

KINETIKO ENERGY LTD

ABN 45 141 647 529

**Annual Report
for the Year Ended
30 June 2016**

C O N T E N T S

Corporate Directory	1
Directors' Report	2 - 17
Auditor's Independence Declaration	18
Independent Audit Report	19 - 20
Directors' Declaration	21
Statement of Profit or Loss and Other Comprehensive Income	22
Statement of Financial Position	23
Statement of Changes in Equity	24
Statement of Cash Flows	25
Notes to the Financial Statements	26 - 51
Shareholder Information	52 - 53
Corporate Governance	54 - 63

Corporate Directory

Directors

Adam Sierakowski
Dr James Searle
Geoffrey Michael

Company Secretary

Stephen Hewitt-Dutton

Public Officer

Geoffrey Michael

Principal Activity

Coal Bed Methane Exploration

Principal Place of Business

Unit 10 / 100 Railway Road
SUBIACO WA 6008

Registered Office

Unit 10 / 100 Railway Road
SUBIACO WA 6008

Auditors

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

Stock Exchange Listing

Australian Securities Exchange
Home Exchange: Perth
Code: KKO

Share Registry

Automic Registry Services
Level 1, 7 Ventnor Avenue
WEST PERTH WA 6005

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 2016. 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
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 20 years of 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 the structuring of their transactions and has been engaged in co-ordinating fundraising both domestically and overseas. He has vast experience in restructuring and mergers and acquisitions and has played a key role in the recapitalisation of many ASX-listed companies.

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

Special responsibilities:

- None

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

- Coziron Resources Ltd, Executive Director, appointed 21 October 2010.
- Rision Limited, Non-Executive Director, appointed 24 August 2016.

Dr James Searle (B. Sc., PhD, MAusIMM, MAICD), Non-Executive Director and Co-Managing Director

Dr Searle is a geologist with 35 years of 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 ASX-listed companies in the past 3 years: -

- Windimurra Vanadium Limited, Managing Director, appointed 2 March 2016

Directors' Report (continued)

Information on Directors (continued)

Geoffrey Michael (BA UWA), Non-Executive Director and Co-Managing 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 ASX-listed companies in the past 3 years:

- None

Company Secretary

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

Mr Hewitt-Dutton has over 22 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, and is an affiliate of the Institute of Chartered Accountants and a Senior Associate of FinSIA.

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

Principal Activities

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

Operating Results

The loss for the year ended 30 June 2016 after providing for income tax amounted to \$919,478 (2015: \$1,200,962).

Directors' Report (continued)

The directors of Kinetiko Energy Ltd ("the Company") submit herewith the operations report of the Company for the financial year ended 30 June 2016.

Review of Operations

Kinetiko Energy is an Australian gas explorer focused on advanced gas and coal bed methane (CBM) opportunities in rapidly developing markets in Southern Africa. Its flagship Amersfoort project which is conducted through Afro Energy and its co shareholder Badimo Gas is being developed around the infrastructure rich and energy starved industrial region of South Africa. South Africa has extensive gassy coal basins, extensive energy infrastructure and a growing gas demand, making it an attractive area for investment.

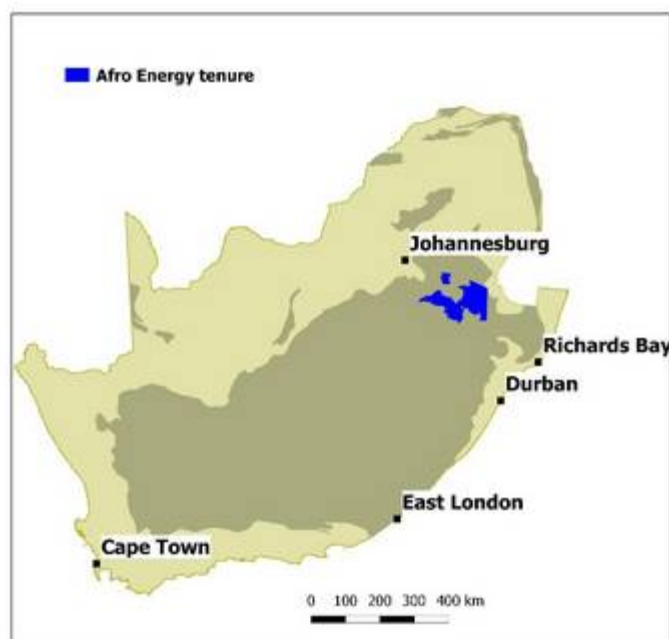


Figure 1 Afro Energy Ltd Exploration Right and ER applications.

Amersfoort Project, South Africa (KKO 49%)

The Amersfoort Project in South Africa is an onshore gas project in the northern part of the Main Karoo Basin (Figure 1). Exploration drilling and flow testing has discovered gas resources contained as coal bed methane in the extensive coal measures and as conventional methane rich gas contained with sandstones above and below the coal measures. The Afro Energy tenure consists of 2 granted exploration rights and five exploration right applications (Figure 2) all covering highly prospective areas of gas prone coals and sandstones.

Exploration drilling and well flow testing has defined a resources on the granted exploration rights ER56 and ER38. In February 2016 Kinetiko Energy reported that it has received an increase in the gas resource estimate on its 56 Exploration Rights ("56ER") license in the Amersfoort Project Area in South Africa. The independent assessment by Gustavson Associates LLC is an update on a 2012 Gustavson report which addressed both 56ER and 38ER licenses*.

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

Directors' Report (continued)

Review of Operations (continued)

