

Kinetiko Energy Ltd

ABN: 45 141 647 529

Interim Financial report for the half-year ended
31 December 2015

Interim Financial report for the half-year ended 31 December 2015

	Page
Corporate directory	3
Directors' report	4
Auditor's independence declaration	10
Independent review report	11
Directors' declaration	13
Statement of profit or loss and other comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Statement of cash flows	17
Notes to the interim financial statements	18

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 1, 7 Ventnor Avenue
WEST PERTH WA 6005

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 2015. 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 \$829,209 (December 2014: loss of \$515,927).

Review of operations

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

Corporate

Funding Expression of Interest

By letter to Afro Energy dated 7 July 2015 the Industrial Development Corporation ("IDC") has presented a non-binding expression of interest to fund the development of the Amersfoort project through either debt and or equity. This expression of interest is subject to a number of conditions being satisfied including due diligence which is currently being undertaken.

The IDC was established in 1940, and is a national development finance institution set up to promote economic growth and industrial development. The IDC is owned by the South African government and reports to the Minister of Economic Development. The IDC has a vision and a mission to contribute to the creation of balanced, sustainable economic growth in South Africa and on the rest of the continent.

Afro Energy has been closely engaged with the IDC negotiating the terms and structures for their participation in the Amersfoort Project. These discussions are at an advanced stage.

Bulk Sampling Production Permit

The Department of Mineral Resources has granted the parties permission to remove up to 500 million standard cubic feet of gas per annum for a 2 year period (announced to the ASX on the 4th of August). This permit is the first of its kind to be issued with respect to the removal and disposal of natural gas in the Republic of South Africa.

If that volume of gas was produced from exploration activities in each of the 2 years and sold at prevailing domestic gas prices assumed conservatively to be US\$8/GJ, an amount of approximately US\$8m in revenue could be generated.

Directors' report

Review of operations (continued)

Off take MOC

Afro Energy has executed a memorandum of cooperation (“MOC”) with Gigajoule International (Pty) Ltd (“Gigajoule”) to investigate and pursue an opportunity for the supply of methane rich gas by Afro Energy from within certain areas on the ER56 tenement at Amersfoort (announced to the ASX on the 19th of August). The parties intend to undertake a pre-feasibility study under the direction of a working group that shall be established with a representative from both Gigajoule and Afro Energy. Provided the outcome of the pre-feasibility study is positive and recommendations to proceed with the project are approved by the respective boards of both parties, then both Afro Energy and Gigajoule intend to conclude a gas sales agreement.

The Agreement is for a period of 3 years, and may be extended by mutual agreement. During the term of the MOC and for a period of 1 year after termination neither of the parties shall pursue opportunities that are similar to the project or would prejudice either party's confidential information.

Operations

Amersfoort Project, South Africa (KKO 49%)

Approval has been received from the regulatory authorities for the development of a 10-well pilot gas field in Area 1 of ER56 (Figures 1 and 2). It is further planned to secure the approval of an additional 8 appraisal/production wells in conjunction with two zone isolation wells in Area 4 of ER56 in close proximity to KA-02C (Figure 1).

Completing these work programmes over a six-month period commencing the first quarter of 2016 would enable gas sales from the Amersfoort project in terms of the granted bulk sampling permit. The work programme covers a small percentage of the total prospective geology over which the rights are held. The successful completion of the work programme is a major steps towards further field development.

