

Kinetiko Energy Ltd

ABN: 45 141 647 529

Interim Financial report for the half-year ended
31 December 2014

Interim Financial report for the half-year ended 31 December 2014

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Company 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

Barringtons House
283 Rokeby Road
SUBIACO WA 6008
Telephone: (08) 6315 3500
Facsimile: (08) 9481 1947

REGISTERED OFFICE

Trident Capital Pty Ltd
Level 24, St Martin's Tower
44 St Georges Terrace
PERTH WA 6000

AUDITORS

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

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

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 2014. 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 \$515,927 (December 2013: loss of \$918,295).

Review of operations

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

Corporate

CEO Appointment

The Directors of Kinetiko Energy Limited ("KKO" or "Company") are delighted to announce that Johan Visagie, currently consulting to the company as Project Manager in South Africa will transition into the role of Kinetiko CEO by the end of the first calendar quarter of 2015. This will coincide with the planned commencement of a pilot field development at the Amersfoort Project (Figure 1). Johan will be based in Cape Town and will be responsible all aspects of Kinetiko's gas exploration, development and production in South Africa and elsewhere in Africa. He will lead a South African based technical team fully supported by experienced Australian unconventional gas engineering and production consultants.

Johan has 30 years experience in the oil and gas industry as an engineer with senior roles in mid and downstream engineering, gas field development economics, gas sales and purchase agreements and gas to power projects. He was formerly Gas Business Development Manager for PetroSA, South Africa's national oil company. He has also advised the Western Cape Government on major gas importation projects.

Kinetiko's Chairman Adam Sierakowski remarked "*We are delighted to have secured the services of Johan in the role of CEO. His knowledge of the Company gained during his period as a consultant enhances his ability to contribute immediately to the development of the Amersfoort project.*"

Amersfoort Project Status (KKO 49%)

As previously announced, Kinetiko has submitted application to the Petroleum Agency of South Africa ("PASA") for the transfer of 51% interest held by Badimo Gas Ltd, its original JV partner, in the two Amersfoort Exploration Rights to Kinetiko Energy Ltd.

Kinetiko continues to retain a 49% interest in the Amersfoort project and maintain its regulatory obligations. It continues to actively search for a new strategic partner with the assistance of Standard Bank of South Africa acting as corporate adviser whom has already made a number of introductions for this purpose.

Directors' report

Review of operations (continued)

