

KINETIKO ENERGY LTD

ABN 45 141 647 529

**Annual Report
for the Year Ended
30 June 2013**

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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,

I take great pleasure in presenting to you Kinetiko Energy Limited's second annual report since listing on the ASX approximately two years ago.

In the past 12 months your Company has continued to take major steps towards becoming a significant player in southern African onshore gas exploration and development. Some of the highlights of the last 12 months include:

1. Spudded the first pilot production well on 56 ER (northern licence);
2. Completed a \$3 million capital raising, oversubscribed;
3. First technical discovery made at hole KA-03PT with a sustained flow rate of 332Mscf/day over a six week testing period;
4. Initiating broker research report completed outlining a detailed assessment of Amersfoort project fundamentals and strong valuation outlook;
5. Highly prospective core drilling completed on Volksrust (southern licence);
6. Further extension of land position around Amersfoort project secured;
7. Asset portfolio extended to Botswana, with a minimal upfront exploration cost impact.

Our focus remains on our flagship Amersfoort project in South Africa, comprising a land position of approximately 1,600km². We spudded the first pilot production well on 56 ER during the year and pilot production testing will continue to build on the successful gas flows already achieved on holes KA-03PT and KA-10PT. We are aiming to achieve first reserves at Amersfoort in Q1 2014.

The Company experienced some delays both corporately and operationally (technical challenges as the early mover) in the last 12 months which postponed development of the Company's gas resources. However with financial contributions being received from our South African partner Badimo Gas and a new exploration program recently announced, the Company can look forward to the potential of further resource/reserve growth and gas discoveries in the months to follow.

Despite the delays, Kinetiko has been a very active explorer over the year with 20 exploration core drill holes completed to an average depth of 500m. Five pilot production wells have been completed and an additional three are underway with gas identified in every hole drilled on the Amersfoort project to date.

In addition to ongoing drilling and exploration at Amersfoort, Kinetiko has continued to increase its land footprint, not only in South Africa but also in neighbouring Botswana, where strategic licence locations were selected for strong potential for gas and Coal Bed Methane after detailed assessment of regional coal basins. As a result of our efforts in southern Africa, Kinetiko's potential land tenure has increased from 18,992km² this time last year to approximately 29,691km² today.

Our goal over the next 12 months will be to not only increase our resources and reserves certainty, but to also develop relationships with potential customers in the gas starved South African energy market whilst growing our business as a low cost, potential producer of onshore gas in Southern Africa.

To finish I would like to thank my fellow board members for their tiresome work over the last year, as well as our staff in both Australia and South Africa for all their efforts. To you our shareholders, I am grateful for your continued support and belief in Kinetiko. I have no doubt a busy and productive year lies ahead for us all.



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 2013. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

The names of the directors in office during the financial year and until the date of this report are:

Adam Sierakowski
Andrew Lambert
Dr James Searle
Geoffrey Michael

Information on Directors

Adam Sierakowski, Non-Executive Chairman

Mr Sierakowski is a lawyer and founding director of the legal firm Price Sierakowski. He has more than 15 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 has advised and guided many companies undertaking fundraising activities in Australia and seeking to list on the ASX.

As the co-founder of Trident Capital Mr Sierakowski has also advised a variety of public and private clients on structuring of their transactions and has been engaged in co-ordinating fundraising both domestically and overseas. Adam has vast experience in restructuring and mergers and acquisitions and has played a key role in the recapitalisation of many ASX -listed shells.

He is a member of the Australian Institute of Company Directors and the Association of Mining Exploration Companies.

Special responsibilities:

- None

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

- My ATM Ltd, Non-Executive Director, appointed 23 July 2012.
- Coziron Resources Ltd, Executive Director, appointed 21 October 2010.
- Triangle Energy (Global) Ltd, Non-Executive Director, appointed 9 October 2009, resigned 5 October 2011.
- 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.

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

Mr Lambert is a Geoscientist with more than 16 years' global experience in exploration, operations, business development and corporate advisory.

Mr Lambert's career began in petroleum exploration. He then worked as an iron ore exploration geologist, followed by a petroleum geophysicist role in MENA. He has worked in business development and corporate advisory roles with KPMG and PwC Strategy Consulting; where he focused on oil and gas (Upstream and Midstream) and mining in Australasia, the Middle East and the UK.

Andrew has a Bachelor of Science (Honours), Master of Science in Petroleum Exploration, Masters of Management and is an Australian Company Directors course graduate.

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 Searle is a geologist with 35 years' experience in exploration, project management, project financing and development in both the minerals and energy industries. He has spent 20 years in Executive and Non-Executive capacities as a Director, Managing Director and Chairman of ASX-listed companies. He has led exploration and development teams for successful projects in Australia, Africa and Europe.

Dr Searle has a Bachelor of Science Honours degree in soft and hard rock geology, and a PhD from the University of Western Australia. He is a Member of the Australian Institute of Mining and Metallurgy and a Member of the Australian Institute of Company Directors.

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.

Geoffrey Michael (BA UWA), Non-Executive Director

Mr Michael has been an Executive Director of various companies, investment syndicates and enterprise start-ups across a range of asset classes for more than 20 years. His experience ranges from property development and investment to resources, mining services, civil engineering and contracting to information technology and hospitality. These activities have been carried out in Australia, Europe, Asia and Southern Africa. He has approximately three years continuous experience to date as a non-executive Director of ASX listed company Kinetiko Energy Ltd.

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 21 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.

Directors' Report (cont)

Principal Activities

The principal activity of the Company during the financial year was coal bed methane exploration.

Operating Results

The net loss for the year ended 30 June 2013 after providing for income tax amounted to \$1,596,927 (2012: \$1,089,827).

Review of Operations

Executive Summary

It has been a productive 12 months for Kinetiko and we have learnt from the operational challenges typical of oil and gas exploration "early movers" in a new and prospective onshore gas frontier. Our team is back on the ground, as of September 2013, and we remain focused on developing test wells and potential pilot fields at Amersfoort. With the resumption of operations we are able to test more wells and move closer to maiden reserves certification including a revision of customer off take negotiations.

Our South African partner Badimo Gas is key to supporting these activities and together we continue to discuss a strategic future with an increased ability to delivery operational outcomes in South Africa to meet the scale of potential exploration.

Kinetiko Energy is focused on advanced gas and coal bed methane (CBM) opportunities in Southern Africa, with prospects in South Africa and Botswana. South Africa has extensive gassy coal basins, extensive energy infrastructure and a growing gas demand making it an attractive area for investment. Botswana too is a growing gas frontier, which we have been researching as a complimentary geography for some time.

Over the year, the Company explored a large exploration area of which 9,491km² was granted and underwent various stages of exploration. A summary is comprised below:

- Drilling on the Amersfoort Project JV with Badimo Gas (1,601km²)
- Desktop assessment of granted, technical co-operation permits (TCPs) for 7,890km² of tenure
 - Kinetiko evaluated these TCP and in mid-2013 applied for Exploration Rights covering 4,288km² of prospective land tenure
- Kinetiko applied for two TCPs over 6,217km² of prospective tenure and is awaiting the regulators decision
- Our partner: Badimo Gas has approximately 7,086km² of Exploration Right applications, both granted and pending regulatory approval for which Kinetiko has an MOU
- Application for 10,500km² of exploration tenure in central Botswana

Independent US-based certifiers Gustavson Associates estimated Kinetiko's four originally granted TCP areas to have Prospective Resources, Gas in Place (GIP) of 9.3tcf. TCPs allow evaluation and the unique right to apply for exploration licences over the area.

