

**KINETIKO ENERGY LTD**

**ABN 45 141 647 529**

**Annual Report  
for the Year Ended  
30 June 2012**

**C O N T E N T S**

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## Corporate Directory

### Directors

Adam Sierakowski  
Andrew Lambert  
Dr James Searle  
Geoffrey Michael

### Company Secretary

Stephen Hewitt-Dutton

### Public Officer

Geoffrey Michael

### Principal Activity

Coal bed methane exploration

### Principal Place of Business

283 Rokeby Road  
SUBIACO WA 6008

### 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

### Stock Exchange Listing

Australian Securities Exchange  
Home Exchange: Perth  
Code: KKO

## Chairman's Address

Dear Shareholder,

It is my pleasure to present Kinetiko Energy Limited's first annual report since the Company listed on the Australian Securities Exchange in July 2011.

It's been a busy year at KKO, and we are proud of what our team has achieved in a short period of time. In less than 12 months, we've defined exceptional coal bed methane (CBM) resources at our flagship Amersfoort project in the Eastern Transvaal Coal Field of South Africa. This was our endeavour pursuant to the IPO, however in addition, the company has discovered natural gas in the sandstones, as well as establishing a growing portfolio of prospective CBM projects in the surrounding area.

Amersfoort is a particularly exciting project for the company, with an independently certified estimate of 2.4 trillion cubic feet (tcf) of gas in place (GIP) on the Amersfoort Project and an estimate of 1.5 tcf contingent resources. We hope to increase resource and reserve certainty with further exploration in coming months with the commencement of pilot production drilling. This work to date has provided strong results, leading to our decision to develop up to eight production wells on the northern tenement. This is double our original plan, which is a very pleasing outcome. We are confident this project will be a company maker and can supply the energy hungry markets of South Africa.

KKO's additional land has been obtained as a result of the South African regulator granting KKO four Technical Cooperation Permits covering highly prospective land around Amersfoort. These have been independently estimated to have a Prospective Resource of 9.3tcf GIP, and we have made application for a fifth TCP on which we await a decision. KKO has 12 months to undertake studies of the TCP areas, and the exclusive right to apply for an Exploration Permit if the Company then chooses.

KKO has also received renewal of its Volksrust tenement right, and in June we accelerated our exploration there, using existing equipment and experienced crew who completed a successful drilling campaign at Amersfoort.

This activity moves KKO towards our goal of becoming the early mover in South African energy markets. We now have granted permits and active exploration across a massive area of 11,906km<sup>2</sup>, and a potential exploration area totalling 18,992km<sup>2</sup>. This makes KKO the largest and most active CBM explorers in South Africa.

Our share price has held up well in volatile global equity markets and we consider this a testament to the potential that our projects demonstrate and the confidence these achievements so far have instilled in investors.

A special mention needs to be made of our Managing Director Andrew Lambert for his work in getting the Company to its current position. His operational efforts in a first mover endeavour, where the wheel needs to be created, and to do it on time and under budget has placed KKO in a favourable position to maximise development of its assets in our second year of operation.

To finish, I would like to thank all of our staff for their efforts over the past year, the board for its continued collective contribution and our shareholders for their loyalty. We have an exciting year of exceptional potential ahead spearheaded by the target of booking resource to reserves at Amersfoort.



Mr. Adam Sierakowski  
Chairman

## Directors' Report

The directors of Kinetiko Energy Ltd ("the Company") submit herewith the financial report of the company for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act, the directors report as follows:

### **Directors**

The names of the directors in office at any time during or since the end of the financial year are:

Adam Sierakowski  
Andrew Lambert  
Dr James Searle  
Geoffrey Michael

### **Information on Directors**

#### **Adam Sierakowski, Non-Executive Chairman**

Adam Sierakowski is a lawyer and founding director of the legal firm Price Sierakowski. He has over 17 years' experience in legal practice, much of which he has spent as a corporate lawyer consulting and advising on a range of transactions to a variety of large private and listed public entities. He is the co-founder and director of Perth based corporate advisory business, Trident Capital, where he has for years advised a variety of large private and public companies on structuring their transactions and coordinating fundraising both domestically and overseas.

Mr Sierakowski has held a number of board positions with ASX listed companies and is currently a member of the Australian Institute of Company Directors and the Association of Mining and Exploration Companies.

Special responsibilities:

- None

Directorships held in other listed companies in the past 3 years:

- Triangle Energy (Global) Ltd, Non-Executive Director, appointed 9 October 2009.
- Coziron Resources Ltd, Executive Director, appointed 21 October 2010.
- Carnavale Resources Ltd, Non-Executive Chairman, appointed 22 November 2006, resigned 2 March 2011.
- Sterling Biofuels International Ltd, Non-Executive Director, appointed 21 June 2006, resigned 29 April 2010.
- Clean Global Energy Ltd (formerly International Resource Holdings Ltd), Non-Executive Director, appointed 4 March 2009, resigned 9 October 2009.

#### **Andrew Lambert (B.Sc (Hons), MSc (Lon), MMgt (Fin)), Managing Director**

Andrew Lambert is a geoscientist and executive with over 15 years global experience in technical, business development and corporate advisory role – predominantly O&G and mining.

Mr. Lambert's career began in Petroleum Exploration (UK & Australia), he then worked as an exploration geologist in iron ore, followed by a petroleum geophysicist role for PGS (MENA). He has also worked in business development and corporate advisory roles with KPMG and PwC Consulting; where he focussed on O&G and Resources across Australia, Middle East and the UK.

Mr. Lambert joined Kinetiko Energy in 2011 as Managing Director and is committed to Kinetiko's strategy and operational focus.

## Directors' Report (cont)

### *Information on Directors (cont)*

#### **Andrew Lambert (B.Sc (Hons), MSc (Lon), MMgt (Fin)), Managing Director (cont)**

Special responsibilities:

- None

Directorships held in other listed companies in the past 3 years:

- Nil

#### **Dr James Searle (B. Sc., PhD, MAusIMM, MAICD), Non-Executive Director**

Dr. James Searle is a geologist, mining company executive and consultant with over 30 years experience worldwide in precious and base metals and energy minerals. As an exploration geologist he has directed and participated in a number of exploration programs resulting in significant commercial gold discoveries.

Corporately he has been involved at senior management and board level leadership in resource project identification, acquisition, financing, development and management in Australia and overseas.

Dr. Searle was CEO and Executive Director of ASX listed Nordic goldminer Dragon Mining Ltd for 8 years until 2005, and was instrumental in the company acquiring, financing and developing gold mining projects in Sweden and Finland.

In the energy sector Dr. Searle has been involved in oil and gas exploration and research into modern marine sedimentation analogues of hydrocarbon reservoirs.

He has also provided consulting advice to major marine engineering project proponents, governmental and international agencies on coastal and near shore dynamics in Australia and South East and Southern Asia.

Special responsibilities:

- None

Directorships held in other listed companies in the past 3 years:

- Metaliko Resources Limited, Managing Director, appointed 20 February 2009, resigned 28 June 2012.
- Redbank Copper Ltd (formerly Redbank Mines Ltd), Non-Executive Director and Chairman, appointed 1 March 2006, resigned 18 June 2010.
- Matilda Zircon Ltd, Non-Executive Director, appointed 13 May 2009, resigned 12 October 2009.

#### **Geoffrey Michael (BA UWA), Non-Executive Director**

Mr. Michael's background is in the property sector in Australia, Europe and South East Asia and has actively been developing property and project managing since 1990.

Prior to this involvement, Mr. Michael has been involved with a family owned contracting operation specialising in earthworks and civil construction on a large scale. This involvement has endowed Mr. Michael with practical construction and civil contracting experience.

These areas of expertise are essential when dealing with project based operations and outcome delivery as are present in the mining and exploration sector along with an understanding of the operations and complexities of Joint Ventures and other forms of financial and outcome partnering.

In addition to this, Mr. Michael has been the Director of a drilling and mining services company for the last two years servicing companies through out WA in the exploration and resource proving field.

## Directors' Report (cont)

### *Information on Directors (cont)*

#### **Geoffrey Michael (BA UWA), Non-Executive Director (cont)**

Special responsibilities:

- None

Directorships held in other listed companies in the past 3 years:

- Metaliko Resources Ltd, Non-Executive Director, appointed 28 July 2006, resigned 28 June 2012.

### **Company Secretary**

#### **Stephen Hewitt-Dutton (B.Bus, CA, SAFin)**

Mr Hewitt-Dutton has over 20 years of experience in corporate finance, accounting and company secretarial matters. He is an Associate Director of Trident Capital and holds a Bachelor of Business from Curtin University, is an affiliate of the Institute of Chartered Accountants and a Senior Associate of FinSIA.

Before joining Trident Capital, Mr Hewitt-Dutton was an Associate Director of Carmichael Corporate where he assisted clients by providing equity market, IPO and M&A advice and assistance. He has also held Financial Controller and Company Secretary positions for both public and private companies for in excess of 15 years.

### **Principal Activities**

The principal activity of the Company during the financial year was coal bed methane exploration. During the year 30 June 2012, the Company successfully raised \$10 million pursuant to its prospectus dated 2 June 2011, and subsequently listed on the Australian Securities Exchange.

### **Operating Results**

The net loss for the year ended 30 June 2012 after providing for income tax amounted to \$1,089,827 (2011: \$543,713).

### **Review of Operations**

#### **Executive Summary**

It's been a busy year, and I am proud of what we have achieved. In less than 15 months since listing on the ASX, we have defined a coal bed methane (CBM) resource at our flagship Amersfoort project in Mpumalanga, east of Johannesburg in South Africa, and established an extensive exploration portfolio of CBM projects in the surrounding area.

Overall Kinetiko has achieved a 588% increase in Prospective Resources GIP (Gas In Place) since IPO (from 1.7tcf – 11.7tcf) as certified by our independent consultants: Gustavson Associates of Denver, Colorado, USA. These data are early stage estimates but none the less point to the gas potential as we strive to improve resource and reserve certainty to meet domestic market demand for our gas.

We have commenced gas market and commercialisation planning to ensure that our investors understand where we will be able to sell our potential gas production. In conjunction we are also evaluating development and production economics for a range of commercially promising scenarios.

Kinetiko is maintaining its early mover advantage in the region and is pursuing new gas projects that will help supply energy hungry economies and create jobs in South Africa.

Directors' Report (cont)

Review of Operations (cont)

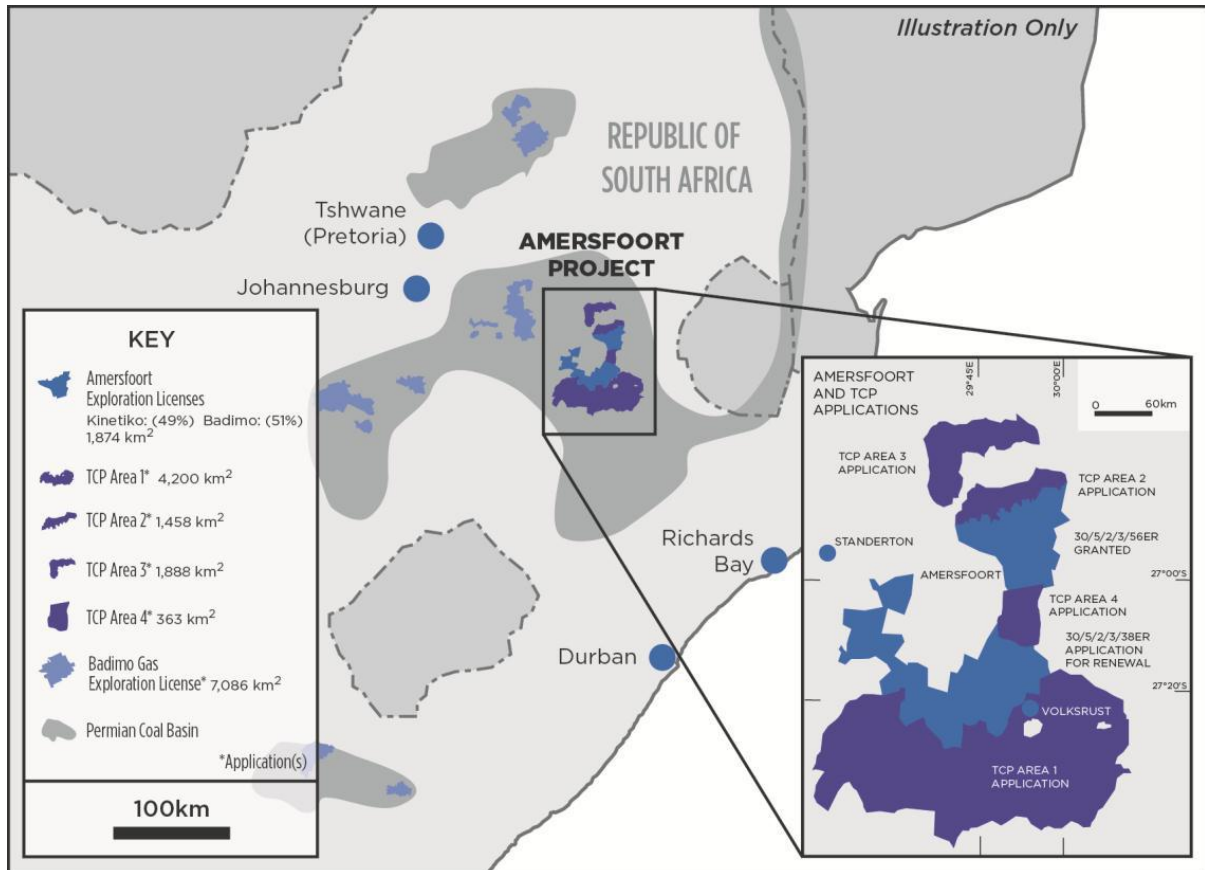


Figure 1: Kinetiko's land tenure potential in South Africa – granted and under application.