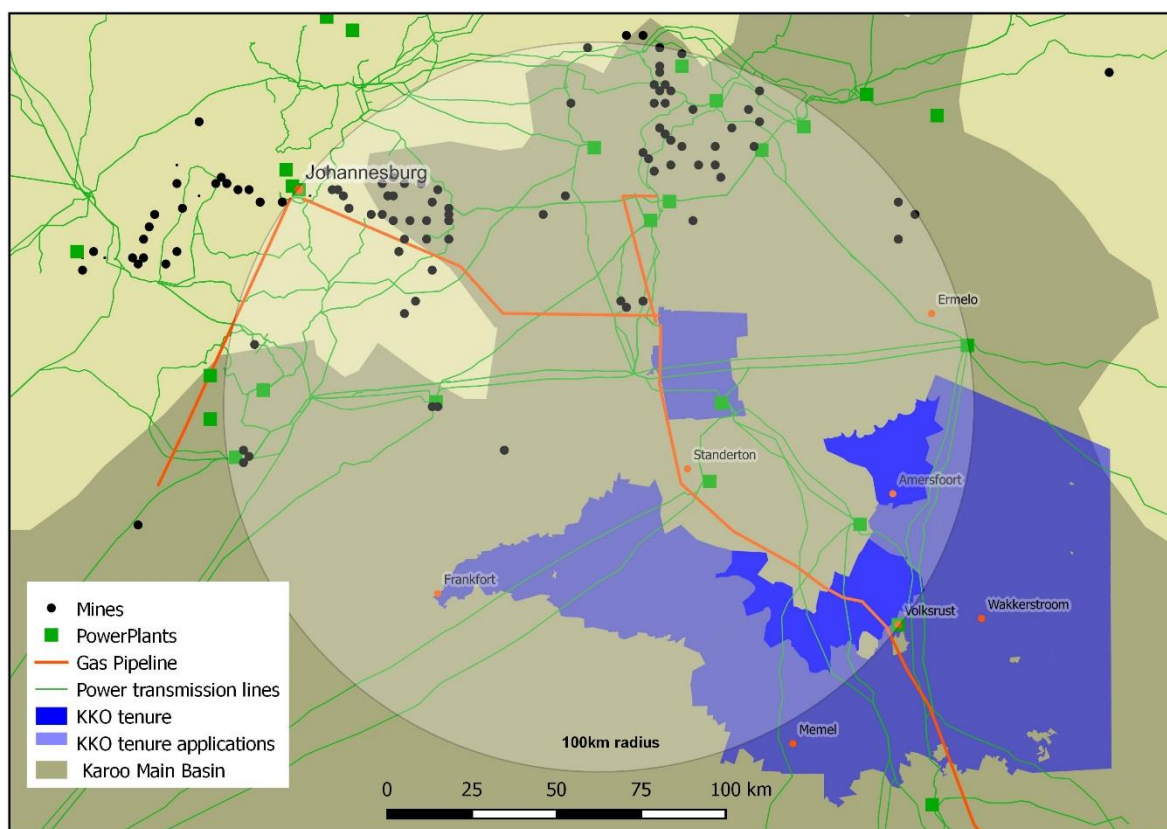


Figure 1 Location of the Amersfoort Project, South Africa.

Negotiations with Potential BEE JV Partners

Kinetiko is also pleased to advise that it is engaged in advanced discussions with several major established and well-funded South African BEE certified (Black Economic Empowerment) companies interested in participating in the development and commercialization of the Amersfoort Project. Commercial and technical due diligence investigations have been ongoing and Kinetiko looks forward to advising the market in due course on the outcome of this process.

Corporate Fund Raising

Shortly before the end of the December 2014 quarter and as subsequently announced to the ASX on the 6th of January 2015, Kinetiko Energy raised \$550,000 in additional working capital by way of convertible notes.

Operations

AMERSFOORT PROJECT (South Africa, KKO 49% and Operator)

Following a review of work completed to date on the Amersfoort Project by gas exploration and production engineers General Petroleum Manages Services (GPMS) of Brisbane it was concluded that the next stage of evaluation of the demonstrated widespread gas distribution in sandstones and coals was to undertake interval well tests. A two-well and test program has been finalised by GPMS. The well designs will enable isochronous testing of individual gas charged zones in the sandstones sequences above and below the coal seams. The wells have also been designed to enable separate flow testing of the coal seams. Figure 4 schematically shows the well drilling, completion and testing sequence.

The interval test wells are likely to be sited about 1km apart and 1km from the previously operated test well KA-03PT (Figures 2 and 3).

Directors' report

Review of operations (continued)

Data from the proposed testing program coupled with the enhanced geological modelling derived from the geophysical interpretation will form the basis for subsequent reserve modelling in the vicinity.

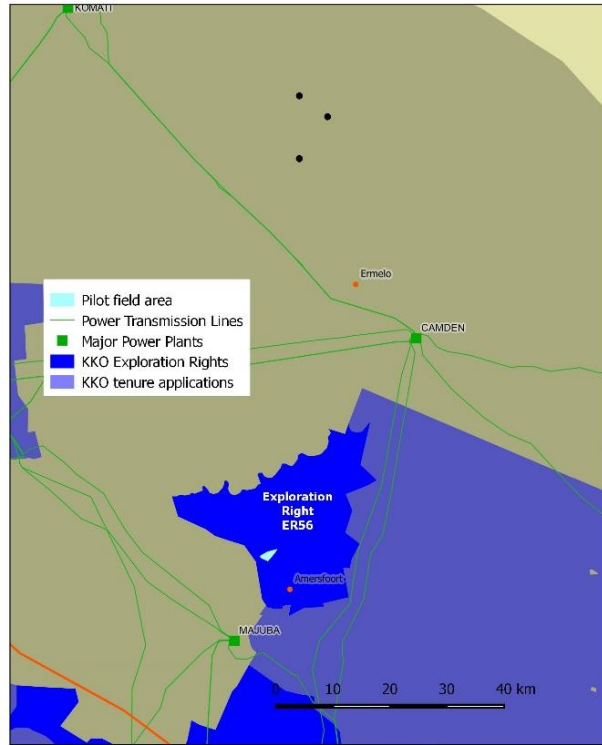


Figure 2 Location of interval test wells and subsequent pilot field (pale blue).