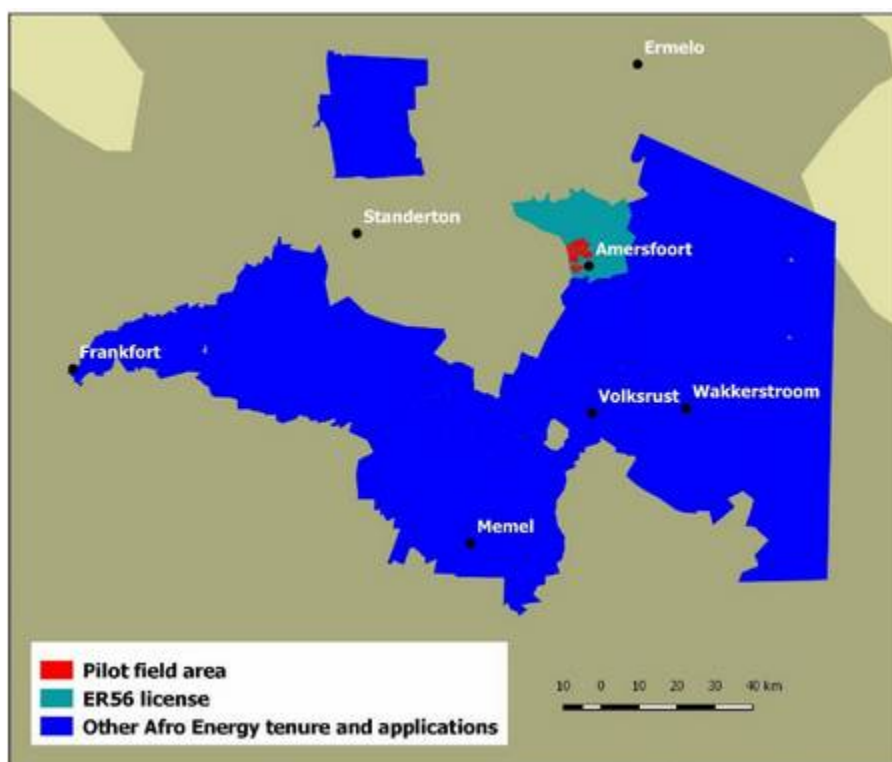


Figure 1 Location of the ER56 pilot field areas.

Directors' report

Review of operations (continued)

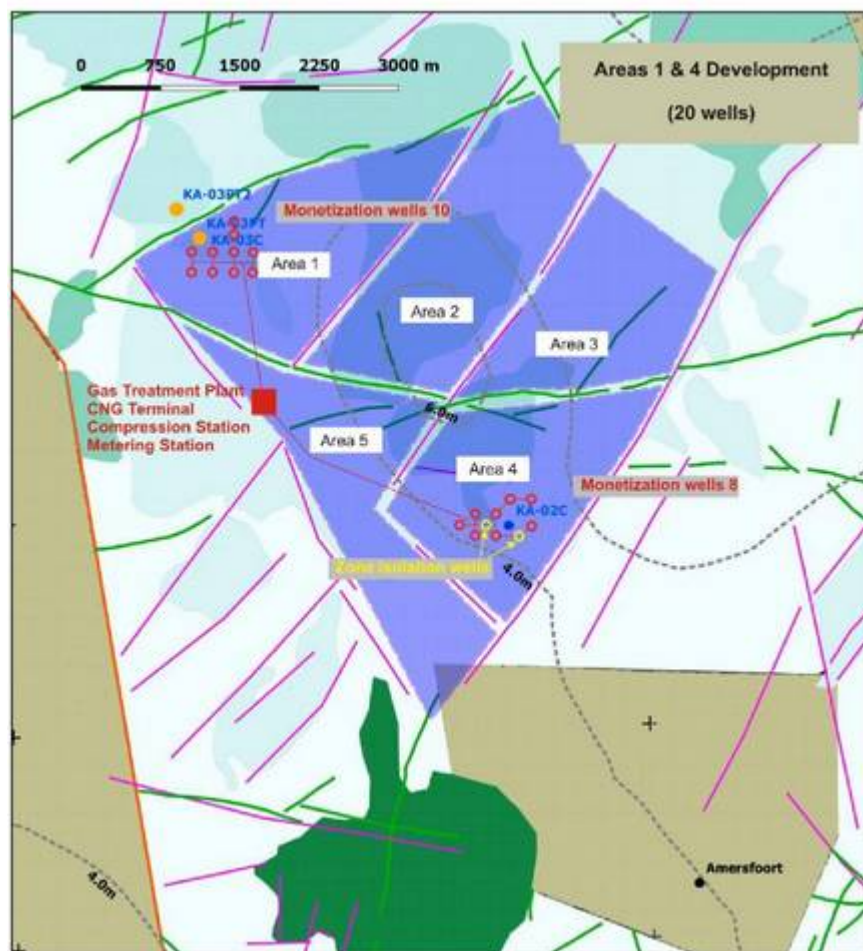


Figure 2 Proposed work program for Areas 1 and 4 ER56. The actual well locations are shown schematically.

