

Kinetiko Energy Ltd

ABN: 45 141 647 529

Interim Financial report for the half-year ended
31 December 2013

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Company Directory

DIRECTORS

Adam Sierakowski
(Non-Executive Chairman)

Dr. James Searle
(Joint Acting Managing Director)

Geoffrey Michael
(Joint Acting Managing Director)

Andrew Lambert
(Director)

COMPANY SECRETARY

Stephen Hewitt-Dutton

PRINCIPAL OFFICE

Barringtons House
283 Rokeby Road
SUBIACO WA 6008
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REGISTERED OFFICE

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

AUDITORS

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

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

STOCK EXCHANGE LISTING

Australian Securities Exchange
Home Exchange: Perth, Western Australia
Code: KKO

Directors' report

The directors of Kinetiko Energy Ltd ("Kinetiko") submit herewith the financial report for the half-year ended 31 December 2013. In order to comply with the provisions of the Corporations Act 2001, the directors report is as follows:

Directors

The names of the directors of the company during or since the end of the half-year are:

Adam Sierakowski
Andrew Lambert
Dr. James Searle
Geoffrey Michael

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

Operating Results

The operating loss of the company for the six months amounted to \$918,295 (December 2012: loss of \$643,503).

Review of operations

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

(a) Exploration Activity

Highlights

- Amersfoort Project, technical review is underway and expected to be completed in April 2014.
- As previously announced three more pilot test wells were completed by mid December 2013, bringing the total for the project to eight.
- Three Exploration Right (ER) Applications were submitted to the regulator, these included areas of Kinetiko's existing TCP (Technical Cooperation Permits).
- Capital raising of \$1.7 million placement was completed 12th December 2013.
- As of early February 2014, there was approximately \$2.4m cash (including \$1.2m of receivables).
- Memorandum of Understanding (JV) with White Rivers Exploration Ltd for a new coal bed methane gas project in the coalfields in the northeast Main Karoo Basin of South Africa was signed on 24 January 2014.

Plans to the End of June 2014

- Completion of technical review and work overs on two to three of the pilot wells drilled in 2013 for the Amersfoort Project, further testing of existing pilot test wells and the drill and test of new pilot test wells in a Phase 3 work programme.
 - A regional/ structural assessment of the project enhanced by the acquisition of high resolution gradiometric aeromagnetic data.
- Negotiations with off take customers for multi-spot test well gas production trials and appraisal.
- Commencement of White Rivers JV activities.

Amersfoort Project, South Africa (49% and Operator)

Our team recommenced drilling test wells in September 2013. While basic "bare foot" vertical pilot well completion strategies have been successful in testing gas pressures, flows and distributions engineering reviews are underway to consider more optimal completion strategies for more realistic production tests.

Directors' report

Review of operations (continued)

Amersfoort Project, South Africa (49% and Operator) (continued)

Kinetiko is the operator of two gas licences in the Amersfoort Project covering 1,601km² with South African partner Badimo Gas Pty Ltd (51% interest). The project is located in the heart of South Africa's energy infrastructure in Mpumalanga, South Africa, 250km east of Johannesburg.

Mpumalanga is a highly-prospective area for coal-bed methane (CBM) with well documented, gassy coal measures and gassy sandstones overlying the coals. US-based independent, oil and gas consultant Gustavson Associates estimates the Amersfoort Project to have Prospective Resource "Gas In Place" of 2.4tcf (up from 1.7tcf in 2011) and Contingent Resource of 1.5tcf. Exploration core drilling and production test well drilling continues to demonstrate that gas is widespread throughout the project area in the coal, and as conventional accumulations in the adjacent sandstones. Gas pressures encountered down hole have often exceeded 16 bar (224psi).

