Kinetiko Energy Ltd

ABN: 45 141 647 529

Interim Financial report for the half-year ended

31 December 2017

Interim Financial report for the half-year ended 31 December 2017

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 12 / 100 Railway Road
SUBIACO WA 6008

REGISTERED OFFICE

Unit 12 / 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 2017. 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 $547,168 (December 2016: loss of $608,777).

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 (Figure 1), for the half-year ending December 2017. 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

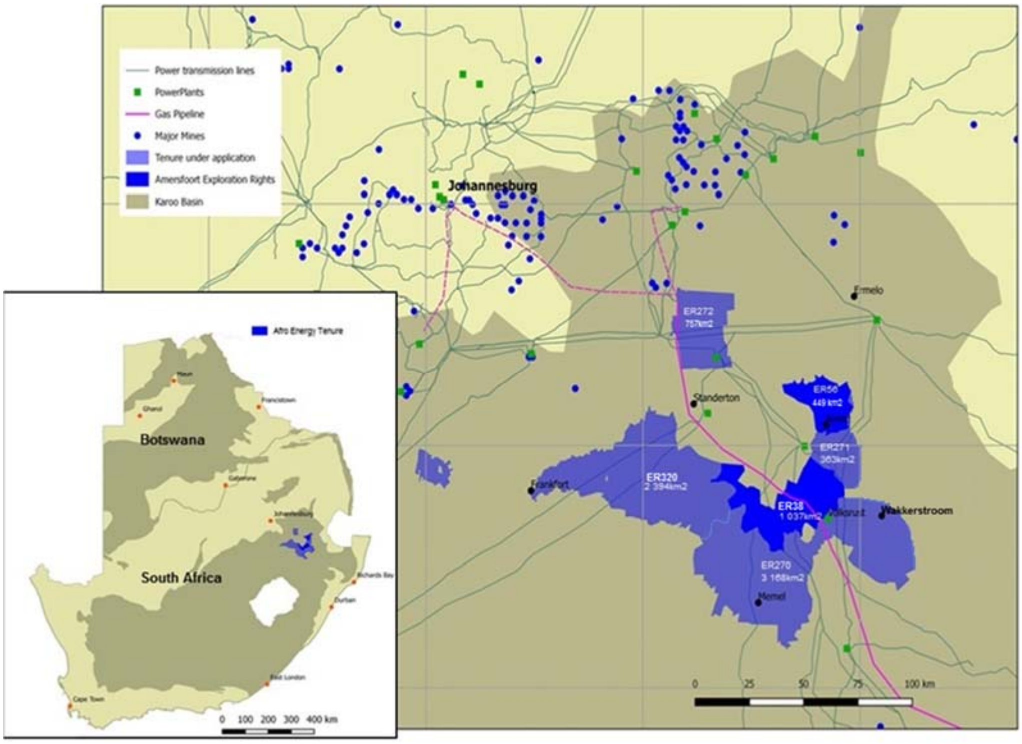

Figure 1

Directors' report

Review of operations (continued)

Summary of Highlights

- Exploration Right ER 12/3/320 (ER320)
    - Subsequent to the approval by The Petroleum Agency of South Africa (PASA) of Afro Energy's Environmental Scoping Report, the company commenced with the Environmental Impact Assessment by SLR Consultants as part of the exploration rights application for ER 320;
    - SLR Consulting commenced the Environmental Impact Assessment and Environmental Management Program as part of the exploration rights application. Due to conflicting regulations between the Petroleum Agency of South Africa (PASA), the Department of Mineral Resources (DMR) and the Department of Water and Sanitation, an application by Afro Energy to an extension of the date of submission for the EIA and EMPR has been granted by PASA to allow the relevant authorities to clarify the regulations and its related guidelines.
- Kinetiko Energy Ltd continued its engagement with the South African Industrial Development Corporation (IDC) to explore alternative avenues for the funding of the Amersfoort project. The IDC reconfirmed its support to funding the project once the mentioned issues have been resolved; and
- Kinetiko, on behalf of Afro Energy, submitted renewal applications for exploration rights ER38 and ER56 for a further two-year period. The applications are currently under review by PASA.

Operations (Amersfoort Project South Africa - KKO 49%)

ER270, 271 & 272

PASA received the outcome of the Regional Mining Environmental Committee meeting regarding the Exploration Rights applications of tenements ER270, ER271 & ER272 and is preparing a recommendation to the Department of Mineral Resources. PASA is currently awaiting a response from the DMR.

12/3/320ER

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.