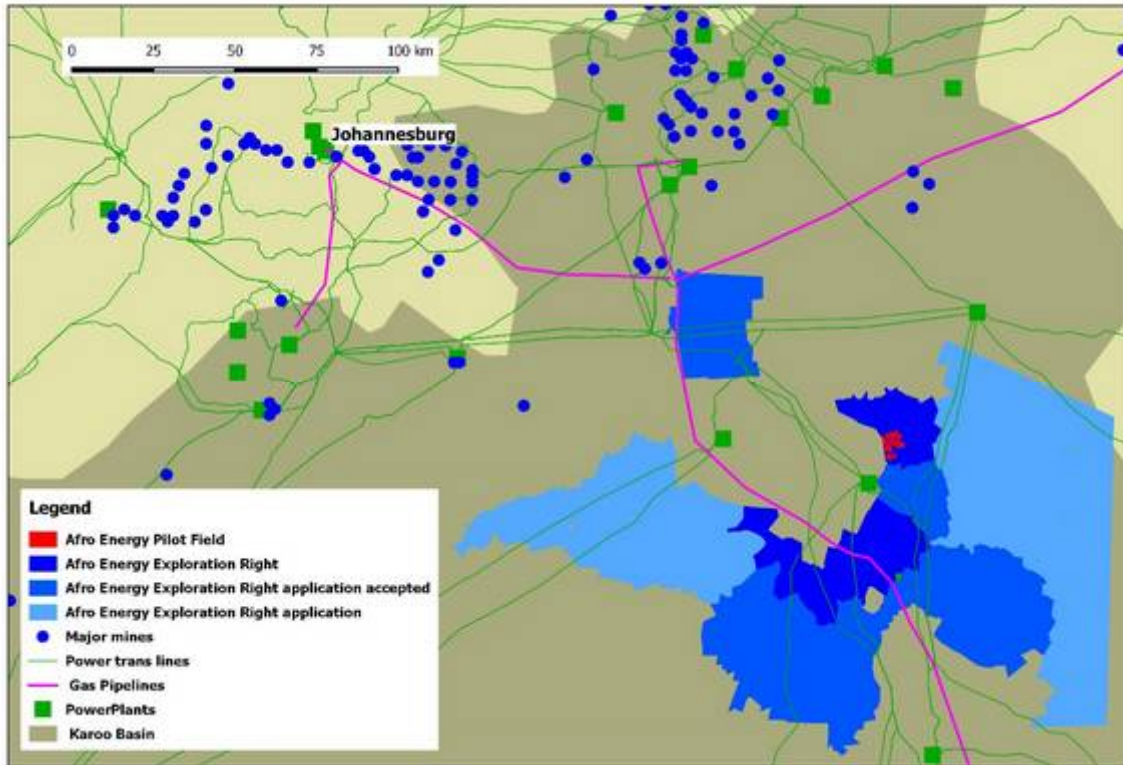


Figure 2 Afro Energy Ltd tenure and location of pilot field

A summary of the increased resource estimate on ER56 is as follows:

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

Approval has been granted by the regulatory authorities for the development of a 10 well pilot gas field in Area 1 of ER56 (Figures 2 and 3). The pilot field surrounds areas of exploration drilling and flow test wells that demonstrated the presence of gas charged sandstones and coals. The regulatory approvals also include a bulk sampling permit that will permit the production and sale of gas from the pilot gas field.

Successful development of the pilot field will be a major step towards further field development.

Directors' Report (continued)

Review of Operations (continued)

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

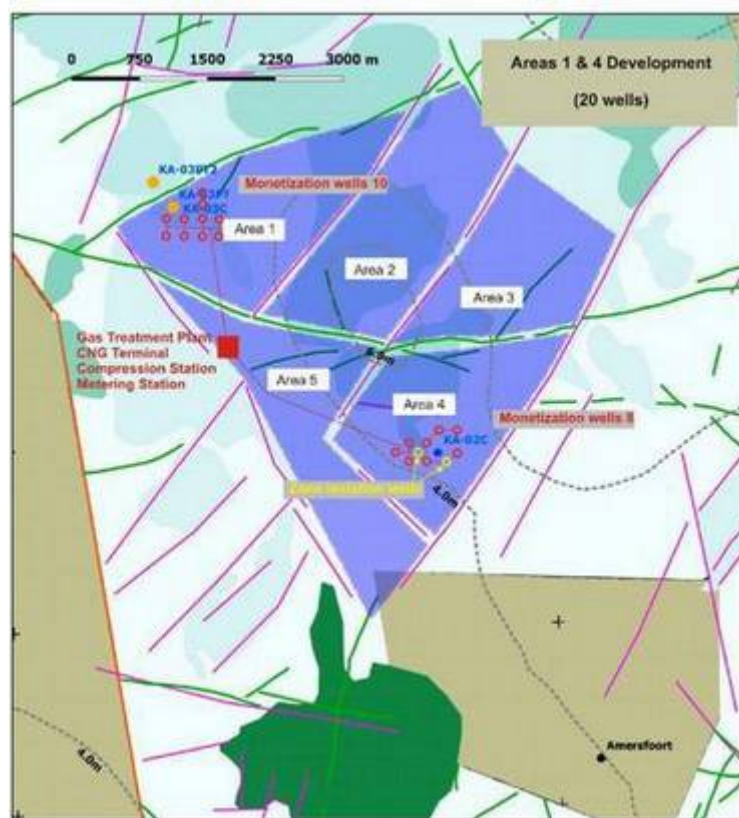


Figure 3 Conceptual layout for wells in Areas 1 and 4 of the Pilot Field

Afro Energy is progressing a fundraising campaign to underpin the above- programs and has to date achieved the following;

- Afro Energy elicited positive response from funding institutions culminating in an Expression of Interest from the IDC to fund and participate in the Project;
- To date the IDC has completed a successful 8-month technical, financial, commercial and legal due diligence on the Project and reached agreement with AE to provide funding for a pilot production development. This agreement was subject to, *inter alia*, IDC Executive Policy Committee approval which met on 2 June 2016;
- IDC advised of its Executive Policy Committee decision not to fund the development of the Project at this time due to an issue unrelated to KKO or the Project; and

Directors' Report (continued)

Review of Operations (continued)

- KKO remains confident, despite the delays suffered, that the commercial viability of the Project remains robust and has commenced working with its South African shareholder and corporate advisers to address the cause the current delay.

Kinetiko Energy Ltd holds 12 prospecting gas licenses covering a total of 7,093km² in the Kalahari Basin of Botswana (Figure 3). The Kalahari Basin is known to contain extensive coal deposits and has been recognised as having major coal bed methane potential. The gas market fundamentals are attractive with the opportunity to replace expensive diesel fired power generation and supply growing domestic and cross border energy demand.

Kinetiko Energy has been developing a petroleum basin model for the Kalahari Basin. This work will guide geophysical surveys and initial exploration drilling programs.

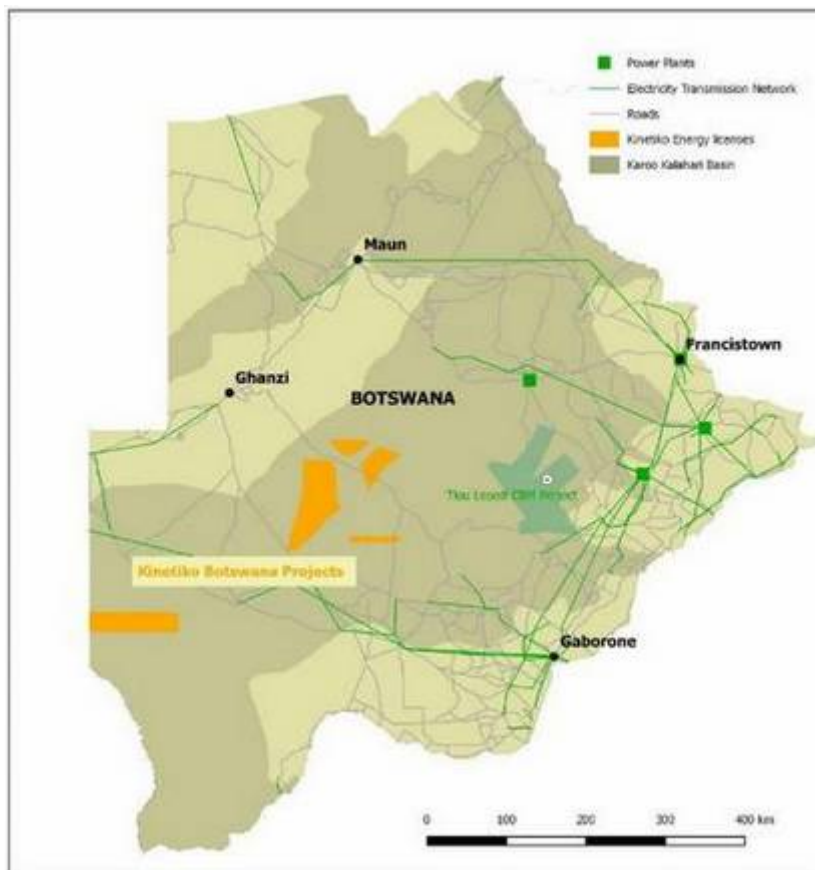


Figure 4 Kineteko Energy Ltd tenure in Botswana

**On the 17/2/2016 Kinetiko reported in full to the ASX the Gustavson and Associates LLC new resource for ER56 at the Amersfoort Project and comparison to the earlier 2012 resource statement. The Company confirms that this resource statement remains current and is not aware of any factors that would significantly alter it at this time.*