Kalahari Basin Project, Botswana (KKO 100% and Operator)

Kinetiko Energy Ltd holds 12 prospecting gas licenses covering a total of 7,093km² in the Kalahari Basin of Botswana (Figure 3). 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.

During the September Quarter research into the generation into a petroleum basin model for the Kalahari Basin continued. This work will guide the planned geophysical surveys and initial exploration drilling programs in 2016.

Directors' report

Review of operations (continued)

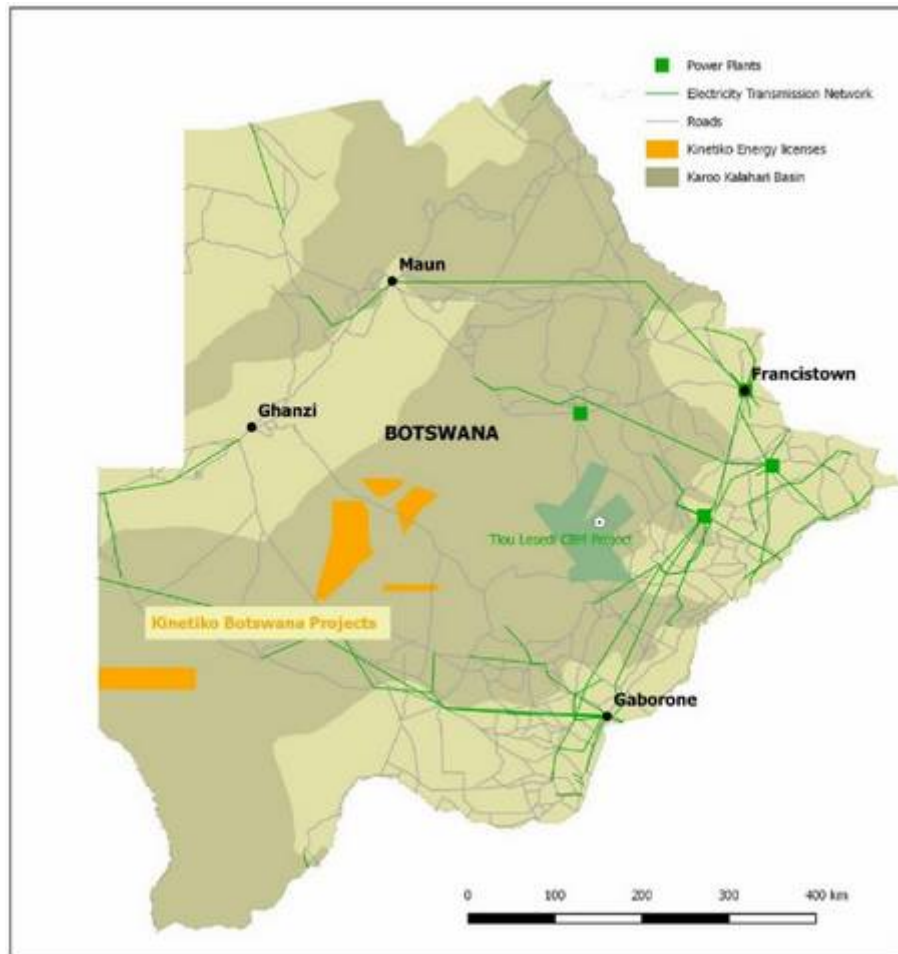


Figure 3 Location of the Kinetiko Energy Botswana tenure

Directors' report

Review of operations (continued)

TENURE

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

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

Increased Resource Estimate on Amersfoort Project's 56ER License

Kinetiko Energy Limited with its major shareholder in Afro Energy Pty Ltd, Badimo Gas Pty Ltd were pleased to announce on February 17th 2016 that it has received an increase in the gas resource estimate on its 56 Exploration Rights ("56ER") license in the Amersfoort Project Area in South Africa. The independent assessment by Gustavson Associates LLC is an update on a 2012 Gustavson report which addressed both 56ER and 38ER licenses.