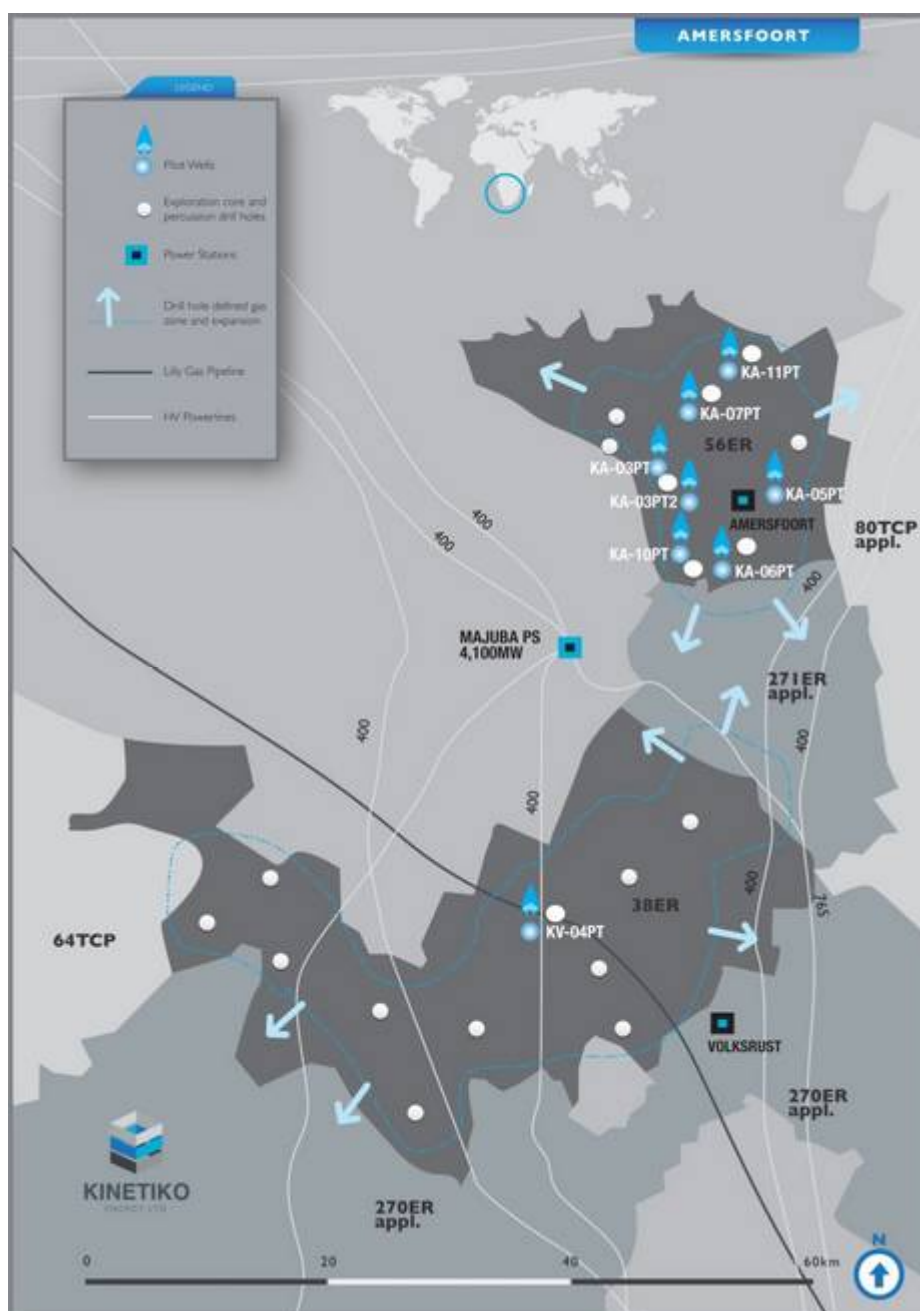


Figure 1 – Pilot test wells and core drilling

Directors' report

Review of operations (continued)

Amersfoort Project, South Africa (49% and Operator) (continued)

Kinetiko has now flared gas flows from six out of eight production test wells drilled on the Amersfoort Project exploration rights 56ER and 38ER (*Figure 1*). All wells have been “barefoot” completions and unstimulated. Gas has commenced flowing from the six successful wells either spontaneously or as soon as water levels began to be lowered by down hole pumping. Two wells have failed due to ground conditions which may be rectified with spotting of cement or casing modification as part of a work over program. Six wells have now been shut in pending work overs and broader area dewatering as part of multi-spot flow tests.