An application to extension by Afro Energy of the date of submission of the EIA and EMPR has been granted by PASA to allow them, Department of Mineral Resources and the Department of Water and Sanitation to clarify exceptional circumstances of the application with regards to placement of exploration wells. Regulations under the different departments are currently not aligned with regards petroleum exploration. The submission of same is now scheduled for 31 July 2018.

Subsequent to the above-mentioned extension granted by PASA, the clarification process between the various ministries and PASA was further put on hold due to an Eastern Cape High Court order setting aside the Regulations in question. Although the Department has appealed the order, any substantial work/progress on the matter will only re-commence once the decision on the appeal is made.

Directors' report

Review of operations (continued)

12/3/38ER

Kinetiko, on behalf of Afro Energy, submitted a renewal application for exploration rights ER38 for a further two-year period.

The Kinetiko board approved the inclusion of a work program in the renewal application consisting of a 10 229 line-kilometre high-resolution aeromagnetic survey (460km2) over a pre-defined area within ER38. In addition and as an initial phase, Afro Energy proposed the drilling of one zone interval well under the existing approved Environmental Management Program within ER38. The positioning will be predicated on the results of the aeromagnetic survey and its interpretation. As a next phase the drilling of a further 7 wells within ER38, also under the currently approved Environmental Management Program, will be determined by the outcome of the aeromagnetic survey and the geological interpretation of the interval drilling program.

The applications are currently under review by PASA.

12/3/56ER

Kinetiko, on behalf of Afro Energy, submitted a renewal application for exploration rights ER56 for a further two-year period.

The Kinetiko board approved the inclusion of a work program in the renewal application consisting of a 1 334 line-kilometre high-resolution aeromagnetic survey (60km2) which will be obtained over a pre-defined area within ER56 to supplement the 145 km2 previously obtained in the area. In addition and as an initial phase, Afro Energy proposed the drilling of one zone interval well under the existing approved Environmental Management Program within ER56. The positioning will be predicated on the results of the aeromagnetic survey and its interpretation. As a next phase the drilling of a further 7 wells within ER56, also under the currently approved Environmental Management Program, will be determined by the outcome of the aeromagnetic survey and the geological interpretation of the interval drilling program (Figure 2).

The applications are currently under review by PASA.

Project Funding

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

- Notwithstanding the decision by the IDC's Executive Policy Committee not to fund the development of the Project at this time due to an issue unrelated to KKO or the Project, the IDC management has confirmed its support for funding the project once the above-mentioned issue has been resolved.

- 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.

** 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.

Directors' report

Review of operations (continued)

