

# **Kinetiko Energy Ltd**

ABN: 45 141 647 529

Interim Financial report for the half-year ended  
31 December 2016

# **Interim Financial report for the half-year ended 31 December 2016**

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# Corporate Directory

## **DIRECTORS**

Adam Sierakowski  
(Non-Executive Chairman)

Dr. James Searle  
(Joint Acting Managing Director)

Geoffrey Michael  
(Joint Acting Managing Director)

## **COMPANY SECRETARY**

Stephen Hewitt-Dutton

## **PRINCIPAL OFFICE**

Unit 10 / 100 Railway Road  
SUBIACO WA 6008

## **REGISTERED OFFICE**

Unit 10 / 100 Railway Road  
SUBIACO WA 6008

## **AUDITORS**

BDO Audit (WA) Pty Ltd  
38 Station Street  
SUBIACO WA 6008

## **SHARE REGISTRY**

Automic Registry Services  
Level 2, 267 St Georges Terrace  
PERTH WA 6000

## **STOCK EXCHANGE LISTING**

Australian Securities Exchange  
Home Exchange: Perth, Western Australia  
Code: KKO

## Directors' report

The directors of Kinetiko Energy Ltd ("Kinetiko") submit herewith the financial report for the half-year ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report is as follows:

### Directors

The names of the directors of the company during or since the end of the half-year are:

Adam Sierakowski  
Dr. James Searle  
Geoffrey Michael

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

### Operating Results

The operating loss of the company for the six months amounted to \$608,777 (December 2015: loss of \$829,209).

### Review of operations

During the half year Kinetiko made progress on a number of matters. Key developments were as follows:

#### Corporate

Perth-based energy exploration company Kinetiko Limited (ASX: KKO) is pleased to report on corporate developments and its activities at the Amersfoort Project and adjacent tenements in South Africa and on its Kalahari Basin Gas Project in Botswana, for the quarter ending December 2016. Activities at the Amersfoort Project are carried out through Afro Energy Ltd, owned by Kinetiko Energy Ltd (49%) and its South African shareholder Badimo Gas Ltd (51%).