The Amersfoort Project (Kinetiko 49% interest)

The Amersfoort Project is located at the heart of South Africa's energy infrastructure in Mpumalanga (formerly Eastern Transvaal) in South Africa, 250km east of Johannesburg. Mpumalanga is a highly prospective area for coal-bed methane (CBM) with well documented, gassy coal measures.

Kinetiko is the operator of two gas licences in the Amersfoort Project (49% interest) covering 1,601km<sup>2</sup> under an agreement with South African BEE company: Badimo Gas Ltd.

In August 2012, US-based independent oil and gas consultant Gustavson Associates estimated prospective resources, Gas In Place of 2.4tcf (up 41% from an estimate of 1.7tcf in 2011).



Directors' Report (cont)

Review of Operations (cont)

| Resource Estimate: Amersfoort Project |                         | Billion Cubic Feet |                |                | Billion Cubic Meter |             |              |
|---------------------------------------|-------------------------|--------------------|----------------|----------------|---------------------|-------------|--------------|
|                                       |                         | 1C (P90)           | 2C (P50)       | 3C (P10)       | 1C (P90)            | 2C (P50)    | 3C (P10)     |
| <b>Gas In Place</b>                   | CBM Adsorbed Gas        | 930.5              | 1,624.6        | 2,515.0        | 26.3                | 46.0        | 71.2         |
|                                       | CBM Free Gas            | 36.6               | 64.8           | 101.7          | 1.0                 | 1.8         | 2.9          |
|                                       | Gas In Sandstone        | 292.6              | 706.3          | 1,450.6        | 8.3                 | 20.0        | 41.1         |
|                                       | <b>Arithmetic Total</b> | <b>1,259.7</b>     | <b>2,395.8</b> | <b>4,067.3</b> | <b>35.7</b>         | <b>67.8</b> | <b>115.2</b> |
| <b>Total Contingent Resources</b>     | CBM Adsorbed Gas        | 598.3              | 1,058.3        | 1,645.1        | 16.9                | 30.0        | 46.6         |
|                                       | CBM Free Gas            | 29.2               | 51.9           | 81.6           | 0.8                 | 1.5         | 2.3          |
|                                       | Gas In Sandstone        | 150.7              | 372.5          | 791.0          | 4.3                 | 10.5        | 22.4         |
|                                       | <b>Arithmetic Total</b> | <b>778.1</b>       | <b>1,482.7</b> | <b>2,517.7</b> | <b>22.0</b>         | <b>42.0</b> | <b>71.3</b>  |
| <b>Net Contingent Resources</b>       | CBM Adsorbed Gas        | 293.1              | 518.6          | 806.1          | 8.3                 | 14.7        | 22.8         |
|                                       | CBM Free Gas            | 14.3               | 25.4           | 40.0           | 0.4                 | 0.7         | 1.1          |
|                                       | Gas In Sandstone        | 73.8               | 182.5          | 387.6          | 2.1                 | 5.2         | 11.0         |
|                                       | <b>Arithmetic Total</b> | <b>381.3</b>       | <b>726.5</b>   | <b>1,233.7</b> | <b>10.8</b>         | <b>20.6</b> | <b>34.9</b>  |

Table 1: Gustavson Associates resources summary for Amersfoort Project (Kinetiko 49% interest).

As a result of drilling success, Kinetiko broadened plans to include up to eight pilot production wells on the Amersfoort tenement from September 2012. This is more than double the original amount planned on the northern tenement. Initial very encouraging results included hole KA-06 spontaneously emitting methane gas flows and strong gas shows from other holes in the program (Figure 1).



Figure 1: Flaring of spontaneous gas flow from KA-06 (since December 2011)

Exploration drilling at Amersfoort commenced in late 2011, and current programs are scheduled to continue into mid 2013.

**Directors' Report (cont)**

**Review of Operations (cont)**

During the year, Kinetiko completed 10 exploration core holes in the northern Amersfoort exploration licence (56ER). Methane gas desorption from these drill core samples has provide very encouraging results. Strong indications of gas were also widely encountered in coaly sediments and the sandstones gas above the coal seams and overlaid by thick dolerite sills (also acting as a cap rock). Spontaneous gas flows were also observed in several drill holes and hole KA-06 has been flaring spontaneous gas emissions since December. See Table 2 for summary of exploration drilling results.

| Hole ID | Status    | Start Date | Total Days | Depth (m) | # Samples  |
|---------|-----------|------------|------------|-----------|------------|
| KA-03C  | Abandoned | 21-Oct-11  | 115        | 278       | 5          |
| KA-05C  | Abandoned | 23-Nov-11  | 52         | 203       | 2          |
| KA-11T  | Abandoned | 07-May-12  |            | 121       | -          |
| KA-04C  | Completed | 28-Sep-11  | 22         | 425       | 39         |
| KA-06C  | Completed | 26-Oct-11  | 27         | 366       | 26         |
| KA-02C  | Completed | 11-Nov-11  | 11         | 389       | 34         |
| KA-05D  | Completed | 18-Jan-12  | 14         | 350       | 5          |
| KA-12C  | Completed | 24-Nov-11  | 57         | 334       | 9          |
| KA-03D  | Completed | 21-Feb-12  | 18         | 404       | 9          |
| KA-09C  | Completed | 16-Feb-12  | 23         | 376       | 12         |
| KA-10C  | Completed | 15-Mar-12  | 20         | 463       | 14         |
| KA-07T  | Completed | 14-Apr-12  | 21         | 438       | Mud Rotary |
| KA-11R  | Completed |            |            | 417       | Mud Rotary |

Table 2: Exploration drilling summary for the Amersfoort tenement (part of Amersfoort Project)

Following on from the successful exploration drilling, the first pilot production wells are planned to commence in September and will continue into Q2, 2013.

In August the energy regulator (Petroleum Agency of South Africa) approved Kinetiko Energy's pilot production well program. Key pilot production well equipment has arrived on site and the drilling and completions rig is being contracted to mobilise by the end of September.

Pilot production will test "gas recoverability" and the company is targeting gas "reserve" definition by Q1 2013.

See Figure 3 below for an indicative summary of potential activity milestones.

Amersfoort Project, Volksrust Tenement

Exploration core drilling is continuing on the Volksrust tenement and a second core rig has commenced drilling to expedite the exploration program of at least 8 core holes. Once coring is completed by early 2013, Kinetiko currently plans to conduct two pilot wells on the Volksrust tenements commencing Q2 2013.

In June 2012, Kinetiko's joint venture (JV) partner was granted the renewal of its Volksrust tenement right. The renewal accelerates an exploration drilling program using the existing rig and experienced crew who have finished a successful drilling campaign on the company's nearby Amersfoort tenement.

Directors' Report (cont)

Review of Operations (cont)

Kinetiko was required to relinquish 20% of the Volksrust land area to the government as part of the renewal. The company has complied by relinquishing less prospective peripheral areas.

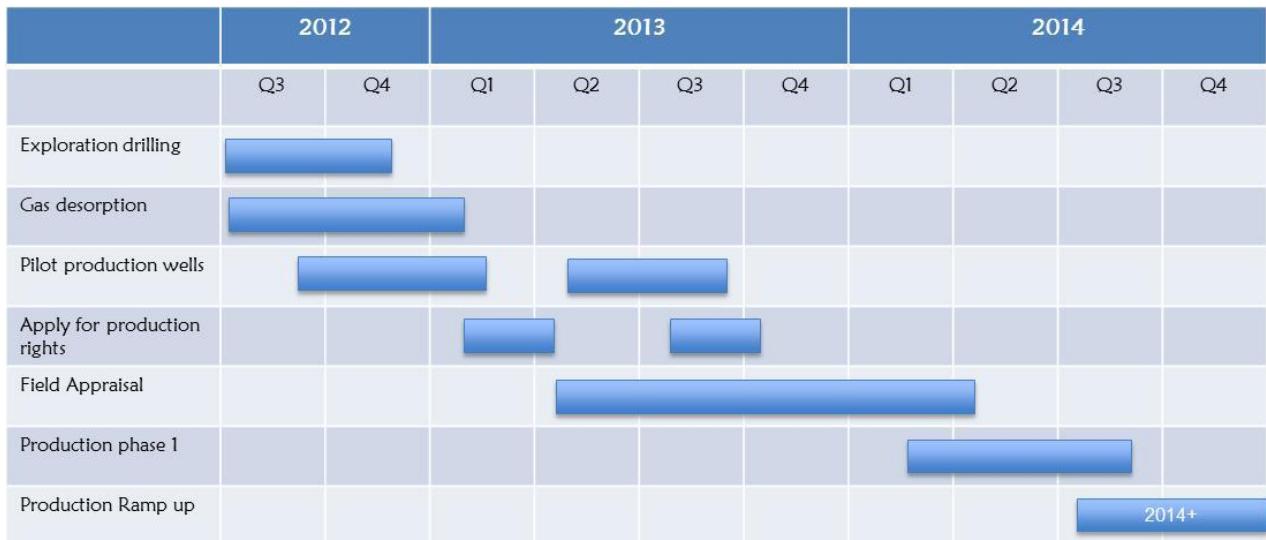


Figure 3. Anticipated operational activity - indicative only and subject to exploration progress and results

Exploration

Kinetiko was granted four Technical Cooperation Permits (TCPs) covering 7,890km<sup>2</sup> by the South African regulator (petroleum Agency of South Africa). The company has a 100% interest in the permits. A fifth TCP application was made for 2,394km<sup>2</sup> of prospective tenure and Kinetiko anticipates approval by early 2013.

A TCP entitles Kinetiko 12 months to perform desktop studies and the unique right to apply for exploration rights over the area. The TCP effectively gives the holder rights to access historical exploration data from Government sources.

Kinetiko's TCP's cover the Karoo coal basin areas which the company has identified as highly-prospective for commercial accumulations of CBM.

Gustavson Associates has estimated (P<sub>50</sub>) Gas In Place (GIP) resources of 9.3tcf, using a conservative (arithmetic) probabilistic method. Table 3 shows Gustavson's Resources estimates.