Directors' Report (cont)

Review of Operations (cont)

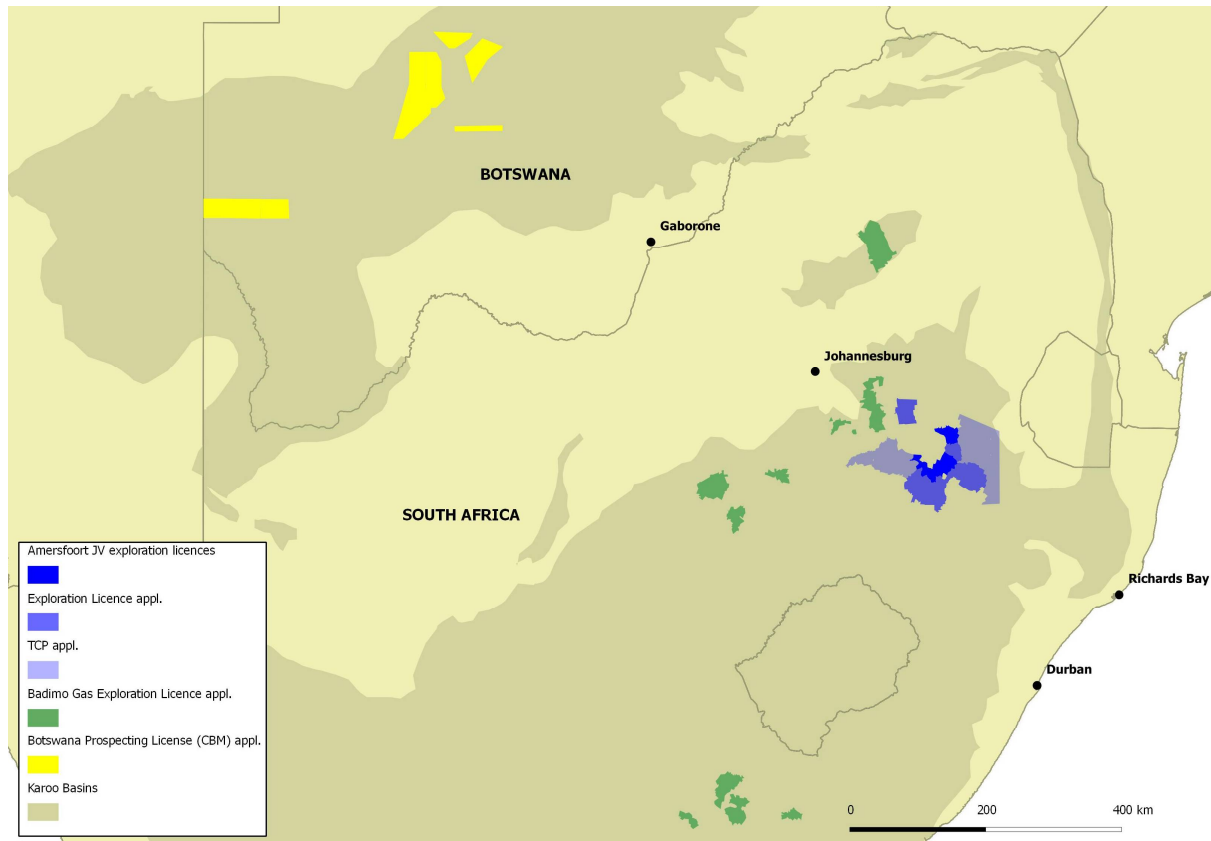


Figure1: Kinetiko's exploration tenure; granted and under application (Kinetiko and Badimo Gas)

The Amersfoort Project (Kinetiko 49% interest and Operator)

Kinetiko is the Operator of the Amersfoort Project which is comprised of northern and southern licences (ER56 and ER38 respectively) with South African partner Badimo Gas Pty Ltd owning a 51% interest. The project currently covers 1,601km².

The Amersfoort Project is located in the heart of South Africa's energy infrastructure in Mpumalanga, 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 and in between the coals.

Following exploration success in 2012, our independent certifier, Gustavson Associates increased the project's prospective resource to 2.4tcf GIP (up from 1.7tcf in 2011) and Total Contingent Resource of 1.5tcf (2C). The exploration program is aimed at increasing this resource and classifying maiden reserves in what is a new frontier for South Africa. Exploration drilling commenced late 2011 through to early 2013 and operations recommenced in Q4 2014 following partner discussions.

Directors' Report (cont)

Review of Operations (cont)

The indicative work program over the next year is in the section below.

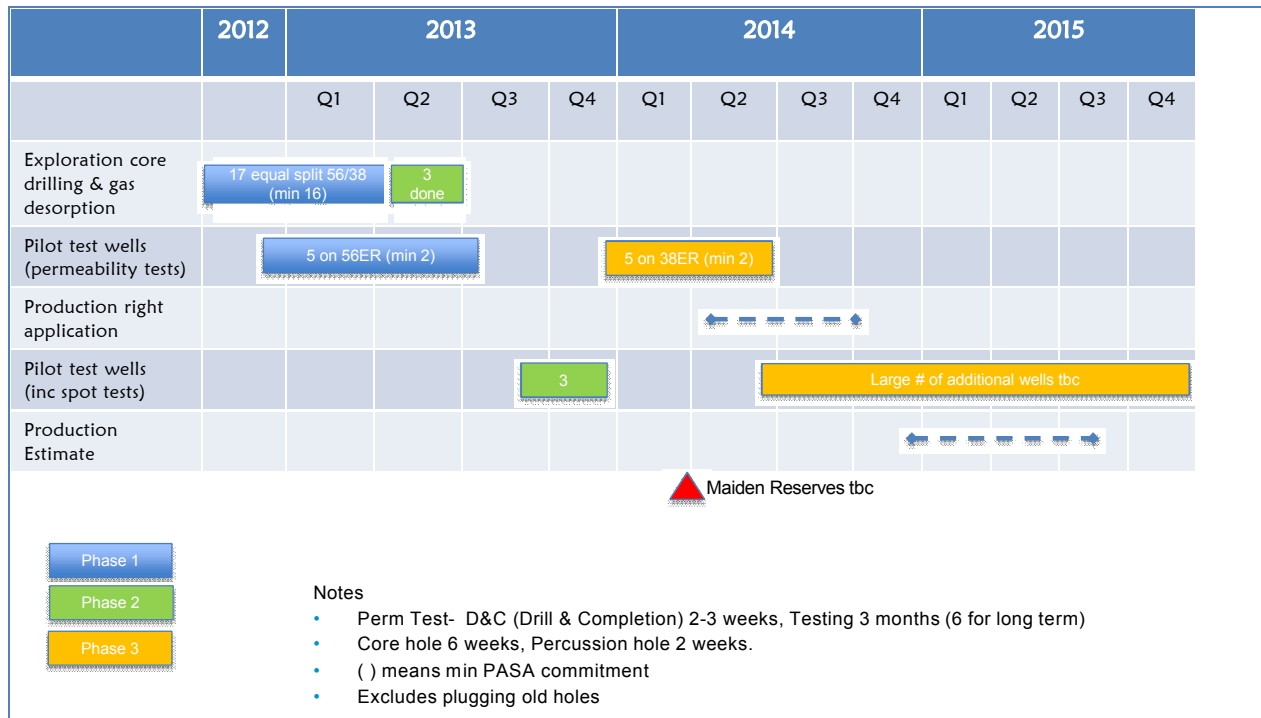


Figure 2: Amersfoort Project Activities (indicative)

Resource Estimate: Amersfoort Project		Billion Cubic Feet			Billion Cubic Meter		
		1C (P90)	2C (P50)	3C (P10)	1C (P90)	2C (P50)	3C (P10)
Gas In Place	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
	Arithmetic Total	1,259.7	2,395.8	4,067.3	35.7	67.8	115.2
Total Contingent Resources	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
	Arithmetic Total	778.1	1,482.7	2,517.7	22.0	42.0	71.3
Net Contingent Resources	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
	Arithmetic Total	381.3	726.5	1,233.7	10.8	20.6	34.9

Table 1: Resource summary for the Amersfoort Project (independent certifier: Gustavson Associates)

Review of Operations (cont)



Five exploration pilot test wells were drilled during the year and continued to be tested on the Northern Licence (56ER) in late 2013 (see *Figure 3*). These test gas and permeability of the geological formations, and because this is a relatively high permeability area and less than 700m, there is no requirement for hydraulic fracturing based on exploration interpretation to date.

Directors' Report (cont)

Review of Operations (cont)



Figure 4: KA-03PTR drilling to TD

Detailed gas testing from 24 January to 3 March 2013 on KA-03PTR produced dry methane rich gas (>94%, trace CO²), from an unstimulated, vertical, barefoot completion that targeted coal bed methane (CBM) from sandstones, carbonaceous mudstones and coals.

Due to initially high testing pressures, the sandstones appeared to contribute most of the gas and this needs to be verified through further exploration work. Water production was minimal on this well.

The initial down hole pump problems with KA-10PT were overcome with a redrill and KA-10PTR has successfully flowed gas and appeared to indicate a greater recharge when shut in as part of testing.

- KA-10PTR redrill was spudded 27th May and has produced a measured stabilised gas flow of 45mscf/day over a 10 day period. The well was shut in following pressure build up tests, pending further technical review.
- As reported KA-03PTR flowed 332mscf/day over 6 weeks and is located 8km away from KA-10PTR. Production curve data continues to be assessed.

KA-11PT and KA-07PT have shown gas but due to downhole challenges require further work and will be reassessed in Q4 2013. KA-05PT yielded some gas flow but greater downhole challenges means it warrants no further testing at this stage.

To increase successful outcomes, the pilot test wells are twinned next to existing exploration holes which have all indicated gassy coal measures and geophysical logs show strong indications of conventional gas in the sandstones.

Directors' Report (cont)

Review of Operations (cont)

As announced in August and September, the current Exploration Work Programme (EWP) will drill and test three new pilot test wells on the northern licence (56ER) by the end of December, and revisit existing test locations.