#### Afro Energy Exploration Rights & Applications

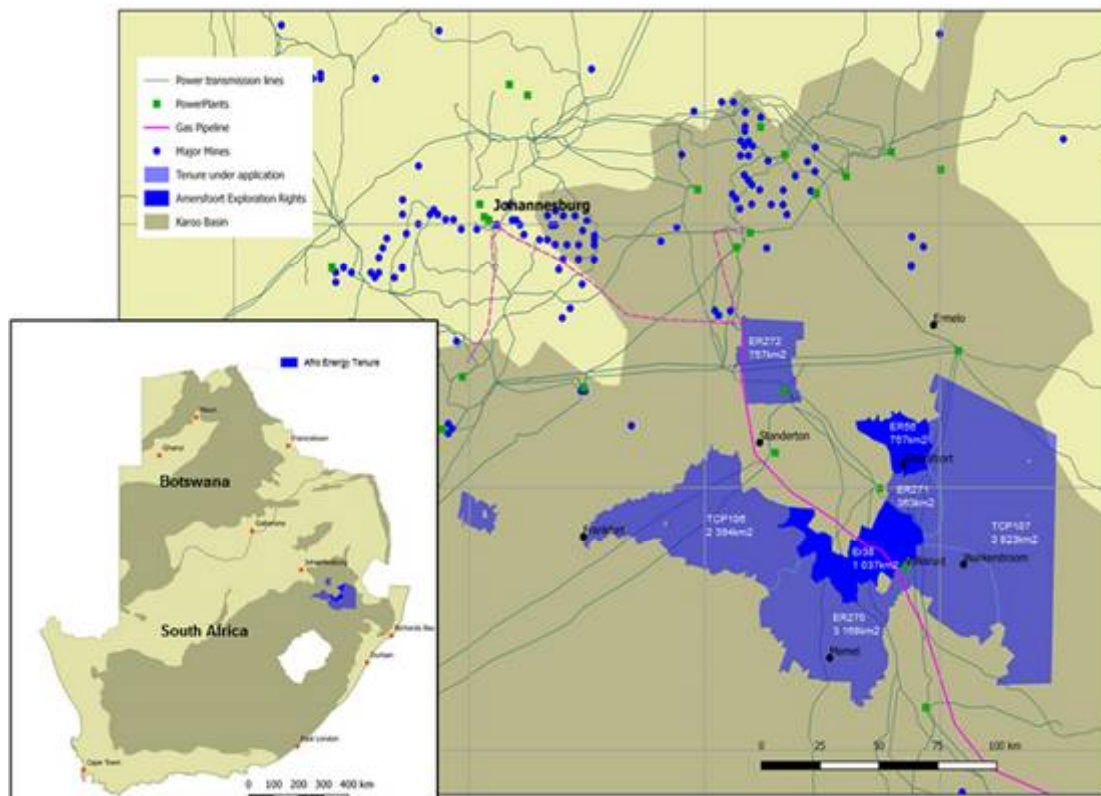


Figure 1

# Directors' report

## Review of operations (continued)

### Summary of Highlights

- Kinetiko Energy Ltd was re-admitted to official quotation (ASX announcement 17<sup>th</sup> August).
- The Company raised \$0.85m for working capital by placement of shares (ASX announcement 15<sup>th</sup> September).
- The Petroleum Agency of South Africa (PASA) granted the Section 11 application by Badimo Gas (Pty) Ltd and Kinetiko Energy Ltd to transfer its respective equity shareholding of 51% and 49% in 12/3/38ER and 12/3/56ER into Afro Energy (Pty) Ltd (AE) (see Figure 1). The Deeds of Assignments have been signed by both parties;
- The Petroleum Agency of South Africa (PASA) accepted Afro Energy's application for Exploration Rights (ER312/3/320 & ER 12/3/321), which will allow it to explore for petroleum and gas over the areas. These tenements were previously designated as TCP 106 and TCP107 under the technical co-operation permits carried by Afro Energy;
- Afro Energy appointed SLR Consulting to prepare the Environmental Application and Environmental Scoping Report as part of the exploration rights application for ER 12/3/320 and ER12/3/321 to PASA;
- Insurmountable environmental constraints highlighted by SLR Consulting during field investigation of the ER 12/3/321 tenement resulted in the withdrawal of Afro Energy's application for exploration rights in ER 12/3/321;
- SLR Consulting finalized its Environmental Scoping Report as part of Afro Energy's ER 12/3/320 exploration rights application. PASA approved the Environmental Scoping Report allowing Afro Energy to proceed with its Environmental Impact Assessment. SLR is currently proceeding with same;
- Kinetiko Energy Ltd continued its engagement with the South African Industrial Development Corporation (IDC) to resolve issues, unrelated to the technical viability of the project. The IDC advised of its Executive Policy Committee decision not to fund the development of the Project as a result of the mentioned issue;
- Kinetiko submitted a proposed work program for ER56 and ER38 to the Afro Energy board for consideration.

### Operations (Amersfoort Project South Africa - KKO 49%)

#### ER270, 271 & 272

PASA awaits the outcome of a planned Regional Mining Environmental Committee meeting regarding the Exploration Rights applications of tenements ER270, ER271 & ER272.

#### 12/3/320ER & 12/3/321ER

PASA accepted Afro Energy's application for Exploration Rights, in terms of Section 79 of the Mineral and Petroleum Resources Development Act, to explore for Petroleum and Gas. Afro Energy appointed an Environmental Assessment Practitioner, SLR Consulting, to prepare the application for Environmental Authorization in terms of Regulation 16 of the Environmental Impact Assessment Regulations of 2014.

Insurmountable environmental constraints highlighted by SLR Consulting during field investigation of the ER 12/3/321 tenement resulted in the withdrawal of Afro Energy's application for exploration rights in ER 12/3/321.

# Directors' report

## Review of operations (continued)

SLR Consulting finalized its Environmental Scoping Report as part of Afro Energy's ER 12/3/320 exploration rights application. PASA approved the Environmental Scoping Report allowing Afro Energy to proceed with its Environmental Impact Assessment. SLR is currently proceeding with same.

Considerable efforts have been undertaken with respect to stakeholder liaison and feedback in the areas under application along with cooperation and engagement with the relevant Government authorities and regulators. KKO continues to have a close working relationship with PASA and our consultants and look forward to this continuing in the next quarter.

Afro Energy is proceeding with the Environmental Impact Assessment for ER 12/3/320. Afro Energy, KKO and SLR Consulting will engaged and work with PASA through this process. This process involves consultation with other Government agencies under regulatory provisions and PASA will facilitate this process.

### **12/3/38ER**

The Afro Energy board is currently reviewing the work program proposed by Kinetiko to be undertaken in 38ER in order to achieve a similar appraisal/production program of wells as that of 12/3/56ER. Kinetiko is promoting the acquisition of an aeromagnetic survey similar to that carried out on ER56 to enable optimal appraisal well location for two proposed well.

### **12/3/56ER**

The Afro Energy board is currently reviewing the work program proposed by Kinetiko to be undertaken in 56ER The proposed next phase of the project will include an expansion of the existing aeromagnetic survey and a zone isolation drilling program.

## **Project Funding**

Afro Energy is progressing the fundraising campaign to underpin the above-mentioned programs and has to date achieved the following;

- Afro Energy elicited positive response from funding institutions culminating in an Expression of Interest from the IDC to fund and participate in the Project;
- To date the IDC has completed a successful 8-month technical, financial, commercial and legal due diligence on the Project and reached agreement with Afro Energy to provide funding for a pilot production development. This agreement was subject to, *inter alia*, IDC Executive Policy Committee approval;
- IDC advised of its Executive Policy Committee decision not to fund the development of the Project at this time due to an issue unrelated to KKO or the Project,
- Since the commercial viability of the Project remains robust, both Kinetiko Energy and Badimo Gas are currently exploring alternative funding opportunities for the Amersfoort Project and associated activities.