In line with our growth strategy, Kinetiko is pursuing other projects at various stages of development in attractive areas of South Africa.

| Resource Estimate: TCP 12/2/37, 12/2/38, 12/2/39, 12/2/42 |                      |                         | Billion Cubic Feet |              |               | Billion Cubic Meter |            |            |
|---|----------------------|-------------------------|--------------------|--------------|---------------|---------------------|------------|------------|
|   |                      |                         | 1C (P90)           | 2C (P50)     | 3C (P10)      | 1C (P90)            | 2C (P50)   | 3C (P10)   |
| Total   | Gas In Place         | Adsorbed Gas            | 5,858              | 8,971        | 13,069        | 166                 | 254        | 370        |
|   |                      | Free Gas                | 142                | 359          | 705           | 4                   | 10         | 20         |
|   |                      | <b>Arithmetic Total</b> | <b>6,000</b>       | <b>9,330</b> | <b>13,774</b> | <b>170</b>          | <b>264</b> | <b>390</b> |
|   | Contingent Resources | Adsorbed Gas            | 3,750              | 5,793        | 8,644         | 106                 | 164        | 245        |
|   |                      | Free Gas                | 115                | 287          | 565           | 3                   | 8          | 16         |
|   |                      | <b>Arithmetic Total</b> | <b>3,864</b>       | <b>6,080</b> | <b>9,209</b>  | <b>109</b>          | <b>172</b> | <b>261</b> |

Table 3: Gustavson Associates summary of resources for Kinetiko TCPs (100% interest).

## Directors' Report (cont)

### Review of Operations (cont)

These resource estimates were classified in accordance with the Petroleum Resource Management System, Society of Petroleum Engineers (SPE), 2007 by Gustavson Associates.

The CBM resource estimates are based on several key assumptions including:

- Adsorbed and free gas resource estimates were estimated using probabilistic analysis
- Two probabilistic approaches were used; Kinetiko has decided to use the conservative approach (based on arithmetic sums and average net coal thickness and applied probabilities)
- Estimates used released gas content ranges and coal and carbonaceous mudstone thicknesses, established from Kinetiko's Amersfoort Project
- Gas content and other information was also obtained from published regional sources, rather than direct measurement, and direct porosity values were assumed on analogous data in order to estimated free gas content

### Competent Persons:

The resource estimates used in this report have been compiled by Michelle G. Bishop, an American Institute of Professional Geologists Certified Professional Geologist with more than 30 years' experience in oil and gas fields. Ms Bishop is an employee of Gustavson Associates LLC. As such Ms Bishop qualifies as a competent person as defined by clause 20 of the VALMIN Code and under ASX listing rule 5.11. Ms Bishop and Gustavson Associates have consented in writing to the use of their resource estimates in this report.

### Market and Commercialisation studies

We have commenced gas market and commercialisation planning to ensure that our investors understand where we will be able to sell our potential producible gas, and in conjunction we are assessing our asset development economics, so far we have an attractive project development potential. View Figure 4 for a map summary of our approach to the most attractive potential customers.

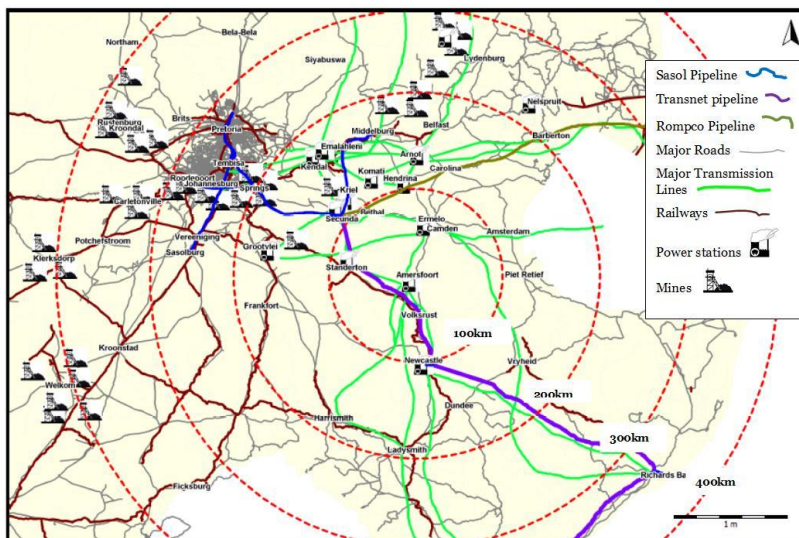


Figure 4: Market approach to assessing the most attractive potential gas customers within a 300Km radius of our assets.

## Directors' Report (cont)

### Review of Operations (cont)

#### Corporate

Kinetiko Energy Ltd successfully listed on the ASX on July 21 2011. The company issued 55,000,000 shares at 20 cents per share to raise a total of \$10 million before costs. As at 30 June 2012 Kinetiko Energy had a cash balance of approximately \$5.0m. Kinetiko is operating under budget and is fully funded until June 2013.

#### 12 months of exceptional growth

| Date        | Achievement   |
|-------------|---|
| 21 Jul 2011 | KKO lists on ASX – acreage of 1,864 km <sup>2</sup> , GIP 1.7tcf (P <sub>50</sub> ) |
| 27 Sep 2011 | Drilling commences on Amersfoort Project  |
| 27 Sep 2011 | TCP 37 (Technical Cooperation Permit) application (4,200 km <sup>2</sup> )          |
| 7 Oct 2011  | TCP 38 application (1,458 km <sup>2</sup> )   |
| 24 Oct 2011 | TCP 39 application (1,888 km <sup>2</sup> )   |
| 31 Oct 2011 | 1 <sup>st</sup> drill hole completed @ Amersfoort                                   |
| 29 Nov 2011 | MOU with Badimo for additional exploration rights (7,086 km <sup>2</sup> )          |
| 8 Dec 2011  | Drilling encountering spontaneous methane gas flows                                 |
| 6 Feb 2012  | Confirmed discovery of contingent resources on Amersfoort Project                   |
| 1 Mar 2012  | TCP 42 application (363 km <sup>2</sup> )   |
| 12 Jun 2012 | Four TCP applications are granted – GIP increase by 10.7tcf                         |
| 10 Jul 2012 | TCP 64 application (2,349 km <sup>2</sup> )   |
| 13 Aug 2012 | 41% resource upgrade at Amersfoort project – GIP 2.4tcf (P <sub>50</sub> )          |

## Directors' Report (cont)

### **Significant Changes in State of Affairs**

Significant changes in the state of affairs of the Company during the financial year were as follows:

- Pursuant to the prospectus dated 2 June 2011, the Company issued 50,000,000 shares at \$0.2000 each in order to raise \$10,000,000 to facilitate the listing of the Company's shares on ASX, provide funds for project related acquisitions and developments and to meet operational costs and working capital needs.
- The Company was admitted to the official list of the Australian Securities Exchange on 19 July 2011.
- In the period since listing the Company has been progressing its exploration activities in South Africa.

### **Matters subsequent to the end of the financial year**

No matters or circumstance has arisen since 30 June 2012 that has affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

### **Future Developments**

Further information on likely developments in the operations of the company has not been included in this report because at this stage the directors believe it would be likely to result in unreasonable prejudice to the company. As Kinetiko Energy Ltd is listed on the Australian Stock Exchange, it is subject to the continuous disclosure requirements of the ASX Listing Rules which require immediate disclosure to the market of information that is likely to have a material effect on the price or value of Kinetiko Energy Ltd securities.

### **Dividends Paid or Recommended**

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

### **Meetings of Directors**

During the financial year, 14 meetings of Directors were held. Attendances by each director were as follows:

|                  | Number eligible to attend | Number Attended |
|------------------|---------------------------|-----------------|
| Adam Sierakowski | 14                        | 13              |
| Andrew Lambert   | 14                        | 14              |
| Dr James Searle  | 14                        | 12              |
| Geoffrey Michael | 14                        | 13              |

## Directors' Report (cont)

### **Directors' Shareholdings**

As at the date of this report the interests of the directors in the shares of the Company were:

| <b>Director</b>  | <b>Ordinary Shares</b> |
|------------------|------------------------|
| Adam Sierakowski | 9,925,000              |
| Andrew Lambert   | -                      |
| Dr James Searle  | 10,650,000             |
| Geoffrey Michael | 21,550,000             |

### **Share Options**

During the year, an amount of \$78,062 was included in the Statement of Financial Performance and Statement of Changes in Equity which represented the amortised fair value of Andrew Lambert's incentive options as determined using the Black-Scholes valuation methodology.

As at the date of this report, no options are on issue as Mr Lambert's incentive options are subject to shareholders approval at the Annual General Meeting to be held on 25 September 2012.

No shares have been issued on the exercise of options at the date of this report.

### **Remuneration Report (Audited)**

The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

#### *(a) Principles used to determine the nature and amount of remuneration*

The remuneration policy of Kinetiko Energy Ltd has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the company's financial results. The board of Kinetiko Energy Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the company.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the company is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. Executives are also entitled to participate in the employee share and option arrangements.

## Directors' Report (cont)

### **Remuneration Report (cont)**

#### *(a) Principles used to determine the nature and amount of remuneration (cont)*

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes or Binomial methodologies.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting (currently \$250,000). Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plans.

The objective of the Company's executive reward framework is set to attract and retain the most qualified and experienced directors and senior executives. The board ensures that executive reward satisfies the following criteria for good reward governance practices:

- Competitiveness
- Acceptability to shareholders
- Performance linkage
- Capital management

### **Directors' fees**

A director may be paid fees or other amounts as the directors determine where a director performs special duties or otherwise performs services outside the scope of the ordinary duties of a director. A director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

### **Performance based remuneration**

The Managing Director has been granted long term incentives by way of performance rights and options, which vest after certain predetermined periods of service. Details of these incentives are contained at paragraph (c)(iv) below.

The company currently has no other performance based remuneration component built into director and executive remuneration packages.

### **Company performance, shareholder wealth and directors' and executives' remuneration**

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. This is facilitated through the issue of options or performance rights to Directors and Executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced.



**Directors' Report (cont)**

**Remuneration Report (cont)**

(b) *Compensation of Key Management Personnel*

The key management personnel of the Company are the Directors and the Company Secretary. There are no executives, other than Directors and the Company Secretary, who have the authority and responsibility for planning, directing and controlling the activities of the Company.

**Name of Director**

|                  |                        |
|------------------|------------------------|
| Adam Sierakowski | Non-Executive Chairman |
| Andrew Lambert   | Managing Director      |
| Dr. James Searle | Non-Executive Director |
| Geoffrey Michael | Non-Executive Director |

**Company Secretary**

Stephen Hewitt-Dutton

The emoluments for each director and key management personnel of the Company for the year ended 30 June 2012 are as follows:

| Year ended<br>30 June 2012   | Short-term       |               | Share Based<br>Payments | Post<br>employment | Total            | Remuneration<br>consisting of<br>rights & options |
|------------------------------|------------------|---------------|-------------------------|--------------------|------------------|---|
|                              | Salary &<br>Fees | Non Cash      |                         | Superannuation     |                  |   |
|                              | \$               | \$            | \$                      | \$                 | \$               | %   |
| <b>Directors</b>             |                  |               |                         |                    |                  |   |
| A Sierakowski                | 78,000           | 5,078         | -                       | -                  | 83,078           | -   |
| A Lambert                    | 250,000          | 5,078         | 268,062                 | 22,500             | 545,640          | 49  |
| Dr J Searle                  | 111,050          | 5,078         | -                       | -                  | 116,128          | -   |
| G Michael                    | 240,000          | 5,078         | -                       | -                  | 245,078          | -   |
| <b>Company<br/>Secretary</b> |                  |               |                         |                    |                  |   |
| S Hewitt-Dutton              | 48,000           | -             | -                       | -                  | 48,000           | -   |
|                              | <u>727,050</u>   | <u>20,312</u> | <u>268,062</u>          | <u>22,500</u>      | <u>1,037,924</u> | <u>49</u>   |

**Directors' Report (cont)**

**Remuneration Report (cont)**

(b) *Compensation of Key Management Personnel (cont)*

The emoluments for each director and key management personnel of the Company for the period 25 January 2010 to 30 June 2011 are as follows:

| Period ended<br>30 June 2011 | Short-term             |                | Post<br>employment   | Total          | Remuneration<br>consisting of<br>options |
|------------------------------|------------------------|----------------|----------------------|----------------|--|
|                              | Salary &<br>Fees<br>\$ | Non Cash<br>\$ | Superannuation<br>\$ | \$             | %  |
| <b>Directors</b>             |                        |                |                      |                |  |
| A Sierakowski                | -                      | 6,463          | -                    | 6,463          | -  |
| A Lambert                    | 9,615                  | -              | 865                  | 10,480         | -  |
| Dr J Searle                  | 109,200                | 6,463          | -                    | 115,663        | -  |
| G Michael                    | 212,500                | 6,463          | -                    | 218,963        | -  |
| M Michael                    | -                      | -              | -                    | -              | -  |
| <b>Company Secretary</b>     |                        |                |                      |                |  |
| S Hewitt-Dutton              | 16,473                 | -              | -                    | 16,473         | -  |
|                              | <u>347,788</u>         | <u>19,389</u>  | <u>865</u>           | <u>368,042</u> | <u>-</u>                                 |