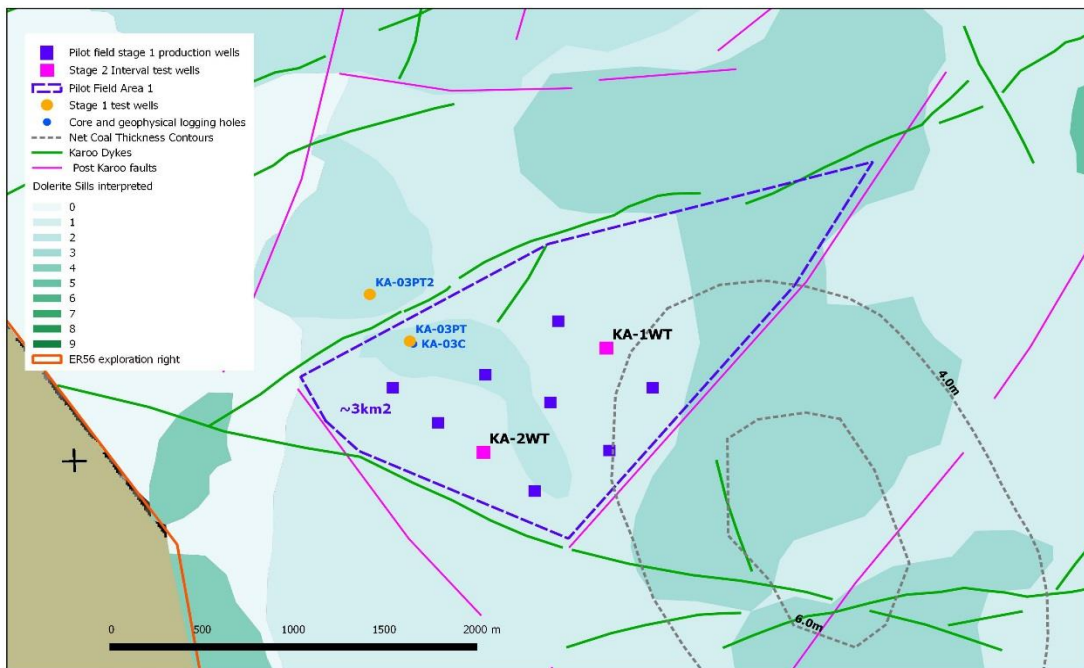


Figure 3 Proposed interval test wells KA-1WT, KA-2WT and conceptual layout of subsequent pilot field development.

Directors' report

Review of operations (continued)

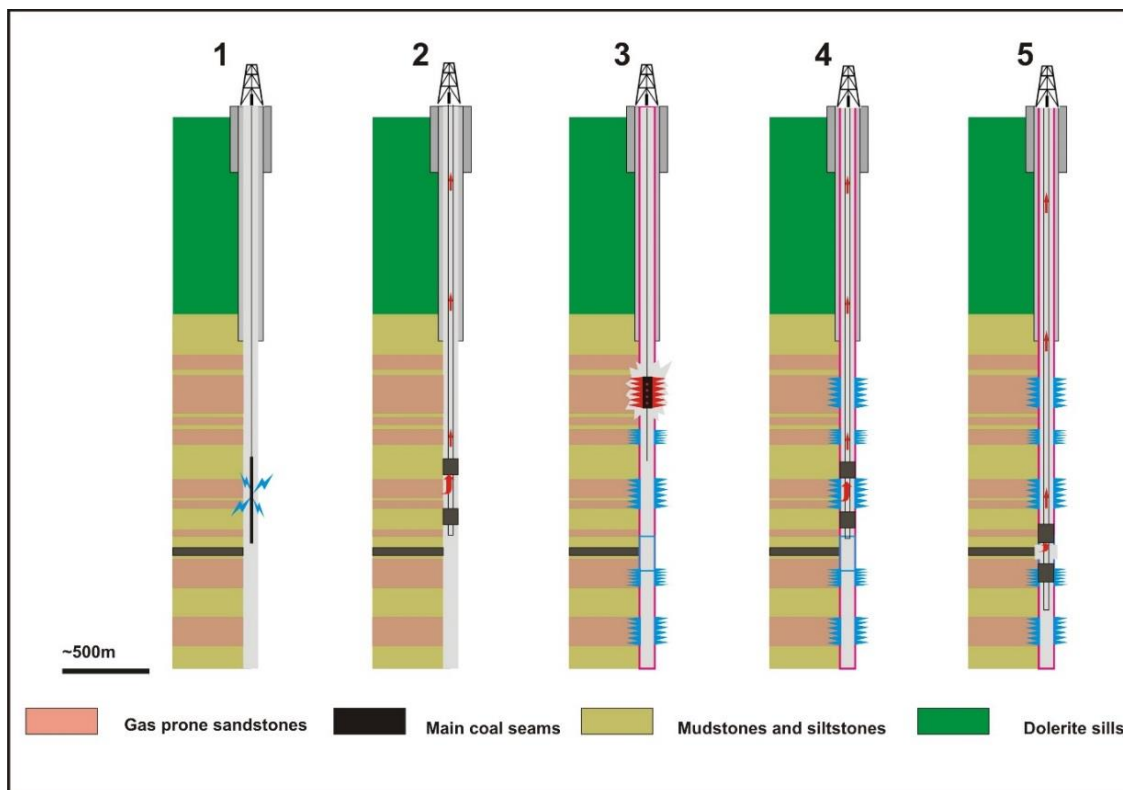


Figure 4 Interval well drilling, completion and testing.