# Directors' report

## Review of operations (continued)

### Operations (Kalahari Basin Project Botswana - KKO 100% and Operator)

Kinetiko Energy Ltd holds 12 prospecting gas licenses covering a total of 9 927km<sup>2</sup> in the Kalahari Basin of Botswana (Figure 2).

Kinetiko has completed its desktop geological and geophysical evaluations of the above-mentioned tenements and concluded the results such that no further exploration is recommended.

Kinetiko subsequently informed the Department of Mines of its decision to relinquish the licences granted by the Minister of Minerals, Energy and Water Resources.

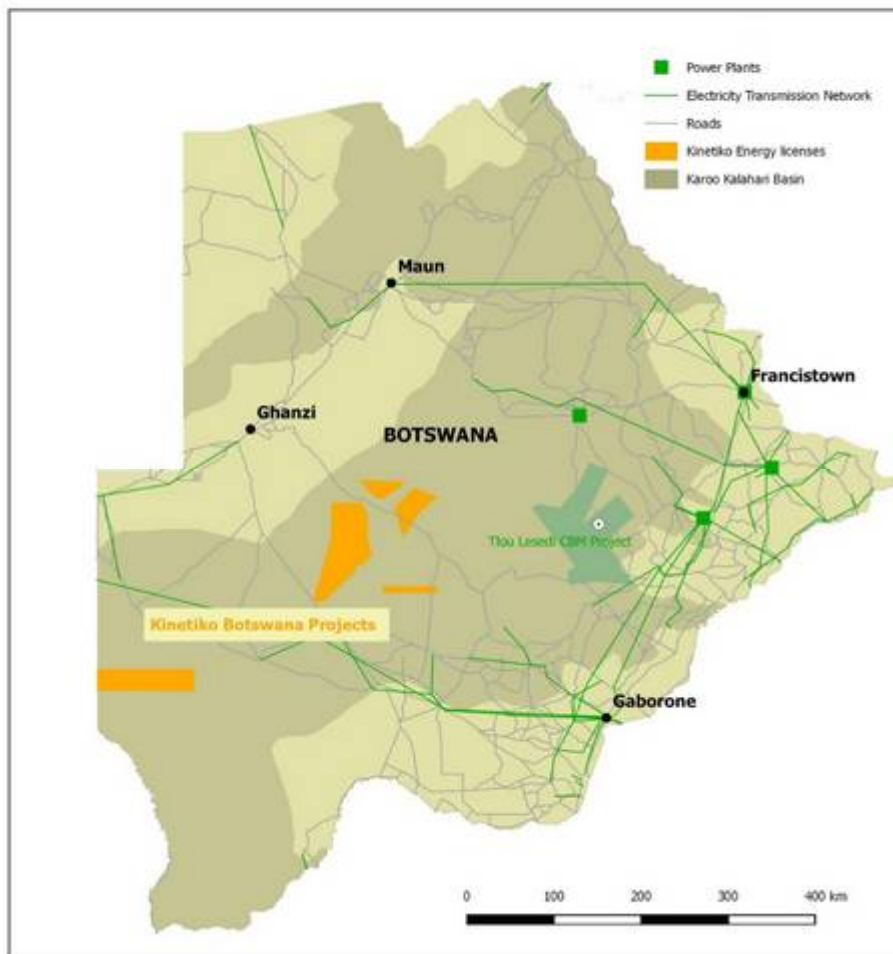


Figure 2 Location of the Kinetiko Energy Botswana tenure

# Directors' report

## Review of operations (continued)

| TENURE                            |                         |                    |  |   |                 |  |
|-----------------------------------|-------------------------|--------------------|--|---|-----------------|--|
| Clause                            | Area of Interest        | Tenement reference | Nature of interest   | Interest at Sep 16  | Interest Dec 16 |  |
| Amersfoort Project – South Africa |                         |                    |  |   |                 |  |
| Clause 10.1                       |                         | 30/5/2/3/38ER      | 2 <sup>nd</sup> renewal period granted   | 49%   | 49%             |  |
|                                   |                         | 30/5/2/3/56ER      | 1 <sup>st</sup> renewal period granted   | 49%   | 49%             |  |
|                                   |                         | ER320 (TCP 106)    | Application for conversion from TCP to exploration right approved by regulator     | 49%   | 49%             |  |
|                                   |                         | ER321 (TCP 107)    | Application for conversion from TCP to exploration right withdrawn                 | 49%   | 0%              |  |
|                                   |                         | ER 270             | Recommended by Petroleum Agency of South Africa to Department of Mineral Resources | 49%   | 49%             |  |
|                                   |                         | ER 271             | Recommended by Petroleum Agency of South Africa to Department of Mineral Resources | 49%   | 49%             |  |
|                                   |                         | ER 272             | Recommended by Petroleum Agency of South Africa to Department of Mineral Resources | 49%   | 49%             |  |
|                                   | Botswana – 12 tenements |                    |  |   |                 |  |
|                                   | Clause 10.1             |                    | PL 029   | Application submitted for relinquishment to Department of Mines | 100%            |  |
| Clause 10.1                       |                         | PL 229 – PL 301    | Application submitted for relinquishment to Department of Mines                    | 100%  |                 |  |
| Clause 10.1                       |                         | PL 444 – PL 451    | Application submitted for relinquishment to Department of Mines                    | 100%  |                 |  |