Directors' Report (continued)

Review of Operations (continued)

Except where indicated, exploration results and comments above have been compiled by James Searle BSc (hons), PhD, a Member of the Australian Institute of Mining and Metallurgy, with over 34 years experience in metallic and energy minerals exploration and development, and as such has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Searle is a Director of Kinetiko Energy Limited and consents to the inclusion of this technical information in the format and context in which it appears.

Table 1 Kinetiko Energy Ltd tenure

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

Significant Changes in State of Affairs

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

- In August 2015 the Company, following shareholder approval, issued 3,380,160 ordinary shares to Directors and their related parties on conversion of convertible notes at \$0.02175 per share.
- In September 2015 the Company successfully completed a placement to sophisticated investors of 16,697,124 new shares at 3.5 cents per share to raise gross proceeds of \$584,399. The funds were used to further negotiations with potential funding partners and further exploration in South Africa, as well as for additional working capital.
- In February 2016, Kinetiko Energy Limited with its major shareholder in Afro Energy Pty Ltd, Badimo Gas Pty Ltd announced that it has received an increase in the gas resource estimate on its 56 Exploration Rights ("56ER") license in the Amersfoort Project Area in South Africa. The independent assessment by Gustavson Associates LLC is an update on a 2012 Gustavson report which addressed both 56ER and 38ER licenses.

Directors' Report (continued)

Matters subsequent to the end of the financial year

Since 30 June 2016 the following significant changes have occurred:

- a) On 15 September the Company announced that it had successfully completed a placement to sophisticated investors to raise gross proceeds of \$850,000 at 2.5 cents per share which will be used to further the Company's South African projects and additional working capital.

The Company also announced that it has agreed with parties that have provided loan funds to repay amounts owing via the issue of shares and options on the same terms as the placement.

- b) The Company and its joint venture partner, Badimo Gas (Pty) Ltd, have transferred their respective interests in the Amersfoort project to Afro Energy (Pty) Ltd.

No other matters or circumstance has arisen since 30 June 2016 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

As Kinetiko Energy Ltd is listed on the Australian Stock Exchange, it is subject to the continuous disclosure requirements of the ASX Listing Rules which require immediate disclosure to the market of information that is likely to have a material effect on the price or value of Kinetiko Energy Ltd securities.

Dividends Paid or Recommended

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

Meetings of Directors

During the financial year, 7 meetings of Directors were held. Attendances by each director were as follows:

	Number eligible to attend	Number Attended
Adam Sierakowski	7	7
Dr James Searle	7	7
Geoffrey Michael	7	7

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	15,974,483
Dr James Searle	10,108,334
Geoffrey Michael	22,071,169

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
28 April 2014	28 April 2017	\$0.20	4,000,000

Directors' Report (continued)

Remuneration Report (Audited)

The directors are pleased to present the Company's 2016 remuneration report which sets out remuneration information for the company's Non-Executive directors, managing director and other key management personnel.

The report contains the following sections:

- (a) Principals used to determine the nature and amount of remuneration
- (b) Compensation of key management personnel
- (c) Services agreements
- (d) Shareholdings of key management personnel
- (e) Options on issue
- (f) Loans to key management personnel
- (g) Other transactions with key management personnel
- (h) Use of remuneration consultants
- (i) Voting and comments made at the Company's 2016 Annual General Meeting

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 of Directors (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.

Directors' Report (continued)

Remuneration Report (continued)

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

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

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

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

Directors' fees

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

Performance based remuneration

An employee may be granted long term incentives by way of performance rights and options, which vest after certain predetermined periods of service.

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.

Directors' Report (continued)

Remuneration Report (continued)

(b) *Compensation of key management personnel (continued)*

Name of Director

Adam Sierakowski Non-Executive Chairman
 Dr James Searle Non-Executive Director and Co-Managing Director
 Geoffrey Michael Non-Executive Director and Co-Managing Director

Company Secretary

Stephen Hewitt-Dutton

The emoluments for each Director and key management personnel of the Company for the year ended 30 June 2016 are as follows:

Year ended 30 June 2016	Short-term			Share Based Payments	Post Employment Superannuation	Total
	Salary & Fees	Profit Share & Bonuses	Non Cash			
	\$	\$	\$	\$	\$	\$
Directors						
A Sierakowski	72,000	-	4,810	-	-	76,810
Dr J Searle	72,000	-	4,810	-	-	76,810
G Michael	60,000	-	4,810	-	-	64,810
Company Secretary						
S Hewitt-Dutton	48,000	-	-	-	-	48,000
	<u>252,000</u>	<u>-</u>	<u>14,430</u>	<u>-</u>	<u>-</u>	<u>266,430</u>

The emoluments for each Director and key management personnel of the Company for the year ended 30 June 2015 are as follows:

Year ended 30 June 2015	Short-term			Share Based Payments	Post Employment Superannuation	Total
	Salary & Fees	Profit Share & Bonuses	Non Cash			
	\$	\$	\$	\$	\$	\$
Directors						
A Sierakowski	72,000	-	4,292	-	-	76,292
Dr J Searle	69,900	-	4,292	-	-	74,192
G Michael	60,000	-	4,292	-	-	64,292
Company Secretary						
S Hewitt-Dutton	48,000	-	-	-	-	48,000
	<u>249,900</u>	<u>-</u>	<u>12,876</u>	<u>-</u>	<u>-</u>	<u>262,776</u>

Directors' Report (continued)

Remuneration Report (continued)

(c) *Service agreements*

The agreements related to remuneration are set out below:

Current Agreements

- (i) The Company has agreed with Ageus Pty Ltd, a company in which Geoffrey Michael has an interest, to pay \$5,000 per month for Mr Michael's services as Director.
- (ii) The Company has agreed with Trident Capital Pty Ltd, a company in which Mr Adam Sierakowski is a Director and shareholder, to pay \$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 agreed to pay Earthsciences Pty Ltd, a company controlled by Dr James Searle, \$5,000 per month for Dr Searle's services as Director.

Terminated Agreements

- (i) There were no terminated agreements during the year ended 30 June 2016.