The rapid and often spontaneous onset of gas from the six wells subject to preliminary flow tests is considered to be indicative of gas flowing mainly from conventional gas accumulations in the sandstones above the coals. Optimised flow of seam gas from the coals is not expected to be achieved until multiple wells are drilled in test locations to effectively lower the hydrostatic pressure over a significant area of coal seam.

Core drilling, down hole geophysical logging, coal desorption work and the pilot test wells drilled and flowed to date indicate widespread gas in coals and in the adjacent sandstones over almost all of the project area. Gas in the coals and the conventional accumulations in the sandstones have produced pressures often in excess of 16 bar (224psi).

Exploration Right 56ER (Amersfoort)

During the quarter ended 31 December 2013, two pilot test wells were drilled on the northern (Amersfoort) exploration right 38ER, KA-03PT2 and KA06PT (*Figure 1*). Pilot test well KA-03PT2 was completed to a depth of 458m. The well was subsequently equipped with a down hole (ESPCP) pump, flow separation and flow control skid. A well shut-in test produced a maximum casing pressure of 197psi. After an initial pump down of water levels to around 54m above the pump at a depth of 395.8m, pumping was stopped and the well was opened to gas flow. Subsequently the well flowed spontaneously at 24,000 to 25,000scf/d with a stable water level in the well at around 195m of head above the pump with no further pumping of water from the well. After seven days of flaring the well was shut in.

The spontaneous flow rates with no water production and a static head of 195m of water above the pump is very encouraging for substantial gas flows with further depressurisation. Full flow testing of the well will require broad area dewatering with nearby wells acting in concert as a multi-spot test. A work over of the well may also be required to cement spot discrete zones of water influx. KA03PT2 is located 330m from the pilot test well KA-03PT that flowed at previously reported rates of up to 350,000scf/d. Tandem operation of the two adjacent wells as a “two spot” test will be considered at a later date as a precursor to a multi-spot test.

Pilot test well KA-06 was drilled to a depth of 369m in a location close to a core hole (KA-06) that spontaneously emitted gas after drilling. Gas flowed spontaneously from KA-06PT prior to water pumping. The well was subsequently operated with water pumping for a test period of 12 days with flow rates of around 10,000scf/d. However full water depressurisation could not be achieved at this time. Shut in pressures indicate a reservoir pressure in excess of 16 bar which is very encouraging for further drilling in this locality. Full flow testing will require dewatering in a multi-spot test.

Exploration Right 38ER (Volsrust)

During the quarter ended 31 December 2013, the first pilot test well was drilled on the Volsrust exploration right 38ER (*Figure 1*). This was the third pilot test well in the current three-hole program, and the eighth to be drilled across the Amersfoort Project. The first seven pilot test wells were drilled on the Amersfoort exploration right 56ER.

Kinetiko has drilled a total of 11 exploration core holes on 38ER. Core samples and down hole geophysical logs have shown strong indications of gas in both coals and as conventional accumulations in the adjacent sandstones over an area of 690km². The coal measures and gassy sandstones are typically at depths of 400-500m+ below surface in 38ER, as compared to 350-400m depth on 56ER. Consequently, higher gas contents and pressures are predicted for Volsrust. The pilot test well KV-04PT was located close to a core hole KV-04c that intersected gassy coal at a depth of 430m and down hole geophysical logs showed strong gas crossovers in the sandstones above and below the coals.

Directors' report

Review of operations (continued)

Amersfoort Project, South Africa (49% and Operator) (continued)

KV-04PT was drilled to 560m and intersected target coals and sandstone. Following setting of the pump and surface equipment, pumping produced water with entrained gas but failed to significantly lower the water level and depressurise the target zones. This appears to be due to an influx of water from just below the casing. Cementation or casing of the influx zone during a work over will be required before the well can be flow tested.