\* On the 17/2/2016 Kinetiko reported in full to the ASX the Gustavson and Associates LLC the new resource for ER56 at the Amersfoort Project. This resource remain current.

Except where indicated, technical comments above have been compiled by James Searle BSc (hons), PhD, a Member of the Australian Institute of Mining and Metallurgy, and a Director of Kinetiko Energy Ltd with over 30 years' experience in metallic and energy minerals exploration and development, including over 5 years' experience in petroleum exploration. Dr Searle consents to the inclusion of this technical information in the format and context in which it appears.

### Events Occurring After The Reporting Period

There are no other matters or circumstances that have arisen since 31 December 2016 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

### Dividends Paid or Recommended

No dividends were paid during the period and no recommendation is made as to payments of future dividends.

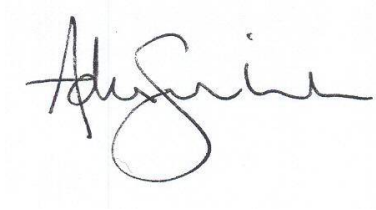
# **Directors' report**

## **Auditor's independence declaration**

The auditor's independence declaration is included on page 10 of the half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Adam Sierakowski', is written over a faint, light blue grid background.

Adam Sierakowski  
Chairman

Date: 16 March 2017

## DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF KINETIKO ENERGY LTD

As lead auditor for the review of Kinetiko Energy Ltd for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kinetiko Energy Ltd.



**Dean Just**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 16 March 2017

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kinetiko Energy Ltd

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kinetiko Energy Ltd, which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kinetiko Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kinetiko Energy Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.



### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kinetiko Energy Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

### **Emphasis of matter**

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Dean Just', is written over a faint, stylized 'BDO' logo.

**Dean Just**

**Director**

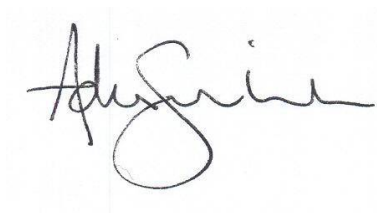
Perth, 16 March 2017

## Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes set out on pages 14 to 23 are in accordance with the Corporations Act 2001, including:
  - (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (b) giving a true and fair view of the company's financial position as at 31 December 2016 and of its performance, as represented by the results of its operations and its cash flow, for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Adam Sierakowski', is written over a light blue rectangular stamp.

Adam Sierakowski  
Chairman

Date: 16 March 2017

# Statement of Profit or Loss and Other Comprehensive Income for the six months ended 31 December 2016

|  | Note | Half-year ended<br>31 Dec 2016<br>\$ | Half-year ended<br>31 Dec 2015<br>\$ |
|--|------|--------------------------------------|--------------------------------------|
| <b>Revenue</b>   |      |                                      |                                      |
| Revenue from ordinary activities                                     | 2    | 7,403                                | 9,968                                |
| <b>Total Revenue</b>   |      | <u>7,403</u>                         | <u>9,968</u>                         |
| <b>Expenses</b>  |      |                                      |                                      |
| Consultancy and professional costs                                   |      | (40,437)                             | (36,131)                             |
| Employee and contractor expenses                                     |      | (223,025)                            | (216,753)                            |
| Foreign exchange loss  |      | -                                    | (223,814)                            |
| Occupancy expenses   |      | (15,500)                             | (24,000)                             |
| Depreciation   |      | (21,397)                             | (23,580)                             |
| Share based payment  | 4    | (231,000)                            | (240,000)                            |
| Interest expense   |      | (6,017)                              | (1,004)                              |
| Administration expenses  |      | (70,516)                             | (63,219)                             |
| Travel expenses  |      | (8,288)                              | (10,676)                             |
| <b>Total expenses</b>  |      | <u>(616,180)</u>                     | <u>(839,177)</u>                     |
| <b>Loss before income tax expense</b>                                |      | <u>(608,777)</u>                     | <u>(829,209)</u>                     |
| Income tax benefit/(expense)   |      | -                                    | -                                    |
| <b>Loss after income tax expense for the period</b>                  |      | <u>(608,777)</u>                     | <u>(829,209)</u>                     |
| <b>Other comprehensive income/(loss)</b>                             |      |                                      |                                      |
| <b>Other comprehensive income/(loss) for the period</b>              |      | <u>-</u>                             | <u>-</u>                             |
| <b>Total comprehensive loss for the period net of tax</b>            |      | <u>(608,777)</u>                     | <u>(829,209)</u>                     |
| <b>Loss per share attributable to equity holders of the company:</b> |      |                                      |                                      |
| Basic loss per share (cents)   |      | (0.29)                               | (0.47)                               |

