KINETIKO EXECUTES BINDING AGREEMENTS TO ACQUIRE 100% OF AFRO ENERGY

HIGHLIGHTS

- **KKO has executed binding formal legal agreements with Badimo to increase its shareholding in Afro Energy (Pty) Ltd from 49% to 100%. Afro Energy holds the South African exploration rights and production approvals.**
- **KKO shareholder approval will now be sought to approve the merger and issue of 597,704,812 consideration 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.**
- **The respective boards and major shareholders of both Badimo and KKO are supportive of the acquisition, with Badimo representatives and experienced South African energy directors Donald Ncube and Robert Bulder to join the KKO Board.**

INTRODUCTION

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

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 and enhanced 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 Acquisition will eradicate these inefficiencies and expedite all South African operational activities.

Transaction Summary

KKO has entered into a binding legal agreements with Badimo ("**Restructure Agreement"**). The Restructure Agreement is subject to a number of conditions being satisfied (or waived), including obtaining approval from KKO shareholders.

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

Purchase Price

KKO will issue approximately 598m shares ("**Consideration Shares**") to Badimo as total consideration for the 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 be 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 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 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 Mr Adam Sierakowski and Mr 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 Acquisition is conditional upon the satisfaction (or waiver) of the following conditions precedent (**Conditions Precedent**):

- **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**: 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 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.

Capital Structure and Pro-forma Balance Sheet

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

Security	Existing	Completion of Proposed Acquisition
Existing shares	626,229,536	626,229,536
Consideration Shares*	-	597,704,812
Total Shares	626,229,536	**1,223,934,348**
Existing Options	3,000,000	-
New Options	-	
Fully diluted capital structure	**629,229,536**	**1,226,934,348**

*Indicative only.

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

Indicative Timetable

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

Event	Date
Notice of Meeting sent to KKO shareholders	7 February 2022
Execution of Definitive Documents	23 December 2021
General Meeting	21 March 2022
Issue of Consideration Shares Completion of Proposed acquisition	 28 March 2022
Appointment of new directors	30 March 2022

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

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.

Annexure 1 – Pro-forma Balance Sheet

Basis of preparation

The unaudited Pro Forma Historical Statement of Financial Position as at 30 November 2021 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 30 November 2021.

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 30 November 2021.

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 effective 30 November 2021 based on the value of the shares to be issued being 597,704,812 Shares at an issue price of $0.092 per share based on the closing price of the Company's shares on 30 November 2021.

The Pro Forma Balance Sheet has been calculated based on unaudited management accounts for both Kinetiko Energy and Afro Energy. The audited balance sheet as at 30 June 2021 has been included for reference.

Annexure 1 – Pro-forma Balance Sheet

	Audited 30th June 2021 $'000	Unaudited Management 30th Nov 2021 $'000	Pro Forma Adjustments 30th Nov 2021 $'000	Consolidated Pro Forma 30th Nov 2021 $'000
CURRENT ASSETS				
Cash and cash equivalents	191	1,195	(150)	1,045
Receivables	623	913	62	975
Other assets	11	24	-	24
TOTAL CURRENT ASSETS	825	2,132	(88)	2,044
NON CURRENT ASSETS				
Property, plant & equipment	2	114	-	114
Exploration and evaluation assets	-	-	62,304	62,304
Investment in associate	7,014	7,014	(7,014)	-
TOTAL NON CURRENT ASSETS	7,016	7,128	55,290	62,418
TOTAL ASSETS	7,841	9,260	55,202	64,462
CURRENT LIABILITIES				
Trade and other payables	299	439	213	652
TOTAL CURRENT LIABILITIES	299	439	213	652
NON CURRENT LIABILITIES				
Provisions	-	-	-	-
TOTAL NON CURRENT LIABILITIES	-	-	-	-
TOTAL LIABILITIES	299	439	213	652
NET ASSETS	**7,542**	**8,821**	**54,989**	**63,810**
EQUITY				
Contributed equity	24,319	27,070	54,989	82,059
Reserves	640	640	-	640
Accumulated losses	(17,417)	(18,889)	-	(18,889)
TOTAL EQUITY	**7,542**	**8,821**	**54,989**	**63,810**

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,

Adam Sierakowski
Executive Chairman 08
6211 5099
info@kinetiko.com.au or

Evy Litopoulos Investor
Relations ResolveIR
evy@resoloveir.com

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 7000km^2 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.