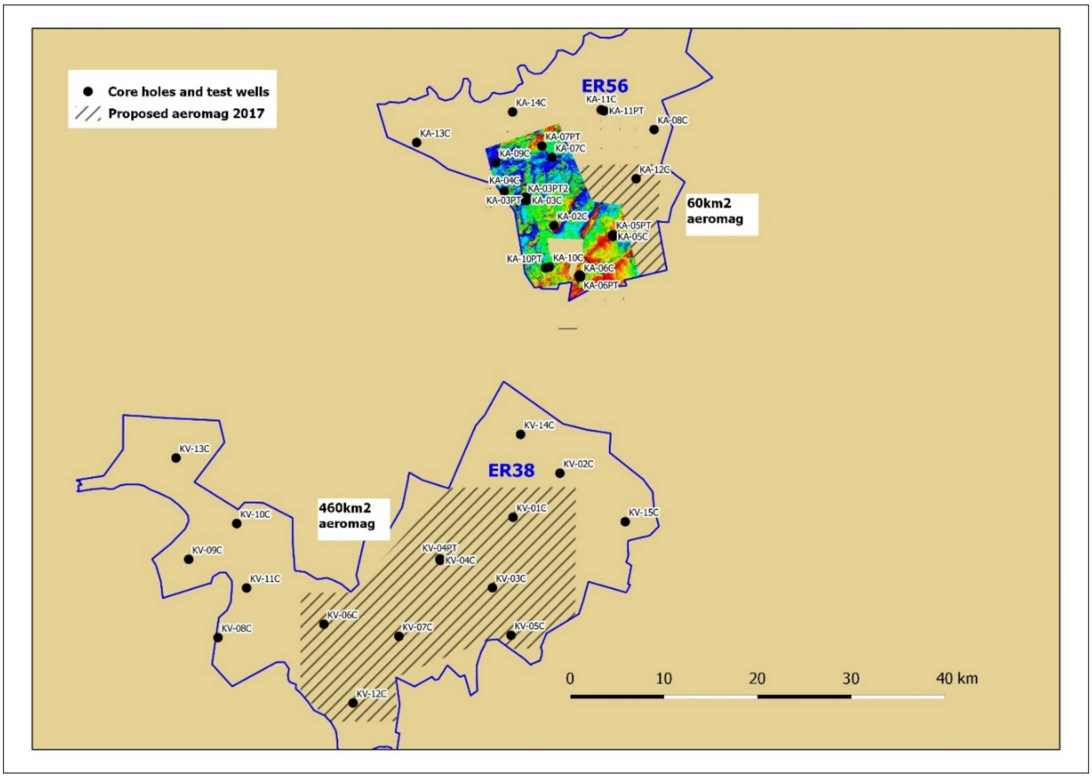

Figure 2 Proposed aeromagnetic surveys 2018

Schedule of mining tenements

Area of Interest	Tenement reference	Nature of interest	Interest
Amersfoort Project – South Africa			
	30/5/2/3/38ER	2nd renewal period granted. Under 3rd renewal application.	49%
	30/5/2/3/56ER	1st renewal period granted. Under 2nd renewal application.	49%
	ER320 (TCP 106)	Application for conversion from TCP to exploration right approved by regulator.	49%
	ER 270	Recommended by Petroleum Agency of South Africa to Department of Mineral Resources.	49%
	ER 271	Recommended by Petroleum Agency of South Africa to Department of Mineral Resources.	49%
	ER 272	Recommended by Petroleum Agency of South Africa to Department of Mineral Resources.	49%

Directors' report

Events Occurring After The Reporting Period

There are no other matters or circumstances that have arisen since 31 December 2017 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.

Auditor's independence declaration

The auditor's independence declaration is included on page 9 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

Adam Sierakowski
Chairman

Date: 16 March 2018

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Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF KINETIKO ENERGY LIMITED

As lead auditor for the review of Kinetiko Energy Limited for the half-year ended 31 December 2017, 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.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 16 March 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kinetiko Energy Limited

Report on the Half-Year Financial Report

Disclaimer of conclusion

We were engaged to review the half-year financial report of Kinetiko Energy Limited (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

We do not express a conclusion on the accompanying half- year financial report of the Company. Because of the significance of the matter described in the Basis for disclaimer of conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to provide a basis for a review conclusion on this financial report.

Basis for disclaimer of conclusion

As discussed in note 4 to the half-year financial report, the Company's agreement with Badimo Gas (Pty) Ltd to pool their interests 51% (Badimo Gas (Pty) Ltd) and 49% (Kinetiko Energy Limited) into Afro Energy (Pty) Ltd was executed in the financial year ended 30 June 2017. As a result, the Company's interest in Afro Energy (Pty) Ltd was held as an investment in associate with the carrying value of at $10,482,296 on the statement of financial position at 30 June 2017. The Directors were unable to obtain access to the financial records of Afro Energy (Pty) Ltd and caused us to disclaim our audit opinion on the financial report relating to that year.

As at the end of the current half- year period, the Company's investment in associate is carried at $10,652,783 on the statement of financial position which represents 96.9% of the Company's total assets as at 31 December 2017. As the Directors were unable to obtain access to the financial records of Afro Energy (Pty) Ltd for the half-year ended 31 December 2017, 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 half-year ended 31 December 2017.

Emphasis of matter-Material Uncertainty Related to Going Concern

We draw attention to note 1 in the half-year 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 Company's ability to continue as a going concern and therefore that the Company 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.

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. However, because of the matter described in the *Basis for disclaimer of conclusion* section of our report, we were not able to obtain sufficient appropriate evidence to provide a basis for a review conclusion on the financial report. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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 the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 16 March 2018

Directors' declaration

The directors of the Company declare that:

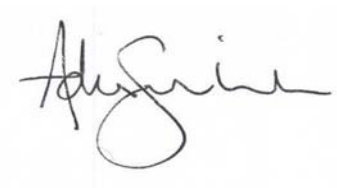
1. The financial statements and notes set out on pages 13 to 22 are in accordance with the Corporations Act 2001, including:

(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 2017 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.



Adam Sierakowski
Chairman

Date: 16 March 2018

Statement of Profit or Loss and Other Comprehensive Income for the six months ended 31 December 2017

	Half-year ended 31 Dec 2017 $	Half-year ended 31 Dec 2016 $
Revenue		
Other income	5,262	7,403
Total Revenue	5,262	7,403
Expenses		
Consultancy and professional costs	(211,880)	(40,437)
Employee and contractor expenses	(253,747)	(223,025)
Foreign exchange loss	(9,552)	-
Occupancy expenses	(15,000)	(15,500)
Depreciation	(744)	(21,397)
Share based payment	-	(231,000)
Interest expense	(2,981)	(6,017)
Administration expenses	(58,448)	(70,516)
Travel expenses	(78)	(8,288)
Total expenses	(552,430)	(616,180)
Loss before income tax expense	(547,168)	(608,777)
Income tax benefit/(expense)	-	-
Loss after income tax expense for the period	(547,168)	(608,777)
Other comprehensive income/(loss)		
Other comprehensive income/(loss) for the period	-	-
Total comprehensive loss for the period net of tax	(547,168)	(608,777)
Loss per share attributable to equity holders of the company:		
Basic loss per share (cents)	(0.21)	(0.29)