STAGE 1 Drill hole is collared with a conductor casing and drilled to just below the surface dolerite sill (or sills), a surface casing will then be run and set. The well will then be drilled to total depth at around 500m passing through 100m or more of gas prone sandstones in multiple zones and gassy coal seams. Down hole geophysical logging will be carried out to confirm the gas prone zones.

STAGE 2 Packer tests will be undertaken on the gas prone sandstone intervals and the coal seams. This will determine gas and fluid pressures in each zone.

STAGE 3 A production casing will be run and set. Based on the packer test data from Stage 2 the production casing will be perforated in the zones with optimal gas pressures and fluid characteristics.

STAGE 4 Using packers inside the production casing the perforations zones into the gas prone zones will be flow tested in isolation over varying periods of time.

STAGE 5 The coal seams will be tested by under reaming of the casing over the coal interval and placement of packers. To enable under reaming the coal section of the production casing string will have sections of fibreglass casing amenable to under reaming.

Subject to the availability of equipment and regulatory approval, drilling of the interval test wells is being planned for commencement in 2015. Up to 5 months of testing will follow.

Previous simple well completions and flow testing without production casings have demonstrated commercial gas flows. The objective of the interval test well program is to determine optimal production well completion strategies that can be employed in production well drilling and completion to give maximal gas flows and recoveries.

Directors' report

Review of operations (continued)

This interval testing program is a precursor to the development and operation of a planned 8 well pilot field development. The design of the interval test wells will accommodate their potential redesignation as component production wells in the pilot field. Figure 3 shows a conceptual layout of the interval test wells and the subsequent pilot field development.

KALAHARI BASIN PROJECT, (Botswana, KKO 100% and Operator)

Kinetiko Energy Ltd is pleased to report that it has been granted 12 prospecting gas licenses covering a total of 7,093km². The licenses are located in the Karoo Kalahari Basin of Botswana (Figure 5). The Kalahari Basin is known to contain extensive coal deposits and has been recognised as having major coal bed methane potential. The gas market fundamentals are attractive with the opportunity to replace expensive diesel fired power generation and supply growing domestic and cross border energy demand.

The Kinetiko license areas were selected after basin studies indicated the potential for deep coal facies within the basin and related gas in sandstone accumulations. The gas potential of the Kalahari Basin has been further demonstrated with recent reports of successful flow commencement by Tlou Energy Ltd at its Lesedi CBM Project (Figure 5) Selemo 1P and Mopani 2P wells. On the 6th of January 2015 Tlou reported a peak gas flow rate of 395,300scf/d from the Selemo Pilot well.

Kinetiko Energy holds a 100% equity in its Botswana licenses. The licences have an initial three year tenure, with opportunity for renewal. Kinetiko intends to follow an exploration and evaluation strategy that it has used successfully at its Amersfoort gas discovery in neighboring South Africa.