(c) *Service agreements*

The agreements related to remuneration are set out below

- (i) The Company has entered into a services agreement with Ageus Pty Ltd, whereby the Company has agreed to pay remuneration of \$27,500 per month to Ageus Pty Ltd to secure the services of Geoffrey Michael, a Non-Executive Director, and other services to be provided by Ageus Pty Ltd. The payment is inclusive of all statutory entitlements. The contract has been assigned to Grovebrook Enterprises Pty Ltd in July 2011. The agreement was varied to \$20,000 per month effective 1 June 2011, which is inclusive of Director's fees of \$5,000 per month. Ageus Pty Ltd and Grovebrook Enterprises Pty Ltd are entities in which Geoffrey Michael has an interest. The term of the agreement is for a period of 12 months commencing on 26 May 2011 and shall renew automatically for successive 12 month periods unless either party gives the other party at least 30 days prior written notice of its intention not to review the Agreement. The contract was subsequently assigned from Grovebrook Enterprises Pty Ltd to Vital Nominees Pty Ltd as trustee for the Vital Trust, in November 2011.
- (ii) The Company has entered into a service agreement with Trident Capital Pty Ltd, a Company in which Mr Sierakowski is a Director and shareholder, whereby the Company has agreed to pay Trident Capital Pty Ltd \$15,000 per month (\$180,000 per annum) for the provision of corporate advisory services, plus capital raising fees of 6% of the funds raised directly by Trident Capital Pty Ltd in the IPO. The term of the agreement was 5 months commencing 2 August 2010. It was extended for a further term of 12 months commencing 1 March 2011. The agreement was varied to \$10,000 per month effective 1 June 2012. The term of the agreement is for a period of 12 months; however such monthly fee may be increased or extended by mutual agreement between both parties. The varied agreement agreed to additionally pay capital raising fees equal to 6% of the funds raised directly by the Trident group for any future capital raisings undertaken by the Company and a facilitation fee of 5% on the value of any asset acquired by the Company that is introduced by Trident without the assistance of Kinetiko.

**Directors' Report (cont)**

**Remuneration Report (cont)**

(c) *Service agreements (cont)*

In addition, Trident receives \$6,000 per month for Mr Sierakowski's services as Non-Executive Chairman, effective 1 July 2011, and \$4,000 per month for Mr Hewitt-Dutton's services as Company Secretary.

- (iii) The Company has entered into a service agreement with Dr James Searle, whereby the Company has agreed to pay Earthsciences Pty Ltd, a Company controlled by Dr James Searle, a daily rate of \$1,200 per day, including statutory entitlements, payable monthly in arrears. The term of the agreement is 36 months commencing 22 July 2010. The term of the agreement was revised to 12 months effective 26 May 2011 and shall renew automatically for successive 12 month periods unless either party gives the other party at least 30 days prior written notice of its intention not to review the Agreement. Earthsciences Pty Ltd is also entitled to a monthly director's fee of \$5,000.
- (iv) The Company has entered into an employment agreement with Andrew Lambert, whereby the base remuneration, exclusive of superannuation entitlements, for services provided by Mr Lambert as the Managing Director of the Company is \$250,000 per annum. The term of the employment agreement commences on 1 June 2011 and continues until terminated in accordance with the termination provisions of the agreement.

Subject to completion of 12 months of service under the employment agreement and shareholder approval, 1,000,000 performance rights will be granted to Mr Lambert, which entitles him to acquire 1 share for every performance right held. The fair value of the performance rights granted using the Black-Scholes valuation methodology, was \$190,000 as determined per AASB 2. This amount has been charged to the Statement of Financial Performance for the year ended 30 June 2012.

Subject to shareholders approval, Mr Lambert will also receive the following incentive options:

- (1) 500,000 incentive options exercisable at 25 cents per share on or before 30 June 2014, vesting after 12 months service;
- (2) 750,000 incentive options exercisable at 50 cents per share on or before 30 June 2015, vesting after 24 months service;
- (3) 1,000,000 incentive options exercisable at 75 cents per share on or before 30 June 2016, vesting after 36 months service;

The Employment Agreement otherwise contains terms and conditions considered standard for this type of agreement.

The fair value of the incentive options is \$132,500 as determined using the Black-Scholes valuation methodology. This amount is to be amortised over the respective vesting periods. An amount of \$78,062 is included in the Statement of Financial Performance and Statement of Changes in Equity for the year ended 30 June 2012.

| <b>Incentive Options</b> | <b>Value per Director Option</b> | <b>Vesting Period (months)</b> | <b>Total Value of Options</b> | <b>Vested Value of Options</b> |
|--------------------------|----------------------------------|--------------------------------|-------------------------------|--------------------------------|
|                          | \$                               |                                | \$                            | \$                             |
| 500,000                  | 0.0711                           | 12                             | 35,550                        | 35,550                         |
| 750,000                  | 0.0554                           | 24                             | 41,550                        | 22,506                         |
| 1,000,000                | 0.0554                           | 36                             | 55,400                        | 20,006                         |
|                          |                                  |                                | <u>132,500</u>                | <u>78,062</u>                  |

## Directors' Report (cont)

### **Remuneration Report (cont)**

#### *(d) Use of remuneration consultants*

The Company did not employ the services of remuneration consultants during the financial year.

#### *(e) Voting and comments made at the Company's 2011 Annual General Meeting*

The approval of the remuneration report was passed as indicated in the results of annual general meeting dated 29 November 2011. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

The Company received more than 90% of "yes" votes on its resolutions to re-elect Mr Geoff Michael and Mr Andrew Lambert as Directors.

*End of audited remuneration report*

### **Indemnification of Officers and Auditors**

During the financial year, the Company paid a premium in respect of a contract of insurance insuring the Directors and officers of the Company against certain liabilities specified in the contract. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

### **Non-Audit Services**

The Directors are satisfied that the provision of non-audit services, during the financial year, by the auditor or a related practice of the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

During the 2012 year, the Company's auditors assisted the Company in the preparation of the Prospectus by preparing the Investigating Accountants Report. No other non – audit services have been provided by the Company's auditors. Remuneration paid to the Company's auditors is detailed in Note 15 of this report.

The Directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 15 to the financial statements, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board of Directors to ensure they do not impact the impartiality and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor's independence as set out in APES110: Code of Ethics for Professional Accountants.

### **Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Financial Report on page 20.

Details of amounts paid or payable to the auditor, BDO Audit (WA) Pty Ltd, for audit and non-audit services provided during the financial year are set out in note 15 to the financial statements.

## Directors' Report (cont)

### *Environmental Issues*

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

### *Proceedings on Behalf of the Company*

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

Signed in accordance with a resolution of the Board of Directors:



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DIRECTOR

Dated at Perth: 19 September 2012

19 September 2012

Board Members  
Kinetiko Energy Limited  
283 Rokeby Road  
SUBIACO WA 6008

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF KINETIKO ENERGY LIMITED

As lead auditor of Kinetiko Energy Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.



Peter Toll  
Director

BDO Audit (WA) Pty Ltd  
Perth, Western Australia

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINETIKO ENERGY LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Kinetiko Energy Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, 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 report.



## Opinion

In our opinion:

- (a) the financial report of Kinetiko Energy Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Kinetiko Energy Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Peter Toll', with the BDO logo above it.

Peter Toll  
Director

Perth, Western Australia  
Dated this 19<sup>th</sup> day of September 2012



**Directors' Declaration**

The directors of the company declare that:

- a) The financial statements and notes, as set out on pages 24 to 49 comply with Accounting Standards and the Corporations Act 2001 and other mandatory professional reporting requirements;
- b) gives a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended to 30 June 2012; and
- c) in the Directors' opinion, the financial statements and notes are prepared in accordance with International Financial Reporting Standards and Interpretations as adopted by the International Accounting Standards Board.

In the Directors' opinion:

- (i) At the date of the declaration there are reasonable grounds to believe that the Company will be able to pay its debts and when they become due and payable; and
- (ii) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the Corporations Act for the financial year ending 30 June 2012.

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



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DIRECTOR

Dated at Perth: 19 September 2012

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2012**

|  | Note | 30 June 2012<br>\$ | 25 January 2010 -<br>30 June 2011<br>\$ |
|--|------|--------------------|---|
| <b>Revenue</b>   |      |                    |   |
| Revenue from ordinary activities   | 2(a) | 361,103            | 2,671                                   |
| Foreign exchange gain  |      | 2,773              | -                                       |
| <b>Total Revenue</b>   |      | <u>363,876</u>     | <u>2,671</u>                            |
| <b>Expenses</b>  |      |                    |   |
| Depreciation   | 2(b) | (11,643)           | (480)                                   |
| Administration expenses  |      | (174,652)          | (22,747)                                |
| Consultancy and professional costs   | 2(c) | (270,962)          | (433,878)                               |
| Employment and contractor expenses   |      | (589,084)          | (28,561)                                |
| Travel expenses  |      | (92,366)           | (37,371)                                |
| Occupancy expenses   |      | (45,325)           | -                                       |
| Share based payments   | 13   | (268,062)          | -                                       |
| Other operating expenses   |      | (1,609)            | (23,347)                                |
| <b>Total expenses</b>  |      | <u>(1,453,703)</u> | <u>(546,384)</u>                        |
| <b>Loss before income tax expenses</b>   |      | <u>(1,089,827)</u> | <u>(543,713)</u>                        |
| Income tax expense   | 3    | -                  | -                                       |
| <b>Loss after Income Tax Expense</b>   |      | <u>(1,089,827)</u> | <u>(543,713)</u>                        |
| <b>Other comprehensive income</b>  |      |                    |   |
| Exchange differences on foreign currency   |      | 390                | 226                                     |
| <b>Other comprehensive income for the year</b>   |      | <u>390</u>         | <u>226</u>                              |
| <b>Total comprehensive loss for the year</b>   |      | <u>(1,089,437)</u> | <u>(543,487)</u>                        |
| <b>Loss per share for loss from continuing operations attributable to equity holders of the company:</b> |      |                    |   |
| Basic loss per share (cents)   | 4    | (1.0)              | (1.4)                                   |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2012**

|  | <u>Note</u>  | <u>30 June 2012</u><br>\$ | <u>30 June 2011</u><br>\$ |
|--|--------------|---------------------------|---------------------------|
| <b>CURRENT ASSETS</b>                                    |              |                           |                           |
| Cash assets  | <b>20(a)</b> | 4,907,850                 | 3,554,795                 |
| Receivables  | <b>5</b>     | 94,485                    | 60,770                    |
| Other  | <b>6</b>     | 47,714                    | 701,161                   |
| <b>TOTAL CURRENT ASSETS</b>                              |              | <u>5,050,049</u>          | <u>4,316,726</u>          |
| <b>NON CURRENT ASSETS</b>                                |              |                           |                           |
| Property, plant & equipment                              | <b>7</b>     | 225,286                   | 2,886                     |
| Capitalised exploration and evaluation expenditure costs | <b>8</b>     | 3,726,829                 | 1,725,694                 |
| <b>TOTAL NON CURRENT ASSETS</b>                          |              | <u>3,952,115</u>          | <u>1,728,580</u>          |
| <b>TOTAL ASSETS</b>                                      |              | <u>9,002,164</u>          | <u>6,045,306</u>          |
| <b>CURRENT LIABILITIES</b>                               |              |                           |                           |
| Trade & other payables                                   | <b>9</b>     | 371,682                   | 2,100,783                 |
| Other payables   | <b>10</b>    | -                         | 3,523,000                 |
| <b>TOTAL CURRENT LIABILITIES</b>                         |              | <u>371,682</u>            | <u>5,623,783</u>          |
| <b>TOTAL LIABILITIES</b>                                 |              | <u>371,682</u>            | <u>5,623,783</u>          |
| <b>NET ASSETS</b>  |              | <u><b>8,630,482</b></u>   | <u><b>421,523</b></u>     |
| <b>EQUITY</b>  |              |                           |                           |
| Contributed equity                                       | <b>11</b>    | 9,995,570                 | 965,010                   |
| Reserves   | <b>12</b>    | 268,452                   | 226                       |
| Accumulated losses                                       | <b>14</b>    | (1,633,540)               | (543,713)                 |
| <b>TOTAL EQUITY</b>                                      |              | <u><b>8,630,482</b></u>   | <u><b>421,523</b></u>     |

