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ASX: KKO

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JUNE 2012 QUARTERLY OPERATIONS REPORT

Perth based gas exploration company: Kinetiko Limited (ASX: KKO) is pleased to report on its activities in South Africa for the June 2012 quarter.

Highlights

- **Resource upgrade for Kinetiko Energy from 1.7tcf (GIP P₅₀ on the Amersfoort Project) to 11tcf (includes GIP P₅₀ on four granted TCPs 9.3tcf)**
- **Further resource estimates for the Amersfoort Project (Kinetiko 49% interest) are being independently revised and expected early August**
- **The expanded exploration drilling program on the Amersfoort tenement was completed; ten exploration holes were completed and wire line logged**
- **The Volksrust Exploration Right was renewed by the regulator after 20% relinquishment of less prospective tenure and drilling of up to 12 exploration holes at Volksrust tenement commenced early July**
- **Four Technical Cooperation Permits (TCP) covering 7,890km² were approved by South African regulators (Kinetiko 100% interest)**
- **A fifth TCP application (Kinetiko 100% interest) was made for 2,394km² of prospective CBM tenure, adjoining the western boundary of the Amersfoort Project**
- **Kinetiko's potential exploration area now totals 18,971Km² of which 9,491Km² is granted and is actively being explored**
- **Key drilling, completions and testing equipment for the pilot production wells was purchased at lower costs than expected, and most items are already in South Africa**
- **Kinetiko is operating under budget and is fully funded for the next 12 months.**

September Quarter Plans

- Review of gas resources on the Amersfoort project are being undertaken by Gustavson Associates in light of encountering promising gas sandstone intersections above the coal intervals, results are expected early August
- As a result of exploration drilling success, Kinetiko has broadened plans to include up to eight pilot production wells on the Amersfoort tenement from August 2012
- Kinetiko await approval by the regulator to commence the pilot wells - this is expected in August
- Key equipment has been purchased and is either in South Africa already or as is the case for BOP (Blow out Preventer) enroute to South Africa. Kinetiko has sourced reliable and fit for purpose equipment at lower cost than anticipated
- The pilot production wells are vertical wells with barefoot completions and will test the “gas flow rates”. These are relatively simple tests and are very cost effective, taking approximately two months to drill, complete and test. Several wells will operate concurrently using the same rig and field crew with the rig contract to be finalised in August
- Exploration core drilling of up to 12 exploration holes on the Volksrust tenement commenced early July and is expected to finish by November
- Exploration desktop work will begin on Kinetiko’s four Technical Cooperation Permits (TCP) covering 7,890km²

Amersfoort Project Update

The Amersfoort Coal Bed Methane Project is located 250km east south east of Johannesburg, South Africa. Kinetiko is the operator of two gas licences in the Amersfoort Project (49% interest) covering 1,601km² under a Joint Venture agreement with South African Black Employee Empowerment company: Badimo Gas Ltd.

US independent oil and gas consultant: Gustavson Associates (Boulder, Colorado) estimated the Amersfoort Project to have gas in place (GIP) prospective resources of 1.7 trillion cubic feet (tcf), and 1.1tcf (P₅₀) contingent resource. The aim of the exploration program is to increase resource/ reserve certainty.

In April, Kinetiko announced the eight-hole exploration drilling program on Amersfoort (tenement 56ER) would be expanded by a further two exploration holes after strong initial results were received. These results included hole KA-06 spontaneously emitting methane gas flows and strong gas shows from other holes in the program (Figure 1).



Figure 1: Flaring of spontaneous gas flow from KA-06 (since December 2011)

Kinetiko will complete its planned program of exploration drilling of at least 16 holes over both Amersfoort and Volksrust tenements (56ER and 38ER) by November.

Given the strong results from exploration, Kinetiko plans to develop up to eight pilot production wells on Amersfoort alone. This is more than double the original plan.

Amersfoort Project - Volksrust Tenement Update

In June 2012 Kinetiko received the renewal of its Volksrust tenement right, accelerating an exploration drilling program using the existing rig and experienced crew who have finished a successful drilling campaign on the Company's nearby Amersfoort tenement.

As part of the renewal, the Government required Kinetiko to relinquish 20% of the Volksrust land area. Kinetiko has complied by relinquishing less prospective (non-core) areas.

Additional Tenements/TCPs

During the quarter, Kinetiko was granted four TCPs covering 7,890km² by the South African regulator (Kinetiko 100% interest)

A TCP entitles Kinetiko 12 months to perform desktop studies and the unique right to apply for exploration rights over the TCP area. The TCP also confers the right to access exploration data held by the regulatory authorities. The granted TCP's cover Karoo coal basin areas that Kinetiko has identified as being highly prospective for commercial accumulations of coal bed methane.

As previously announced Independent US Oil and Gas consultant Gustavson Associates has estimated a (P₅₀) Gas In Place (GIP) resources for the 100% owned TCPs of 9.3tcf, using a conservative (arithmetic) probabilistic method. Table 1 shows Gustavson's probabilistic estimates of GIP and Contingent Resources.