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 2017

	Note	31 December 2017 $	30 June 2017 $
CURRENT ASSETS			
Cash assets		148,234	76,102
Receivables		170,562	178,470
Other assets		21,878	5,781
TOTAL CURRENT ASSETS		340,674	260,353
NON CURRENT ASSETS			
Property, plant & equipment	3	4,410	5,154
Investment in associate	4	10,652,783	10,482,296
TOTAL NON CURRENT ASSETS		10,657,193	10,487,450
TOTAL ASSETS		10,997,867	10,747,803
CURRENT LIABILITIES			
Trade and other payables		1,258,414	679,097
Borrowings	5	12,087	20,000
Convertible note	6	225,828	-
TOTAL CURRENT LIABILITIES		1,496,329	699,097
TOTAL LIABILITIES		1,496,329	699,097
NET ASSETS		**9,501,538**	**10,048,706**
EQUITY			
Contributed equity	2	17,387,378	17,387,378
Reserves		759,500	759,500
Accumulated losses		(8,645,340)	(8,098,172)
TOTAL EQUITY		**9,501,538**	**10,048,706**

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 2017

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

For the period ended 31 December 2017	Attributable to equity holders Ordinary Shares $	Share Based Payment Reserve $	Accumulated Losses $	Total Equity $
At beginning of period	17,387,378	759,500	(8,098,172)	10,048,706
(Loss) for the period	-	-	(547,168)	(547,168)
Total comprehensive loss for the period	-	-	(547,168)	(547,168)
Total contributions by owners	-	-	-	-
At end of period	17,387,378	759,500	(8,645,340)	9,501,538

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 2017

	Half-year ended 31 Dec 2017 $	Half-year ended 31 Dec 2016 $
Cash flows from operating activities		
Payments to suppliers and employees	(97,142)	(463,082)
Interest received	5,262	5,861
Interest and other costs of finance paid	(1,153)	(1,063)
Net cash used in operating activities	(93,033)	(458,284)
Cash flows from investing activities		
Investment in associate	(43,835)	(351,044)
Net cash used in investing activities	(43,835)	(351,044)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	-	850,000
Release of security bonds	-	2,000
Proceeds from borrowings	5,000	40,000
Share issue costs	-	(16,505)
Proceeds from issue of convertible notes	204,000	-
Net cash provided by financing activities	209,000	875,495
Net increase/(decrease) in cash and cash equivalents	72,132	66,167
Cash and cash equivalents at the beginning of the half-year	76,102	180,170
Cash and cash equivalents at the end of the half-year	148,234	246,337

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 2017

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 2018. 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 2017.

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 2017, 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 2017, 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 2017.

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 2017. 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 2017 the Company recorded a loss of $547,168 (31 December 2016: $608,777) and had net cash outflows from operating and investing activities of $136,868 (31 December 2016: $809,328). At 31 December 2017, the Company had a working capital deficiency of $1,155,655 (30 June 2017: $438,744).

The ability of the Company to continue as a going concern is dependent on securing additional funding through the issue of shares to fund its operational activities 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.

Management believe there are sufficient funds to meet the Company's working capital requirements and as at the date of this report. Subsequent to the date of this report the Company expects to receive additional funds via equity issues as and when the need to raise working capital arises.

Notes to the interim financial statements for the half-year ended 31 December 2017

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 2017

2. Issued Capital

(a) Ordinary Shares

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

Period ended 31 December 2016

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

Period ended 31 December 2017

		Issue Price	Fully Paid Ordinary Shares	$
1 July 2017	Opening balance		254,612,064	17,387,378
31 December 2017	Closing balance		254,612,064	17,387,378

(b) Options

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

Period ended 31 December 2016

Exercise price Expiry date	**20c** **28 April 2017**	**3c** **4 November 2018**
Opening balance	4,000,000	-
Issued during the period	-	53,085,280
Expired during the period	-	-
Exercised during the period	-	-
Closing balance	4,000,000	53,085,280

Movements in options during the six months to 31 December 2017 were as follows:

Period ended 31 December 2017

Exercise price Expiry date	**3c** **4 November 2018**
Opening balance	53,085,280
Issued during the period	-
Expired during the period	-
Exercised during the period	-
Closing balance	53,085,280

Notes to the interim financial statements for the half-year ended 31 December 2017

3. Property, Plant & Equipment

	31.12.2017 $	30.06.2017 $
Opening net book value	5,154	489,543
Transferred to investment in associate	-	(461,460)
Depreciation charge	(744)	(22,929)
Closing net book value	4,410	5,154

4. 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.