- The new test wells will be: KA-06PT, KA-07PTR (redrill), KA-03PTR2 (to allow a dual spot test to test reservoir parameters and deeper intervals)
- This EWP is estimated to cost \$1 million (net to KKO \$500,000), and larger EWPs are being planned for 2014 onwards.

The South African oil and gas regulator (PASA) approved eight Pilot Test wells on the Southern Licence at Volksrust (38ER). An initial EWP of 5 Pilot Test wells is planned for Q1 2014. As in the Northern license area, the pilot test wells will be optimally near our exploration holes and near an existing Syngas pipeline (owned by Transnet) that terminates in Richards Bay and Durban.



Figure 5: KA-10PT Initial Testing

Directors' Report (cont)

Review of Operations (cont)

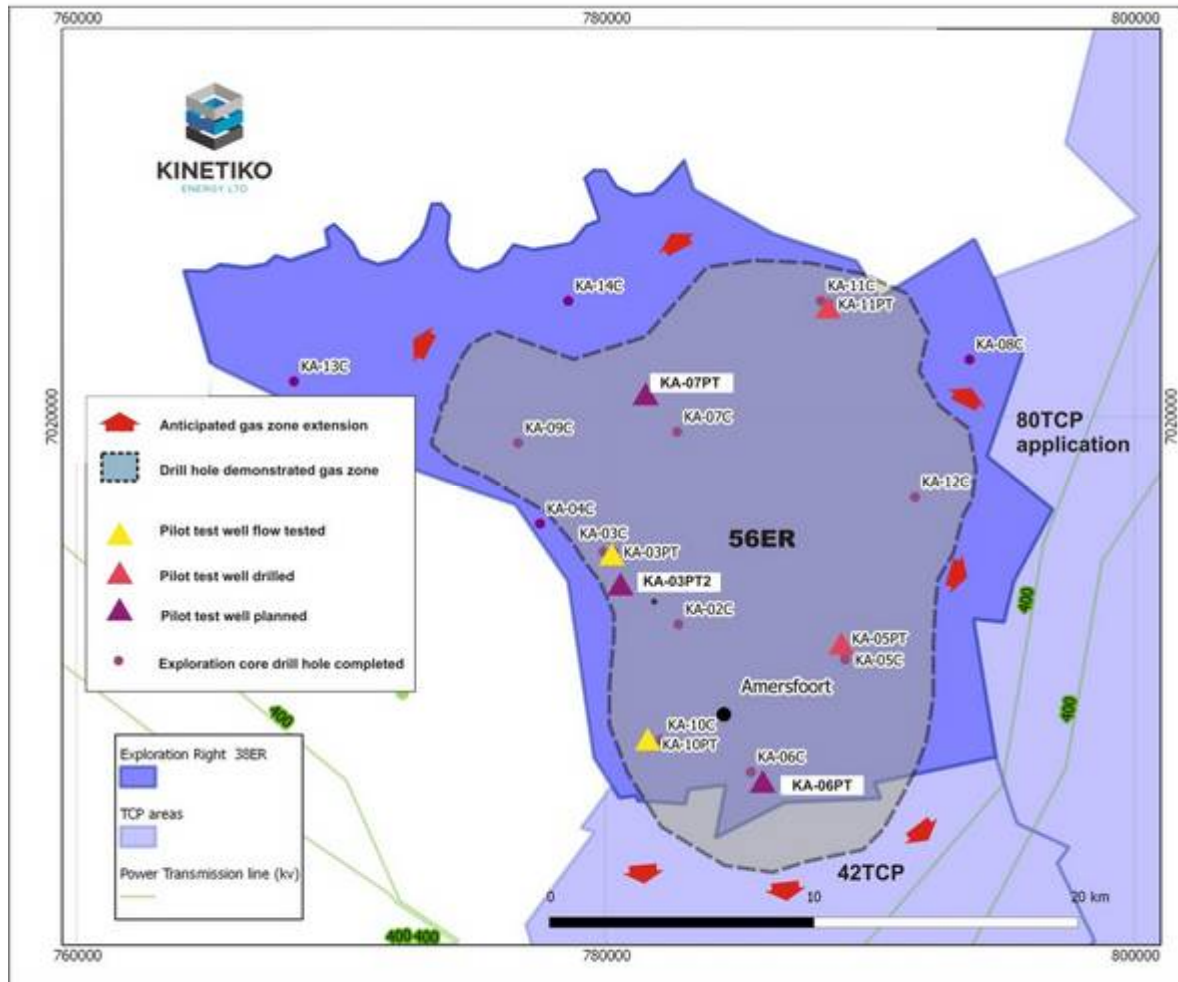


Figure 6: Location of Amersfoort Project pilot test wells

Kinetiko has procured equipment locally, from adjacent countries and from established specialist CBM equipment suppliers in Australia and North America. This has enabled Kinetiko to accumulate high quality equipment sets for the testing program cost effectively. The program has been designed by experienced Australian and North American CBM and gas consultants. Well head operations are being overseen by specialist CBM drilling and testing contractors working with our existing South African drilling teams.

Directors' Report (cont)

Review of Operations (cont)

Targets	Permian Middle Ecca Sandstones (conventional) and coal bed methane					
Permeability Wells/ Pilot Test	KA-03PT	KA-10PT	KA-10PTR	KA-05PT	KA-11PT	KA-07PT
Total Depth (m)	370	440	tbc	344	392	440 Est
Current Depth (m)	370	440	133	344	392	417
Status	Both stages pump-tested. Core hole has been plugged & longer testing is underway.	Abandoned and redrill. Fishing failed on stuck pump and tubing.	Initial gas testing conducted over 10 days, pressure build up test underway before we shut in well.	Re-cement base of casing- Skid/pump run. Low static water level, yielded gas flow but only low pressure. Potential water storage well.	Well tested large volumes of fresh water with entrained gas. Logs indicate fresh water ingress from basal dolerite. Plan to cement back and retest.	Pump- tested full stage. Good gas pressure but low flow rate. May redrill away from collapsing dolerite.
Estimated flow test completion	Initial Test March Ongoing one spot testing	NA	Initial Tests by end July, ongoing	Test Discontinued	Postponed pending JV negotiations	Postponed pending JV negotiations
Aim to certify test results	Initial Test 21st March, ongoing spot testing	NA	Q3/Q4	Test Discontinued	Postponed pending JV negotiations	Postponed pending JV negotiations

Table 2: Pilot test well progress for the northern licence (56ER) Q2/Q3 2013

Exploration Coring

As reported, 20 exploration holes have been drilled on the project to date. These determined the gas content, optimal location of pilot test wells and the extent of the potential shallow gas field.

10 exploration holes were completed on the northern licence (56ER) and 10 exploration holes on the southern licence (38ER). Coring on both licences encountered strong indications of gas in coals and sandstones. Each core hole yielded gassy core samples (carbonaceous mudstones and coals);

- Wireline logs from the southern licence are consistent with the results from the northern license in indicating widespread gas accumulations in the sandstone sequences above and in some cases below the coal beds
- The southern licence core holes have an average total depth of 610 metres (compared to ~410m on the northern licence), and should have a greater pressure and thus propensity for higher gas volumes.

Gustavson Associates of Bolder Colorado is incorporating the latest core desorption data and a resources revision is expected late Q4 2013.

Directors' Report (cont)

Review of Operations (cont)

Amersfoort Project Funding

In December 2012, Kinetiko completed expenditure of the first ZAR26 million (South African Rand) on the Amersfoort Project as required under the terms of the Joint Venture (JV) agreements. In accordance with those agreements, Kinetiko has issued monthly cash calls to Badimo Gas in respect of its 51% share of further exploration expenditure on the project.

Following negotiations in Q2, Badimo Gas paid \$1.1 million pursuant to cash calls made up to the end of May 2013. This followed a comprehensive reconciliation of JV accounts and places the parties in a superior position to coordinate joint financial participation on the Amersfoort project going forward.

The JV in September began a small but important three month exploration work programme (EWP), estimated to cost a total of \$1.3 million (KKO ~\$640,000). Subject to these results Kinetiko is planning exploration programs commencing 2014 including the deeper, and potentially more gas prospective southern licence to drill the first pilot test wells.

For the period June 2013 to end December 2013, Kinetiko estimates Badimo Gas will be liable to fund approximately \$1.4 million of exploration expenditure on the Amersfoort project.

The parties have agreed on the implementation of an audit process to enable more efficient and transparent production of joint venture accounts and prevent future funding disputes. Kinetiko is continuing strategic discussions on how best to deliver operational outcomes from within South Africa.

Badimo Gas had two of their additional South African exploration right applications granted. Kinetiko has a Memorandum of Understanding (MOU) to look at incorporating Badimo assets into the Badimo-Kinetiko JV and discussions continue.

Other Exploration

Technical Cooperation Permits (100% Kinetiko)

Kinetiko has an early mover advantage in unconventional energy in Southern Africa after securing prospective tenure in its own right and developing unconventional gas exploration models applicable to all the Karoo Basins of Sub-Saharan Africa.