White Rivers Gas Project (50% interest and Operator)

Subsequent to the end of the December 2013 quarter, Kinetiko entered into an MOU to conclude a joint venture (JV) agreement with White Rivers Limited. The MOU is legally binding for six months to enable the parties to enter into a joint venture to explore for CBM and other unconventional and conventional oil and gas opportunities.

White Rivers Ltd is a South African company with extensive coal and gold holdings in South Africa. It is a certified BEE (Black Economic Empowerment) entity. White Rivers holds coal exploration rights underlying the onshore gas TCPs subject to this JV agreement. As JV operator, Kinetiko looks forward to working closely with the technical management of White Rivers to maximise the benefits from applying an extensive data base and knowledge of coal geology in the area to methane gas exploration.

The White Rivers TCPs are located in the Free State and Vereeniging Sasolburg Coalfields (*Figure 2*). The Ventersburg and Kroonstadt TCPs are located in the Free State Gas Field where widespread gas occurrences are known from coal and mineral exploration drilling. The Heilbron TCP is located adjacent to the Smaldeel area where helium has been commercially produced in the past, significant comingled methane flows were flared. The helium is thought to be derived originally from radioactive uranium decay in the Proterozoic Witwatersrand sediments underlying the Karoo Basin. The methane is derived from the extensive Karoo coal measures. The helium has then migrated upwards into the Karoo methane gas traps. As with Kinetiko's Amersfoort project it is also expected that coal derived methane will be found in conventional sandstone reservoirs within the Karoo sandstones that host the coals.

TCPs enable the holder to access available data held by government agencies for desk top studies. A TCP confers the unique right to convert the area to an exploration right (ER). The Heilbron and Kroonstadt TCPs are granted, the Ventersburg application has been accepted and should be granted in due course.

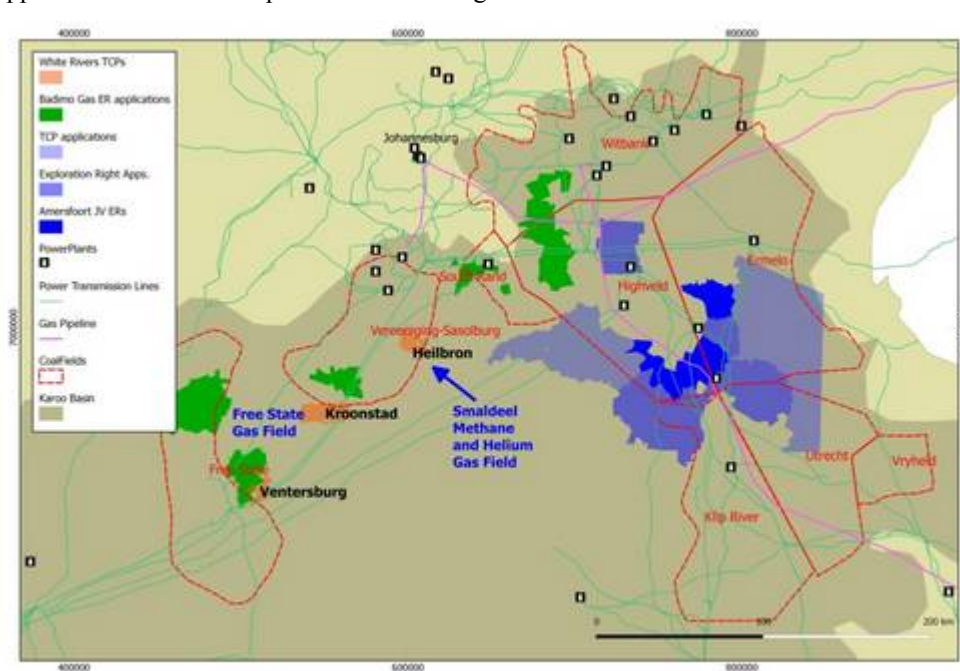


Figure 2 - Location of the Kinetiko-White Rivers JV, Ventersburg, Kroonstadt and Heilbron TCPs in relation to the extensive tenure already held or applied for by Kinetiko Energy Ltd and its partner Badimo Gas Ltd in the vicinity.