Directors' Report (continued)

Remuneration Report (continued)

(d) *Shareholdings of key management personnel*

2016	Balance at 01/07/15	Shares Purchased ¹	Shares Issued ²	Shares Disposed	Balance Held at Resignation	Balance at 30/06/16
	No.	No.	No.	No.	No.	No.
Directors						
A Sierakowski	9,441,250	1,533,233	5,000,000	-	-	15,974,483
Dr J Searle	10,775,000	-	-	(666,666)	-	10,108,334
G Michael	21,550,000	1,931,775	-	(1,410,606)	-	22,071,169
Company Secretary						
S Hewitt- Dutton	222,500	-	-	-	-	222,500
	41,988,750	3,465,008	5,000,000	(2,077,272)	-	48,376,486

¹ Shares purchased during the year includes shares issued on conversion of convertible notes

² Refer to Note 11(i) for details of the issue

2015	Balance at 01/07/14	Shares Purchased	Shares Issued	Shares Disposed	Balance Held at Resignation	Balance at 30/06/15
	No.	No.	No.	No.	No.	No.
Directors						
A Sierakowski	9,391,250	50,000	-	-	-	9,441,250
Dr J Searle	10,775,000	-	-	-	-	10,775,000
G Michael	21,550,000	-	-	-	-	21,550,000
Company Secretary						
S Hewitt- Dutton	222,500	-	-	-	-	222,500
	41,938,750	50,000	-	-	-	41,988,750

(e) *Options on issue*

There are no options on issue to key management personnel during the year and as at reporting date.

(f) *Loans to key management personnel*

No loans were advanced to key management personnel during the year.

Directors' Report (continued)

Remuneration Report (continued)

(g) *Convertible notes from key management personnel*

During the year, the following convertible notes were issued to directors and their related parties:

	<u>2016</u>	<u>2015</u>
	\$	\$
Adam Sierakowski	-	30,000
Geoffrey Michael	-	40,000
	<u>-</u>	<u>70,000</u>

The notes had been converted into fully paid ordinary shares at \$0.02175 per share.

(h) *Other transactions with key management personnel*

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

	<u>2016</u>	<u>2015</u>
	\$	\$
(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.	1,225	10,436
(iii) Fees paid and share based payment to Trident Capital Pty Ltd, a company of which Adam Sierakowski is a Director, for capital raising and success fees in relation to dispute resolution with Badimo Gas (Pty) Ltd.	253,894	15,000
(iv) Payments to Cirrena Pty Ltd, a company of which Geoff Michael is a Director, for the provision of IT consulting services.	8,584	4,955
(v) Payments made to Ageus Pty Ltd, a company of which Geoff Michael has an interest in, for office occupancy costs.	43,000	20,000
(vi) During the year, Adam Sierakowski loaned funds to the Company. The loan is unsecured, interest free and repayable at call. Movements for the year are as follows:		
Opening balance	-	-
Funds received	100,000	-
Closing balance	<u>100,000</u>	<u>-</u>
<i>Amounts outstanding at reporting date</i>		
Aggregates amount payable to Key Management Personnel and their related entities at reporting date.		
(i) Payables	492,500	253,484
(ii) Borrowings (refer note (vi) above)	<u>100,000</u>	<u>-</u>

Directors' Report (continued)

Remuneration Report (continued)

(i) Use of remuneration consultants

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

(j) Voting and comments made at the Company's 2016 Annual General Meeting

The approval of the remuneration report was passed as indicated in the results of Annual General Meeting dated 30 November 2015. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

The Company's resolution to re-elect James Searle as a Director was passed on a show of hands.

End of audited remuneration report

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 2016. 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 18.

Auditor Fees

During the year, the total amounts paid or payable to the auditor, BDO Audit (WA) Pty Ltd, for audit and non-audit services provided was \$37,230.

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.

Directors' Report (continued)

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:

A handwritten signature in cursive script, appearing to read "M. Michael".

DIRECTOR

Dated at Perth, 28 September 2016

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

As lead auditor of Kinetiko Energy Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 28 September 2016

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 2016, 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 2016 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 describes the conditions which give rise to 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 pages 10 to 16 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

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

Dean Just

Director

Perth, 28 September 2016

Directors' Declaration

The directors of the company declare that:

- a) The financial statements and notes, as set out on pages 22 to 51 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 2016 and of its performance for the year ended to 30 June 2016; 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 as 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 2016.

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



DIRECTOR

Dated at Perth, 28 September 2016

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	30 June 2016	30 June 2015
		\$	\$
Revenue			
Revenue from ordinary activities	2(a)	12,610	18,868
Total Revenue		<u>12,610</u>	<u>18,868</u>
Expenses			
Depreciation	2(b)	(47,361)	(56,280)
Administration expenses		(101,887)	(140,651)
Consultancy and professional costs	2(c)	(62,656)	(200,694)
Employment and contractor expenses		(415,497)	(474,908)
Travel expenses		(13,640)	(14,220)
Occupancy expenses		(43,000)	(38,280)
Share based payment	11	(240,000)	(47,952)
Provision for impairment of loan	5(b)	-	(183,739)
Foreign exchange loss		(8,047)	(63,106)
Total expenses		<u>(932,088)</u>	<u>(1,219,830)</u>
Share of net profit/(loss) from associated entities		-	-
Loss before income tax expenses		<u>(919,478)</u>	<u>(1,200,962)</u>
Income tax benefit/(expense)	3	-	-
Loss after Income Tax Expense for the year		<u>(919,478)</u>	<u>(1,200,962)</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, net of tax		-	-
Other comprehensive income/(loss) for the year			
Total comprehensive loss for the year net of tax		<u><u>(919,478)</u></u>	<u><u>(1,200,962)</u></u>
Loss per share for loss from continuing operations attributable to equity holders of the company:			
Basic loss per share (cents)	4	(0.5)	(0.8)
Diluted loss per share (cents)	4	(0.5)	(0.8)

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 2016**

	<u>Note</u>	<u>30 June 2016</u> \$	<u>30 June 2015</u> \$
CURRENT ASSETS			
Cash assets	18(a)	180,170	251,533
Receivables	5(a)	5,742	49,199
Other		6,055	10,407
TOTAL CURRENT ASSETS		<u>191,967</u>	<u>311,139</u>
NON CURRENT ASSETS			
Receivables	5(b)	-	1,273,150
Property, plant & equipment	6	489,543	534,158
Capitalised exploration and evaluation expenditure costs	7	9,539,536	7,725,096
TOTAL NON CURRENT ASSETS		<u>10,029,079</u>	<u>9,532,404</u>
TOTAL ASSETS		<u>10,221,046</u>	<u>9,843,543</u>
CURRENT LIABILITIES			
Trade & other payables	8	847,331	534,496
Borrowings	13	201,456	-
TOTAL CURRENT LIABILITIES		<u>1,048,787</u>	<u>534,496</u>
TOTAL LIABILITIES		<u>1,048,787</u>	<u>534,496</u>
NET ASSETS		<u>9,172,259</u>	<u>9,309,047</u>
EQUITY			
Contributed equity	9	15,780,194	14,997,504
Reserves	10	528,500	528,500
Accumulated losses	12	(7,136,435)	(6,216,957)
TOTAL EQUITY		<u>9,172,259</u>	<u>9,309,047</u>