In the 12 months since mid-July 2012, Kinetiko acquired data and evaluated the four granted TCP areas surrounding the Amersfoort Project.

- TCPs allow the holder 12 months to carry out desktop investigations and a unique right to convert areas to exploration licenses
- Gustavson Associates estimate that Kinetiko's four originally granted TCP areas to have prospective resources of Gas In Place (GIP) of 9.3tcf (P50).

In mid-2013 Kinetiko, relinquished TCP38 as it was deemed not geologically prospective for gas. Overall the Company retained and made ER applications for 66% of the three TCP areas covering 4,288km², which are prospective for gassy sandstones, mudstones and gassy coal measures.

Directors' Report (cont)

Review of Operations (cont)

Project/ Tenure	Est Area (km ²)
Amersfoort Project	1,601
ER Application TCP37 to ER12/3/266	3,168
ER Application TCP39 to ER12/3/267	757
ER Application TCP42 to ER12/3/268	363
App TCP64	2,394
App TCPAmEast	3,823
Total Amersfoort & Applications	12,105
Badimo Assets Est (MOU)	7,086
Botswana ER Applications	10,500
Total granted and applications	29,691

Table 3: TCPs

These TCP areas are located adjacent to or near the Amersfoort Project and are underlain by similar coal bearing Permian Karoo sequences. Coal depths range from equivalent to the Amersfoort licences to 800+ metres. Drill-hole data from historical coal and mineral exploration has been acquired and is being interpreted.

Botswana Projects

As part of Kinetiko's corporate strategy, the Company is assessing additional projects with the aim of adding significant early mover value to the company

During the June 2013 quarter, Kinetiko applied for 10,500km² of exploration tenure in central Botswana (Figure 7).

- The 11 application areas cover portions of the Permian Kalahari Karoo Basin that extends across Botswana
- The applications are based on an initial three-year term and have been accepted by the Department of Mines. Processing and granting is expected late 2013
- First year exploration commitments amount to a minimum A\$330,000 for the 11 areas, the majority of expenditure is likely to occur H2 2014 and there is significant flexibility to negotiate the terms.

Directors' Report (cont)

Review of Operations (cont)

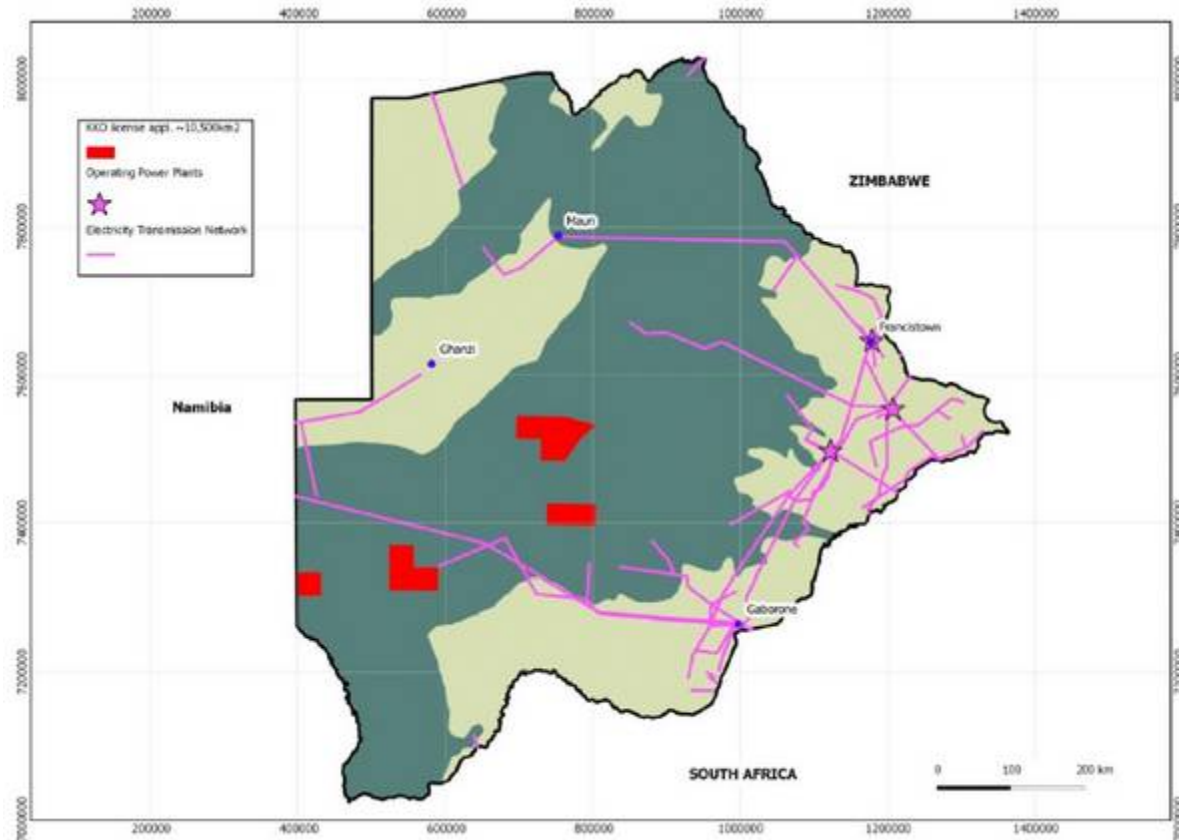


Figure 7: Electrical power infrastructure. Botswana is connected to the Southern African Power Pool (SAPP).

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.

Corporate

As at June 30 Kinetiko had \$1.6 million cash. Additional funding will be required by end 2013 to support the growing Exploration endeavours and other corporate and business development initiatives are being discussed.

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:

- Drilling of the first production test wells at Amersfoort commenced during the December 2012 quarter and continues to encounter significant coals, carbonaceous mudstones and widespread gas in both coals and as conventional accumulations in sandstones. Five exploration pilot test wells have been drilled and continue to be tested on the Northern Licence and the Company has also received regulatory approvals for up to eight pilot test wells on the Southern Licence, of which five are planned to be drilled. Current programs, including further testing to determine gas flow rates and recoverability, are scheduled to continue throughout 2013.
- On 25 October 2012, 1,000,000 ordinary shares and 2,250,000 unlisted incentive options were issued to Mr Andrew Lambert, a Director of the Company, pursuant to his Employment Agreement dated in June 2011 and given shareholders approval at the Company's General Meeting held on 25 September 2012.
- In December 2012, the Company completed expenditure of the first ZAR26 million (South African Rand), approximately \$3.2 million, on the Amersfoort Project as required under the terms of the Joint Venture agreements.
- In December 2012, the Company raised approximately \$3 million through private placement of 16.65 million ordinary shares at 18 cents each. This placement was to assist with funding the development of the Amersfoort Project, and for additional working capital purposes.
- The Company has made applications for 10,500km² of exploration tenure for areas covering the Permian Kalahari Karoo Basin that extends across Botswana, to enhance its portfolio of unconventional energy projects in Sub Saharan Africa.

Matters subsequent to the end of the financial year

In accordance with the Joint Venture agreements, the Company has received from Badimo Gas Pty Ltd ("Badimo"), its partner for the Amersfoort Project, approximately \$1.1 million pursuant to cash calls issued up to the end of May 2013 in respect of their 51% share of exploration expenditure on the project. This funding contribution made in July 2013 has reinforced the operational support of Badimo to the project and has allowed for the immediate recommencement of exploration activities with joint endeavour to fast track booking of maiden reserves for the remainder of the year.

No other matters or circumstance has arisen since 30 June 2013 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.

Likely developments and expected results of operations

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.

Directors' Report (cont)

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, 11 meetings of Directors were held. Attendances by each director were as follows:

	Number eligible to attend	Number Attended
Adam Sierakowski	11	11
Andrew Lambert	11	11
Dr James Searle	11	11
Geoffrey Michael	11	10

Directors' Shareholdings

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

Director	Ordinary Shares
Adam Sierakowski	10,062,500
Andrew Lambert	1,000,000
Dr James Searle	10,725,000
Geoffrey Michael	21,550,000

Share Options

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Date of Grant	Expiry date	Exercise price of Options	Number under Options
25 October 2012	30 June 2014	\$0.25	500,000
25 October 2012	30 June 2015	\$0.50	750,000
25 October 2012	30 June 2016	\$0.75	1,000,000
			<hr/> 2,250,000 <hr/>

During the year ended 30 June 2013, 2,250,000 unlisted incentive options were issued to Andrew Lambert, in accordance with his Employment Agreement dated in June 2011 and following shareholders approval at the Company's General Meeting held on 25 September 2012.

Directors' Report (cont)

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.

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' Report (cont)

Remuneration Report (cont)

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

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.