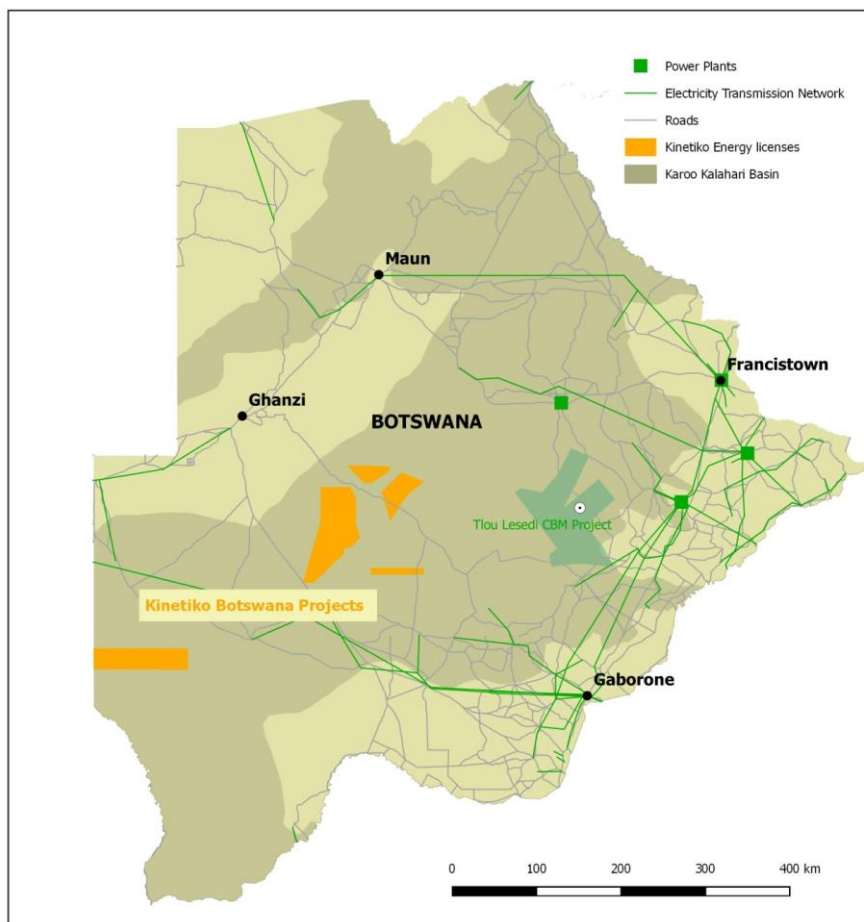


Figure 5 Location of the Kinetiko Energy Botswana tenure

Directors' report

Review of operations (continued)

TENURE

Area of Interest	Tenure reference	Nature of interest	Interest	Change in interest during quarter
Amersfoort Project	30/5/2/3/38ER	Direct participating interest	49% *	No change
South Africa	30/5/2/3/56ER	Direct participating interest	49% *	No change
Kalahari Basin Project	29/2015	Direct participating interest	100%	Granted
Botswana	299/2014	Direct participating interest	100%	Granted
	300/2014	Direct participating interest	100%	Granted
	301/2014	Direct participating interest	100%	Granted
	444/2014	Direct participating interest	100%	Granted
	445/2014	Direct participating interest	100%	Granted
	446/2014	Direct participating interest	100%	Granted
	447/2014	Direct participating interest	100%	Granted
	448/2014	Direct participating interest	100%	Granted
	449/2014	Direct participating interest	100%	Granted
	450/2014	Direct participating interest	100%	Granted
	450/2014	Direct participating interest	100%	Granted

Note * Kinetiko Energy has applied to receive the transfer of the remaining 51% interest in these exploration rights. This is subject to compliance with South African regulatory requirements and approvals giving effect to such transfer.

Except where indicated by reference to previous resource announcement to the ASX, 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 matters or circumstances that have arisen since 31 December 2014 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

Dividends Paid or Recommended

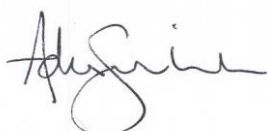
No dividends were paid during the period and no recommendation is made as to payments of future dividends.

Auditor's independence declaration

The auditor's independence declaration is included on page 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



Adam Sierakowski
Chairman
13 March 2015

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

As lead auditor for the review of Kinetiko Energy Ltd for the half-year ended 31 December 2014, 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, 13 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kinetiko Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kinetiko Energy Limited, which comprises the statement of financial position as at 31 December 2014, 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 2014 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 Limited, 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 Limited, 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 Limited 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 2014 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

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the company to continue as a going concern is dependent upon the future successful raising of necessary funding through debt, equity, convertible notes, or a combination of these, and/or partial sale of mineral properties. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Dean Just', written over a faint, larger 'BDO' watermark.

Dean Just

Director

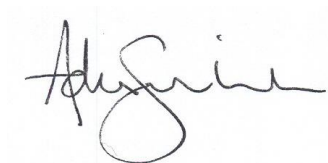
Perth, 13 March 2015

Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes set out on pages 14 to 24 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 2014 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: 13 March 2015

Statement of Profit or Loss and Other Comprehensive Income for the six months ended 31 December 2014

	Note	Half-year ended 31 Dec 2014 \$	Half-year ended 31 Dec 2013 \$
Revenue			
Revenue from continuing operations	2	8,494	16,167
Total Revenue		8,494	16,167
Expenses			
Consultancy and professional costs		(88,292)	(154,296)
Employee and contractor expenses		(252,854)	(353,794)
Foreign exchange loss		(56,329)	(27,580)
Occupancy expenses		(22,280)	(43,125)
Depreciation		(28,370)	(30,132)
Share based payment	4	-	(9,233)
Administration expenses		(70,931)	(162,775)
Travel expenses		(4,017)	(153,527)
Finance Costs		(1,348)	-
Total expenses		(524,421)	(934,462)
(Loss) from continuing operations before income tax		(515,927)	(918,295)
Income tax (expense)/benefit		-	-
(Loss) after income tax for the period		(515,927)	(918,295)
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign currency		-	36,950
Other comprehensive loss for the period		-	36,950
Total comprehensive income attributable to owners of Kinetiko Energy Ltd		(515,927)	(881,345)
Loss per share attributable to equity holders of the company:			
Basic loss per share (cents)		(0.37)	(0.72)