Resource Estimate: TCP 12/2/37, 12/2/38, 12/2/39, 12/2/42			Billion Cubic Feet			Billion Cubic Meter		
			1C (P90)	2C (P50)	3C (P10)	1C (P90)	2C (P50)	3C (P10)
Total	Gas In Place	Adsorbed Gas	5,858	8,971	13,069	166	254	370
		Free Gas	142	359	705	4	10	20
		Arithmetic Total	6,000	9,330	13,774	170	264	390
	Contingent Resources	Adsorbed Gas	3,750	5,793	8,644	106	164	245
		Free Gas	115	287	565	3	8	16
		Arithmetic Total	3,864	6,080	9,209	109	172	261

Table 1: Gustavson Associates summary of resources for Kinetiko TCPs (100% interest).

These resource estimates were classified in accordance with the Petroleum Resource Management System, Society of Petroleum Engineers (SPE), 2007 by Gustavson Associates.

The CBM resource estimates are based on several key assumptions including:

- *Adsorbed and free gas resource estimates were estimated using probabilistic analysis;*
- *Two probabilistic approaches were used; Kinetiko has decided to use the conservative approach (based on arithmetic sums and average net coal thickness and applied probabilities);*
- *Estimates used released gas content ranges and coal and carbonaceous mudstone thicknesses, established from Kinetiko's Amersfoort Project;*
- *Gas content and other information was also obtained from published regional sources, rather than direct measurement, and direct porosity values were assumed on analogous data in order to estimated free gas content.*

Competent Persons:

The resource estimates used in this announcement have been compiled by Michelle G. Bishop, an American Institute of Professional Geologists Certified Professional Geologist with more than 30 years' experience in oil and gas fields. Ms Bishop is an employee of Gustavson Associates LLC. As such Ms Bishop qualifies as a competent person as defined by clause 20 of the VALMIN Code and under ASX listing rule 5.11. Ms Bishop and Gustavson Associates have consented in writing to the use of their resource estimates in this announcement.

About Kinetiko Energy

Kinetiko Energy Limited (ASX: KKO) is an Australian company focused on advanced coal bed methane (CBM) opportunities in rapidly developing gas markets in Southern Africa

We have selected South Africa as a result of country by country evaluations of CBM potential, energy markets and infrastructure. The known gassy coalfields and extensive energy infrastructure of South Africa are an attractive area for an emerging CBM industry.

Kinetiko have Prospective Resource estimates of “Gas in Place” of 1.7tcf on the Amersfoort Project, and 9.3tcf “Gas Initially in Place” on Kinetiko’s (100% owned) Technical Cooperation Permit areas near to the Amersfoort Project.

South Africa has extensive coal basins with evidence of gassy coals and a growing demand for energy derived from gas. Kinetiko is an early mover in the region and is pursuing new gas projects that will help supply the energy hungry economy and create jobs.

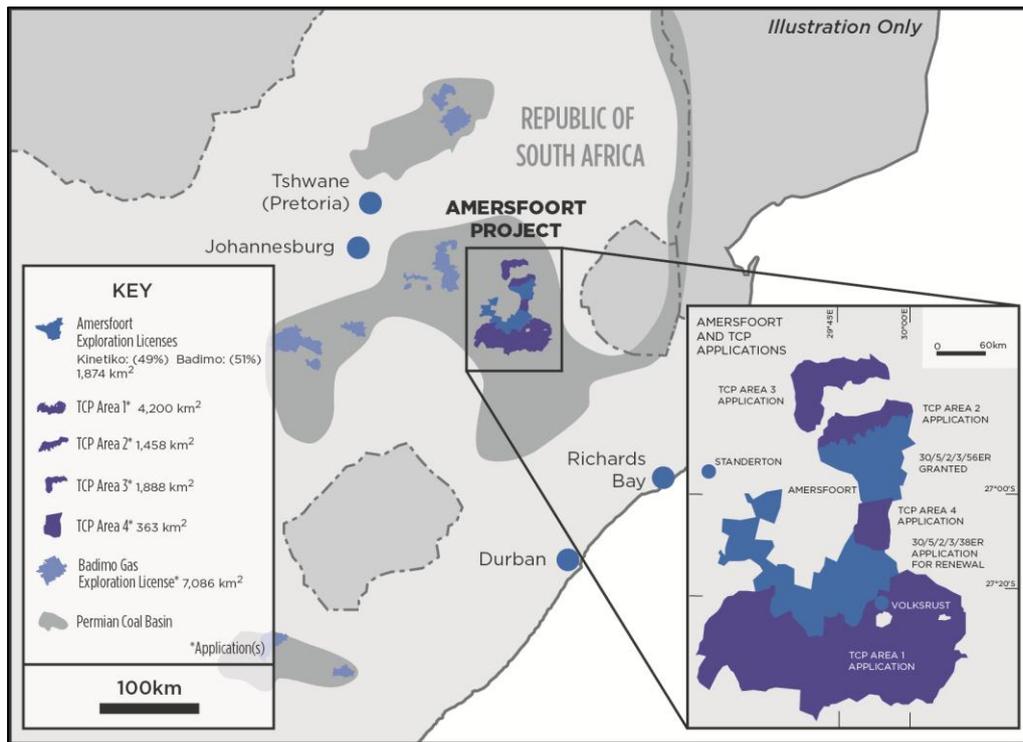


Figure 2: Kinetiko’s land tenure potential in South Africa various applications underway.

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