



Kinetiko Energy Limited
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ASX: KKO

16 October 2016

Dawn James
Adviser, Listings Compliance
ASX Compliance Pty Ltd
Level 40 Central Park
152-158 St Georges Tce
PERTH WA 6000

Dear Dawn,

Kinetiko Energy Limited ("Company")

We refer to your letter dated 9 October 2017 in relation to the Company's Annual report for the year ended 30 June 2017 and respond as follows.

Question 1: *Is the Company able to confirm that, in the directors' opinion, the 2017 Annual Report:*

- a. *complies with the relevant Accounting Standards; and*
- b. *gives a true and fair view of the financial performance and financial position of the Company?*

Response 1a: Yes, based on the information that was available to the Company at the time of the audit.

Response 1b: Yes, based on the information that was available to the Company at the time of the audit.

Question 2 (para 4): Commenting specifically on the directors statements that:

- a. "there may be information that the Directors have not been able to obtain, the impact of which may or may not be material on the accounts," and
- b. "these financial statements do not contain all the required information or disclosures in relation to the Company's investment in associate as this information is unascertainable due to the lack of complete accounting records maintained by Afro,"

is the Company satisfied that the accounts comply with Listing Rule 19.11A(b) which requires that "accounts must be prepared to Australian Accounting standards"?

Response 2: Yes. The Financial Report was prepared in accordance with Australian Accounting Standards based on the information that was available to the Company at the time of the audit. The disclaimer of opinion was a result of the auditor not being able to obtain sufficient appropriate audit evidence.

Question 3 (para 5): *What steps does the Company intend to take to obtain access to the books and records of Afro Energy Pty Ltd in order for the auditor to satisfy itself sufficiently to express an opinion on the financial report in the 2017 Annual Report? What steps does the Company intend to take to ensure in future periods it can provide the auditor with sufficient and appropriate audit evidence to enable the auditor to satisfy itself sufficiently to express an opinion on the financial report?*

Response 3: The Board and Company is continually working to rectify the impasse with the joint venture partner in Afro Energy (Pty) Ltd. The Company has initiated the following to assist with gaining access to the required information for the year ended 30 June 2017 and subsequent periods:

1. Appointed South African legal counsel to represent the Company;
2. The Company's auditors have been provided with direct contact to the joint venture partner; and
3. The Company is pursuing insolvency proceedings against Badimo Gas (Pty) Ltd, the joint venture partner, in an effort to have an external administrator appointed to Badimo who can assist with the assessment of and access to the financial records of Afro.
4. We have engaged with the South African companies' regulator.

Question 4 (para 6): *Commenting specifically on the statements by the auditor in its disclaimer of opinion that "the investment in associate is carried at \$10,482,296 on the statement of financial position which represents 97.5% of the Company's total assets as at 30 June 2017" and "we were unable to obtain access to the complete books and financial records of the associate. As a result, we were unable to determine whether any adjustments were necessary in respect of the carrying value of the investment in associate and the share of net income / loss for the period", does the Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.*

Response 4: Yes. The assets of Afro Energy (Pty) Ltd ("Afro") consist primarily of the South African exploration rights (12/3/38ER and 12/3/56ER). The Company has received nothing to indicate that the underlying prospectivity or value of the exploration rights has diminished.

The corporate joint venture using Afro Energy (Pty) Ltd as the joint venture vehicle was only finalised during the June 2017 year. Up until that point Kinetiko had accounted for its interest in the exploration rights as a direct interest and the value of our interest was represented by:

- Exploration and Evaluation Expenditure or \$9,979,917; and
- Property, Plant and Equipment of \$461,460.

Each of these amounts was transferred during the current financial year to Investment in Associate. Accordingly, owing to the small difference between what has been reclassified on establishment of the corporate joint venture vehicle and the closing value the directors are satisfied that the carrying value is not materially misstated.

In addition, the Company has recently received advice that the exploration rights remain in good standing and that our application for renewal of the exploration rights has been accepted by PASA. Accordingly we are satisfied that the major asset underpinning the value of the investment in the associate, Afro, has not been impaired.

Further, as the operator of the joint venture, Kinetiko has access to information regarding the work that it has coordinated. The auditors comment you mention above is in relation to the possibility that the joint venture partner may have committed Afro to expenditure of which we are not aware. Whilst we believe that the probability of such a situation is low, the auditor felt compelled to provide the disclaimer of opinion as the potential of such a situation exists and may or may not be material.

Question 5 (para 7): *If the answer to question 6 is “No”, please explain what steps the Company has taken, or proposes to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rule 12.2.*

Response 5: Not applicable.


Question 6 (para 8): *What steps does the Company intend to take to obtain an unmodified audit opinion in the future?*

Response 6: Refer to Response 3 above.

Question 7 (para 9): *Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.*

Response 7: We confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Yours Sincerely



Stephen Hewitt-Dutton
Company Secretary
Kinetiko Energy Ltd



9 October 2017

Mr Stephen Hewitt-Dutton
Company Secretary
Kinetiko Energy Limited
Unit 10/100 Railway Road
Subiaco WA 6008

By email:

Dear Mr Hewitt-Dutton

KINETIKO ENERGY LIMITED (the "Company")

ASX Limited ("ASX") refers to the following.