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

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2012**

| Year ended 30 June 2012                                     | Attributable to equity holders |                                   |                    |                              |              |
|---|--------------------------------|-----------------------------------|--------------------|------------------------------|--------------|
|   | Ordinary Shares                | Foreign Currency Exchange Reserve | Accumulated Losses | Share Based Payments Reserve | Total Equity |
|   | \$                             | \$                                | \$                 | \$                           | \$           |
| Balance at 1 July 2011                                      | 965,010                        | 226                               | (543,713)          | -                            | 421,523      |
| <b>Other comprehensive income</b>                           |                                |                                   |                    |                              |              |
| Movement in reserves  | -                              | 164                               | -                  | -                            | 164          |
| Loss for the year   | -                              | -                                 | (1,089,827)        | -                            | (1,089,827)  |
| Shares based payments                                       | -                              | -                                 | -                  | 268,062                      | 268,062      |
| <b>Total comprehensive income / (loss) for the year</b>     | 965,010                        | 390                               | (1,633,540)        | 268,062                      | (400,078)    |
| <b>Transactions with owners in their capacity as owners</b> |                                |                                   |                    |                              |              |
| Shares and options issued during the year                   | 10,000,000                     | -                                 | -                  | -                            | 10,000,000   |
| Share issue costs   | (969,440)                      | -                                 | -                  | -                            | (969,440)    |
| <b>Total contributions by owners</b>                        | 9,030,560                      | -                                 | -                  | -                            | 9,030,560    |
| Balance at 30 June 2012                                     | 9,995,570                      | 390                               | (1,633,540)        | 268,062                      | 8,630,482    |

| Period ended 30 June 2011                                   | Attributable to equity holders |                                   |                    |                              |              |
|---|--------------------------------|-----------------------------------|--------------------|------------------------------|--------------|
|   | Ordinary Shares                | Foreign Currency Exchange Reserve | Accumulated Losses | Share Based Payments Reserve | Total Equity |
|   | \$                             | \$                                | \$                 | \$                           | \$           |
| Balance at 25 January 2010                                  | -                              | -                                 | -                  | -                            | -            |
| <b>Other comprehensive income</b>                           |                                |                                   |                    |                              |              |
| Movement in reserves  | -                              | 226                               | -                  | -                            | 226          |
| Loss for the period   | -                              | -                                 | (543,713)          | -                            | (543,713)    |
| <b>Total comprehensive income / (loss) for the period</b>   | -                              | 226                               | (543,713)          | -                            | (543,487)    |
| <b>Transactions with owners in their capacity as owners</b> |                                |                                   |                    |                              |              |
| Shares and options issued during the period                 | 1,005,000                      | -                                 | -                  | -                            | 1,005,000    |
| Share issue costs   | (39,990)                       | -                                 | -                  | -                            | (39,990)     |
| <b>Total contributions by owners</b>                        | 965,010                        | -                                 | -                  | -                            | 965,010      |
| Balance at 30 June 2011                                     | 965,010                        | 226                               | (543,713)          | -                            | 421,523      |

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2012**

|   | Note         | 30 June 2012<br>\$ | 25 January 2010 -<br>30 June 2011<br>\$ |
|---|--------------|--------------------|---|
| <b>Cash flows from operating activities</b>                             |              |                    |   |
| Payments to suppliers and employees                                     |              | (1,208,763)        | (421,012)                               |
| Interest received   |              | 338,349            | 2,671                                   |
| Interest paid   |              | (2,124)            | (23)                                    |
| Net cash used in operating activities                                   | <b>20(b)</b> | <u>(872,538)</u>   | <u>(418,364)</u>                        |
| <b>Cash flows from investing activities</b>                             |              |                    |   |
| Payment for property, plant & equipment                                 |              | (124,043)          | (3,366)                                 |
| Capitalised exploration and evaluation expenditure                      |              | (3,384,223)        | (264,797)                               |
| Net cash used in investing activities                                   |              | <u>(3,508,266)</u> | <u>(268,163)</u>                        |
| <b>Cash flows from financing activities</b>                             |              |                    |   |
| Proceeds from the issue of equity securities                            |              | 6,477,000          | 1,005,000                               |
| Share issue costs   |              | (714,848)          | -                                       |
| Payment of security deposits  |              | (10,000)           | (10,000)                                |
| Proceeds from insurance funding   |              | -                  | 17,677                                  |
| Repayment of insurance funding liability                                |              | (17,677)           | -                                       |
| Capitalised IPO costs   |              | -                  | (294,581)                               |
| Deposits from shareholders  |              | -                  | 3,523,000                               |
| Net cash provided by financing activities                               |              | <u>5,734,475</u>   | <u>4,241,096</u>                        |
| <b>Net increase in cash and cash equivalents</b>                        |              | 1,353,671          | 3,554,569                               |
| <b>Effects of exchange rate on cash and cash equivalents</b>            |              | (616)              | 226                                     |
| <b>Cash and cash equivalents at the beginning of the financial year</b> |              | <u>3,554,795</u>   | -                                       |
| <b>Cash and cash equivalents at the end of the financial year</b>       | <b>20(a)</b> | <u>4,907,850</u>   | <u>3,554,795</u>                        |

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies**

The financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Australian Accounting Interpretations. The financial report of Kinetiko Energy Limited complies with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 19 September 2012.

**Basis of preparation**

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

References to the comparative period are from the incorporation date of 25th January 2010 to 30th June 2012.

**Going Concern**

The accounts have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement in the normal course of business.

**Critical Accounting Judgments & Estimates**

In the application of AASB management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported, refer to Note 1(r).

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

**(a) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

**(b) Trade and other receivables**

Trade receivables, which generally have 30-60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

**(c) Employee benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, superannuation, annual leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(c) Employee benefits (cont)**

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

**(d) Financial assets**

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables (note 5) in the balance sheet.

**(iii) Available-for-sale financial assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

**(e) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**(f) Impairment of assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(f) Impairment of assets (cont)**

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(g) Income tax**

**Current tax**

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

**Deferred tax**

Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(g) Income tax (cont)**

**Deferred tax (cont)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

**Current and deferred tax for the period**

Current and deferred tax is recognised as an expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**(h) Exploration and Evaluation Expenditure**

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition.

Subsequent exploration and evaluation costs related to an area of interest are written off as incurred except they may be carried forward as an item in the Statement of Financial Position where the rights of tenure of an area are current and one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered through use or sale.

**(i) Operating cycle**

The operating cycle of the entity coincides with the annual reporting cycle.

**(j) Payables**

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

**(k) Property, plant and equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(k) Property, plant and equipment (cont)**

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Company commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

|                               |                 |
|-------------------------------|-----------------|
| Property, plant and equipment | 6.67% to 66.67% |
|-------------------------------|-----------------|

**(l) Foreign Currency Translation**

**(i) Functional and presentation currency**

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

**(m) Provisions**

Provisions are recognised when the Company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

**(n) Revenue recognition**

**Interest revenue**

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

**(o) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(p) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(q) Earnings per share**

Basic earnings per share is calculated as a net profit attributable to members, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(r) Critical accounting judgments, estimates and assumptions**

The preparation of financial statements in conformity with AASB required the use of certain critical estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

**Exploration and evaluation assets**

Acquisition, exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable areas, and active and significant operations in or relating to, the area of interest are continuing.

**Deferred Tax Assets**

The Company has not recognised any deferred tax assets or liability in relation to the carrying value of its capitalised exploration and evaluation assets as the Directors do not believe it is capable of being estimated with a sufficient degree of reliability due to uncertainty over the manner in which the carrying value of these assets will be recovered.

**Share based payment transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

**(s) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(t) Adoption of New and Revised Accounting Standards**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013\*).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013\* but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair valued gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Company has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Company has not yet decided when to adopt AASB 9.

\*In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015.

- (ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principal that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(t) Adoption of New and Revised Accounting Standards (cont)**

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The Company's investment in the joint venture partnership will be classified as a joint venture under the new rules. As the Company already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Company is still assessing the impact of these amendments.

The Company does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

**(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013).**

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Company has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Company does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

**(iv) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013).**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**1. Summary of Significant Accounting Policies (cont)**

**(t) Adoption of New and Revised Accounting Standards (cont)**

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The Company does not have any defined benefit plans and so is not impacted by the amendment. The Company has not yet decided when to adopt the new standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

|   | 30 June 2012<br>\$ | 25 January 2010 –<br>30 June 2011<br>\$ |
|---|--------------------|---|
| <b>Note 2: Loss From Continuing operations</b>  |                    |   |
| Loss from Continuing operations before income tax includes the following items of revenue and expenses                                      |                    |   |
| <b>(a) Interest revenue</b>   | 361,103            | 2,671                                   |
| <b>(b) Operating Expenses</b>   |                    |   |
| Depreciation of plant and equipment   | 11,643             | 480                                     |
| <b>(c) Significant Expenses</b>   |                    |   |
| Consulting and professional fees in relation to general administration and assistance with negotiation of agreement with Badimo Gas Pty Ltd | -                  | 384,746                                 |
| Corporate advisory fees   | 175,000            | -                                       |
| Auditing costs  | 47,355             | 27,125                                  |
| Other professional fees   | 48,607             | 22,007                                  |
| Consulting and professional costs   | 270,962            | 433,878                                 |

**Note 3: Income Tax**

(a) The prima facie income tax expense on pre-tax accounting loss reconciles to the income tax expense in the financial statements as follows:

|  | 30 June 2012<br>\$ | 25 January 2010 –<br>30 June 2011<br>\$ |
|--|--------------------|---|
| Loss from Operations                                       | (1,089,827)        | (543,713)                               |
| Income tax benefit calculated at 30%                       | (326,948)          | (163,114)                               |
| Capital raising cost allowable                             | (41,080)           | (41,080)                                |
| Non deductible share based payments                        | 80,419             | -                                       |
|  | (287,609)          | (204,194)                               |
| Movements in unrecognised Timing differences               | (4,481)            | 6,584                                   |
| Unused tax losses not recognised as a deferred tax asset   | 292,090            | 197,610                                 |
| <b>Income tax expense reported in the income statement</b> | <b>-</b>           | <b>-</b>                                |

(b) Unrecognised deferred tax balances:

The following deferred tax assets (30%) have not been brought to Account :

|   |                |                |
|---|----------------|----------------|
| Unrecognised deferred tax asset – tax losses                  | 489,700        | 197,610        |
| Unrecognised deferred tax liability – timing differences      | (6,826)        | -              |
| Unrecognised deferred tax asset – other temporary differences | 8,929          | 6,584          |
| <b>Net deferred tax assets not brought to account</b>         | <b>491,803</b> | <b>204,194</b> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 3: Income Tax (cont)**

The taxation benefits of tax losses and timing not brought to account will only be obtained if:

- (a) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- (b) conditions for deductibility imposed by the law are complied with; and
- (c) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

| <b>Note 4: Loss per share</b> | <b>2012</b>            | <b>2011</b>            |
|-------------------------------|------------------------|------------------------|
|                               | <b>Cents Per Share</b> | <b>Cents Per Share</b> |
| Basic loss per share:         | (1.0)                  | (1.4)                  |

The loss for the period and the weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

|                                      | <b>2012</b> | <b>2011</b> |
|--------------------------------------|-------------|-------------|
|                                      | <b>\$</b>   | <b>\$</b>   |
| Loss for the period after income tax | (1,089,827) | (543,713)   |

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
|   | <b>No.</b>  | <b>No.</b>  |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 107,131,148 | 38,533,877  |

**Note 5: Receivables**

**(a) Current**

|                                    | <b>2012</b>   | <b>2011</b>   |
|------------------------------------|---------------|---------------|
|                                    | <b>\$</b>     | <b>\$</b>     |
| Other receivables – GST refundable | 37,793        | 46,813        |
| Other debtor                       | 13,938        | 3,957         |
| Security bonds                     | 20,000        | 10,000        |
| Accrued interest receivable        | 22,754        | -             |
|                                    | <u>94,485</u> | <u>60,770</u> |

None of the above receivables are past due or impaired. Refer to Note 21 for the Company's financial risk management and policies.