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Statement of Financial Position

## as at 31 December 2016

|  | Note | 31 December<br>2016<br>\$ | 30 June 2016<br>\$ |
|--|------|---------------------------|--------------------|
| <b>CURRENT ASSETS</b>                              |      |                           |                    |
| Cash assets  |      | 246,337                   | 180,170            |
| Receivables  |      | 5,585                     | 5,742              |
| Other assets                                       |      | 22,659                    | 6,055              |
| <b>TOTAL CURRENT ASSETS</b>                        |      | <b>274,581</b>            | <b>191,967</b>     |
| <b>NON CURRENT ASSETS</b>                          |      |                           |                    |
| Property, plant & equipment                        | 5    | 6,686                     | 489,543            |
| Capitalised exploration and evaluation expenditure | 6    | -                         | 9,539,536          |
| Investment in associate                            | 7    | 10,441,377                | -                  |
| <b>TOTAL NON CURRENT ASSETS</b>                    |      | <b>10,448,063</b>         | <b>10,029,079</b>  |
| <b>TOTAL ASSETS</b>                                |      | <b>10,722,644</b>         | <b>10,221,046</b>  |
| <b>CURRENT LIABILITIES</b>                         |      |                           |                    |
| Trade and other payables                           |      | 617,534                   | 847,331            |
| Borrowings   | 8    | -                         | 201,456            |
| <b>TOTAL CURRENT LIABILITIES</b>                   |      | <b>617,534</b>            | <b>1,048,787</b>   |
| <b>TOTAL LIABILITIES</b>                           |      | <b>617,534</b>            | <b>1,048,787</b>   |
| <b>NET ASSETS</b>                                  |      | <b>10,105,110</b>         | <b>9,172,259</b>   |
| <b>EQUITY</b>                                      |      |                           |                    |
| Contributed equity                                 | 3    | 17,090,822                | 15,780,194         |
| Reserves   |      | 759,500                   | 528,500            |
| Accumulated losses                                 |      | (7,745,212)               | (7,136,435)        |
| <b>TOTAL EQUITY</b>                                |      | <b>10,105,110</b>         | <b>9,172,259</b>   |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

## for the half-year ended 31 December 2016

| For the period ended<br>31 December 2015                            | Attributable to equity holders |                                   |                       |                 |
|---|--------------------------------|-----------------------------------|-----------------------|-----------------|
|   | Ordinary<br>Shares             | Share Based<br>Payment<br>Reserve | Accumulated<br>Losses | Total<br>Equity |
|   | \$                             | \$                                | \$                    | \$              |
| At beginning of period  | 14,997,504                     | 528,500                           | (6,216,957)           | 9,309,047       |
| (Loss) for the period   | -                              | -                                 | (829,209)             | (829,209)       |
| <i><b>Total comprehensive loss for the period</b></i>               | -                              | -                                 | (829,209)             |                 |
| <i><b>Transactions with owners in their capacity as owners:</b></i> |                                |                                   |                       |                 |
| Issue of shares during the period                                   | 584,399                        | -                                 | -                     |                 |
| Share issue costs   | (41,709)                       | -                                 | -                     |                 |
| Share based payments  | 240,000                        | -                                 | -                     |                 |
| <i><b>Total contributions by owners</b></i>                         | 782,690                        | -                                 | -                     | 782,690         |
| At end of period  | 15,780,194                     | 528,500                           | (7,046,166)           | 9,262,528       |

| For the period ended<br>31 December 2016                            | Attributable to equity holders |                                   |                       |                 |
|---|--------------------------------|-----------------------------------|-----------------------|-----------------|
|   | Ordinary<br>Shares             | Share Based<br>Payment<br>Reserve | Accumulated<br>Losses | Total<br>Equity |
|   | \$                             | \$                                | \$                    | \$              |
| At beginning of period  | 15,780,194                     | 528,500                           | (7,136,435)           | 9,172,259       |
| (Loss) for the period   | -                              | -                                 | (608,777)             | (608,777)       |
| <i><b>Total comprehensive loss for the period</b></i>               | -                              | -                                 | (608,777)             | -               |
| <i><b>Transactions with owners in their capacity as owners:</b></i> |                                |                                   |                       |                 |
| Issue of shares during the period                                   | 1,327,133                      | -                                 | -                     | -               |
| Share issue costs   | (16,505)                       | -                                 | -                     | -               |
| Share based payments  | -                              | 231,000                           | -                     | 231,000         |
| <i><b>Total contributions by owners</b></i>                         | 1,310,628                      | -                                 | -                     | 1,541,628       |
| At end of period  | 17,090,822                     | 759,500                           | (7,745,212)           | 10,105,110      |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Statement of Cash flows for the half-year ended 31 December 2016

