("**Afro Energy**") from Badimo Gas (Pty) Ltd ("**Badimo**") (the "**Proposed Acquisition**"). Upon completion of the Proposed Acquisition, Kinetiko will become the sole owner of Afro Energy, which holds 100% interest in the exploration rights and the sample gas production permit in South Africa.

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The transaction metrics highlights are summarised as follows:

- The ownership of 100% of the South African assets under one listed entity provides a wide range of financing options to develop the project.
- Alignment of one board and management team will streamline development and exploration initiatives and deliver cost efficiencies.
- Delivers a net contingent resource of 4.9Tcf (2C) to KKO[1].
- Provides a larger, more suitable market capitalisation for institutional investment which will enhance liquidity.

Speaking on the Proposed Acquisition KKO Executive Chairman, Adam Sierakowski, said: "This union between the historic joint venture partners represents the achievement of a major milestone for the de-risking of the development of what is potentially the largest on shore gas project in South Africa. Years of significant cooperation between the Badimo and Kinetiko teams have enabled this acquisition to be realised and will result in delivering substantial shareholder value"

Also commenting on the Proposed Acquisition Badimo Gas Executive Chairman Don Ncube said: "We have worked for over a decade to explore and develop a significant onshore non-fracking gas project in the Mpumalanga, Orange Free State and Kwazulu-Natal regions of South Africa. The creation of a project which delivers abundant clean energy will greatly assist South Africans whose economy faces an energy crisis. This merged entity will now be able to raise capital for accelerated exploration, production and downstream development in international markets. Such foreign direct investment was previously not available to Badimo and this merger facilitates and reinforces the foreign direct investment initiative of our President. It will provide new employment opportunities and development of technical skills in the regions where such gas production is established. It will also contribute to the reduction of harmful polluting carbon dioxide emissions."

Background

KKO and Badimo have been joint venture partners since just before Kinetiko's IPO in July 2010 and shareholders in Afro Energy since April 2015. Under both relationships the parties were obligated to contribute various amounts toward the operational activities being agreed and approved in South Africa. This mechanism has at times been inefficient and caused delays in exploration and development programs. The Proposed Acquisition will eradicate these inefficiencies and expedite all South African operational activities.

Transaction Summary

KKO has entered into a binding terms sheet with Badimo ("**Terms Sheet"**). The Terms Sheet is subject to a number of conditions being satisfied (or waived) as set out below, including obtaining approval from KKO shareholders.

Full details of the Proposed Acquisition will be contained in the Notice of Meeting to be sent to shareholders seeking approval of the Proposed Acquisition. The material terms of the Terms Sheet are as follows:

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Purchase Price

KKO will issue approximately 595m shares ("**Consideration Shares**") to Badimo as total consideration for the Proposed Acquisition. Since the inception of Afro Energy, KKO has been paying the majority of the exploration costs incurred by Afro Energy. As a result Kinetiko has loan amounts owing to it which will been satisfied through the reduction of the Consideration Shares being issued. On or before completion of the merger KKO shall facilitate the sale of $6.5m of Consideration Shares to third party investors at a 30-day VWAP discount to the KKO share price.

Upon completion of the Proposed Acquisition and subject to the price paid for the Consideration Cash, the beneficial shareholders of Badimo will own approximately 46% of the post-merger issued share capital of KKO. An independent expert will be engaged by KKO to opine as to whether or not the Proposed Acquisition is fair and reasonable to KKO shareholders.

Escrow of Consideration Shares

Badimo has agreed that the balance of Consideration Shares, after the facilitated sale of Consideration Shares, will be subject to voluntary escrow restrictions under terms to be agreed and/or subject to the ASX. In addition, 92.8% of the shares held or controlled by Messrs Adam Sierakowski and Geoff Michael, will be subject to voluntary escrow restrictions for the same minimum period as is imposed on Badimo.

Board Appointment

With effect from Completion of the merger, Badimo will have the right to nominate (and KKO must appoint) Mr Donald Ncube and Mr Robert Bulder to the board of KKO.

Don Ncube – (Resident in Johannesburg) carved his professional career in the mining industry. He worked for the Anglo American Corporation for 22 consecutive years and was the first South African indigenous individual to sit on the Board of Anglo American Corporation. He has a performance track record as Chairman of successful corporations such as Sun International, Oceana Fishing Group and the Atomic Energy Corporation.

Rob Bulder – (Resident in Cape Town) a chartered accountant with over 30 years of commercial experience in various areas holding numerous senior management and executive positions in the manufacturing, financial services, IT and airline industries.

Conditions Precedent to Completion

Completion of the Proposed Acquisition is conditional upon the satisfaction (or waiver) of the following conditions precedent (**Conditions Precedent**):

- **Taxation Advice**: The parties obtaining taxation advice advising that there are no material taxation implications for the parties (or their shareholders) with respect to the Proposed Acquisition.

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- **Ownership of Exploration Rights**: KKO confirming in writing that it is satisfied that Afro Energy is the 100% sole registered legal and beneficial holder of each of the exploration rights comprising the Amersfoort Project.
- **Ministerial consent**: To the extent required by South African law, the unconditional written consent to the transfer of the Afro Energy shares by Badimo to KKO.
- **Additional Regulatory Approvals and Tax Advice**: South African Reserve Bank where applicable, Competition Commission where applicable and South African Revenue Service approval for the transaction.

KKO Shareholder Approvals: KKO will, seek shareholder approval of the Proposed Acquisition to change the scale of its activities pursuant to ASX Listing Rule 11.1.2, and item 7, section 611 of the Corporations Act. ASX has confirmed that the Company will not be required to re-comply with Chapters 1 & 2 of the ASX Listing Rules in order to complete the Proposed Acquisition.