Analysis conducted for this study included additional gas production information and the results of a High Resolution Aeromagnetic Survey not previously available and resulted in a P50 (2C) estimate of Gas Initially In Place (GIIP) for the 56ER License Area of 30.7 billion cubic meters (1,083.2 BCFG) and a P50 (2C) estimate of total Contingent Resources of 18.6 billion cubic meters (655.7 BCFG) on 56ER.

A summary of the increased resource estimate on 56ER is as follows:

Resources	Resource Type	Billions of Cubic Feet			Billions of Cubic Metres		
		1C	2C	3C	1C	2C	3C
Gas In Place	CBM Adsorbed Gas	298.9	671.9	1,249.0	8.5	19.0	35.4
	CBM Free Gas	11.0	26.2	50.5	0.3	0.8	1.4
	Gas In Sandstone	194.7	384.7	654.7	5.5	10.9	18.5
	Arithmetic Total	504.5	1,083.2	1,954.3	14.3	30.7	55.3
Total Contingent Resources	CBM Adsorbed Gas	190.6	432.7	814.0	5.4	12.3	23.1
	CBM Free Gas	8.7	21.3	40.7	0.2	0.6	1.2
	Gas In Sandstone	99.8	201.8	361.9	2.8	5.7	10.2
	Arithmetic Total	299.2	655.7	1,216.6	8.5	18.6	34.5

Directors' report

Events Occurring After The Reporting Period (continued)

The coals and sandstones in the 56ER License Area are known accumulations that have been drilled, logged, and some have been flow tested with positive indications of gas in sandstone reservoirs and CBM. The reasons for the increase in estimated resource according to the Gustavson renewed assessment on 56ER are:

- 1) Higher confidence in the producibility of the sandstone reservoirs has increased the fraction of the area included in the calculations; and
- 2) The coals in 56ER, which consists of 56,377 hectares (139,310 acres), are thicker on average than those in 38ER.

The increase in the 56ER gas resource estimate compared to the 2012 assessment can be summarised as follows:

Summary of Resources per Square Kilometre

Sandstone Resource	BCF/km ²	% increase from 2012 estimate
GIP P10	1.161	28
GIP P50	0.682	55
GIP P90	0.345	89

Total Resource	BCF/km ²	% increase from 2012 estimate
GIP P10	3.466	36
GIP P50	1.921	28
GIP P90	0.895	14

Resource Statement Competent Persons: *The resource estimates used above have been compiled by Letha Chapman Lencioni, a member of the Society of Petroleum Evaluation Engineers with more than 30 years' experience in oil and gas fields. Ms Lencioni is an employee and Vice President, Petroleum Engineering, of Gustavson Associates LLC. As such Ms Lencioni qualifies as a competent person as defined by clause 20 of the VALMIN Code and under ASX listing rule 5.11. Ms Lencioni and Gustavson Associates have consented in writing to use of their resource estimates in the form that it appears here.*

There are no other matters or circumstances that have arisen since 31 December 2015 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

Dividends Paid or Recommended

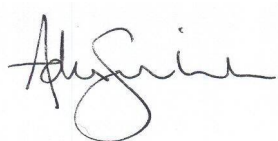
No dividends were paid during the period and no recommendation is made as to payments of future dividends.

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

Date: 11 March 2016

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 2015, 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, 11 March 2016

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 2015, 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 2015 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 2015 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 the issue of further shares, convertible notes or a combination of both. 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', is written over a faint, larger 'BDO' logo.