|  | Note | Half-year ended<br>31 Dec 2016<br>\$ | Half-year ended<br>31 Dec 2015<br>\$ |
|--|------|--------------------------------------|--------------------------------------|
| <b>Cash flows from operating activities</b>                            |      |                                      |                                      |
| Payments to suppliers and employees                                    |      | (463,082)                            | (268,326)                            |
| Interest received  |      | 5,861                                | 6,737                                |
| Interest and other costs of finance paid                               |      | (1,063)                              | -                                    |
| Net cash used in operating activities                                  |      | (458,284)                            | (261,589)                            |
| <br><b>Cash flows from investing activities</b>                        |      |                                      |                                      |
| Capitalised exploration and evaluation expenditure (net of VAT refund) |      | (351,044)                            | (342,406)                            |
| Net cash used in investing activities                                  |      | (351,044)                            | (342,406)                            |
| <br><b>Cash flows from financing activities</b>                        |      |                                      |                                      |
| Proceeds from issue of ordinary shares                                 |      | 850,000                              | 584,399                              |
| Release of security bonds  |      | 2,000                                | 30,000                               |
| Proceeds from borrowings   |      | 40,000                               | -                                    |
| Share issue costs  |      | (16,505)                             | (54,806)                             |
| Net cash provided by financing activities                              |      | 875,495                              | 559,593                              |
| <br><b>Net increase/(decrease) in cash and cash equivalents</b>        |      | 66,167                               | (44,402)                             |
| <b>Cash and cash equivalents at the beginning of the half-year</b>     |      | 180,170                              | 251,533                              |
| <b>Cash and cash equivalents at the end of the half-year</b>           |      | 246,337                              | 207,131                              |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the interim financial statements for the half-year ended 31 December 2016

## 1. Basis of Accounting and Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The interim financial statements were approved by the Board of Directors on 16 March 2017. The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report for the year ended 30 June 2016.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Kinetiko Energy Ltd. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2016, together with any public announcements made during the following half-year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

### *New accounting standards and interpretations*

In the half-year ended 31 December 2016, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016.

It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2016. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

### *Going Concern*

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

For the half year ended 31 December 2016 the Company recorded a loss of \$608,777 (31 December 2015: \$829,209) and had net cash outflows from operating and investing activities of \$809,328 (30 June 2016: \$603,995). At 31 December 2016, the Company had a working capital deficiency of \$342,953 (30 June 2016: \$856,820).

The ability of the Company to continue as a going concern is dependent on the Company securing additional funding through a prospectus capital raising and the continued support of its creditors and shareholders.

These conditions indicate a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe the Company will continue as a going concern and be able to pay its debts as and when they fall due.

Management has prepared a cash flow forecast for a period of 12 months beyond the sign off date of this financial report and believes there are sufficient funds to meet the entity's working capital requirements and as at the date of this report. The Company will be required to raise additional funds through debt or equity issues to continue with operations at their current rate.

# Notes to the interim financial statements for the half-year ended 31 December 2016

## 1. Basis of Accounting and Statement of Compliance (continued)

The financial statements have been prepared on the basis that the Company is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Company believe they can raise additional funding through debt or equity which is actively pursued;
- The Company has a recent proven history of successfully raising capital;
- The majority of creditors have provided confirmation that they will extend payment terms until such time that the company has the ability to pay;
- Cash spending can be reduced or slowed below its current rate if required;
- Continued support from major shareholders to raise funds for working capital purposes;
- The Company is also in discussions with the Company's corporate advisors and largest shareholder in relation to raising additional funding.

Should the Company not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Company not continue as a going concern.

# Notes to the interim financial statements for the half-year ended 31 December 2016

## 2. (Loss) for the half year

The following revenue items are relevant in explaining the financial performance for the interim period:

|                                  | 31.12.2016<br>\$ | 31.12.2015<br>\$ |
|----------------------------------|------------------|------------------|
| Interest income                  | 5,861            | 7,250            |
| Other revenue                    | 1,542            | 2,718            |
| Revenue from ordinary activities | <u>7,403</u>     | <u>9,968</u>     |

## 3. Issued Capital

### (a) Ordinary Shares

Movements in share capital during the six months periods were as follows:

#### Period ended 31 December 2015

|                  |   | Issue<br>Price | Fully Paid<br>Ordinary<br>Shares | \$                |
|------------------|---|----------------|----------------------------------|-------------------|
| 1 July 2015      | Opening balance   |                | 164,249,500                      | 14,997,504        |
|                  | Conversion of convertible notes<br>to shares <sup>1</sup> | \$0.035        | 3,380,160                        | -                 |
|                  | Issue of shares pursuant to<br>placement facility         | \$0.048        | 16,697,124                       | 584,399           |
|                  | Issue of shares for services<br>rendered                  |                | 5,000,000                        | 240,000           |
|                  | Share issue costs   |                | -                                | (41,709)          |
| 31 December 2015 | Closing balance   |                | <u>189,326,784</u>               | <u>15,780,194</u> |

<sup>1</sup> The monetary amount on the conversion of convertible notes into 3,380,160 ordinary shares was recognised in the year ended 30 June 2015 at a face value of \$550,000.