During the year ended 30 June 2013, a bonus of \$50,000 linked to pre-determined performance criteria, was paid to the Managing Director after Board approval.

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.

Remuneration governance

The Company has not formed a remuneration committee. The role of a remuneration committee is instead carried out by the full Board in accordance with the Nomination and Remuneration Committee charter. The Corporate Governance statement provides further information on the role of this committee.

(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

Directors' Report (cont)

Remuneration Report (cont)

(c) Compensation of Key Management Personnel (cont)

The emoluments for each director and key management personnel of the Company for the year ended 30 June 2013 are as follows:

Year ended 30 June 2013	Short-term			Post employment		Total	Remuneration consisting of rights & options
	Salary & Fees	Profit Share & Bonuses	Non Cash	Share Based Payments	Superannuation		%
	\$	\$	\$	\$	\$	\$	
Directors							
A Sierakowski	72,000	-	-	-	-	72,000	-
A Lambert	250,000	50,000	-	37,510	25,615	363,125	10
Dr J Searle	225,840	-	-	-	-	225,840	-
G Michael	206,838	-	-	-	-	206,838	-
Company Secretary							
S Hewitt-Dutton	48,000	-	-	-	-	48,000	-
	802,678	50,000	-	37,510	25,615	915,803	10

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

Year ended 30 June 2012	Short-term			Post employment		Total	Remuneration consisting of rights & options
	Salary & Fees	Profit Share & Bonuses	Non Cash	Share Based Payments	Superannuation		%
	\$	\$	\$	\$	\$	\$	
Directors							
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	-
Company Secretary							
S Hewitt-Dutton	48,000	-	-	-	-	48,000	-
	727,050	-	20,312	268,062	22,500	1,037,924	49

Directors' Report (cont)

Remuneration Report (cont)

(c) Service agreements

The agreements related to remuneration are set out below

- (i) The Company has entered into a service agreement with Ageus Pty Ltd, a Company in which Geoffrey Michael has an interest, for the provision of business consultancy services. The Company has agreed to pay a base remuneration of \$10,000 per month (\$120,000 per annum), and any additional payments for hours of services performed over and above the required minimum. The agreement further provides for payments of capital raising fees equal to 6% of the funds introduced and raised directly by Ageus for any future capital raisings undertaken by the Company. The term of the agreement is for a period of 12 months commencing on 1 July 2012 and shall terminate after the initial term. Payment of termination benefit on early termination by the Company, other than by gross misconduct, equal to 12 months of remuneration. Ageus Pty Ltd is also entitled to a monthly director's fee of \$5,000.

The Company has given consent in November 2011 that all rights and obligations under the service agreement held in the first instance by Ageus to be assigned to Vital Nominees Pty Ltd as trustee for the Vital Trust.

- (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 \$10,000 per month (\$120,000 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 during the period. The term of the agreement is for a period of 12 months commencing 1 June 2012; however such monthly fee may be increased or extended by mutual agreement between both parties. The agreement further provides for additional payments in the event of domestic and international travel being required at a day rate of \$2,500 per day, and payments of 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.

In addition, Trident receives \$6,000 per month for Mr Sierakowski's services as Non-Executive Chairman, 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.

During the financial year ended 30 June 2013, Mr Lambert also received a bonus payment of \$50,000, being a Board approved discretionary bonus payable due to Mr Lambert meeting his key performance indicators during the year.

Directors' Report (cont)

Remuneration Report (cont)

(c) Service agreements (cont)

Having completed 12 months of service and satisfied the condition of the performance rights under the employment agreement, the shareholders have approved in the General Meeting held on 25 September 2012, for 1,000,000 ordinary shares to be issued to Mr Lambert.

Prior to the issue of the ordinary shares, 1,000,000 performance rights were issued, entitling Mr Lambert to acquire 1 share for every performance right held. The fair value of the performance rights was \$190,000, calculated using the Black-Scholes valuation methodology as determined per AASB 2. This amount was charged to the Statement of Financial Performance for the year ended 30 June 2012, and no further amounts has been subsequently charged in relation to the issue of ordinary shares.

In that General Meeting, shareholders also approved the issue of the following incentive options to Mr Lambert:

- (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; and
- (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 \$37,510 is included in the Statement of Financial Performance and Statement of Changes in Equity for the year ended 30 June 2013.

Incentive Options	Value per Director Option \$	Vesting Period (months)	Total Value of Options \$	Vested Value of Options \$
500,000	0.0711	12	35,550	35,550
750,000	0.0554	24	41,550	41,550
1,000,000	0.0554	36	55,400	38,472
			<u>132,500</u>	<u>115,572</u>

(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 2012 Annual General Meeting

The approval of the remuneration report was passed as indicated in the results of Annual General Meeting dated 30 November 2012. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

The Company received more than 94% of "Yes" votes on its resolution to re-elect Dr James Searle as Director.

End of audited remuneration report

Directors' Report (cont)

Indemnification of Officers and Auditors

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, for the financial year. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

Non-Audit Services

The Company may decide to employ the auditors on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The Directors are satisfied that the provision of non-audit services, during the 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.

No non-audit services have been provided by the Company's auditors in the year ended 30 June 2013. Remuneration paid to the Company's auditors is detailed in Note 14 of this report.

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 24.

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 14 to the financial statements.

Environmental Regulations

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:



DIRECTOR

Dated at Perth, 27 September 2013

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 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 audit; and
- any applicable code of professional conduct in relation to the audit.



Peter Toll
Director

BDO Audit (WA) Pty Ltd

Perth, Western Australia

27 September 2013

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 2013, the statement of profit or loss and other 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 gives a true and fair view and 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 2013 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.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the 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 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd



Peter Toll
Director

Perth, 27 September 2013

Directors' Declaration

The directors of the company declare that:

- a) The financial statements and notes, as set out on pages 28 to 57 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 2013 and of its performance for the year ended to 30 June 2013; 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 2013.

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



DIRECTOR

Dated at Perth, 27 September 2013

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	30 June 2013 \$	30 June 2012 \$
Revenue			
Revenue from ordinary activities	2(a)	130,962	361,103
Foreign exchange gain		-	2,773
Total Revenue		<u>130,962</u>	<u>363,876</u>
Expenses			
Depreciation	2(b)	(53,977)	(11,643)
Administration expenses		(256,382)	(174,652)
Consultancy and professional costs	2(c)	(383,021)	(270,962)
Employment and contractor expenses		(714,680)	(589,084)
Travel expenses		(171,270)	(92,366)
Occupancy expenses		(77,877)	(45,325)
Share based payments	12	(37,510)	(268,062)
Other operating expenses		(33,172)	(1,609)
Total expenses		<u>(1,727,889)</u>	<u>(1,453,703)</u>
Loss before income tax expenses		<u>(1,596,927)</u>	<u>(1,089,827)</u>
Income tax expense	3	-	-
Loss after Income Tax Expense for the year		<u>(1,596,927)</u>	<u>(1,089,827)</u>
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign currency		(33,330)	390
Other comprehensive income/(loss) for the year		<u>(33,330)</u>	<u>390</u>
Total comprehensive loss for the year net of tax		<u>(1,630,257)</u>	<u>(1,089,437)</u>
Loss per share for loss from continuing operations attributable to equity holders of the company:			
Basic loss per share (cents)	4	(1.3)	(1.0)

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 30 JUNE 2013**

	Note	30 June 2013 \$	30 June 2012 \$
CURRENT ASSETS			
Cash assets	19(a)	1,599,711	4,907,850
Receivables	5	1,530,082	94,485
Other	6	44,822	47,714
TOTAL CURRENT ASSETS		3,174,615	5,050,049
NON CURRENT ASSETS			
Property, plant & equipment	7	531,593	225,286
Capitalised exploration and evaluation expenditure costs	8	7,030,331	3,726,829
TOTAL NON CURRENT ASSETS		7,561,924	3,952,115
TOTAL ASSETS		10,736,539	9,002,164
CURRENT LIABILITIES			
Trade & other payables	9	896,399	371,682
TOTAL CURRENT LIABILITIES		896,399	371,682
TOTAL LIABILITIES		896,399	371,682
NET ASSETS		9,840,140	8,630,482
EQUITY			
Contributed equity	10	12,798,365	9,995,570
Reserves	11	272,242	268,452
Accumulated losses	13	(3,230,467)	(1,633,540)
TOTAL EQUITY		9,840,140	8,630,482