Directors' report

Review of operations (continued)

Corporate

Kinetiko successfully completed a placement to institutional and sophisticated investors to raise gross proceeds of approximately \$1.7 million. Proceeds from the placement will be used to fund the Company's exploration and technical studies of the Amersfoort Project (49% KKO interest) and additional working capital for other exploration asset assessment.

The placement was priced at 15.0 cents per share, representing a 22% discount to the 5-day VWAP and resulted in the issue of 11.3 million new shares. Kinetiko has approximately \$2 million cash as of mid February 2014 (including cash calls debt owed to Kinetiko and RSA VAT refund).

Subsequent Events

Following a strategic review of Kinetiko's business needs, which envisages relocating the Managing Director role to South Africa, the employment contract with Mr Andrew Lambert was terminated on 23 January 2014. Mr Lambert has served over 32 months and delivered strong corporate growth and exploration progress, and remains as a Director for the following six month period to facilitate an orderly transition. A South African candidate search has commenced, meanwhile Dr James Searle and Geoffrey Michael will act as joint managing directors.

The Company signed a Memorandum of Understanding ('MOU') with White Rivers Exploration Pty Ltd on 24 January 2014 to enter into a Joint Venture over gas tenure in the Karoo Basin coalfields of South Africa.

In early March 2014, the Company received VAT refunds for the amount of ZAR2.844 million (approximately \$295,000) relating to its exploration expenditure in South Africa.

Other than the above, there are no matters or circumstances that have arisen since 31 December 2013 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

Dividends Paid or Recommended

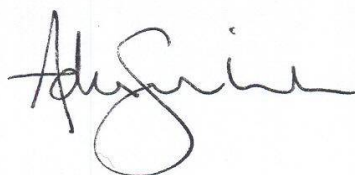
No dividends were paid during the period and no recommendation is made as to payments of future dividends.

Auditor's independence declaration

The auditor's independence declaration is included on page 9 of the half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors



Adam Sierakowski
Chairman
14 March 2014

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

As lead auditor for the review of Kinetiko Energy Ltd for the half-year ended 31 December 2013, 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.



Peter Toll

Director

Perth, 14 March 2014

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kinetiko Energy Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kinetiko Energy Ltd, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kinetiko Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kinetiko Energy Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kinetiko Energy Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

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

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Peter Toll', is written over the printed name. Above the signature, the letters 'BDO' are handwritten in blue ink.

Peter Toll
Director

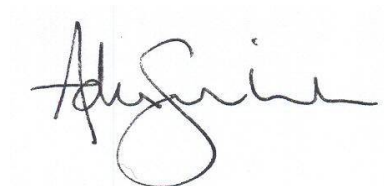
Perth, 14 March 2014

Directors' declaration

The directors of the Company declare that:

1. The financial statements and notes set out on pages 13 to 23 are in accordance with the Corporations Act 2001, including:
 - (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance, as represented by the results of its operations and its cash flow, for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in black ink, appearing to read 'Adam Sierakowski', is written over a light grey rectangular background.

Adam Sierakowski
Chairman

Date: 14 March 2014

Statement of Profit or Loss and Other Comprehensive Income for the six months ended 31 December 2013

	Note	Half-year ended 31 Dec 2013 \$	Half-year ended 31 Dec 2012 \$
Revenue			
Revenue from continuing operations	2	16,167	81,260
Total Revenue		<u>16,167</u>	<u>81,260</u>
Expenses			
Consultancy and professional costs		(154,296)	(148,028)
Employee and contractor expenses		(353,794)	(292,563)
Foreign exchange loss		(27,580)	(13,915)
Occupancy expenses		(43,125)	(33,627)
Depreciation		(30,132)	(25,077)
Share based payment	4	(9,233)	(19,621)
Administration expenses		(162,775)	(121,803)
Travel expenses		<u>(153,527)</u>	<u>(70,129)</u>
Total expenses		<u>(934,462)</u>	<u>(724,763)</u>
(Loss) from continuing operations before income tax		<u>(918,295)</u>	<u>(643,503)</u>
Income tax (expense)/benefit		-	-
(Loss) for the period		<u>(918,295)</u>	<u>(643,503)</u>
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign currency		<u>36,950</u>	<u>473</u>
Other comprehensive income for the period		<u>36,950</u>	<u>473</u>
Total comprehensive income attributable to owners of Kinetiko Energy Ltd		<u>(881,345)</u>	<u>(643,030)</u>
Loss per share attributable to equity holders of the company:			
Basic loss per share (cents)		(0.72)	(0.58)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 31 December 2013