#### Period ended 31 December 2016

|                  |  | Issue<br>Price | Fully Paid<br>Ordinary<br>Shares | \$                |
|------------------|--|----------------|----------------------------------|-------------------|
| 1 July 2016      | Opening balance  |                | 189,326,784                      | 15,780,194        |
|                  | Issue of shares for debt<br>consideration <sup>2</sup>         | \$0.025        | 19,085,280                       | 477,133           |
|                  | Issue of shares pursuant to<br>placement facility <sup>1</sup> | \$0.025        | 34,000,000                       | 850,000           |
|                  | Share issue costs  |                | -                                | (16,505)          |
| 31 December 2016 | Closing balance  |                | <u>242,412,064</u>               | <u>17,090,822</u> |

<sup>1</sup> Each ordinary shares issued under the placement facility came with a free attaching option with an exercise price \$0.03, expiring 24 months after the date of issue – refer to Note 3(b).

<sup>2</sup> Following shareholder approval on 2 November 2016, the Company issued 5,428,831 and 3,800,000 ordinary shares to entities associated with Geoffrey Michael and James Searle respectively, in satisfaction of amounts owed in relation to director fees owing. A further 9,856,449 ordinary shares were also issued in repayment of borrowings – refer to Note 8. The issue for debt consideration was on the same term as the placement facility, with each shares included a free attaching option.

# Notes to the interim financial statements for the half-year ended 31 December 2016

## 3. Issued Capital (continued)

### (b) Options

Movements in options during the six months to 31 December 2015 were as follows:

#### Period ended 31 December 2015

| Exercise price<br>Expiry date | 75c<br>30 June 2016    | 20c<br>28 April 2017 |
|-------------------------------|------------------------|----------------------|
| Opening balance               | 1,000,000              | 4,000,000            |
| Issued during the period      | -                      | -                    |
| Expired during the period     | -                      | -                    |
| Exercised during the period   | -                      | -                    |
| Closing balance               | 1,000,000 <sup>1</sup> | 4,000,000            |

<sup>1</sup>1,000,000 options expired at 30 June 2016

Movements in options during the six months to 31 December 2016 were as follows:

#### Period ended 31 December 2016

| Exercise price<br>Expiry date         | 20c<br>28 April 2017 | 3c<br>4 November 2018 |
|---------------------------------------|----------------------|-----------------------|
| Opening balance                       | 4,000,000            | -                     |
| Issued during the period <sup>1</sup> | -                    | 53,085,280            |
| Expired during the period             | -                    | -                     |
| Exercised during the period           | -                    | -                     |
| Closing balance                       | 4,000,000            | 53,085,280            |

<sup>1</sup>Following shareholder approval, 34,000,000 free attaching options were issued on 4 November 2016 for each share issued under the placement facility. A further 19,085,280 options were also allotted on the same terms and date for each share issued for debt consideration. Refer to Note 4 for further details.

## 4. Share Based Payment

During the half year ended 31 December 2016, \$231,000 was recognised as a share based payment made to Directors, their associates and unrelated parties in satisfaction of loans advanced to the Company and Director fees owed. The options were issued to Directors, their associates and unrelated parties as follows:

| Recipient                                      | Number of Options | Value of Options Issued |
|--|-------------------|-------------------------|
| Adam Sierakowski (IML Holdings Pty Ltd)        | 5,738,427         | \$69,455                |
| Dr Donald James Searle (Earthsciences Pty Ltd) | 3,800,000         | \$45,994                |
| Geoffrey Michael (Vital Nominees Pty Ltd)      | 5,428,831         | \$65,708                |
| Unrelated parties                              | 4,118,022         | \$49,843                |
| Total  | 19,085,280        | \$231,000               |

The fair value of these options granted was calculated as 0.0121 cents each by using the Black-Scholes option valuation methodology and applying the following inputs:

|   |                 |
|---|-----------------|
| Weighted average exercise price (cents)         | 0.03            |
| Weighted average life of the options (years)    | 2               |
| Weighted average underlying share price (cents) | 0.025           |
| Expected share price volatility                 | 100%            |
| Risk-free interest rate                         | 1.65%           |
| Grant date                                      | 4 November 2016 |