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 2013

Year ended 30 June 2013	Attributable to equity holders				Total Equity
	Ordinary Shares	Foreign Currency Exchange Reserve	Accumulated Losses	Share Based Payments Reserve	
	\$	\$	\$	\$	\$
Balance at 1 July 2012	9,995,570	390	(1,633,540)	268,062	8,630,482
Other comprehensive income					
Movement in reserves	-	(33,720)	-	-	(33,720)
Loss for the year	-	-	(1,596,927)	-	(1,596,927)
Total comprehensive income / (loss) for the year	-	(33,720)	(1,596,927)	-	(1,630,647)
Transactions with owners in their capacity as owners					
Shares issued during the year	2,997,000	-	-	-	2,997,000
Share issue costs	(194,205)	-	-	-	(194,205)
Shares based payments	-	-	-	37,510	37,510
Total contributions by owners	2,802,795	-	-	37,510	2,840,305
Balance at 30 June 2013	12,798,365	(33,330)	(3,230,467)	305,572	9,840,140

Year ended 30 June 2012	Attributable to equity holders				Total Equity
	Ordinary Shares	Foreign Currency Exchange Reserve	Accumulated Losses	Share Based Payments Reserve	
	\$	\$	\$	\$	\$
Balance at 1 July 2011	965,010	226	(543,713)	-	421,523
Other comprehensive income					
Movement in reserves	-	164	-	-	164
Loss for the year	-	-	(1,089,827)	-	(1,089,827)
Total comprehensive income / (loss) for the year	-	164	(1,089,827)	-	(1,089,663)
Transactions with owners in their capacity as owners					
Shares issued during the year	10,000,000	-	-	-	10,000,000
Share issue costs	(969,440)	-	-	-	(969,440)
Shares based payments	-	-	-	268,062	268,062
Total contributions by owners	9,030,560	-	-	268,062	9,298,622
Balance at 30 June 2012	9,995,570	390	(1,633,540)	268,062	8,630,482

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 2013**

	Note	30 June 2013 \$	30 June 2012 \$
Cash flows from operating activities			
Payments to suppliers and employees		(1,694,686)	(1,208,763)
Interest received		130,584	338,349
Interest paid		(256)	(2,124)
Net cash used in operating activities	19(b)	<u>(1,564,358)</u>	<u>(872,538)</u>
Cash flows from investing activities			
Payment for property, plant & equipment		(470,244)	(124,043)
Capitalised exploration and evaluation expenditure		(4,023,393)	(3,384,223)
Net cash used in investing activities		<u>(4,493,637)</u>	<u>(3,508,266)</u>
Cash flows from financing activities			
Proceeds from the issue of equity securities		2,997,000	6,477,000
Share issue costs		(194,205)	(714,848)
Payment of security deposits		(20,000)	(10,000)
Repayment of insurance funding liability		-	(17,677)
Net cash provided by financing activities		<u>2,782,795</u>	<u>5,734,475</u>
Net increase/(decrease) in cash and cash equivalents		(3,275,200)	1,353,671
Effects of exchange rate on cash and cash equivalents		(32,939)	(616)
Cash and cash equivalents at the beginning of the financial year		<u>4,907,850</u>	<u>3,554,795</u>
Cash and cash equivalents at the end of the financial year	19(a)	<u><u>1,599,711</u></u>	<u><u>4,907,850</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (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 27 September 2013.

Basis of preparation

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going Concern

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

The ability of the Company to continue as a going concern is dependent on the Company being able to raise additional funds as required to meet ongoing commitments and for working capital. The timing of raising additional capital will depend on Investment markets, current and future planned exploration and development activities.

Whilst there is uncertainty regarding the outcomes of funding alternatives, the Board considers that the quality of its projects will enable it to raise further capital to fund its exploration and development activities. In addition, the Company has the capacity to defer a number of expenses that are discretionary in nature, including administrative costs, exploration programs and development expenditure for the commercialisation of its projects that are not contractually binding. The Directors have reviewed the business outlook and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will be able to raise the funds that it requires to carry on business.

The financial report does not contain any adjustments to the amounts or classification of recorded assets or liabilities which might be necessary if the Company was not to continue as a going concern.

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).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

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.

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 Statement of Financial Position.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(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.

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 Profit or Loss and Other 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(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.

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:

Plant and equipment	6.67% to 66.67%
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(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 Profit or Loss and Other Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(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.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(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 reporting 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.

(t) Interests in Joint Ventures

The Company's shares of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements. Details of the Company's interests are provided in Note 24.

The Company's interests in joint venture entities are recorded using the proportionate method of accounting as required by AASB 11 A New Model for Joint Arrangements.

(u) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Company. The Company has decided not to early adopt any of the new and amended pronouncements. The Company's assessment of the new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(u) New Accounting Standards for Application in Future Periods (cont)

- (i) AASB 9: *Financial Instruments* (December 2010) and AASB 2010–7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*.

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012–6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of the change to the mandatory effective date, the Company is expected to adopt AASB 9 and AASB 2010–7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010–7 may have a significant impact on the Company's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

- (ii) AASB 10: *Consolidated Financial Statements*, AASB 11: *Joint Arrangements*, AASB 12: *Disclosure of Interests in Other Entities*, AASB 127: *Separate Financial Statements* (August 2011) and AASB 128: *Investments in Associates and Joint Ventures* (August 2011) (as amended by AASB 2012–10: *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*), and AASB 2011–7: *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (applicable for annual reporting periods commencing on or after 1 January 2013).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(u) New Accounting Standards for Application in Future Periods (cont)

AASB 10 replaces parts of AASB 127: *Consolidated and Separate Financial Statements* (March 2008, as amended) and Interpretation 112: *Consolidation – Special Purpose Entities*. AASB 10 provides a revised definition of “control” and additional application guidance so that a single control model will apply to all investees. This Standard is not expected to significantly impact the Company’s financial statements.

- (iii) AASB 11 replaces AASB 131: *Interests in Joint Ventures* (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

The Company’s interest in the Amersfoort Project with Badimo (see Note 24), will be referred to as a “joint venture” under AASB 11. Joint ventures are required to be accounted for using the equity method of accounting under AASB 11. The proportionate consolidation method is no longer permitted. The Company has decided not to early adopt this new pronouncement in the current financial year. In the future, this change is likely to impact the classification of this JV interest, such that amounts included as Capitalised exploration and evaluation expenditure costs on the Statement of Financial Position will need to be restated as Investments accounted for using equity method.

- (iv) AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Company’s financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The revisions made to AASB 127 and AASB 128 are not expected to significantly impact the Company’s financial statements.

- (v) AASB 13: *Fair Value Measurement* and AASB 2011–8: *Amendments to Australian Accounting Standards arising from AASB 13* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the Company’s financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(u) New Accounting Standards for Application in Future Periods (cont)

- (vi) AASB 2011–4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (applicable for annual reporting periods beginning on or after 1 July 2013).

This Standard makes amendments to AASB 124: *Related Party Disclosures* to remove the individual key management personnel disclosure requirements. These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements.

This Standard is not expected to significantly impact the Company's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and
- AASB 2011–4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011–4.

- (vii) AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10: *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including:

- removal of the "corridor" approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability/(asset) when they occur; and
- disaggregation of changes in a net defined benefit liability/(asset) into service cost, net interest expense and remeasurements and recognition of:
 - (i) service cost and net interest expense in profit or loss; and
 - (ii) remeasurements in other comprehensive income.

AASB 119 (September 2011) also includes changes to the criteria for determining when termination benefits should be recognised as an obligation.

The Company does not have any defined benefit plans and thus changes to the standard are not relevant.

- (viii) AASB 2012–2: *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012–2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard is not expected to significantly impact the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

1. Summary of Significant Accounting Policies (cont)

(u) New Accounting Standards for Application in Future Periods (cont)

- (ix) AASB 2012-3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

This Standard is not expected to significantly impact the Company’s financial statements.

- (x) AASB 2012-5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011* (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of *Annual Improvements to IFRSs 2009-2011 Cycle* by the International Accounting Standards Board, including:

- AASB 1: *First-time Adoption of Australian Accounting Standards* to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting* to clarify the requirements for presenting comparative information;
- AASB 116: *Property, Plant and Equipment* to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: *Members’ Shares in Co-operative Entities and Similar Instruments* to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

(v) Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the Statement of Profit or Loss and Other Comprehensive Income to show the items of comprehensive income grouped into those that are not permitted to be classified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 (cont)

	2013 \$	2012 \$
Note 2: Loss From Continuing operations		
Loss from Continuing operations before income tax includes the following items of revenue and expenses		
(a) <u>Interest revenue</u>	130,962	361,103
(b) <u>Operating Expenses</u>		
Depreciation of plant and equipment	53,977	11,643
(c) <u>Significant Expenses</u>		
Consulting and professional fees in relation to general administration and assistance with negotiation of agreement with Badimo Gas Pty Ltd	89,008	-
Corporate advisory fees	130,000	175,000
Auditing costs	58,560	47,355
Other professional fees	105,453	48,607
Consulting and professional costs	383,021	270,962

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:

	2013 \$	2012 \$
Loss from Operations	(1,596,927)	(1,089,827)
Income tax benefit calculated at 30%	(479,078)	(326,948)
Capital raising cost allowable	(41,080)	(41,080)
Non deductible share based payments	11,253	80,419
	(508,905)	(287,609)
Movements in unrecognised Timing differences	12,820	(4,481)
Unused tax losses not recognised as a deferred tax asset	496,085	292,090
Income tax expense reported in the income statement	-	-

(b) Unrecognised deferred tax balances:

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

Unrecognised deferred tax asset – tax losses	985,785	489,700
Unrecognised deferred tax liability – timing differences	(113)	(6,826)
Unrecognised deferred tax asset – other temporary differences	20,620	8,929
Net deferred tax assets not brought to account	1,006,292	491,803

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (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.