**Note 6: Other Assets**

|                     | <b>2012</b>   | <b>2011</b>    |
|---------------------|---------------|----------------|
|                     | <b>\$</b>     | <b>\$</b>      |
| IPO prepaid costs   | -             | 684,662        |
| Prepayments - other | 26,867        | 16,499         |
| Consumables         | 20,847        | -              |
|                     | <u>47,714</u> | <u>701,161</u> |



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 7: Property, Plant & Equipment**

|                                  | <b>2012</b>    | <b>2011</b>  |
|----------------------------------|----------------|--------------|
|                                  | <b>\$</b>      | <b>\$</b>    |
| Opening net book value           | 2,886          | -            |
| Additions                        | 234,043        | 3,366        |
| Depreciation charge for the year | (11,643)       | (480)        |
| Closing net book value           | <u>225,286</u> | <u>2,886</u> |
| Cost or fair value               | 237,409        | 3,366        |
| Accumulated depreciation         | (12,123)       | (480)        |
|                                  | <u>225,286</u> | <u>2,886</u> |

**Note 8: Capitalised Exploration & Evaluation Expenditure Assets**

|  | <b>2012</b>      | <b>2011</b>      |
|--|------------------|------------------|
|  | <b>\$</b>        | <b>\$</b>        |
| Opening balance of Capitalised Exploration & Evaluation Expenditure Assets | 1,725,694        | -                |
| Exploration & Evaluation Expenditure during the period                     | 2,001,135        | -                |
| Costs of acquisition of interests during the financial year                | -                | 1,725,694        |
| Closing balance of Capitalised Exploration & Evaluation Expenditure Assets | <u>3,726,829</u> | <u>1,725,694</u> |

The recoverability of the carrying amounts of exploration and valuation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

**Note 9: Current trade and other payables**

|  | <b>2012</b>    | <b>2011</b>      |
|--|----------------|------------------|
|  | <b>\$</b>      | <b>\$</b>        |
| Trade payables and accruals  | 371,682        | 698,671          |
| Amount owing under tenement acquisition agreement (refer Note 22(b)) | -              | 1,402,112        |
|  | <u>371,682</u> | <u>2,100,783</u> |

Refer to Note 21 for the Company's financial risk management and policies.

**Note 10: Other Current Liabilities**

|                            | <b>2012</b> | <b>2011</b> |
|----------------------------|-------------|-------------|
|                            | <b>\$</b>   | <b>\$</b>   |
| Share Application Deposits | -           | 3,523,000   |

**Note 11: Issued Capital**

(a) Issued Capital

Movements in share capital were as follows:

| <b>Year ended</b>            |                   | <b>Issue Price</b> | <b>Fully Paid Ordinary Shares</b> | <b>\$</b>        |
|------------------------------|-------------------|--------------------|-----------------------------------|------------------|
| <b>30 June 2012</b>          |                   |                    |                                   |                  |
| 1 July 2011                  | Opening Balance   |                    | 60,000,000                        | 965,010          |
| 21 July 2011 to 30 June 2012 | Issue of shares   | \$0.2000           | 50,000,000                        | 10,000,000       |
|                              | Share issue costs |                    | -                                 | (969,440)        |
| 30 June 2012                 | Closing Balance   |                    | <u>110,000,000</u>                | <u>9,995,570</u> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 11: Issued Capital (cont)**

| <b>Period ended</b>       |                   | <b>Issue Price</b> | <b>Fully Paid Ordinary Shares</b> | <b>\$</b>      |
|---------------------------|-------------------|--------------------|-----------------------------------|----------------|
| <b>30 June 2011</b>       |                   |                    |                                   |                |
| 25 January 2010           | Opening Balance   |                    |                                   | -              |
| January 2010 to June 2011 | Issue of shares   | \$0.0001           | 50,000,000                        | 5,000          |
| December 2010 to May 2011 | Issue of shares   | \$0.1000           | 10,000,000                        | 1,000,000      |
|                           | Share issue costs |                    | -                                 | (39,990)       |
| 30 June 2011              | Closing Balance   |                    | <u>60,000,000</u>                 | <u>965,010</u> |

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At the shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Refer to Note 21(b) for the Company's capital risk policy.

(b) Options

As at 30 June 2012, no options have been issued.

**Note 12: Reserves**

**(i) Foreign Exchange Reserves**

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Balance at beginning of financial year | 226         | -           |
| Movement for year                      | 164         | 226         |
| Foreign Exchange Reserves              | <u>390</u>  | <u>226</u>  |

Refer to Note 21(d) for the Company's foreign exchange risk policy.

**(ii) Share Based Payments Reserve**

|  | <b>2012</b>    | <b>2011</b> |
|--|----------------|-------------|
|  | <b>\$</b>      | <b>\$</b>   |
| Balance at beginning of financial year | -              | -           |
| Movement for year                      | 268,062        | -           |
| Share Based Payments Reserve           | <u>268,062</u> | <u>-</u>    |

**(iii) Nature and purpose of reserves**

*Foreign Currency Translation Reserve*

Exchange differences arising on translation of the Company's international operations are taken to the foreign currency translation reserve.

*Share Based Payments Reserve*

The Share Based Payments Reserve is used to recognise the fair value of shares and options granted as remuneration.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 13: Share Based Payments**

*(i) Performance Rights*

During the financial year, \$190,000 was recognised as a share based payment made to Andrew Lambert, a director of the company. This is in accordance with his Employment Agreement dated in June 2011 which states that subject to completion of 12 months of service, 1,000,000 performance rights will be issued which will entitle Mr Lambert to acquire 1 share for every performance right held.

The fair value of these performance rights granted was calculated as 19 cents each by using the Black-Scholes option valuation methodology and applying the following inputs:

|   |       |
|---|-------|
| Weighted average exercise price (cents)         | Nil   |
| Weighted average life of the option (years)     | 1     |
| Weighted average underlying share price (cents) | 0.2   |
| Expected share price volatility                 | 90%   |
| Risk free-interest rate                         | 4.34% |

*(ii) Incentive Options*

During the financial year, \$78,062 was recognised as a share based payment made to Andrew Lambert, a director of the company. This is in accordance with his Employment Agreement dated in June 2011 which states that subject to shareholder approval, the incentive options will vest to Mr Lambert as follows:

- (1) 500,000 incentive options exercisable at 25 cents per share on or before 30 June 2014, vesting after 12 months service;
- (2) 750,000 incentive options exercisable at 50 cents per share on or before 30 June 2015, vesting after 24 months service; &
- (3) 1,000,000 incentive options exercisable at 75 cents per share on or before 30 June 2016, vesting after 36 months service.

The fair value of these incentive options was determined using the Black-Scholes option valuation methodology and applying the following inputs:

|                                       | <b>25c Options</b> | <b>50c Options</b> | <b>75c Options</b> | <b>Total</b> |
|---------------------------------------|--------------------|--------------------|--------------------|--------------|
| Market Price at 30 June 2012          | \$0.20             | \$0.20             | \$0.20             |              |
| Exercise Price                        | 25c                | 50c                | 75c                |              |
| Expiry Date                           | 30 June 2014       | 30 June 2015       | 30 June 2016       |              |
| Risk Free Rate                        | 2.89%              | 2.75%              | 2.75%              |              |
| Volatility                            | 75%                | 75%                | 75%                |              |
| Value per Director Option             | \$0.0711           | \$0.0554           | \$0.0554           |              |
| Total Value of Options                | \$35,550           | \$41,550           | \$55,400           | \$132,500    |
| Amount Expensed in Current Year       | \$35,550           | \$22,506           | \$20,006           | \$78,062     |
| Amount to be Expensed in Future Years | \$0                | \$19,044           | \$35,394           | \$54,438     |

**Note 14: Accumulated Losses**

|  | <b>2012</b>        | <b>2011</b>      |
|--|--------------------|------------------|
|  | <b>\$</b>          | <b>\$</b>        |
| Balance at beginning of financial year | (543,713)          | -                |
| Net Loss                               | (1,089,827)        | (543,713)        |
| Balance at end of financial year       | <u>(1,633,540)</u> | <u>(543,713)</u> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

| <b>Note 15: Remuneration of Auditors</b>                           | <b>2012</b>   | <b>2011</b>   |
|--|---------------|---------------|
|  | <b>\$</b>     | <b>\$</b>     |
| <b>BDO Audit (WA) Pty Ltd</b>                                      |               |               |
| Audit or review of the financial report                            | 47,355        | 26,705        |
| <b>BDO Corporate Finance (WA) Pty Ltd</b>                          |               |               |
| Preparation of Investigating Accountants Report for the Prospectus | -             | 9,089         |
|  | <u>47,355</u> | <u>35,794</u> |

The auditor of Kinetiko Energy Limited is BDO Audit (WA) Pty Ltd.

**Note 16: 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 this criteria, 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.

|  | <b>2012</b>        | <b>2011</b>      |
|--|--------------------|------------------|
|  | <b>\$</b>          | <b>\$</b>        |
| Revenue from external sources                      | -                  | -                |
| Reportable segment loss                            | -                  | -                |
| Reportable segment assets                          | 3,726,829          | 1,725,694        |
| Reportable segment liabilities                     | -                  | (1,402,112)      |
| <b>Reconciliation of reportable segment loss</b>   |                    |                  |
| Reportable segment loss                            | -                  | -                |
| Other revenue                                      | 363,876            | 2,671            |
| Unallocated expenses                               | (1,453,703)        | (546,384)        |
| <b>Loss before tax</b>                             | <u>(1,089,827)</u> | <u>(543,713)</u> |
| <b>Reconciliation of reportable segment assets</b> |                    |                  |
| Reportable segment assets                          | 3,726,829          | 1,725,694        |
| Unallocated:                                       |                    |                  |
| - Cash   | 4,907,850          | 3,554,795        |
| - Receivables                                      | 94,485             | 60,770           |
| - Other assets                                     | 47,714             | 701,161          |
| - Property, plant and equipment                    | 225,286            | 2,886            |
| <b>Total assets</b>                                | <u>9,002,164</u>   | <u>6,045,306</u> |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 16: Segment Information (cont)**

**Reconciliation of reportable segment liabilities**

|                                |                  |                    |
|--------------------------------|------------------|--------------------|
| Reportable segment liabilities | -                | (1,402,112)        |
| Unallocated:                   |                  |                    |
| - Trade and other payables     | (371,682)        | (698,671)          |
| - Other payables               | -                | (3,523,000)        |
| <b>Total liabilities</b>       | <u>(371,682)</u> | <u>(5,623,783)</u> |

**Note 17: Related Party Disclosures**

(a) Other transactions with Director related entities

Transactions with related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.

|  | <u>2012</u><br>\$ | <u>2011</u><br>\$ |
|--|-------------------|-------------------|
| (i) Payments to Trident Management Services Pty Ltd, an entity in which Adam Sierakowski is a Director and shareholder, for company secretarial services provided.               | 48,000            | 16,473            |
| (ii) Payments to Price Sierakowski Pty Ltd, a company of which Adam Sierakowski is a Director and shareholder, for legal services provided.                                      | 2,310             | 113,756           |
| (iii) Payments made to Trident Capital Pty Ltd, a Company of which Adam Sierakowski is a Director, for the provision of corporate advisory services.                             | 175,000           | 409,990           |
| (iv) During the year ended 30 June 2011, Kinetiko Energy Ltd incurred expenses on behalf of Metaliko Resources Ltd, a company in which G Michael and Dr J Searle were directors. | -                 | 3,732             |
| (v) Payments made to Metaliko Resources Limited, a company in which G Michael and Dr J Searle were Directors (until 28 June 2012), for provision of office premises.             | 45,325            | -                 |
| (b) Amounts outstanding at reporting date  |                   |                   |
| Aggregates amount payable to Key Management Personnel and their related entities at reporting date.  |                   |                   |
| Payables   | <u>22,572</u>     | <u>-</u>          |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 18: Key Management Personnel Disclosures**

(a) Compensation of Key Management Personnel

|                              | 2012<br>\$       | 2011<br>\$     |
|------------------------------|------------------|----------------|
| Short term employee benefits | 747,362          | 367,177        |
| Share based payments         | 268,062          | -              |
| Post employment benefits     | 22,500           | 865            |
|                              | <u>1,037,924</u> | <u>368,042</u> |

(b) Directors Loans

No loans existed during the year and as at reporting date between the company and its directors.