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 2014

	Note	31 December 2014 \$	30 June 2014 \$
CURRENT ASSETS			
Cash assets		701,738	548,675
Receivables	5(a)	1,306,229	1,252,130
Other assets		24,379	11,429
TOTAL CURRENT ASSETS		<u>2,032,346</u>	<u>1,812,234</u>
NON CURRENT ASSETS			
Receivables	5(b)	183,739	183,739
Property, plant & equipment		561,588	589,868
Capitalised exploration and evaluation expenditure	6	7,762,454	7,712,712
TOTAL NON CURRENT ASSETS		<u>8,507,781</u>	<u>8,486,319</u>
TOTAL ASSETS		<u>10,540,127</u>	<u>10,298,553</u>
CURRENT LIABILITIES			
Trade and other payables		624,939	398,786
Convertible note	7	531,348	-
TOTAL CURRENT LIABILITIES		<u>1,156,287</u>	<u>398,786</u>
TOTAL LIABILITIES		<u>1,156,287</u>	<u>398,786</u>
NET ASSETS		<u>9,383,840</u>	<u>9,899,767</u>
EQUITY			
Contributed equity	3	14,387,262	14,387,262
Reserves		528,500	528,500
Accumulated losses		(5,531,922)	(5,015,995)
TOTAL EQUITY		<u>9,383,840</u>	<u>9,899,767</u>

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 2014

For the period ended 31 December 2013	Attributable to equity holders				Total Equity
	Ordinary Shares	Share Based Payment Reserve	Foreign Exchange Reserve	Accumulated Losses	
	\$	\$	\$	\$	\$
At beginning of period	12,798,365	305,572	(33,330)	(3,230,467)	9,840,140
Other comprehensive income	-	-	36,950	-	36,950
(Loss) for the period	-	-	-	(918,295)	(918,295)
<i>Total comprehensive income/(loss) for the period</i>	-	-	36,950	(918,295)	(881,345)
<i>Transactions with owners in their capacity as owners:</i>					
Issue of shares and options during the period	1,701,000	-	-	-	1,701,000
Share issue costs	(112,103)	-	-	-	(112,103)
Share based payments	-	9,233	-	-	9,233
At end of period	14,387,262	314,805	3,620	(4,148,762)	10,556,925

For the period ended 31 December 2014	Attributable to equity holders				Total Equity
	Ordinary Shares	Share Based Payment Reserve	Accumulated Losses	Option Issue Reserve	
	\$	\$	\$	\$	\$
At beginning of period	14,387,262	524,500	(5,015,995)	4,000	9,899,767
(Loss) for the period	-	-	(515,927)	-	(515,927)
<i>Total comprehensive loss for the period</i>	-	-	(515,927)	-	(515,927)
At end of period	14,387,262	524,500	(5,531,922)	4,000	9,383,840

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 2014

	Half-year ended 31 Dec 2014 \$	Half-year ended 31 Dec 2013 \$
Cash flows from operating activities		
Payments to suppliers and employees	(344,275)	(815,454)
Interest received	7,819	15,320
Interest and other cost of finance paid	(3,505)	(3,154)
VAT refund received	25,291	-
Net cash used in operating activities	<u>(314,670)</u>	<u>(803,288)</u>
Cash flows from investing activities		
Capitalised exploration and evaluation expenditure	(78,793)	(1,691,963)
Contributions to capitalised exploration and evaluation expenditure by Badimo	-	1,108,980
Payments for property, plant and equipment	(91)	(102,034)
Net cash used in investing activities	<u>(78,884)</u>	<u>(685,017)</u>
Cash flows from financing activities		
Proceeds from issues of ordinary shares	-	1,701,000
Share issue costs	-	(112,103)
Proceeds from issue of convertible notes	530,000	-
Proceeds from insurance premium funding liability	35,778	35,667
Repayment of insurance premium funding liability	(19,200)	(21,162)
Director loans	39	-
Net cash provided by financing activities	<u>546,617</u>	<u>1,603,402</u>
Net increase in cash and cash equivalents	153,063	115,097
Effects of exchange rate on cash and cash equivalents	-	36,950
Cash and cash equivalents at the beginning of the half-year	<u>548,675</u>	<u>1,599,711</u>
Cash and cash equivalents at the end of the half-year	<u><u>701,738</u></u>	<u><u>1,751,758</u></u>

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 2014

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 13 March 2015. 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 2014.

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 2014, together with any public announcements made during the following half-year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

Convertible Note at Fair Value through Profit and Loss

Convertible Notes issued by the Company comprise convertible 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.

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.

Fair values of convertible note derivatives

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.

New accounting standards and interpretations

In the half-year ended 31 December 2014, 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 2014.

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 2014. 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.

Notes to the interim financial statements for the half-year ended 31 December 2014

1. Basis of Accounting and Statement of Compliance

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.