Note 4: Loss per share	2013 Cents Per Share	2012 Cents Per Share
Basic loss per share:	(1.3)	(1.0)

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:

	2013 \$	2012 \$
Loss for the period after income tax	(1,596,927)	(1,089,827)
	2013 No.	2012 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	119,392,192	107,131,148

Note 5: Receivables

(a) Current

	2013 \$	2012 \$
Receivable – Badimo JV contribution	1,444,440	-
Other receivables – VAT refundable	171,257	-
Less: Provision for VAT	(171,257)	-
Other receivables – GST refundable	23,673	37,793
Other debtor	21,592	13,938
Security bonds	40,000	20,000
Accrued interest receivable	377	22,754
	<u>1,530,082</u>	<u>94,485</u>

None of the above receivables are past due or impaired. Refer to Note 20 for the Company's financial risk management and policies.

Note 6: Other Assets

	2013 \$	2012 \$
Prepaid insurance	11,878	26,867
Consumables	32,944	20,847
	<u>44,822</u>	<u>47,714</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 7: Property, Plant & Equipment

	2013	2012
	\$	\$
Opening net book value	225,286	2,886
Additions	470,244	234,043
Disposals	(110,000)	-
Profit/(loss) on sale	40	-
Depreciation charge for the year	(53,977)	(11,643)
Closing net book value	<u>531,593</u>	<u>225,286</u>
Cost or fair value	597,654	237,409
Accumulated depreciation	<u>(66,061)</u>	<u>(12,123)</u>
	<u>531,593</u>	<u>225,286</u>

Note 8: Capitalised Exploration & Evaluation Expenditure Costs

	2013	2012
	\$	\$
Opening balance of Capitalised Exploration & Evaluation Expenditure Assets	3,726,829	1,725,694
Exploration & Evaluation Expenditure during the period	4,747,942	2,001,135
Badimo JV Contribution – Cash call	(1,444,440)	-
Closing balance of Capitalised Exploration & Evaluation Expenditure Assets	<u>7,030,331</u>	<u>3,726,829</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

	2013	2012
	\$	\$
Trade payables and accruals	896,399	371,682
	<u>896,399</u>	<u>371,682</u>

Refer to Note 20 for the Company's financial risk management and policies.

Note 10: Issued Capital(a) Issued Capital

Movements in share capital were as follows:

Year ended		Issue Price	Fully Paid Ordinary Shares	\$
30 June 2013				
1 July 2012	Opening Balance		110,000,000	9,995,570
25 October 2012	Issue of shares pursuant to employment agreement *		1,000,000	-
17 to 21 December 2012	Issue of shares pursuant to placement facility	\$0.1800	16,650,000	2,997,000
	Share issue costs		-	(194,205)
30 June 2013	Closing Balance		<u>127,650,000</u>	<u>12,798,365</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 10: Issued Capital (cont)

* During the year ended 30 June 2013, 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 following shareholders approval at the Company's General Meeting held on 25 September 2012.

Year ended		Issue Price	Fully Paid Ordinary Shares	\$
30 June 2012				
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>

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 20(b) for the Company's capital risk policy.

(b) Options

The following unlisted incentive options were issued during the year ended 30 June 2013.

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

* Refer to Note 12(ii) for details of the issue.

Note 11: Reserves

(i) Foreign Exchange Reserve	2013	2012
	\$	\$
Balance at beginning of financial year	390	226
Movement for year	(33,720)	164
Foreign Exchange Reserve	<u>(33,330)</u>	<u>390</u>

Refer to Note 20(e) for the Company's foreign exchange risk policy.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 11: Reserves (cont)

(ii) Share Based Payments Reserve

	2013 \$	2012 \$
Balance at beginning of financial year	268,062	-
Movement for year	37,510	268,062
Share Based Payments Reserve	305,572	268,062

(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.

Note 12: Share Based Payments

(i) Performance Rights

During the financial year ended 30 June 2012, \$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%

Following the grant of the performance rights, 1,000,000 ordinary shares were subsequently issued to Mr Lambert on 25 October 2012 following shareholders approval at the Company's General Meeting held on 25 September 2012.

(ii) Incentive Options

During the year ended 30 June 2013, 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 following shareholders approval at the Company's General Meeting held on 25 September 2012.

During the financial year, \$37,510 (2012: \$78,062) was recognised as a share based payment made to Andrew Lambert, a director of the Company, representing the amortised fair value of the incentive options.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 12: Share Based Payments (cont)

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

	25c Options	50c Options	75c Options	Total
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 to 30 June 2013	\$35,550	\$41,550	\$38,472	\$115,572
Amount to be Expensed in Future Years	\$0	\$0	\$16,928	\$16,928
Opening balance	-	-	-	
Issued during the year	500,000	750,000	1,000,000	
Expired during the year	-	-	-	
Exercised during the year	-	-	-	
Closing balance	500,000	750,000	1,000,000	

Note 13: Accumulated Losses

	2013	2012
	\$	\$
Balance at beginning of financial year	(1,633,540)	(543,713)
Net Loss	(1,596,927)	(1,089,827)
Balance at end of financial year	<u>(3,230,467)</u>	<u>(1,633,540)</u>

Note 14: Remuneration of Auditors

	2013	2012
	\$	\$
BDO Audit (WA) Pty Ltd		
Audit or review of the financial report	58,560	47,355
	<u>58,560</u>	<u>47,355</u>

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

Note 15: 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 (cont)

Note 15: Segment Information (cont)

Based on the above, management has determined that the company has one operating segment being gas exploration in South Africa. As the Company is focused on gas exploration, the Board monitors the company based on actual versus budgeted exploration expenditure incurred by area of interest. These areas of interest meet aggregating criteria and are aggregated into one reporting sector. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the company and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

	2013 \$	2012 \$
Revenue from external sources	-	-
Reportable segment loss	-	-
Reportable segment assets	6,859,075	3,726,829
Reportable segment liabilities	-	-
Reconciliation of reportable segment loss		
Reportable segment loss	-	-
Other revenue	130,962	363,876
Unallocated expenses	(1,727,889)	(1,453,703)
Loss before tax	(1,596,927)	(1,089,827)
Reconciliation of reportable segment assets		
Reportable segment assets	6,859,075	3,726,829
Unallocated:		
- Cash	1,599,711	4,907,850
- Receivables	1,701,338	94,485
- Other assets	44,822	47,714
- Property, plant and equipment	531,593	225,286
Total assets	10,736,539	9,002,164
Reconciliation of reportable segment liabilities		
Reportable segment liabilities	-	-
Unallocated:		
- Trade and other payables	(896,399)	(371,682)
Total liabilities	(896,399)	(371,682)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 16: 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.

	2013 \$	2012 \$
(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	48,000
(ii) Payments to Price Sierakowski Pty Ltd, a company of which Adam Sierakowski is a Director and shareholder, for legal services provided.	16,810	2,310
(iii) Payments made to Trident Capital Pty Ltd, a Company of which Adam Sierakowski is a Director, for the provision of corporate advisory services and capital raising fees.	167,500	175,000
(iv) 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
(v) Payments to Cirrena Pty Ltd, a Company of which G Michael is a Director, for the provision of IT consulting services.	9,225	-

(b) Amounts outstanding at reporting date

Aggregates amount payable to Key Management Personnel and their related entities at reporting date.

Payables	57,316	22,572
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Note 17: Key Management Personnel Disclosures

Refer to Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's Key Management Personnel (KMP) for the year ended 30 June 2013.

(a) Compensation of Key Management Personnel

	2013 \$	2012 \$
Short term employee benefits	852,678	747,362
Share based payments	37,510	268,062
Post employment benefits	25,615	22,500
	<u>915,803</u>	<u>1,037,924</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 17: Key Management Personnel Disclosures (cont)

(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 16: Related Party Disclosures.