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

Year ended 30 June 2016	Attributable to equity holders				Total Equity
	Ordinary Shares	Accumulated Losses	Share Based Payments Reserve	Option Issue Reserve	
	\$	\$	\$	\$	
Balance at 1 July 2015	14,997,504	(6,216,957)	524,500	4,000	9,309,047
Other comprehensive income					
Loss for the year	-	(919,478)	-	-	(919,478)
Movement in reserves, net of tax	-	-	-	-	-
Total comprehensive income / (loss) for the year	-	(919,478)	-	-	(919,478)
Transactions with owners in their capacity as owners					
Shares issued during the year	584,399	-	-	-	584,399
Share issue costs	(41,709)	-	-	-	(41,709)
Options issued during the year	-	-	-	-	-
Shares based payments	240,000	-	-	-	240,000
Total contributions by owners	782,690	-	-	-	782,690
Balance at 30 June 2016	15,780,194	(7,136,435)	524,500	4,000	9,172,259
Year ended 30 June 2015	Attributable to equity holders				Total Equity
	Ordinary Shares	Accumulated Losses	Share Based Payments Reserve	Option Issue Reserve	
	\$	\$	\$	\$	
Balance at 1 July 2014	14,387,262	(5,015,995)	524,500	4,000	9,899,767
Other comprehensive income					
Loss for the year	-	(1,200,962)	-	-	(1,200,962)
Movement in reserves, net of tax	-	-	-	-	-
Total comprehensive income / (loss) for the year	-	(1,200,962)	-	-	(1,200,962)
Transactions with owners in their capacity as owners					
Shares issued during the year	577,697	-	-	-	577,697
Share issue costs	(15,407)	-	-	-	(15,407)
Options issued during the year	-	-	-	-	-
Shares based payments	47,952	-	-	-	47,952
Total contributions by owners	610,242	-	-	-	610,242
Balance at 30 June 2015	14,997,504	(6,216,957)	524,500	4,000	9,309,047

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 2016**

Note	30 June 2016	30 June 2015
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(375,802)	(579,615)
Interest received	12,610	18,629
Interest and other costs of finance paid	(2,043)	(30,178)
Net cash used in operating activities	<u>18(b) (365,235)</u>	<u>(591,164)</u>
Cash flows from investing activities		
Payment for property, plant & equipment	(2,746)	(570)
Capitalised exploration and evaluation expenditure (net of VAT refund)	(468,665)	(329,262)
Net cash used in investing activities	<u>(471,411)</u>	<u>(329,832)</u>
Cash flows from financing activities		
Proceeds from the issue of ordinary shares	584,399	-
Proceeds from the issue of convertible notes	-	550,000
Share issue costs	(57,116)	-
Proceeds from borrowings	200,000	-
Release of security bonds	38,000	-
Net cash provided by financing activities	<u>765,283</u>	<u>550,000</u>
Net (decrease) in cash and cash equivalents	(71,363)	(370,996)
Effects of exchange rate on cash and cash equivalents	-	73,854
Cash and cash equivalents at the beginning of the financial year	<u>251,533</u>	<u>548,675</u>
Cash and cash equivalents at the end of the financial year	<u>18(a) 180,170</u>	<u>251,533</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 2016**

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 Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial statements were authorised for issue by the Directors on 28 September 2016.

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

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

For the year ended 30 June 2016 the Company recorded a loss of \$919,478 (2015: \$1,200,962) and had net cash outflows from operating and investing activities of \$836,646 (2015:\$920,996). At 30 June 2016, the Company had a working capital deficiency of \$856,820 (2015:\$223,357).

The ability of the Company to continue as a going concern is dependent on securing additional funding through the issue of shares to fund its operational activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management believe there are sufficient funds to meet the Company's working capital requirements and as at the date of this report. Subsequent to the date of this report the Company expects to receive additional funds via equity issues as and when the need to raise working capital arises.

The financial statements have been prepared on the basis that the Company is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

On 15 September the Company announced that it had successfully completed a placement to sophisticated investors to raise gross proceeds of \$850,000 at 2.5 cents per share which will be used to further the Company's South African projects and additional working capital. The Company also announced that it had renegotiated the repayment terms of outstanding director fees to Geoff Michael and James Searle of approximately \$230,000 and loans provided by various parties of approximately \$240,000 to be settled via the issue of shares on the same terms as the placement to sophisticated investors. Following completion of the capital raising and the settlement of debts via equity, the Company will return to a positive working capital position.

In addition, related party creditors have provided confirmation that they will continue to support the company and extend repayment terms on amounts payable until such time as the company has the necessary funds to repay them.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

Going Concern (continued)

Should the Company not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Company not 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).

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(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.

(e) Goods and services tax

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

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

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

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

(f) Impairment of assets

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(f) Impairment of assets (continued)

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

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

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

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

(g) Income tax

Current tax

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

Deferred tax

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(g) Income tax (continued)

Deferred tax (continued)

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.

(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

- 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) Trade payables and other 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(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%
---------------------	-----------------

(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.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(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.

(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. Where the Company no longer has rights to tenure to an area of interest, exploration capitalised to that area is written off.

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

Employees

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 taking into account the terms and conditions upon which the instruments were granted.

External Consultants

The Company measures the cost of equity-settled transactions with external consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by utilising the market price of the Company's share at the date which shares are granted.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(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 Arrangements

The Company's interests in joint operations have been included in the appropriate line items of the financial statements in accordance with AASB 11 Joint Arrangements. Details of the Company's interests are provided in Note 22.

(u) Investments in Associates

The Company's investments in associates are accounted for using the equity method of accounting in the financial statements. The associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Significant influence exists when the Company holds 20% or more of the voting power of the investee, unless in the Company's opinion, significant influence is not present.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the associate. The income statement reflects the Company's share of the results of operation of the associate.

Where there has been a change recognised directly in the associate's equity, the Company recognises its share of any changes and discloses this in the statement of profit or loss and other comprehensive income.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(v) Convertible Notes

Convertible Notes issued by the Company comprise of notes that can be converted to share capital and convertible note embedded derivatives whose fair value changes with the Company's underlying share price.

The embedded derivative component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. Subsequent to initial recognition, the fair value of the embedded derivative is valued using valuation techniques that include reference to the company's underlying share price at reporting date and/or at conversion date. The convertible note derivative is measured at fair value through profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(v) Convertible Notes (continued)

The convertible note derivative liability is removed from the Statement of Financial Position when the obligations specified in the Contract are discharged. This can occur at maturity date, when the convertible notes convert to equity. Convertible Note Derivative Liabilities are classified as current or non-current based on the maturity date of the convertible note.

On initial recognition, at reporting date and/or at conversion date, the fair value of the convertible note derivative has been determined by reference to the Company's underlying share price at the relevant dates.

Certain convertible notes issued by the Company which include embedded derivatives (option to convert to variable number of shares in the Company) are recognised as financial liabilities at fair value through profit or loss. On initial recognition, the fair value of the convertible note will equate to the proceeds received and subsequently the liability is measured at fair value at each reporting period until settlement. The fair value movements are recognised on the profit and loss as finance costs.