(c) Other Transactions with Director Related Entities

Other transactions with director related entities are listed at Note 17: Related Party Disclosures.

(d) Shareholdings of Key Management Personnel

| 2012                         | Balance at<br>01/07/11<br>No. | Shares<br>Purchased<br>No. | Shares<br>Issued<br>No. | Shares<br>Disposed<br>No. | Balance at<br>30/06/12<br>No. |
|------------------------------|-------------------------------|----------------------------|-------------------------|---------------------------|-------------------------------|
| <b>Directors</b>             |                               |                            |                         |                           |                               |
| A Sierakowski                | 9,600,000                     | 270,000                    | -                       | -                         | 9,870,000                     |
| A Lambert                    | -                             | -                          | -                       | -                         | -                             |
| Dr J Searle                  | 10,500,000                    | -                          | -                       | -                         | 10,500,000                    |
| G Michael                    | 21,400,000                    | -                          | -                       | -                         | 21,400,000                    |
| <b>Company<br/>Secretary</b> |                               |                            |                         |                           |                               |
| S Hewitt-Dutton              | 50,000                        | -                          | -                       | -                         | 50,000                        |
|                              | <u>41,550,000</u>             | <u>270,000</u>             | <u>-</u>                | <u>-</u>                  | <u>41,820,000</u>             |

| 2011                         | Balance at<br>Incorporation<br>No. | Shares<br>Purchased<br>No. | Shares<br>Issued<br>No. | Shares<br>Disposed<br>No. | Balance at<br>30/06/11<br>No. |
|------------------------------|------------------------------------|----------------------------|-------------------------|---------------------------|-------------------------------|
| <b>Directors</b>             |                                    |                            |                         |                           |                               |
| A Sierakowski                | -                                  | 7,100,000                  | 2,500,000               | -                         | 9,600,000                     |
| A Lambert                    | -                                  | -                          | -                       | -                         | -                             |
| Dr J Searle                  | -                                  | -                          | 13,000,000              | 2,500,000                 | 10,500,000                    |
| G Michael                    | -                                  | -                          | 13,000,000              | 2,300,000                 | 10,700,000 **                 |
| M Michael                    | -                                  | -                          | 13,000,000*             | 2,300,000                 | 10,700,000 **                 |
| <b>Company<br/>Secretary</b> |                                    |                            |                         |                           |                               |
| S Hewitt-Dutton              | -                                  | 50,000                     | -                       | -                         | 50,000                        |
|                              | <u>-</u>                           | <u>7,150,000</u>           | <u>41,500,000</u>       | <u>7,100,000</u>          | <u>41,550,000</u>             |

\* Represents balance held at resignation.

\*\* Interests held by Geoffrey Michael are held jointly by common entities and ownership has been equally divided. Michael Michael resigned as a Director on 8 December 2010.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 18: Key Management Personnel Disclosures (cont)**

(e) Options on Issue

There were no options on issue at reporting date.

(f) Performance Shares on Issue

There were no performance shares on issue at reporting date. However, as part of the Andrew Lambert's employment contract 1 million performance shares will be issued on completion of 12 months of service and shareholder approval. Completion of 1 year of service was satisfied in June 2012 and the shares will be issued at the general meeting to be held on the 25<sup>th</sup> September 2012 which entitles him to convert 1 share for every performance right held.

**Note 19: Events Occurring After The Reporting Date**

There are no matters or circumstances that have arisen since 30 June 2012 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

**Note 20: Notes to the Statement of Cash Flow**

**(a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flow, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the statement of financial position, as follows:

|                          | <b>2012</b>      | <b>2011</b>      |
|--------------------------|------------------|------------------|
|                          | <b>\$</b>        | <b>\$</b>        |
| Cash at bank and in hand | <u>4,907,850</u> | <u>3,554,795</u> |

**(b) Reconciliation of Operating Loss After Income Tax to Net Cash Flow From Operations**

|   |                  |                  |
|---|------------------|------------------|
| Loss for the year                         | (1,089,827)      | (543,713)        |
| Depreciation                              | 11,643           | 480              |
| <b>Changes in assets and liabilities:</b> |                  |                  |
| Trade and other payables                  | 19,856           | 145,325          |
| Receivables                               | (60,820)         | (3,957)          |
| Provisions                                | 9,763            | -                |
| Inventory and prepayments                 | (31,215)         | (16,499)         |
| Share based payments                      | 268,062          | -                |
| Net cash (used in) operating activities   | <u>(872,538)</u> | <u>(418,364)</u> |

**(c) Non-Cash Financing and Investing Activities**

There were no non-cash financing and investing activities during the year ended 30 June 2012.

**Note 21: Financial Instruments**

**Financial risk management and policies**

Kinetiko Energy Ltd's exploration activities are being funded by equity and are not exposed to significant financial risks. There are no speculative or financial derivative instruments. Funds are invested for various short term periods to match forecast cash flow requirements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 21: Financial Instruments (cont)**

**Financial risk management and policies (cont)**

The Company holds the following financial instruments:

|                              | <b>2012</b>      | <b>2011</b>      |
|------------------------------|------------------|------------------|
|                              | <b>\$</b>        | <b>\$</b>        |
| <b>Financial assets</b>      |                  |                  |
| Cash and cash equivalents    | 4,907,850        | 3,554,795        |
| Trade and other receivables  | 94,485           | 60,770           |
|                              | <u>5,002,335</u> | <u>3,615,565</u> |
| <b>Financial liabilities</b> |                  |                  |
| Trade payables and accruals  | 371,682          | 2,100,783        |
|                              | <u>371,682</u>   | <u>2,100,783</u> |

The Company's principal financial instruments comprise cash and short-term deposits. The Company does not have any borrowings.

The main purpose of these financial instruments is to fund the Company's operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company are capital risk, credit risk, liquidity risk, and interest rate risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

**(a) Credit risk**

Management does not actively manage credit risk.

The Company has no significant exposure to credit risk from external parties at year end. The maximum exposure to credit risk at the reporting date is equal to the carrying value of financial assets at 30 June 2012.

Cash at bank is held with internationally regulated banks. As at 30 June 2012, all cash and cash equivalents were held with AA rated banks.

Other receivables are of a low value and all amounts are current. There are no trade receivables.

**(b) Capital risk**

Kinetiko Energy Ltd's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During the year ended 30 June 2012, Kinetiko Energy Ltd's strategy was to keep borrowings to a minimum. The company's equity management is determined by funds required to undertake exploration activities and meet its corporate and other costs.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 21: Financial Instruments (cont)**

**(c) Liquidity risk**

**Maturity profile of financial instruments**

Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

The Company's exposure to the risk of changes in market interest rates relate primarily to cash assets and floating interest rates.

The directors monitor the cash-burn rate of the Company on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

As at reporting date the Company had sufficient cash reserves to meet its requirements. The Company has no access to credit standby facilities or arrangements for further funding or borrowings in place.

The financial liabilities the Company had at reporting date were trade payables incurred in the normal course of the business. These were non interest bearing and were due within the normal 30-60 days terms of creditor payments.

The following table sets out the carrying amount, by maturity, of the financial instruments including exposure to interest rate risk:

| <b>As at 30 June 2012</b>     | <1 year          | 1 – 5 years | Over 5 years | Total            | Weighted average effective interest rate % |
|-------------------------------|------------------|-------------|--------------|------------------|--|
| <b>Financial Assets:</b>      |                  |             |              |                  |  |
| Cash                          | 4,907,850        | -           | -            | 4,907,850        | 3.75                                       |
| Receivables & other           | 94,485           | -           | -            | 94,485           | -  |
|                               | <b>5,002,335</b> | <b>-</b>    | <b>-</b>     | <b>5,002,335</b> |  |
| <b>Financial Liabilities:</b> |                  |             |              |                  |  |
| Trade payables & accruals     | 371,682          | -           | -            | 371,682          | -  |
|                               | <b>371,682</b>   | <b>-</b>    | <b>-</b>     | <b>371,682</b>   |  |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 21: Financial Instruments (cont)**

**(c) Liquidity risk (cont)**

| <b>As at 30 June 2011</b>     | <b>&lt;1 year</b> | <b>1 – 5 years</b> | <b>Over 5 years</b> | <b>Total</b>     | <b>Weighted average effective interest rate %</b> |
|-------------------------------|-------------------|--------------------|---------------------|------------------|---|
| <b>Financial Assets:</b>      |                   |                    |                     |                  |   |
| Cash                          | 3,554,795         | -                  | -                   | 3,554,795        | 4.7   |
| Receivables & other           | 60,770            | -                  | -                   | 60,770           | -   |
|                               | <u>3,615,565</u>  | <u>-</u>           | <u>-</u>            | <u>3,615,565</u> |   |
| <b>Financial Liabilities:</b> |                   |                    |                     |                  |   |
| Trade payables & accruals     | 2,100,783         | -                  | -                   | 2,100,783        | -   |
|                               | <u>2,100,783</u>  | <u>-</u>           | <u>-</u>            | <u>2,100,783</u> |   |

**Interest rate risk**

The sensitivity analysis has not been determined for the exposure to interest rate risk, because Directors of Kinetiko Energy Ltd consider it to be immaterial.

**(d) Foreign exchange risk**

The Company operates internationally and is currently exposed to foreign exchange risk with respect to the South African Rand and the United States Dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. Had the foreign exchange rates strengthened / weakened by 20% with all other variables held constant the Company's liability value would have been \$15,000 lower / \$15,000 higher.

The Company's exposure to foreign currency risk at the end of the reporting year, expressed in the South African Rand and United States Dollar, was as follows:

|                      | <b>2012</b> | <b>2011</b>  |
|----------------------|-------------|--------------|
| Trade payables - ZAR | (486,664)   | (483,000)    |
| Other payables - ZAR | -           | (10,000,000) |
| Trade payables - USD | (18,980)    | -            |

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012 (cont)**

**Note 21: Financial Instruments (cont)**

**(e) Fair value estimation**

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

The Company's principal financial instruments consist of cash and deposits with banks, accounts receivable and trade payables. The main purpose of these non-derivative financial instruments is to finance the entity's operations.

**Note 22: Commitments for expenditure**

|   | <b>2012</b>   | <b>2011</b>   |
|---|---------------|---------------|
|   | <b>\$</b>     | <b>\$</b>     |
| (a) <u>Operating lease commitments</u>        |               |               |
| Not later than 1 year                         | 47,591        | 44,400        |
| Later than 1 year and not later than 2 years  | -             | -             |
| Later than 2 years and not later than 5 years | -             | -             |
|   | <u>47,591</u> | <u>44,400</u> |

(b) Badimo Gas (Pty) Ltd ("Badimo") Farm-Out Agreement

Pursuant to the agreement with Badimo dated 30 August 2010, Kinetiko Energy Ltd is to pay initial consideration of ZAR 10 million (A\$1,400,000) being a partial reimbursement of past costs. This amount was accrued in the financial statements at 30 June 2011 (refer Note 9). Kinetiko made payment of \$1,402,112 for the accrued partial reimbursement of past costs on 15 July 2011. Furthermore, Kinetiko Energy Ltd is to expend the first ZAR 26 million (A\$3,600,000), of which \$1,715,873 has been expensed leaving a balance of \$1,884,127, in respect of exploration and works programmes as per the operating agreement. Once this threshold is reached, each of Kinetiko Energy Ltd and Badimo shall be required to fund the respective exploration work programmes in accordance with their respective percentage interests.

(c) Royalty Obligations

Under The Mineral and Petroleum Royalty Act in the Republic of South Africa, royalties will be payable upon the extraction of mineral resources from within the Republic of South Africa. The royalty is estimated to range between 5-7%.

**Note 23: Contingent Liabilities**

The Company has no contingent liabilities at the date of this report.

**Note 24: Dividends**

No dividends were paid or declared during the year.

## KINETIKO ENERGY LTD ABN 45 141 647 529

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### SHAREHOLDER INFORMATION

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is as at 11<sup>th</sup> September 2012.