(d) Shareholdings of Key Management Personnel

2013	Balance at 01/07/12 No.	Shares Purchased No.	Shares Issued No.	Shares Disposed No.	Balance at 30/06/13 No.
Directors					
A Sierakowski	9,870,000	75,000	-	-	9,945,000
A Lambert	-	-	1,000,000	-	1,000,000
Dr J Searle	10,500,000	150,000	-	-	10,650,000
G Michael	21,400,000	150,000	-	-	21,550,000
Company Secretary					
S Hewitt-Dutton	50,000	-	-	-	50,000
	41,820,000	375,000	1,000,000	-	43,195,000
2012	Balance at Incorporation No.	Shares Purchased No.	Shares Issued No.	Shares Disposed No.	Balance at 30/06/12 No.
Directors					
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
Company Secretary					
S Hewitt-Dutton	50,000	-	-	-	50,000
	41,550,000	270,000	-	-	41,820,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 (cont)

Note 17: Key Management Personnel Disclosures (cont)

(e) Options on Issue

2013	Balance at 01/07/12 No.	Options Purchased No.	Options Issued No.	Options Disposed No.	Balance at 30/06/13 No.
Directors					
A Sierakowski	-	-	-	-	-
A Lambert	-	-	2,250,000	-	2,250,000
Dr J Searle	-	-	-	-	-
G Michael	-	-	-	-	-
Company Secretary					
S Hewitt-Dutton	-	-	-	-	-
	-	-	2,250,000	-	2,250,000

There were no options on issue as at 30 June 2012.

(f) Performance Shares on Issue

As part of Andrew Lambert's employment contract 1 million performance shares were issued on 25 October 2012 following shareholder approval.

Note 18: Events Occurring After The Reporting Date

In July 2013, the Company received approximately \$1.1 million from Badimo in respect of their 51% share of exploration expenditure on the Amersfoort project Joint Venture.

On 21 July 2013, 50,300,000 fully paid ordinary shares being held by the founders of the Company were released from Escrow.

There are no other matters or circumstances that have arisen since 30 June 2013 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

Note 19: 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:

	2013 \$	2012 \$
Cash at bank and in hand	1,599,711	4,907,850

Refer to Note 20 for the Company's financial risk management on cash.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013 (cont)

Note 19: Notes to the Statement of Cash Flow (cont)

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

Loss for the year	(1,596,927)	(1,089,827)
Depreciation	53,977	11,643
Changes in assets and liabilities:		
Trade and other payables	73,556	19,856
Receivables	(154,335)	(60,820)
Provisions	18,969	9,763
Inventory and prepayments	2,892	(31,215)
Share based payments	37,510	268,062
Net cash (used in) operating activities	<u>(1,564,358)</u>	<u>(872,538)</u>

(c) Non-Cash Financing and Investing Activities

There were no non-cash financing and investing activities during the year ended 30 June 2013.

Note 20: Financial Instruments

Financial risk management and policies

The Company'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.

The Company holds the following financial instruments:

	2013	2012
	\$	\$
Financial assets		
Cash and cash equivalents	1,599,711	4,907,850
Trade and other receivables	1,701,338	94,485
	<u>3,301,049</u>	<u>5,002,335</u>
Financial liabilities		
Trade payables and accruals	896,399	371,682
	<u>896,399</u>	<u>371,682</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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 20: Financial Instruments (cont)

(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 2013.

Cash at bank is held with internationally regulated banks. As at 30 June 2013, all cash and cash equivalents were held with AA rated banks.

The Company had amount receivable from Badimo Gas of approximately \$1.4 million as at 30 June 2013, of this \$1.1 million was subsequently paid in July 2013 (refer to Note 21(b)).

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

(b) Capital risk

The Company'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 2013, the Company'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.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 20: Financial Instruments (cont)

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:

As at 30 June 2013	<1 year	1 – 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial Assets:					
Cash	1,599,711	-	-	1,599,711	4.00
Receivables & other	1,530,082	-	-	1,530,082	
	<u>3,129,793</u>	<u>-</u>	<u>-</u>	<u>3,129,793</u>	
Financial Liabilities:					
Trade payables & accruals	896,399	-	-	896,399	
	<u>896,399</u>	<u>-</u>	<u>-</u>	<u>896,399</u>	
As at 30 June 2012	<1 year	1 – 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial Assets:					
Cash	4,907,850	-	-	4,907,850	3.75
Receivables & other	94,485	-	-	94,485	-
	<u>5,002,335</u>	<u>-</u>	<u>-</u>	<u>5,002,335</u>	
Financial Liabilities:					
Trade payables & accruals	371,682	-	-	371,682	-
	<u>371,682</u>	<u>-</u>	<u>-</u>	<u>371,682</u>	

(d) Interest rate risk

The sensitivity analysis has not been determined for the exposure to interest rate risk, because the directors of the Company consider it to be immaterial.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 20: Financial Instruments (cont)

(e) 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. If the foreign exchange rates strengthened or weakened by 20% with all other variables held constant the Company's net asset value would have been \$53,000 lower or \$53,000 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:

	2013	2012
Cash – ZAR	3,522,591	-
Receivables – ZAR	152,925	-
Trade payables - ZAR	(5,484,188)	(486,664)
Trade payables - USD	(60,074)	(18,980)

(f) 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 21: Commitments for expenditure

(a) Operating lease commitments

	2013 \$	2012 \$
Not later than 1 year	46,553	47,591
Later than 1 year and not later than 2 years	-	-
Later than 2 years and not later than 5 years	-	-
	<u>46,553</u>	<u>47,591</u>

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

Pursuant to the agreement with Badimo dated 30 August 2010, Kinetiko Energy Ltd has expended the first ZAR26 million (A\$3,200,000) in December 2012. Pursuant to cash calls issued, Badimo repaid approximately \$1.1 million to Kinetiko in July 2013 to cover their share of exploration expenditure on the Amersfoort project.

Going forward, Kinetiko and Badimo shall be required to fund the respective exploration work programmes in accordance with their respective percentage interests.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (cont)**

Note 21: Commitments for expenditure (cont)

(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 22: Contingent Liabilities

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

Note 23: Dividends

No dividends were paid or declared during the year.

Note 24: 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:

	2013	2012
	\$	\$
Statement of Financial Position		
Current Assets	-	-
Non Current Assets	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	-	-

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 11th September 2013.

Shareholdings as at 11th September 2013**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 2013 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

Options are on issue to Andrew Lambert.

Securities	Number of Options	Number of Holders
Options expiring 30 June 2014 at exercisable price of \$0.25	500,000	1
Options expiring 30 June 2015 at exercisable price of \$0.50	750,000	1
Options expiring 30 June 2016 at exercisable price of \$0.75	1,000,000	1

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 2013, 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 released from escrow

The following securities have now been released from escrow:

Securities	Date Released	Number
Fully Paid Shares	21 July 2013	50,300,000

KINETIKO ENERGY LTD ABN 45 141 647 529

Distribution of security holders Category	Number of Holders
1 - 1,000	3
1,001 – 5,000	24
5,001 – 10,000	46
10,001 – 100,000	414
100,001 and over	174
	661

Twenty largest shareholders – Ordinary Shares

Name		Number of ordinary shares held	Percentage of capital held
CHRISTINA MICHAEL	M & A A/C	21,400,000	16.76%
EARTHSCIENCES PTY LTD	SEARLE S/F A/C	10,500,000	8.23%
BLUE SAINT PTY LTD		7,500,000	5.88%
BNP PARIBAS NOMS PTY LTD		6,104,110	4.78%
EKUL NOMINEES PTY LTD		4,000,000	3.13%
HOLDREY PTY LTD	DON MATHIESON FAM	3,397,122	2.67%
FOSTER WEST SECURITIES PTY LTD	SPARTACUS A/C	2,875,000	2.25%
JASON & LISA PETERSON	J & L PETERSON S/F	2,285,000	1.79%
DDVM SUPERANNUATION NOMINEES	DDVM S/F A/C	1,550,000	1.21%
MR THEO PAUL DOROPOULOS		1,520,000	1.19%
TRIDENT CAPITAL PTY LTD		1,425,000	1.12%
MAGAUITE PTY LTD	PETER NELSON S/F A/C	1,350,000	1.06%
FINANCE ASSOCIATES PTY LTD	SUPER FUND A/C	1,100,000	0.86%
STEPHEN & SARAH JOHNSTON	RETIREMENT A/C	1,000,000	0.78%
WILLBEN PTY LTD	WILLBEN S/F A/C	800,000	0.63%
WILLINGVALE PTY LTD		750,000	0.59%
BALD HOLDINGS PTY LTD		719,306	0.56%
HILLBROW INVESTMENTS LTD		700,000	0.55%
GOLDFIRE ENTERPRISES PTY LTD		625,000	0.49%
BOND STREET CUSTODIANS LTD	PAG – I24234 A/C	616,500	0.48%
TOTAL		70,217,038	55.01%

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 Permits) granted by regulator; Kinetiko 100% interest in all four. TCP granted 28 May 2012.	100%
	TCP 38		100%
	TCP 39		100%
	TCP 42		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 payment of bonuses, options and other incentive payments are reviewed by the Board annually as part of the review of executive remuneration. All bonuses, options and incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving incentives, bonuses and options, given they are justified by reference to measurable performance criteria.

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