# Notes to the interim financial statements for the half-year ended 31 December 2016

## 5. Property, Plant & Equipment

|   | 31.12.2016<br>\$ | 30.06.2016<br>\$ |
|---|------------------|------------------|
| Opening net book value  | 489,543          | 534,158          |
| Additions   | -                | 2,746            |
| Disposals   | -                | -                |
| Transferred to investment in associate <sup>1</sup> – refer to Note 7 | (461,460)        | -                |
| Depreciation charge   | (21,397)         | (47,361)         |
| Closing net book value  | <u>6,686</u>     | <u>489,543</u>   |

<sup>1</sup> During the half year ended 31 December 2016, the Company's agreement with Badimo Gas (Pty) Ltd to pool their interests (51% Badimo and 49% Kinetiko) into Afro Energy (Pty) Ltd was effectuated. As a result, Kinetiko's plant and equipment in relation to the joint venture was transferred into Afro Energy (Pty) Ltd.

## 6. Capitalised Exploration and Evaluation Expenditure

|   | 31.12.2016<br>\$ | 30.06.2016<br>\$ |
|---|------------------|------------------|
| Opening balance   | 9,539,536        | 7,725,096        |
| Exploration and evaluation expenditure during the period              | 440,381          | 541,290          |
| Badimo JV contribution – transferred <sup>1</sup>                     | -                | 1,273,150        |
| Transferred to investment in associate <sup>2</sup> – refer to Note 7 | (9,979,917)      | -                |
| Closing balance   | <u>-</u>         | <u>9,539,536</u> |

<sup>1</sup> The Badimo JV contribution owed to the Company was reclassified and capitalised as exploration and evaluation expenditure as 30 June 2016 as they represented cash incurred on exploration.

<sup>2</sup> During the half year ended 31 December 2016, the Company's agreement with Badimo Gas (Pty) Ltd to pool their interests (51% Badimo and 49% Kinetiko) into Afro Energy (Pty) Ltd was effectuated. As a result, Kinetiko's capitalised exploration and evaluation expenditure was transferred into Afro Energy (Pty) Ltd.

## 7. Investment in Associate

Kinetiko Energy Limited holds a 49% interest in Afro Energy (Pty) Ltd, a joint venture structured as a strategic partnership between the Company and Badimo Gas (Pty) Ltd. The primary purpose of the joint venture is to maximise the long term value of the assets of the joint venture and to secure additional funding from outside sources.

Under the joint venture agreement, the company has a 49% direct interest in all of the assets used, the revenue generated and the expenses incurred by the joint venture. The company is also liable for 49% of any liabilities incurred by the joint venture. In addition, pursuant to the joint venture agreement, the company has 49% of the voting rights in relation to the joint venture.

Afro Energy (Pty) Ltd has the same financial year-end as Kinetiko Energy Limited.

The carrying amount of equity-accounted investments in associates for the six months to 31 December 2016 is as follows:

|                              | Six months ending<br>31 December 2016 |
|------------------------------|---------------------------------------|
| Beginning of the period      | -                                     |
| Additions                    | \$10,441,377                          |
| Profit/(loss) for the period | -                                     |
| <b>End of the period</b>     | <b>\$10,441,377</b>                   |

# Notes to the interim financial statements for the half-year ended 31 December 2016

## 8. Borrowings

|                                 | 31.12.2016<br>\$ | 30.06.2016<br>\$ |
|---------------------------------|------------------|------------------|
| Opening balance                 | 201,456          | -                |
| Loan - other                    | -                | 100,000          |
| Loan - director                 | 40,000           | 100,000          |
| Accrued interest                | 4,956            | 1,456            |
| Repayment of loans <sup>1</sup> | (246,412)        | -                |
| Closing balance                 | -                | 201,456          |

<sup>1</sup>The repayment of loans was satisfied by way of issue of 4,118,022 and 5,738,427 ordinary shares at \$0.025 each to an unrelated party and an entity associated with Adam Sierakowski respectively. Each shares included a free attaching option which were issued following shareholder approval on 2 November 2016.

## 9. Segment Information

The Company currently does not have production and is only involved in exploration. As a consequence, activities in the operating segments are identified by management based on the manner in which resources are allocated, the nature of the resources provided and the identity of service line manager and country of expenditure. Discrete financial information about each of these areas is reported to the executive management team on a monthly basis.

Based on the above, management has determined that the company has one operating segment being gas exploration in South Africa. As the Company is focused on gas exploration, the Board monitors the company based on actual versus budgeted exploration expenditure incurred by area of interest. These areas of interest meet aggregating criteria and are aggregated into one reporting sector. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the company and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

## 10. Commitment and Contingent Liabilities

There are no known contingent liabilities at reporting date.

There has been no significant changes to the Company's commitment since 30 June 2016.

## 11. Fair Values of Financial Instruments

### Recurring fair value measurements

The Company does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

### Fair values of financial instruments not measured at fair value

The Company does not have any financial instruments not measured at fair value in the statement of financial position.

## 12. Events Occurring After The Reporting Period

There are no other matters or circumstances that have arisen since 31 December 2016 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.