	Note	31 December 2013 \$	30 June 2013 \$
CURRENT ASSETS			
Cash assets		1,751,758	1,599,711
Receivables	5	1,149,592	1,530,082
Other assets		74,014	44,822
TOTAL CURRENT ASSETS		2,975,364	3,174,615
NON CURRENT ASSETS			
Property, plant & equipment		620,579	531,593
Capitalised exploration and evaluation expenditure	6	7,724,824	7,030,331
TOTAL NON CURRENT ASSETS		8,345,403	7,561,924
TOTAL ASSETS		11,320,767	10,736,539
CURRENT LIABILITIES			
Trade and other payables		763,842	896,399
TOTAL CURRENT LIABILITIES		763,842	896,399
TOTAL LIABILITIES		763,842	896,399
NET ASSETS		10,556,925	9,840,140
EQUITY			
Contributed equity	3	14,387,262	12,798,365
Reserves		318,425	272,242
Accumulated losses		(4,148,762)	(3,230,467)
TOTAL EQUITY		10,556,925	9,840,140

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

Statement of Changes in Equity

for the half-year ended 31 December 2013

For the period ended 31 December 2012	Attributable to equity holders				Total Equity
	Ordinary Shares	Share Based Payment Reserve	Foreign Exchange Reserve	Accumulated Losses	
	\$	\$	\$	\$	\$
At beginning of period	9,995,570	268,062	390	(1,633,540)	8,630,482
Other comprehensive income	-	-	473	-	473
(Loss) for the period	-	-	-	(643,503)	(643,503)
Total comprehensive loss for the period	-	-	473	(643,503)	(643,030)
Transactions with owners in their capacity as owners:					
Issue of shares and options during the period	2,997,000	-	-	-	2,997,000
Share issue costs	(185,359)	-	-	-	(185,359)
Share based payments	-	19,621	-	-	19,621
At end of period	12,807,211	287,683	863	(2,277,043)	10,818,714
For the period ended 31 December 2013	Attributable to equity holders				Total Equity
	Ordinary Shares	Share Based Payment Reserve	Foreign Exchange Reserve	Accumulated Losses	
	\$	\$	\$	\$	\$
At beginning of period	12,798,365	305,572	(33,330)	(3,230,467)	9,840,140
Other comprehensive income	-	-	36,950	-	36,950
(Loss) for the period	-	-	-	(918,295)	(918,295)
Total comprehensive loss for the period	-	-	36,950	(918,295)	(881,345)
Transactions with owners in their capacity as owners:					
Issue of shares and options during the period	1,701,000	-	-	-	1,701,000
Share issue costs	(112,103)	-	-	-	(112,103)
Share based payments	-	9,233	-	-	9,233
At end of period	14,387,262	314,805	3,620	(4,148,762)	10,556,925

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

Statement of Cash flows for the half-year ended 31 December 2013

	Half-year ended 31 Dec 2013 \$	Half-year ended 31 Dec 2012 \$
Cash flows from operating activities		
Payments to suppliers and employees	(815,454)	(792,376)
Interest received	15,320	81,260
Interest and other cost of finance paid	(3,154)	(693)
Net cash used in operating activities	(803,288)	(711,809)
Cash flows from investing activities		
Capitalised exploration and evaluation expenditure	(1,691,963)	(2,211,758)
Contributions to capitalised exploration and evaluation expenditure by Badimo	1,108,980	-
Payments for property, plant and equipment	(102,034)	(324,267)
Net cash used in investing activities	(685,017)	(2,536,025)
Cash flows from financing activities		
Proceeds from issues of ordinary shares	1,701,000	2,997,000
Share issue costs	(112,103)	(146,266)
Payment of security bonds	-	(10,000)
Proceeds from insurance premium funding liability	35,667	-
Repayment of insurance premium funding liability	(21,162)	-
Net cash provided by financing activities	1,603,402	2,840,734
Net increase/(decrease) in cash and cash equivalents	115,097	(407,100)
Effects of exchange rate on cash and cash equivalents	36,950	(472)
Cash and cash equivalents at the beginning of the half-year	1,599,711	4,907,850
Cash and cash equivalents at the end of the half-year	1,751,758	4,500,278