Dean Just
Director

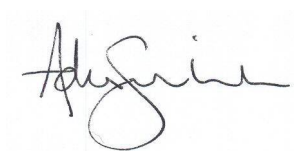
Perth, 11 March 2016

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 2015 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: 11 March 2016

Statement of Profit or Loss and Other Comprehensive Income for the six months ended 31 December 2015

	Note	Half-year ended 31 Dec 2015 \$	Half-year ended 31 Dec 2014 \$
Revenue			
Revenue from ordinary activities	2	9,968	8,494
Total Revenue		<u>9,968</u>	<u>8,494</u>
Expenses			
Consultancy and professional costs		(36,131)	(88,292)
Employee and contractor expenses		(216,753)	(252,854)
Foreign exchange loss		(223,814)	(56,329)
Occupancy expenses		(24,000)	(22,280)
Depreciation		(23,580)	(28,370)
Share based payment	4	(240,000)	-
Administration expenses		(64,223)	(70,931)
Travel expenses		(10,676)	(4,017)
Finance Costs		-	(1,348)
Total expenses		<u>(839,177)</u>	<u>(524,421)</u>
(Loss) from continuing operations before income tax		<u>(829,209)</u>	<u>(515,927)</u>
Income tax (expense)/benefit		-	-
(Loss) after income tax for the period		<u>(829,209)</u>	<u>(515,927)</u>
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign currency		-	-
Other comprehensive loss for the period		<u>-</u>	<u>-</u>
Total comprehensive income attributable to owners of Kinetiko Energy Ltd		<u>(829,209)</u>	<u>(515,927)</u>
Loss per share attributable to equity holders of the company:			
Basic loss per share (cents)		(0.47)	(0.37)

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 2015

	Note	31 December 2015 \$	30 June 2015 \$
CURRENT ASSETS			
Cash assets		207,131	251,533
Receivables	5(a)	33,949	49,199
Other assets		23,953	10,407
TOTAL CURRENT ASSETS		265,033	311,139
NON CURRENT ASSETS			
Investment in associated entity	5(b)	-	-
Receivables	5(b)	1,066,370	1,273,150
Property, plant & equipment		510,578	534,158
Capitalised exploration and evaluation expenditure	6	8,031,552	7,725,096
TOTAL NON CURRENT ASSETS		9,608,500	9,532,404
TOTAL ASSETS		9,873,533	9,843,543
CURRENT LIABILITIES			
Trade and other payables		611,005	534,496
TOTAL CURRENT LIABILITIES		611,005	534,496
TOTAL LIABILITIES		611,005	534,496
NET ASSETS		9,262,528	9,309,047
EQUITY			
Contributed equity	3	15,780,194	14,997,504
Reserves		528,500	528,500
Accumulated losses		(7,046,166)	(6,216,957)
TOTAL EQUITY		9,262,528	9,309,047

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 2015

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)
Total comprehensive loss for the period	-	-	(515,927)	-	(515,927)
At end of period	14,387,262	524,500	(5,531,922)	4,000	9,383,840

For the period ended 31 December 2015	Attributable to equity holders				Total Equity
	Ordinary Shares	Share Based Payment Reserve	Accumulated Losses	Option Issue Reserve	
	\$	\$	\$	\$	\$
At beginning of period	14,997,504	524,500	(6,216,957)	4,000	9,309,047
(Loss) for the period	-	-	(829,209)	-	(829,209)
Total comprehensive loss for the period	-	-	(829,209)	-	(829,209)
Transactions with owners in their capacity as owners:					
Issue of shares during the period	584,399	-	-	-	584,399
Share issue costs	(41,709)	-	-	-	(41,709)
Share based payments	240,000	-	-	-	240,000
Total contributions by owners	782,690	-	-	-	782,690
At end of period	15,780,194	524,500	(7,046,166)	4,000	9,262,528