- KKO obtaining all necessary shareholder approvals:
  - to change the scale of KKO's activities in accordance with ASX Listing Rule 11.1.1.2;
  - for KKO to issue the Consideration Shares in accordance with the requirements of the ASX Listing Rules and the Corporations Act;
  - KKO to arrange to have placed the Consideration Shares for the Consideration Cash; and
  - any additional items which may be required by the ASX or the JSE.
- **SPA**: execution of the definitive share purchase agreement between KKO and Badimo.

If any of the Conditions Precedent are not satisfied, (or waived in accordance with the Terms Sheet), on or before 31 August 2021 (or such other date as agreed by the parties), any party may terminate the Terms Sheet by notice in writing to the other party.

Capital Structure and Pro-forma Balance Sheet

The indicative capital structure of Kinetiko following completion of the Proposed Acquisition is set out below:

Security	Existing	Completion of Proposed Acquisition
Existing shares	588,170,705	588,170,705
Consideration Shares*	-	595,577,619
Total Shares	588,170,705	**1,183,748,324**
Existing Options	9,578,831	-
New Options	-	
Fully diluted capital structure	**597,749,536**	**1,193,327,155**

*Indicative only.

The anticipated effect of the Proposed Acquisition on the Company's pro-forma balance sheet is set out in Annexure 1 to this announcement.

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Indicative Timetable

The proposed timetable to complete the Proposed Acquisition is set out below:

Event	Date
Notice of Meeting sent to KKO shareholders	June 2021
Execution of Definitive Documents	June 2021
General Meeting	July 2021
Issue of Consideration Shares Completion of Proposed Acquisition Appointment of new directors	August 2021

Note: *The above dates are indicative only and subject to change.*

----------ENDS----------

This announcement is authorised for release to the market by the Board of Directors of Kinetiko Energy Limited.

For more information visit: www.kinetiko.com.au or contact,

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Previously Reported Information Footnotes

This report includes information that relates to Exploration Results and Resources extracted from the Company's previous ASX announcement as follows:

[1] *ASX announcement 29/07/20* ***"Significant Gas Resources increase to 4.9TCF"***

This announcement is available to view on the Company's website www.kinetikoenergy.com.au

The Company confirms that it is not aware of any new information or data that materially affect the information included in the relevant market announcements and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

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Annexure 1 – Pro-forma Balance Sheet

Basis of preparation

The unaudited Pro Forma Historical Statement of Financial Position as at 31 December 2020 has been prepared for illustrative purposes to reflect the consolidated financial position of Kinetiko on the basis that Kinetiko completed the Proposed Acquisition outlined in this announcement as at 31 December 2020.

The Financial Information is presented in an abbreviated form, insofar as it does not include all of the presentation, statements, comparative information and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information of Kinetiko, and adjusted for the effects of pro forma transactions described below.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS other than it includes adjustments prepared in a manner consistent with AAS that reflect the impact of certain transactions as if they had occurred as at 31 December 2020.

Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position.

Impact of the transaction

Under the Proposed Acquisition, Kinetiko will acquire the remaining 51% of Afro Energy. Accordingly Kinetiko's accounting treatment of its interest in Afro Energy will change from being an investment in an associate to being a subsidiary company which is consolidated with the financial position of Kinetiko.

The Pro Forma Historical Financial Information shows the acquisition of the remaining 51% interest in Afro Energy at the value of the shares to be issued being 595,577,619 Shares at an issue price of $0.11 per share based on the closing price of the Company's shares on 3 May 2021.

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Annexure 1 – Pro-forma Balance Sheet

	31 December 2020 $	Pro Forma Adjustments	Pro Forma Historical at 30 December 2020
CURRENT ASSETS			
Cash and cash equivalents	766,953	84	767,037
Receivables	361,901	36,588	398,489
Other assets	805	-	805
TOTAL CURRENT ASSETS	1,129,659	36,672	1,166,331
NON CURRENT ASSETS			
Property, plant & equipment	2,142	-	2,142
Exploration and evaluation assets	-	72,395,257	72,395,257
Investment in associate	6,772,394	(6,772,394)	-
TOTAL NON CURRENT ASSETS	6,774,536	65,622,863	72,397,399
TOTAL ASSETS	7,904,195	65,659,535	73,563,730
CURRENT LIABILITIES			
Trade and other payables	420,197	98,056	518,253
TOTAL CURRENT LIABILITIES	420,197	98,056	518,253
NON CURRENT LIABILITIES			
Provisions	-	47,950	47,950
TOTAL NON CURRENT LIABILITIES	-	47,950	47,950
TOTAL LIABILITIES	420,197	146,006	566,203
NET ASSETS	**7,483,998**	**65,513,529**	**72,997,527**
EQUITY			
Contributed equity	23,994,511	65,513,538	89,508,049
Reserves	326,744	-	326,744
Accumulated losses	(16,837,257)	(9)	(16,837,266)
TOTAL EQUITY	**7,483,998**	**65,513,529**	**72,997,527**

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About Kinetiko Energy and Afro Energy

Kinetiko Energy is an Australian gas explorer focused on advanced shallow conventional gas and coal bed methane (CBM) opportunities in rapidly developing markets in Southern Africa. South Africa has extensive gassy coal basins, extensive energy infrastructure and a growing gas demand, making it an attractive area for investment. The Company has a large potential exploration area, of which approximately 7000km² is granted and being explored.

Afro Energy (Pty) Ltd. was incorporated as a joint venture founded in 2015 by Kinetiko Energy Ltd (49%) and Badimo Gas (Pty) Ltd of South Africa (51%) as a JV company to own 100% of the exploration rights with required BEE (Black Empowerment Endowment) certification, and facilitate South African investment in order to continue to explore, develop, and commercialise gas production.

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