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

Notes to the interim financial statements for the half-year ended 31 December 2013

1. Basis of Accounting and Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The interim financial statements were approved by the Board of Directors on 14 March 2014. The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report for the year ended 30 June 2013.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Kinetiko Energy Ltd. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2013, together with any public announcements made during the following half-year in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

New accounting standards and interpretations

In the half-year ended 31 December 2013, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2013.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements, except as follows:

- AASB 10 Consolidated Financial Statements;
- AASB 11 Joint Arrangements;
- AASB 13 Fair Value Measurement;
- AASB 119 Employee benefits;
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.

The Company has considered the impact of AASB 10 and 11 and have determined that although there will be no measurement impact, the following classification change: Amersfoort Project – This investment will be classified as a Joint Operation and the Company will continue to account for its share of assets, liabilities, revenues and expenses.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2013. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

Going Concern

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

As at 31 December 2013, the Company has incurred a net loss after tax for the half year ended 31 December 2013 of \$918,295 (2012: \$643,503) and experienced net cash outflows from operating activities of \$803,288 (2012: \$711,809). At 31 December 2013, the Company had net assets of \$10,556,925 (30 June 2013: \$9,840,140).

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

Notes to the interim financial statements for the half-year ended 31 December 2013

1. Basis of Accounting and Statement of Compliance (continued)

Going Concern (continued)

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

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

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

Notes to the interim financial statements for the half-year ended 31 December 2013

2. (Loss) for the half year

The following revenue item is relevant in explaining the financial performance for the interim period:

	31.12.2013 \$	31.12.2012 \$
Interest Revenue	16,167	81,260

3. Issued Capital

(a) Movements in share capital during the six months to 31 December 2012 were as follows:

Period ended 31 December 2012

		Issue Price	Fully Paid Ordinary Shares	\$
1 July 2012	Opening balance		110,000,000	9,995,570
	Shares issued pursuant to placement facility	\$0.18	16,650,000	2,997,000
	Shares issued pursuant to employment agreement (see note 3(a)(i))		1,000,000	-
	Share issue costs		-	(185,359)
31 December 2012	Closing balance		127,650,000	12,807,211

(i) During the financial period, 1,000,000 fully paid ordinary shares were issued to Andrew Lambert, a director of the Company for nil consideration, in accordance with his Employment Agreement dated in June 2011 and upon obtaining approval at the Company's General Meeting held on 25 September 2012

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

Period ended 31 December 2013

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

Notes to the interim financial statements for the half-year ended 31 December 2013

3. Issued Capital (continued)

(b) Incentive Options

Movements in options during the six months to 31 December 2012 were as follows:

Period ended 31 December 2012

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

During the six months to 31 December 2012, 2,250,000 unlisted incentive options were issued to Andrew Lambert, a director of the Company. The incentive options were issued in accordance with his Employment Agreement dated in June 2011 and upon approval at the Company's General Meeting held on 25 September 2012.

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

Period ended 31 December 2013

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

There were no movements in options during the six months to 31 December 2013.

4. Share Based Payments

During the financial period, \$9,233 was recognised as a share based payment made to Andrew Lambert, a director of the company.

Refer to the 30 June 2013 annual report for further details regarding the terms of Mr Lambert's incentive options. The total value of the options was \$132,500, which will be expensed over the vesting period. An amount of \$9,233 was expensed during the half-year.