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 2015

	Half-year ended 31 Dec 2015 \$	Half-year ended 31 Dec 2014 \$
Cash flows from operating activities		
Payments to suppliers and employees	(268,326)	(344,275)
Interest received	6,737	7,819
Interest and other cost of finance paid	-	(3,505)
VAT refund received	-	25,291
Net cash used in operating activities	(261,589)	(314,670)
Cash flows from investing activities		
Capitalised exploration and evaluation expenditure (net of VAT refund)	(342,406)	(78,793)
Payments for property, plant and equipment	-	(91)
Net cash used in investing activities	(342,406)	(78,884)
Cash flows from financing activities		
Proceeds from issues of ordinary shares	584,399	-
Share issue costs	(54,806)	-
Release of security bonds	30,000	-
Proceeds from issue of convertible notes	-	530,000
Proceeds from insurance premium funding liability	-	35,778
Repayment of insurance premium funding liability	-	(19,200)
Director loans	-	39
Net cash provided by financing activities	559,593	546,617
Net increase in cash and cash equivalents	(44,402)	153,063
Cash and cash equivalents at the beginning of the half-year	251,533	548,675
Cash and cash equivalents at the end of the half-year	207,131	701,738

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 2015

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 11 March 2016. 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 2015.

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 2015, 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 2015, 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 2015.

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 2015. 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.

The Company has incurred a net loss after tax for the half year ended 31 December 2015 of \$829,209 (31 December 2014: \$515,927) and experienced net cash outflows from operating activities of \$261,589 (30 June 2015: \$591,164). At 31 December 2015, the Company had current assets of \$265,033 (30 June 2015: \$311,139).

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 2015

2. (Loss) for the half year

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

	31.12.2015 \$	31.12.2014 \$
Interest income	7,250	8,494
Other revenue	2,718	-
Revenue from ordinary activities	<u>9,968</u>	<u>8,494</u>

3. Issued Capital

(a) Ordinary Shares

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

Period ended 31 December 2014

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

Period ended 31 December 2015

		Issue Price	Fully Paid Ordinary Shares	\$
1 July 2015	Opening balance		164,249,500	14,997,504
	Conversion of convertible notes to shares ¹	\$0.035	3,380,160	-
	Issue of shares pursuant to placement facility	\$0.048	16,697,124	584,399
	Issue of shares for services rendered ²		5,000,000	240,000
	Share issue costs		<u>-</u>	<u>(41,709)</u>
31 December 2015	Closing balance		<u>189,326,784</u>	<u>15,780,194</u>

¹ 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.

² Refer to Note 4 for details of the issue

Notes to the interim financial statements for the half-year ended 31 December 2015

3. Issued Capital (continued)

(b) Options

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

Period ended 31 December 2014

Exercise price Expiry date	50c 30 June 2015	75c 30 June 2016	20c 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	1,000,000	4,000,000

¹ 750,000 options expired at 30 June 2015

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

Period ended 31 December 2015

Exercise price Expiry date	75c 30 June 2016	20c 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	4,000,000

4. Share Based Payments

During the period ended 31 December 2015, \$240,000 was recognised as a share based payment to Trident Capital Pty Ltd, a related party, in accordance with an advisory mandate, whereby the Company agreed to pay a success fee for the services provided in relation to the dispute resolution with Badimo Gas (Pty) Ltd.

The 5,000,000 ordinary shares were issued on 2 December 2015 following shareholder approval, and the fair value was calculated at 4.80 cents each, being the market value as at the date of shareholder approval.

As the value of the services rendered are unable to be reliably valued, the underlying equity issued has been valued instead.

Notes to the interim financial statements for the half-year ended 31 December 2015

5. Receivables

	31.12.2015 \$	30.06.2015 \$
<i>(a) Current</i>		
Other receivables – VAT refundable	58,946	34,444
Less: Provision for VAT	(58,946)	(34,444)
Other receivables – GST refundable	10,586	6,402
Other debtor	12,851	2,558
Security bonds	10,000	40,000
Accrued interest receivable	512	239
	<u>33,949</u>	<u>49,199</u>

None of the other receivables are past due or impaired.

	31.12.2015 \$	30.06.2015 \$
<i>(b) Non-Current</i>		
Receivable – Badimo JV Contribution (see note below)	1,066,370	1,273,150
Loan – Associated Entity	183,739	183,739
Less: Provision for impairment of loan	(183,739)	(183,739)
	<u>1,066,370</u>	<u>1,273,150</u>

The Badimo JV Contribution is past due as at 31 December 2015 but is not considered to be impaired. The balance is considered non-current as it is not expected to be realised within 12 months from 31 December 2015. The change in value of the Badimo JV Contribution for the period ended 31 December 2015 is due to changes in foreign exchange rates.