(w) Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company satisfies all attached conditions.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited against the asset and is released to the Statement of Profit or Loss and Other Comprehensive Income over the expected useful life of the relevant asset by equal annual instalments.

Where a grant is received in relation to the tax benefit of research and development costs, the grant shall be credited to income tax expense in the Statement of Profit or Loss and Other Comprehensive Income in the year of receipt.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

(x) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2016. The company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the company. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The company will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

1. Summary of Significant Accounting Policies (continued)

**(x) New Accounting Standards and Interpretations not yet mandatory or early adopted
(continued)**

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The company will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the company.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The company will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 2: Loss From Continuing operations

	2016	2015
	\$	\$
Loss from Continuing operations before income tax includes the following items of revenue and expenses		
(a) <i>Revenue</i>		
Interest income	12,610	18,868
Foreign currency gain	-	-
Revenue from ordinary activities	<u>12,610</u>	<u>18,868</u>
(b) <i>Operating Expenses</i>		
Depreciation of plant and equipment	<u>47,361</u>	<u>56,280</u>
(c) <i>Significant Expenses</i>		
Corporate advisory fees	-	15,000
Auditing costs	27,230	69,831
Other professional fees	<u>35,426</u>	<u>115,863</u>
Consulting and professional costs	<u>62,656</u>	<u>200,694</u>

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:

	2016	2015
	\$	\$
Loss from Operations	<u>(919,478)</u>	<u>(1,200,962)</u>
Income tax benefit calculated at 30%	(275,843)	(360,288)
Capital raising cost allowable	-	(41,080)
Non deductible share based payments	<u>72,000</u>	<u>14,386</u>
	(203,843)	(386,982)
Movements in unrecognised timing differences	(4,186)	5,839
Unused tax losses not recognised as a deferred tax asset	<u>208,029</u>	<u>381,143</u>
Income tax (benefit)/expense reported in the income statement	<u>-</u>	<u>-</u>

(b) Unrecognised deferred tax balances:

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

Unrecognised deferred tax asset – tax losses	714,474	653,842
Unrecognised deferred tax liability – timing differences	-	(72)
Unrecognised deferred tax asset – other temporary differences	<u>38,891</u>	<u>43,076</u>
Net deferred tax assets not brought to account	<u>753,365</u>	<u>696,846</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 3: Income Tax

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

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

Note 4: Loss per share	2016	2015
	Cents Per Share	Cents Per Share
Basic loss per share:	(0.5)	(0.8)
Diluted loss per share:	(0.5)	(0.8)

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

	2016	2015
	\$	\$
Loss for the year after income tax	(919,478)	(1,200,962)

	2016	2015
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	183,247,849	140,100,333

Note 5: Receivables

<u>(a) Current</u>	2016	2015
	\$	\$
Other receivables – VAT refundable	54,829	34,444
Less: Provision for VAT	(54,829)	(34,444)
Other receivables – GST refundable	440	6,402
Other debtor	3,302	2,558
Security bonds	2,000	40,000
Accrued interest receivable	-	239
	<u>5,742</u>	<u>49,199</u>

None of the other receivables are past due or impaired. Refer to Note 19 for the Company's financial risk management and policies.

<u>(b) Non-Current</u>	2016	2015
	\$	\$
Loan – Associated Entity	183,739	183,739
Less: Provision for impairment of loan	(183,739)	(183,739)
Receivable – Badimo JV contribution (see Note 22)	1,273,150	1,273,150
Transferred to E&E (see Note 7)	(1,273,150)	-
	<u>-</u>	<u>1,273,150</u>

The loan to associate is repayable from Afro Energy (Pty) Ltd, an incorporated entity formed in South Africa, of which Kinetiko owns a 49% interest. The initial investment was \$1 and the current carrying value of the investment is \$NIL.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 6: Property, Plant & Equipment

	2016	2015
	\$	\$
Opening net book value	534,158	589,868
Additions	2,746	570
Disposals	-	-
Profit on sale	-	-
Depreciation charge for the year	(47,361)	(56,280)
Closing net book value	<u>489,543</u>	<u>534,158</u>
Cost or fair value	722,367	719,621
Accumulated depreciation	<u>(232,824)</u>	<u>(185,463)</u>
	<u>489,543</u>	<u>534,158</u>

Note 7: Capitalised Exploration & Evaluation Expenditure Costs

	2016	2015
	\$	\$
Opening balance of Capitalised Exploration & Evaluation Expenditure Assets	7,725,096	7,712,712
Exploration & Evaluation Expenditure during the year	541,290	291,382
Badimo JV Contribution – Transferred ¹	1,273,150	-
Research & Development Tax Rebate	-	(278,998)
Closing balance of Capitalised Exploration & Evaluation Expenditure Assets	<u>9,539,536</u>	<u>7,725,096</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.

¹ The Badimo contributions have been reclassified as they represent cash incurred on exploration.

Note 8: Current trade and other payables

	2016	2015
	\$	\$
Trade payables and accruals	354,831	281,012
Trade payables and accruals – related parties	492,500	253,484
	<u>847,331</u>	<u>534,496</u>

Refer to Note 19 for the Company's financial risk management and policies.

Trade payables are normally settled on 30 day terms. Trade payables are currently being settled in excess of 90 day terms. The amount of payables at balance date exceeding normal trading terms is \$598,459.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 9: Issued Capital

(a) Issued Capital

Movements in share capital were as follows:

Year ended		Issue Price	Fully Paid Ordinary Shares	\$
30 June 2016				
	Opening Balance		164,249,500	14,997,504
25 August 2015	Conversion of convertible notes to shares ³		3,380,160	-
15 September 2015	Issue of shares pursuant to placement facility	\$0.035	16,697,124	584,399
2 December 2015	Issue of shares for services rendered ¹	\$0.048	5,000,000	240,000
	Share issue costs		-	(41,709)
30 June 2016	Closing Balance		<u>189,326,784</u>	<u>15,780,194</u>
Year ended		Issue Price	Fully Paid Ordinary Shares	\$
30 June 2015				
1 July 2014	Opening Balance		138,990,000	14,387,262
1 May 2015	Issue of shares for services rendered ¹		2,084,850	47,952
19 June 2015	Conversion of convertible notes to shares ²	\$0.02175	23,174,650	577,697 ³
	Share issue costs		-	(15,407)
30 June 2015	Closing Balance		<u>164,249,500</u>	<u>14,997,504</u>

¹ Refer to Note 11(i) for details of the issue

² Refer to Note 24 for details for the conversion of notes to ordinary shares

³ 3,380,160 ordinary shares relating to the conversion of convertible notes were issued on 25 August 2015 upon approval at the General Meeting on 24 August 2015. The full monetary amount was reflected at June 2015 and is in accordance with the conversion of convertible notes with a face value of \$550,000 and interest of \$27,697.

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

(b) Options

The following unlisted options were on issue during the year ended 30 June 2016.

	75c 30 June 2016	20c 28 April 2017
Exercise price		
Expiry date		
Opening balance	1,000,000	4,000,000
Issued during the year	-	-
Expired during the year	(1,000,000)	-
Exercised during the year	-	-
Closing balance	<u>-</u>	<u>4,000,000</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 9: Issued Capital (continued)

(b) *Options*

The following unlisted options were on issue during the year ended 30 June 2015.