The Company has incurred a net loss after tax for the half year ended 31 December 2014 of \$515,927 (31 December 2013: \$918,295) and experienced net cash outflows from operating activities of \$314,670 (30 June 2014: \$803,288). At 31 December 2014, the Company had net assets of \$9,383,840 (30 June 2014: \$9,899,767).

The Directors believe that there are sufficient funds to meet the Company's working capital requirements and as at the date of this report, believe it can meet all liabilities as and when they fall due. However, the Directors recognise that additional funding either through the issue of further shares, convertible notes or a combination of both will be required for the Company to continue to actively explore gas properties.

The Directors have reviewed the business outlook and the assets and liabilities of the Company and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will continue to be successful in securing additional funds through debt or equity issues or partial sale of its mineral properties as and when the need to raise working capital arises.

Should the Directors not achieve the matters set out above, there is significant uncertainty whether the Company will continue as a going concern and therefore, whether it will realise its assets and liabilities in the normal course of business.

The financial report does not include any adjustments that may be necessary if the Company is unable to continue as a going concern.

Notes to the interim financial statements for the half-year ended 31 December 2014

2. (Loss) for the half year

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

	31.12.2014	31.12.2013
	\$	\$
Interest income	8,494	16,167
	<u>8,494</u>	<u>16,167</u>

3. Issued Capital

(a) Movements in share capital during the six months to 31 December 2013 were as follows:

Period ended 31 December 2013

		Issue Price	Fully Paid Ordinary Shares	\$
1 July 2013	Opening balance		127,650,000	12,798,365
	Shares issued pursuant to placement facility	\$0.15	11,340,000	1,701,000
	Share issue costs		-	(112,103)
			<u>138,990,000</u>	<u>14,387,262</u>
31 December 2013	Closing balance		138,990,000	14,387,262

Movements in share capital during the six months to 31 December 2014 were as follows:

Period ended 31 December 2014

		Issue Price	Fully Paid Ordinary Shares	\$
1 July 2014	Opening balance		138,990,000	14,387,262
31 December 2014	Closing balance		138,990,000	14,387,262

(b) Incentive Options

Movements in options during the six months to 31 December 2013 were as follows:

Period ended 31 December 2013

Exercise price Expiry date	25c 30 June 2014	50c 30 June 2015	75c 30 June 2016
Opening balance	500,000	750,000	1,000,000
Issued during the period	-	-	-
Expired during the period	-	-	-
Exercised during the period	-	-	-
Closing balance	<u>500,000</u>	<u>750,000</u>	<u>1,000,000</u>

Notes to the interim financial statements for the half-year ended 31 December 2014

3. Issued Capital (continued)

Movements in options during the six months to 31 December 2014 were as follows:

Period ended 31 December 2014

Exercise price	50c	75c	20c
Expiry date	30 June 2015	30 June 2016	28 April 2017
Opening balance	750,000	1,000,000	4,000,000
Issued during the period	-	-	-
Expired during the period	-	-	-
Exercised during the period	-	-	-
Closing balance	750,000	1,000,000	4,000,000

4. Share Based Payments

There were no share based payments made during the six months to 31 December 2014.

5. Receivables

	31.12.2014	30.06.2014
	\$	\$
<i>(a) Current</i>		
Receivable – Badimo JV Contribution (see note below)	1,264,540	1,199,703
Other receivables – VAT refundable	12,705	8,863
Less: Provision for VAT	(12,705)	(8,863)
Other receivables – GST refundable	-	9,004
Other debtor	712	3,122
Security bonds	40,000	40,000
Accrued interest receivable	977	301
	<u>1,306,229</u>	<u>1,252,130</u>

The Badimo JV Contribution is past due as at 31 December 2014. As a result, Kinetiko is currently pursuing recovery of amounts due. The Company is currently in discussions with Badimo regarding the outstanding amounts owed and anticipate that the matter could be resolved shortly.

	31.12.2014	30.06.2014
	\$	\$
<i>(b) Non-Current</i>		
Loan – Associated Entity	<u>183,739</u>	<u>183,739</u>

The loan to associate is repayable from Afro Energy (Pty) Ltd, an entity formed in South Africa, of which Kinetiko owns a 49% interest.

6. Capitalised Exploration and Evaluation Expenditure

	31.12.2014	30.06.2014
	\$	\$
Opening balance	7,712,712	7,030,331
Exploration and evaluation expenditure during the period	180,193	1,636,991
Badimo Contribution – Cash Call	(130,451)	(954,610)
Closing balance	<u>7,762,454</u>	<u>7,712,712</u>

The ultimate recoupment of these costs is dependent on successful development and commercial exploration, or alternatively, the sale of the respective areas.