The loan to associate is repayable from Afro Energy (Pty) Ltd, an entity formed in South Africa, of which Kinetiko owns a 49% interest. The initial investment was \$1 and carrying value of the investment at 31 December 2015 is \$NIL. The Company's share of profit/loss for the year ended 30 June 2014 reduced the investment to \$NIL.

A provision for the loan to associated entity has been recognised as a result of the possibility that the funds loaned will be unable to be recouped.

6. Capitalised Exploration and Evaluation Expenditure

	31.12.2015 \$	30.06.2015 \$
Opening balance	7,725,096	7,712,712
Exploration and evaluation expenditure during the period	306,456	291,382
Research and development tax rebate	-	(278,998)
Closing balance	<u>8,031,552</u>	<u>7,725,096</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 2015

7. 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.

	31.12.2015 \$	30.06.2015 \$
Revenue from external sources	-	-
Reportable segment loss	-	-
Reportable segment assets	8,031,552	7,725,096
Reportable segment liabilities	-	-
Reconciliation of reportable segment assets		
Reportable segment assets	8,031,552	7,725,096
Unallocated:		
- Cash	207,131	251,533
- Receivables	1,100,319	1,322,349
- Other assets	23,953	10,407
- Property, plant and equipment	510,578	534,158
- Receivables (loan)	-	-
Total assets	<u>9,873,533</u>	<u>9,843,543</u>
Reconciliation of reportable segment liabilities		
Reportable segment liabilities		
Unallocated:		
- Trade and other payables	(611,005)	(534,496)
Interest-bearing liabilities	-	-
Total liabilities	<u>(611,005)</u>	<u>(534,496)</u>
	31.12.2015 \$	31.12.2014 \$
Reconciliation of reportable segment loss		
Reportable segment loss	-	-
Other revenue	9,968	8,494
Unallocated expenses	(839,177)	(524,421)
Loss before tax	<u>(829,209)</u>	<u>(515,927)</u>

8. 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 2015.

Notes to the interim financial statements for the half-year ended 31 December 2015

9. 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.

The Company submitted an application to the Petroleum Agency SA in June 2014 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 – this application was later withdrawn following a new resolution reached by both parties in April 2015.

In April 2015, the Company agreed with Badimo to resolve their disputes concerning the Amersfoort project, including the issue of all alleged outstanding cash calls. As part of this resolution the parties have agreed to pool their interests (51% Badimo and 49% Kinetiko) in a new incorporated joint venture, Afro Energy (Pty) Ltd, with the objective to maximise the long term value of the assets of the joint venture and to secure additional funding from outside sources. This agreement however has not been effectuated as at the date of this report.

Kinetiko and Badimo are currently seeking to commercialise the gas discovery at Amersfoort, the aim being to achieve initial reserves and demonstrate its economic potential as soon as possible. They remain in negotiations with interested parties with regards to the Amersfoort funding, including recently receiving an expression of interest from the Industrial Development Corporation, a finance institution owned by the South African government.

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.

Badimo receivable

The Company does not expect to realise the balance within the next 12 months but do expect to realise the balance shortly thereafter. Accordingly, the balance should be reflected as a non-current asset. As the balance is expected to be realised in the near term, the effect of discounting is not expected to be material. In addition, the balance has been incurred on exploration and therefore the carrying value is expected to reflect its fair value at 31 December 2015.

11. Events Occurring After The Reporting Period

On February 17th 2016, Kinetiko Energy Limited with its major shareholder in Afro Energy Pty Ltd, Badimo Gas Pty Ltd announced that it has received an increase in the gas resource estimate on its 56 Exploration Rights ("56ER") license in the Amersfoort Project Area in South Africa. The independent assessment by Gustavson Associates LLC is an update on a 2012 Gustavson report which addressed both 56ER and 38ER licenses.

Refer to the Director's Report for further details regarding the increase in the gas resource estimate.

There are no other matters or circumstances that have arisen since 31 December 2015 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.