1. The Company's financial statements for the Year ended 30 June 2017, released to the market on 2 October 2017 (the "2017 Annual Report").
2. The Independent Auditor's Report on pages 20-21 of the Accounts ("Auditor's Report") which includes the following Disclaimer of Opinion ("2017 Disclaimer of Opinion"):

Disclaimer of opinion

"We were engaged to audit the financial report of Kinetiko Energy Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

We do not express an opinion on the accompanying financial report of the Company. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.

Basis for disclaimer of opinion

During the year, the Company's agreement with Badimo Gas (Pty) Ltd to pool their interests (51% Badimo and 49% Kinetiko) into Afro Energy (Pty) Ltd ("Afro") was executed. As a result, the Company's plant and equipment and capitalised exploration and evaluation expenditure was transferred into Afro Energy (Pty) Ltd and held as an investment in associate. The investment in associate is carried at \$10,482,296 on the statement of financial position which represents 97.5% of the Company's total assets as at 30 June 2017. As stated in note 11(b) of the financial report, the Directors were unable to obtain access to the financial records of Afro Energy (Pty) Ltd, and therefore we were unable to obtain access to the complete books and financial records of the associate. As a result, we were unable to determine whether any adjustments were necessary in respect of the carrying value of the investment in associate and the share of net income/loss for the period.



Relevant Listing Rules and Guidance

- Listing Rule 12.2 – *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 19.11A (b) – *If a listing rule requires an entity to give ASX accounts, the accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*

Questions for Response

In light of the Auditor's Report, the information contained in the 2017 Annual Report, and the application of the Listing Rules stated above, please note the following and respond to the relevant questions.

1. Is the Company able to confirm that, in the directors' opinion, the 2017 Annual Report:
 - (a) complies with the relevant Accounting Standards; and
 - (b) gives a true and fair view of the financial performance and financial position of the Company?
2. The Company has stated in Note 11b) on page 38 of the 2017 Annual Report that:

"The Directors have not been able to obtain access to or source books and accounting records of its associate, Afro Energy Pty Ltd.

To prepare the financial statements, the Directors have based the financial records of Afro using data extracted from the Company's accounting system. However, there may be information that the Directors have not been able to obtain, the impact of which may or may not be material on the accounts.

These financial statements do not contain all the required information or disclosures in relation to the Company's investment in associate as this information is unascertainable due to the lack of complete accounting records maintained by Afro.

Consequently the Directors have prepared the financial statements to the best of their knowledge based on the information made available to them relating to Afro Energy. The directors are satisfied that the financial statements comply with Australian Accounting Standards and the Corporations Act 2001 however acknowledge that without audited financial information of the associate, there may be information that the Directors have not been able to obtain, the impact of which may or may not be material to the accounting for the investment in associate and accordingly the financial statements."

3. The auditor's opinion states as follows:

"We do not express an opinion on the accompanying financial report of the Company. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have



not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.”

4. Commenting specifically on the directors statements that:

4.1. “there may be information that the Directors have not been able to obtain, the impact of which may or may not be material on the accounts,” and

4.2. “these financial statements do not contain all the required information or disclosures in relation to the Company’s investment in associate as this information is unascertainable due to the lack of complete accounting records maintained by Afro,”

is the Company satisfied that the accounts comply with Listing Rule 19.11A(b) which requires that “accounts must be prepared to Australian Accounting standards”?

5. What steps does the Company intend to take to obtain access to the books and records of Afro Energy Pty Ltd in order for the auditor to satisfy itself sufficiently to express an opinion on the financial report in the 2017 Annual Report? What steps does the Company intend to take to ensure in future periods it can provide the auditor with sufficient and appropriate audit evidence to enable the auditor to satisfy itself sufficiently to express an opinion on the financial report?

6. Commenting specifically on the statements by the auditor in its disclaimer of opinion that “the investment in associate is carried at \$10,482,296 on the statement of financial position which represents 97.5% of the Company’s total assets as at 30 June 2017” and “we were unable to obtain access to the complete books and financial records of the associate. As a result, we were unable to determine whether any adjustments were necessary in respect of the carrying value of the investment in associate and the share of net income / loss for the period”, does the Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

7. If the answer to question 6 is “No”, please explain what steps the Company has taken, or proposes to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rule 12.2.

8. What steps does the Company intend to take to obtain an unmodified audit opinion in the future?

9. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Please note that ASX intends under Listing Rule 18.7A to release this letter and the Company’s response to the market. Accordingly, the Company’s response should address each question separately and be in a format suitable for release to the market.



Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by **no later than 3.00pm WST on Monday 16 October 2017**. If the information is required immediately under Listing Rule 3.1, you should discuss with ASX whether it is appropriate to request a trading halt in the Company's securities under Listing Rule 17.1.

Any response should be sent to me by return email to dawn.james@asx.com.au and tradinghaltspert@asx.com.au. It should not be sent to the ASX Market Announcements Office.

If you have any questions in relation to the above, please do not hesitate to contact me if you have any enquiries on the above.

Yours sincerely,

[sent electronically without signature]

Dawn James

Adviser, Listings Compliance (Perth)