The carrying amount of equity-accounted investments in associates for the six months to 31 December 2017 is as follows:

	31.12.2017 $	30.06.2017 $
Opening balance	10,482,296	-
Property, plant and equipment and capitalised exploration & evaluation expenditure transferred to investment in associate	-	10,441,377
Contributions to investment	170,487	40,919
Profit/(loss) for the period	-	-
Closing balance	10,652,783	10,482,296

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

The Company's agreement with Badimo Gas (Pty) Ltd to pool their interests 51% (Badimo Gas (Pty) Ltd) and 49% (Kinetiko Energy Limited) into Afro Energy (Pty) Ltd was executed in the financial year ended 30 June 2017. As a result, the Company's interest in Afro Energy (Pty) Ltd is held as an investment in associate for the year ended 30 June 2017.

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 for both the financial year ended 30 June 2017 and for the half-year ended 31 December 2017, 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 in 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.

Notes to the interim financial statements for the half-year ended 31 December 2017

5. Borrowings

	31.12.2017 $	30.06.2017 $
Opening balance	20,000	201,456
Loan - other	12,087	-
Loan - director	-	60,000
Accrued interest	-	4,956
Repayment of loans	-	(246,412)
Reclassification to convertible note	(20,000)	-
Closing balance	12,087	20,000

6. Convertible Note

Current	31.12.2017 $	30.06.2017 $
Convertible note	204,000	-
Reclassification from borrowings	20,000	-
Accrued interest expense	1,828	-
	225,828	-

During the period ended 31 December 2017, the Company issued unsecured convertible notes with a face value of $224,000, as part of a capital raising exercise.

Terms of the convertible note are as follows:

i. Maturity date – 18 June 2018
ii. Interest payable – 10%pa
iii. Conversion:
   a. If converted at the holders election prior to the maturity date, principal and interest will convert at the 10 day VWAP or last fundraising price of shares issued, whichever is the lower.
   b. If converted at the maturity date, principal and interest will convert at 80% of the 10 day VWAP or $0.02, whichever is the lower.

The issue of shares to related party noteholders upon conversion of the notes, will be subject to shareholder approval to be sought at a meeting to be convened. All other issue of shares upon conversion of the notes will not require shareholder approval.

Of the convertible notes issued and borrowings reclassified during the period, $74,000 related to funds advanced by Adam Sierakowski, a Director of the Company.

Accounting Policy

Convertible Notes issued by the Company comprise of notes that can be converted to share capital and convertible note embedded derivatives whose fair value changes with the Company's underlying share price.

The embedded derivative component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. Subsequent to initial recognition, the fair value of the embedded derivative is valued using valuation techniques that include reference to the company's underlying share price at reporting date and/or at conversion date. The convertible note derivative is measured at fair value through profit or loss.

Notes to the interim financial statements for the half-year ended 31 December 2017

6. Convertible Note (continued)

On initial recognition, at reporting date and/or at conversion date, the fair value of the convertible note derivative has been determined by reference to the Company's underlying share price at the relevant dates.

Convertible notes issued by the Company include embedded derivatives (option to convert to variable number of shares in the Company) and are recognised as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible note will equate to the proceeds received and subsequently the liability is measured at fair value at each reporting period until settlement. The fair value movements are recognised on the profit and loss as finance costs.

The convertible note derivative liability is removed from the Statement of Financial Position when the obligations specified in the Contract are discharged. This can occur at maturity date, when the convertible notes convert to equity. Convertible Note Derivative Liabilities are classified as current or non-current based on the maturity date of the convertible note.

7. 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.

8. Commitments for Expenditure

There has been no significant changes to the Company's commitment since 30 June 2017.

9. Contingencies

There has been no significant changes to the Company's contingent liabilities since 30 June 2017.

10. 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.

11. Events Occurring After The Reporting Period

On 19 January 2018, the Company issued an unsecured convertible note with a face value of $100,000 to Aegean Capital Pty Ltd. The terms of the convertible note issued to Aegean Capital Pty Ltd are on the same basis as the convertible notes issued during the period ended 31 December 2017 (refer to Note 6).

There are no other matters or circumstances that have arisen since 31 December 2017 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.