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

Note 10: Reserves

	2016	2015
	\$	\$
Share Based Payments Reserve	524,500	524,500
Options Issue Reserve	4,000	4,000
Total Reserves	528,500	528,500
<i>(i) Share Based Payments Reserve</i>		
Balance at beginning of financial year	524,500	524,500
Movement for year	-	-
Share Based Payments Reserve	524,500	524,500
<i>(ii) Options Issue Reserve</i>		
Balance at beginning of financial year	4,000	4,000
Movement for year	-	-
Options Issue Reserve	4,000	4,000

(iii) Nature and purpose of reserves

Share Based Payments Reserve

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

Options Issue Reserve

The Options Issue Reserve is used to recognise the fair value of options issued during the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 11: Share Based Payments

(i) Ordinary Shares

Year ended 30 June 2016

During the financial year ended 30 June 2016, \$240,000 was recognised as a share based payment to Trident Capital Pty Ltd, a related party, in accordance with an advisory mandate, whereby the Company agreed to pay a success fee for the services provided in relation to the dispute resolution with Badimo Gas (Pty) Ltd.

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

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

Year ended 30 June 2015

During the financial year ended 30 June 2015, consulting fees totaling \$47,952 were satisfied by the issue of 2,084,850 shares to AC Squared Solutions (Pty) Ltd in accordance with an advisory mandate. The total number of shares issued to AC Squared Solutions (Pty) Ltd was derived using the share price on the date of issue.

Note 12: Accumulated Losses

	2016	2015
	\$	\$
Balance at beginning of financial year	(6,216,957)	(5,015,995)
Net Loss	(919,478)	(1,200,962)
Balance at end of financial year	<u>(7,136,435)</u>	<u>(6,216,957)</u>

Note 13: Borrowings

	2016	2015
	\$	\$
Loan – Other	100,000	-
Loan – Director (Refer Note 23)	100,000	-
Accrued interest	1,456	-
	<u>201,456</u>	<u>-</u>

The other loans are unsecured. Interest of 7% p.a. is payable.

Subsequent to 30 June 2016, the Company renegotiated the repayment terms of the above loans and accrued interest to be settled via the issue of shares on the same terms as the placement to sophisticated investors which was announced on 15 September 2016 (refer Note 17).

Refer to Note 19 for the Company's financial risk management and policies.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 14: Remuneration of Auditors

	2016	2015
	\$	\$
BDO Audit (WA) Pty Ltd		
Audit or review of the financial report	37,230	36,420
Other services	-	-
	37,230	36,420

The auditor of Kinetiko Energy Ltd 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.

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.

Note 16: 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 2016.

	2016	2015
	\$	\$
Short term employee benefits	266,430	262,776
Share based payments	-	-
Post employment benefits	-	-
	266,430	262,776

Note 17: Events Occurring After the Reporting Date

Since 30 June 2016 the following significant changes have occurred:

- a) On 15 September the Company announced that it had successfully completed a placement to sophisticated investors to raise gross proceeds of \$850,000 at 2.5 cents per share which will be used to further the Company's South African projects and additional working capital.

The Company also announced that it has agreed with parties that have provided loan funds to repay amounts owing via the issue of shares and options on the same terms as the placement.

- b) The Company and its joint venture partner, Badimo Gas (Pty) Ltd, have transferred their respective interests in the Amersfoort project to Afro Energy (Pty) Ltd.

There are no matters or circumstances that have arisen since 30 June 2016 that have or may significantly affect the operations, results, or state of affairs of the Company in future financial periods.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 18: Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, 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 Flows is reconciled to the related items in the statement of financial position, as follows:

	2016	2015
	\$	\$
Cash at bank and in hand	<u>180,170</u>	<u>251,533</u>

Refer to Note 19 for the Company's financial risk management on cash.

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

Loss for the year	(919,478)	(1,200,962)
Depreciation	47,361	56,280
Share based payments	240,000	47,952
Changes in assets and liabilities:		
Trade and other payables	259,568	150,621
Receivables	6,913	165,480
Impairment of loan	-	183,739
Provisions	(3,951)	4,704
Prepayments	4,352	1,022
Net cash (used in) operating activities	<u>(365,235)</u>	<u>(591,164)</u>

(c) Non-Cash Financing and Investing Activities

Conversion of convertible notes to ordinary shares	<u>-</u>	<u>550,000</u>
--	----------	----------------

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 19: 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:

	2016	2015
	\$	\$
Financial assets		
Cash and cash equivalents	180,170	251,533
Trade and other receivables	5,742	1,322,349
	<u>185,912</u>	<u>1,573,882</u>
Financial liabilities		
Trade payables and accruals	847,331	534,496
Borrowings	201,456	-
	<u>1,048,787</u>	<u>534,496</u>

The Company's principal financial instruments comprise cash and short-term deposits.

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

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

(a) *Credit risk*

Management does not actively manage credit risk.

The Company has no significant exposure to credit risk from external parties at year end. The maximum exposure to credit risk at the reporting date is equal to the carrying value of financial assets at 30 June 2016.

Cash at bank is held with internationally regulated banks. As at 30 June 2016, all cash and cash equivalents were held with AA rated banks.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 19: Financial Instruments (continued)

(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 2016, 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.

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 2016	<1 year	1 – 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial Assets:					
Cash	180,170	-	-	180,170	5.32
Receivables & other	5,742	-	-	5,742	
	<u>185,912</u>	<u>-</u>	<u>-</u>	<u>185,912</u>	
Financial Liabilities:					
Trade payables & accruals	847,331	-	-	847,331	
Borrowings	201,456	-	-	201,456	7.00
	<u>1,048,787</u>	<u>-</u>	<u>-</u>	<u>1,048,787</u>	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 19: Financial Instruments (continued)

(c) Liquidity risk (continued)

As at 30 June 2015	<1 year	1 – 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial Assets:					
Cash	251,533	-	-	251,533	4.29
Receivables & other	49,199	1,273,150	-	1,322,349	
	<u>300,732</u>	<u>1,273,150</u>	<u>-</u>	<u>1,573,882</u>	
Financial Liabilities:					
Trade payables & accruals	534,496	-	-	534,496	
	<u>534,496</u>	<u>-</u>	<u>-</u>	<u>534,496</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.

(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 \$3,000 higher or \$3,000 lower.

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:

	2016	2015
Cash - ZAR	1,658,677	1,761,637
Receivables - ZAR	11,985,047	11,985,047
Receivables – USD	2,450	-
Trade payables - ZAR	(1,598,875)	(891,840)
Trade payables - USD	(17,008)	(392)

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 22: Commitments for expenditure and contingencies

(a) *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 21: Dividends

No dividends were paid or declared during the year.

Note 22: Investment in Joint Operation

Badimo Gas (Pty) Ltd

The Company entered into an agreement with Badimo, a South African company, on 30 August 2010 to combine their resources and experience to carry out the Amersfoort Project. The joint operation was established when the first ZAR26 million was expended towards the project in December 2012.