#### Shareholdings as at 11<sup>th</sup> September 2012

##### Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act are:

| Shareholder Name    |                | Number of Shares | Percentage |
|---------------------|----------------|------------------|------------|
| MICHAEL CHRISTINA M | M & A A/C      | 21,400,000       | 19.45%     |
| EARTHSCIENCES PL    | SEARLE S/F A/C | 10,500,000       | 9.55%      |
| BLUE SAINT PL       |                | 7,500,000        | 6.82%      |

There were no changes in substantial shareholders during the 2012 year.

##### Unmarketable parcels

The number of shareholders holding less than a marketable parcel is Nil.

There is only one class of share and all ordinary shareholders have equal voting rights.

##### Voting rights

All ordinary shares carry one vote per share without restriction.

##### Unquoted securities

| Securities | Number of Options | Number of Holders | Holders with more than 20% |
|------------|-------------------|-------------------|----------------------------|
|            | Nil               | Nil               |                            |

##### On-market buyback

There is no current on-market buy-back.

##### Statement in relation to Listing Rule 4.10.19

The Directors of Kinetiko Energy Limited confirm in accordance with ASX Listing Rule 4.10.19 that during the period from admission to the official list and 30 June 2012, the Company has used its cash, and assets that are readily convertible to cash, in a way consistent with its business objectives.

##### Stock Exchange listing

Quotation has been granted for the Company's Ordinary Shares.

##### Securities subject to escrow

The following securities are currently subject to escrow:

| Securities        | Escrow Period            | Release Date | Number     |
|-------------------|--------------------------|--------------|------------|
| Fully Paid Shares | 24 months from quotation | 21 July 2013 | 50,300,000 |

## KINETIKO ENERGY LTD ABN 45 141 647 529

| Distribution of security holders Category | Number of Holders | Number of Shares |
|---|-------------------|------------------|
| 1 - 1,000                                 | 2                 | 501              |
| 1,001 – 5,000                             | 7                 | 26,474           |
| 5,001 – 10,000                            | 24                | 229,433          |
| 10,001 – 100,000                          | 331               | 18,091,000       |
| 100,001 and over                          | 138               | 91,652,592       |
|   | 502               | 110,000,000      |

### Twenty largest shareholders – Ordinary Shares

| Name                       |                      | Number of ordinary shares held | Percentage of capital held |
|----------------------------|----------------------|--------------------------------|----------------------------|
| MICHAEL CHRISTINA M        | M & A A/C            | 21,400,000                     | 19.45%                     |
| EARTHSCIENCES PL           | SEARLE S/F A/C       | 10,500,000                     | 9.55%                      |
| BLUE SAINT PL              |                      | 7,500,000                      | 6.82%                      |
| FOSTER WEST SECURITIES PL  | SPARTACUS A/C        | 2,875,000                      | 2.61%                      |
| EKUL NOMINEES PL           |                      | 2,500,000                      | 2.27%                      |
| HOLDREY PL                 | DON MATHIESON FAM    | 1,682,122                      | 1.53%                      |
| CELTIC CAPITAL PL          | CELTIC CAP A/C       | 1,585,000                      | 1.44%                      |
| MR THEO PAUL DOROPOULOS    |                      | 1,500,000                      | 1.36%                      |
| EKUL NOMINEES PL           |                      | 1,500,000                      | 1.36%                      |
| HOLDREY PL                 | DON MATHIESON FAM    | 1,500,000                      | 1.36%                      |
| TRIDENT CAPITAL PL         |                      | 1,275,000                      | 1.16%                      |
| DDVM SUPER NOMINEES        | DDVM S/F A/C         | 1,000,000                      | 0.91%                      |
| MAGAUITE PL                | PETER NELSON S/F A/C | 1,000,000                      | 0.91%                      |
| MR STEPHEN EDWARD OLIVER   |                      | 950,000                        | 0.86%                      |
| HAWKES BAY NOMINEES LTD    | WILLIAMS FAM N2 A/C  | 950,000                        | 0.86%                      |
| WILLINGVALE PL             |                      | 750,000                        | 0.68%                      |
| FINANCE ASSOCIATES PL      |                      | 750,000                        | 0.68%                      |
| BOND STREET CUSTODIANS LTD | SGM – 124234 A/C     | 750,000                        | 0.68%                      |
| PETERSON JASON & LISA      | J & L PETERSON S/F   | 700,000                        | 0.64%                      |
| HILLBROW INVESTMENTS LTD   |                      | 700,000                        | 0.64%                      |
| <b>TOTAL</b>               |                      | <b>61,367,122</b>              | <b>55.77%</b>              |

### Schedule of mining tenements

| Area of Interest                  | Tenement reference | Nature of interest                  | Interest |
|-----------------------------------|--------------------|-------------------------------------|----------|
| Amersfoort Project – South Africa | 30/5/2/3/38ER      | Operation Agreement                 | 49%      |
|                                   | 30/5/2/3/56ER      | Operation Agreement                 | 49%      |
|                                   | TCP 37             | Four TCP (Technical Cooperation     | 100%     |
|                                   | TCP 38             | Permits) granted by regulator;      | 100%     |
|                                   | TCP 39             | Kinetiko 100% interest in all four. | 100%     |
|                                   | TCP 42             | TCP granted 28 May 2012.            | 100%     |

## **CORPORATE GOVERNANCE**

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the Eight Essential Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by ASX Corporate Governance Council.

The Company's Corporate Governance policies and its Securities Trading Policy are available on the Company's website. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

### *Principle 1 – Lay solid foundations for management and oversight*

The Board and management have formalised their respective roles and responsibilities and the functions reserved to the Board and management. The Board has established and adopted a Board Charter for this purpose.

The Board is responsible for oversight of the management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising company performance and the protection and enhancement of long-term shareholder value.

The Board has also established a Nomination and Remuneration Committee Charter which, amongst other functions, guides the Board in its evaluation of the performance of senior executives and encourages an appropriate mix of skills, experience, expertise and diversity on the Board.

The role of management is the efficient and effective operation of the activities of the Company in accordance with the objectives, strategies and policies determined by the Board. The performance of senior management is reviewed annually in a formal process with the executive's performance assessed against the company and personal benchmarks. Benchmarks are agreed with the executives and reviews are based upon the degree of achievement against those benchmarks.

### *Principle 2 – Structure the Board to add value*

The Board has been formed such that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. Directors are appointed based on the specific skills required by the Company and on their experience, decision-making and judgement skills.

The Company has adopted a Nomination and Remuneration Committee Charter which encourages a transparent Board selection process in searching for and selecting new directors to the Board and having regard to any gaps in the skills and experience of the directors of the Board and ensuring that a diverse range of candidates is considered. The Board composition is reviewed on an ongoing basis with regard to the activities of the Company and the skills sets required to support those activities.

A separate nomination committee has not been formed. The role of the nomination committee is carried out by the full Board in accordance with the Nomination and Remuneration Committee Charter. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate committee.

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise
- Directors should bring characteristics which allow a mix of qualifications, skills, experience, expertise and diversity to the Board

The skills, experience, expertise and tenure of each director are disclosed in the Directors' Report within this Annual Report.

In assessing the independence of directors, the Board follows the ASX guidelines and will consider whether the director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- Is employed, or has previously been employed in executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving the on board
- Has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided
- Is a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- Has a material contractual relationship with the Company or another group member other than as director of the Company

The Board does not have a majority of independent directors. It is comprised of three non-executive directors and the Board is confident that each non-executive director brings independent judgement to the Board's decisions. The Board considers the existing structure and skill sets of the directors' appropriate given the small scale of the Company's enterprise and the associated economic restrictions the scale of operations places on the Company. The existing structure is aimed at maximising the financial position of the Company by keeping its operating costs to a minimum.

Where additional skills are considered necessary for specific purposes, access is made to independent professional advice at the expense of the Company.

*Principle 3 – Promote ethical and responsible decision making*

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Board has established a Code of Conduct to guide the Directors, managers, employees and officers of the Company with respect to matters relevant to the Company's legal and ethical obligations and the expectations of stakeholders.

The Code of Conduct requires officers and employees to avoid or ensure proper management of conflicts of interest, to not use confidential information for personal gain and to act in fair, honest and respectful manner. The Board has procedures in place for reporting any matters that give rise to unethical practices or conflicts between the interests of a director or senior executive and those of the Company.

*Diversity Policy*

The Board has also established a Workplace Diversity Policy which affirms the Company's commitment to promoting a corporate culture that is supportive of diversity and outlines strategies that the Board can undertake to encourage and promote a diverse working environment.

The Company does not select candidates based on gender or ethnicity, rather the recruitment process chooses candidates from a diverse group after widely canvassing the market and by selecting the most appropriate candidate based on merit and suitability for the role.

*Securities Trading Policy*

The Board encourages directors and employees to hold shares in the Company to align their interest with the interests of all Shareholders. The Company has adopted a Securities Trading Policy which guides directors, employees or contractors in trading the Company's securities in accordance with ASX Listing Rules. Trading the Company's shares is prohibited under certain circumstances and a director, employee or contractor must not deal in the Company's securities at any time when he or she is in possession of information which, if generally available, may affect the price of the Company's shares.

The Policy sets out the following information:

- (a) closed periods in which directors, employees and contractors of the Company must not deal in the Company's securities;
- (b) trading in the Company's securities which is not subject to the Company's Trading Policy; and
- (c) the procedures for obtaining written clearance for trading in exceptional circumstances.

*Principle 4 – Safeguard integrity in financial reporting*

The Directors require the Managing Director and external company auditors to state in writing to the Board, that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

A separate audit committee has not been formed. However, the Company has adopted an Audit Committee Charter. The role of the audit committee is carried out by the full Board in accordance with the Audit Committee Charter. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate audit committee.

*Principle 5 – Make timely and balanced disclosure*

The Directors are committed to keeping the market fully informed of material developments to ensure compliance with the ASX Listing Rules and the Corporations Act. The Directors have established a written policy and procedure to ensure compliance with the disclosure requirements of the ASX Listing Rules. At each meeting of the directors, consideration is given as to whether notice of material information concerning the Company, including its financial position, performance, ownership and governance has been made to all investors.

Under the policy the Company's employees and contractors must disclose any relevant information which comes to their attention and is believed to potentially be material to the Company Secretary or Executive Director.



### *Principle 6 – Respect the rights of Shareholders*

The Directors have established a communications strategy to promote effective communication with Shareholders and encourage effective participation at general meetings. As well as ensuring timely and appropriate access to information for all investors via announcements to the ASX, the Company will also ensure that all relevant documents are released on the Company's website.

Communication with Shareholders is achieved through the distribution of the following information:

- The Annual Report is distributed to Shareholders;
- The Half Yearly Report is available on the Company's website
- Regular reports and announcements are released through the ASX
- The Annual General Meeting and other meetings called by the Company to obtain Shareholder approval as appropriate
- Investor information released through the Company's website

### *Principle 7 – Recognise and manage risk*

The Board is responsible for overseeing the risk management function and ensuring that risks and opportunities are identified on a timely basis. The Directors have established a Risk Management Policy regarding the oversight and management of material business risks.

Responsibility for the control and risk management is delegated to the appropriate level of management within the Company, with the Executive Director having ultimate responsibility to the Board for monitoring the risk management and control framework. Risk analysis and evaluation occurs on an ongoing basis in the course of the activities of the Company. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies.

The Executive Director reports on a regular basis to the Board on the areas of their responsibility, including material business risks and provides an annual written report to the Board summarising the effectiveness of the Company's management of material business risks.

### *Principle 8 – Remunerate fairly and responsibly*

A separate remuneration committee has not been formed. However, the Company has adopted a Nomination and Remuneration Committee Charter. The role of the remuneration committee is carried out by the full Board in accordance with the Nomination and Remuneration Committee charter. The charter details how the Board fulfils its duties in regards to the Company's remuneration plans, policies and practices, including the compensation of non-executive directors, executive directors and management. The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate committee.

The Board has provided disclosure within this Annual Report in relation to Directors' remuneration and remuneration policies in accordance with the ASX Listing Rules and the Corporations Act. There are no retirement schemes or retirement benefits other than statutory benefits for non-executive directors.

The Company has a policy to prohibit its directors and employees, who participate in an equity-based incentive plan of the Company, from entering into transactions which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the Company's securities. Directors and employees are encouraged to take sufficient professional advice in relation to their individual financial position.

The Company's Share Trading Policy is available on its website.