Notes to the interim financial statements for the half-year ended 31 December 2014

7. Convertible Note

	31.12.2014	30.06.2014
	\$	\$
Current		
Convertible note	530,000	-
Accrued interest expense	1,348	-
	<u>531,348</u>	<u>-</u>

During the period ended 31 December 2014, the Company issued unsecured convertible notes with a face value of \$530,000, as part of a capital raising exercise.

Terms of the convertible note are as follows:

- i. Maturity date – 24 May 2015
- ii. Interest payable – 12%pa
- iii. Conversion:
 - a. If converted at the holders election prior to the maturity date, principal and interest convert at \$0.03 per share
 - b. If converted at the maturity date, principal and interest will convert at the 10 day VWAP or the last price of shares issued, whichever is the lower.
- iv. Repayment can be made in cash if the Company successfully raises at least \$3.5million in cash, or the required shareholder approvals are not obtained.

Conversion at maturity of all the convertible notes and interest due, to shares at the price of \$0.03 per share would result in the issue of 19,250,000 shares in the Company. The issue of shares upon conversion of the notes, including the issue of shares to the Directors, will be subject to shareholder approval to be sought at a meeting to be convened.

8. Segment Reporting

The Company operates predominantly in one industry and one geographical segment, being the mining industry within South Africa. The operations in South Africa relate to the exploration of gas.

	31.12.2014	30.06.2014
	\$	\$
Revenue from external sources	-	-
Reportable segment loss	-	-
Reportable segment assets	7,762,454	7,712,712
Reportable segment liabilities	-	-
Reconciliation of reportable segment assets		
Reportable segment assets	7,762,454	7,712,712
Unallocated:		
- Cash	701,738	548,675
- Receivables	1,306,229	1,252,130
- Other assets	24,379	11,429
- Property, plant and equipment	561,588	589,868
- Receivables (loan)	183,739	183,739
Total assets	<u>10,540,127</u>	<u>10,298,553</u>

Notes to the interim financial statements for the half-year ended 31 December 2014

8. Segment Reporting (continued)

	31.12.2014	30.06.2014
	\$	\$
Reconciliation of reportable segment liabilities		
Reportable segment liabilities		
Unallocated:		
- Trade and other payables	(624,939)	(398,786)
Interest-bearing liabilities	(531,348)	-
Total liabilities	<u>(1,156,287)</u>	<u>(398,786)</u>
	31.12.2014	31.12.2013
	\$	\$
Reconciliation of reportable segment loss		
Reportable segment loss	-	-
Other revenue	8,494	16,167
Unallocated expenses	(524,421)	(934,462)
Loss before tax	<u>(515,927)</u>	<u>(918,295)</u>

9. 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 2014.

10. Investment in Joint Operation

Badimo Gas Pty Ltd

The Company entered into an agreement with Badimo, a South African company, on 30 August 2010 to combine their resources and experience to carry out the Amersfoort Project. The joint venture was established when the first ZAR26 million was expended towards the project in December 2012. Following the initial payment, Kinetiko and Badimo are required to fund further exploration programmes in accordance with their respective percentage interests of 49% and 51% each respectively.

In June 2014, the Company has applied to the Petroleum Agency SA ("PASA") to transfer the 51% participating interest held by Badimo Gas (Pty) Ltd to the Company as a result of Badimo's failure to meet cash calls despite default notices issued by the Company.

PASA by correspondence has recently advised Kinetiko that they will proceed to process the applications and have now submitted the matter to the Minister for Mines for final determination.

Notes to the interim financial statements for the half-year ended 31 December 2014

10. Investment in Joint Operation (continued)

The Company's share of assets and liabilities employed in the joint venture and included in the Statement of Financial Position is:

	31.12.2014	30.06.2014
	\$	\$
Statement of Financial Position		
Current Assets		-
Non Current Assets	2,682,008	2,412,004
Total Assets	<u>2,682,008</u>	<u>2,412,004</u>
Current Liabilities	-	-
Non Current Liabilities	-	-
Total Liabilities	<u>-</u>	<u>-</u>

The Company's share of profit before tax in the joint venture is:

	31.12.2014	31.12.2013
Statement of Profit or Loss and Other Comprehensive Income		
Revenue	-	-
Expenses	-	-
Net Profit before tax	<u>-</u>	<u>-</u>

11. Fair Values of Financial Instruments

Recurring fair value measurements

Other than the convertible notes as disclosed at Note 7, 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 matters or circumstances that have arisen since 31 December 2014 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

13. Related Party Transactions

	31.12.2014	30.06.2014
	\$	\$
Loan – Related Parties	<u>90,000</u>	-
Closing balance	<u>90,000</u>	-

The loan from related parties represents loan funds from Director related entities. The loan funds were invested into the Company's Convertible Note. Refer to Note 7 for details of the Convertible Note.