5. Receivables

	31.12.2013 \$	30.06.2013 \$
Receivable – Badimo JV Contribution	1,070,180	1,444,440
Other receivables – VAT refundable	300,370	171,257
Less: Provision for VAT	(300,370)	(171,257)
Other receivables – GST refundable	26,165	23,673
Other debtor	12,023	21,592
Security bonds	40,000	40,000
Accrued interest receivable	1,224	377
	<u>1,149,592</u>	<u>1,530,082</u>

Notes to the interim financial statements for the half-year ended 31 December 2013

6. Capitalised Exploration and Evaluation Expenditure

	31.12.2013 \$	30.06.2013 \$
Opening balance	7,030,331	3,726,829
Exploration and evaluation expenditure during the period	1,606,013	4,747,942
Badimo Contribution – Cash Call	(911,520)	(1,444,440)
Closing balance	<u>7,724,824</u>	<u>7,030,331</u>

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

7. Segment Reporting

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

	31.12.2013 \$	30.06.2013 \$
Revenue from external sources	-	-
Reportable segment loss	-	-
Reportable segment assets	7,724,824	7,030,331
Reportable segment liabilities	-	-
Reconciliation of reportable segment assets		
Reportable segment assets	7,724,824	7,030,331
Unallocated:		
- Cash	1,751,758	1,599,711
- Receivables	1,149,592	1,530,082
- Other	74,014	44,822
- Property, plant and equipment	620,579	531,593
Total assets	<u>11,320,767</u>	<u>10,736,539</u>
Reconciliation of reportable segment liabilities		
Reportable segment liabilities		
Unallocated:		
- Trade and other payables	(763,842)	(896,399)
Total liabilities	<u>(763,842)</u>	<u>(896,399)</u>
	31.12.2013 \$	31.12.2012 \$
Reconciliation of reportable segment loss		
Reportable segment loss	-	-
Other revenue	16,167	81,260
Unallocated expenses	(934,462)	(724,763)
Loss before tax	<u>(918,295)</u>	<u>(643,503)</u>

8. Commitment and Contingent Liabilities

There are no known contingent liabilities at reporting date.

There has been no significant changes to the Company's commitment since 30 June 2013.

Notes to the interim financial statements for the half-year ended 31 December 2013

9. Related Party Transactions

- (i) During the financial period, \$9,233 was recognised as a share based payment made to Andrew Lambert, a director of the Company. Refer to Note 4 for further details.
- (ii) Arrangements with other related parties continue to be in place. For details of these arrangements refer to 30 June 2013 financial statements.

10. Investment in Joint Venture

Badimo Gas Pty Ltd

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

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

	31.12.2013 \$	30.06.2013 \$
Statement of Financial Position		
Current Assets	-	-
Non Current Assets	713,195	1,609,878
Total Assets	-	-
Current Liabilities	-	-
Non Current Liabilities	-	-
Total Liabilities	-	-

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

Statement of Profit or Loss and Other Comprehensive Income		
Revenue	-	-
Expenses	-	-
Net Profit before tax	-	-

11. Fair Values of Financial Instruments

Recurring fair value measurements

The Company does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

Fair values of financial instruments not measured at fair value

The Company does not have any financial instruments not measured at fair value in the statement of financial position.

Notes to the interim financial statements for the half-year ended 31 December 2013

12. Subsequent Events

The employment contract for Andrew Lambert as Managing Director was terminated on 23 January 2014. Mr Lambert has been given a six month notice and he will continue to work with the Company to facilitate an orderly transition. The Company is actively seeking to fill the position, whilst in the interim, Dr James Searle and Geoffrey Michael will act as joint managing directors.

On 24 January 2014, the Company entered into a Memorandum of Understanding ('MOU') to conclude a joint venture agreement with a South African company, White Rivers Exploration Pty Ltd. The MOU is legally binding for six months and will enable the parties to explore over gas tenure in the Karoo Basin coalfields of South Africa. Kinetiko Energy Ltd will be the operator and the parties will hold a 50% interest each.

In early March 2014, the Company received VAT refunds for the amount of ZAR2.844 million (approximately \$295,000) relating to its exploration expenditure in South Africa.

There are no other matters or circumstances that have arisen since 31 December 2013 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.