The Company submitted an application to the Petroleum Agency SA in June 2014 to transfer the 51% participating interest held by Badimo Gas (Pty) Ltd to the Company as a result of Badimo's failure to meet cash calls despite default notices issued by the Company – this application was later withdrawn following a new resolution reached by both parties in April 2015.

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

Kinetiko and Badimo continue seeking to commercialise the gas discovery at Amersfoort, the aim being to achieve initial reserves and demonstrate its economic potential as soon as possible. In October 2015, they received approval for further developments in the Amersfoort Project.

During the year ended 30 June 2016, Badimo's joint venture contribution owed to the Company was reclassified and capitalised as exploration and evaluation expenditure as they represented cash incurred on exploration.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 23: Related Party Transactions

Investments in associated entities

Investments in associated entities are set out in Note 5(b).

Key management personnel

Disclosures relating to key management personnel are set out in the remuneration report of the directors' report and Note 16.

Loans to related parties

The following balance is outstanding as at reporting date in relation to funds advanced to related parties:

Loan to Afro Energy (Pty) Ltd

	2016	2015
	\$	\$
Opening balance	183,789	183,739
Funds advanced	-	-
Less: Provision for impairment of loan	(183,789)	(183,739)
Closing balance	<u>-</u>	<u>-</u>

The loan is unsecured, interest to be charged at arm's length rates and repayable at call.

Loans from related parties

The following balance is outstanding as at reporting date in relation to funds borrowed from related parties:

Loan from Adam Sierakowski

	2016	2015
	\$	\$
Opening balance	-	-
Amounts borrowed - cash	100,000	-
Amounts repaid	-	-
Closing balance	<u>100,000</u>	<u>-</u>

The loan is unsecured, interest free and repayable at call.

Convertible notes

During the year, the following convertible notes were issued to directors and their related parties:

	2016	2015
	\$	\$
Opening balance	-	-
Convertible note funds advanced	-	70,000
Conversion of notes into ordinary shares at \$0.02175 per share	-	(70,000)
	<u>-</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 23: Related Party Transactions (continued)

Other transactions with key management personnel

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

	2016	2015
	\$	\$
(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.	1,225	10,436
(iii) Fees paid and share based payment to Trident Capital Pty Ltd, a company of which Adam Sierakowski is a Director, for capital raising and success fees in relation to dispute resolution with Badimo Gas (Pty) Ltd.	253,894	15,000
(iv) Payments to Cirrena Pty Ltd, a company of which Geoff Michael is a Director, for the provision of IT consulting services.	8,584	4,955
(v) Payments made to Ageus Pty Ltd, a company of which Geoff Michael has an interest in, for office occupancy costs.	43,000	20,000
<hr/>		
<i>Amounts outstanding at reporting date</i>		
Aggregates amount payable to Key Management Personnel and their related entities at reporting date.		
(i) Payables	492,500	253,484
(ii) Borrowings (refer to loans from related parties above)	100,000	-
<hr/>		

Note 24: Convertible Notes

During the year ended 30 June 2015, the Company issued unsecured convertible notes with a face value of \$550,000 as part of a capital raising exercise.

	2016	2015
	\$	\$
Face value of notes issued	-	550,000
Interest expense	-	27,697
Conversion of notes to ordinary shares	-	(577,697)
Closing balance	-	-
<hr/>		

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (continued)**

Note 24: Convertible Notes (continued)

Terms of the convertible note are as follows:

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

All convertible notes and accrued interest were converted to 26,554,810 ordinary shares in the Company at a price of \$0.02175.

KINETIKO ENERGY LTD ABN 45 141 647 529

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 12th September 2016.

Shareholdings as at 12th September 2016

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
CHRISTINA M MICHAEL	M & A A/C	21,998,441	11.62%
ADAM SIERAKOWSKI & ASSOCIATED ENTITIES		15,971,983	8.40%
BRENDAN D GORE		12,537,605	7.63%
EARTHSCIENCES PL	SEARLE S/F A/C	10,108,334	6.03%

Unmarketable parcels

The number of shareholders holding less than a marketable parcel is 79.

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

Voting rights

All ordinary shares carry one vote per share without restriction.

Unquoted securities

Securities	Number of Options	Number of Holders
Options expiring 28 April 2017 at exercisable price of \$0.20	4,000,000	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 2016, 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.

Distribution of security holders category	Number of Holders
1 - 1,000	9
1,001 – 5,000	19
5,001 – 10,000	39
10,001 – 100,000	317
100,001 and over	219
	603

KINETIKO ENERGY LTD ABN 45 141 647 529

SHAREHOLDER INFORMATION

Twenty largest shareholders – Ordinary Shares

Name		Number of ordinary shares held	Percentage of capital held
MS CHRISTINA MICHAEL MICHAEL	THE M AND A A/C	22,071,169	11.66
MR BRENDAN DAVID GORE	THE GORE FAMILY A/C	14,914,144	7.88
EARTHSCIENCES PTY LTD	SEARLE SUPER FUND A/C	9,833,334	5.19
TRIDENT CAPITAL PTY LTD		6,425,000	3.39
BLUE SAINT PTY LTD		6,120,000	3.23
MR JASON PETERSON & MRS LISA PETERSON	J & L PETERSON S/F A/C	3,385,288	1.79
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2		3,325,693	1.76
AEGEAN CAPITAL PTY LTD	THE SPARTACUS A/C	3,113,614	1.64
EKUL NOMINEES PTY LTD		2,900,334	1.53
JGST PTY LTD	JGST FAMILY SETTLEMENT A/C	2,595,792	1.37
HOLDREY PTY LTD	DON MATHIESON FAMILY A/C	2,595,792	1.37
BOTSKY PTY LTD	THE BOTICA NO2 FAMILY A/C	2,500,411	1.32
MR PAUL GREGORY BROWN & MRS JESSICA ORIWIA BROWN	BROWN SUPER FUND A/C	2,400,000	1.27
AC SQUARED SOLUTIONS (PTY) LTD		2,084,850	1.10
MAGAURITE PTY LTD	PETER NELSON SUPER FUND A/C	2,000,000	1.06
BOTSIS HOLDINGS PTY LTD		1,850,000	0.98
CELTIC CAPITAL PTY LTD	THE CELTIC CAPITAL A/C	1,800,000	0.95
NVNG INVESTMENTS PTY LTD	NVNG INVESTMENTS A/C	1,751,601	0.93
GOLDFIRE ENTERPRISES PTY LTD		1,625,000	0.86
RL FRASER & ASSOCIATED PTY LTD	THE JOMI INVESTMENT A/C	1,587,018	0.84
TOTAL		94,879,040	50.12

Schedule of mining tenements

Area of Interest	Tenement reference	Nature of interest	Interest
Amersfoort Project – South Africa	30/5/2/3/38ER	2 nd renewal period granted	49%
	30/5/2/3/56ER	1 st renewal period granted	49%
	TCP 106	Granted by regulator	49%
	TCP 107	Granted by regulator	49%
	ER 270	Recommended for by Petroleum Agency of South Africa to Department of Mineral Resources	49%
	ER 271	Recommended for by Petroleum Agency of South Africa to Department of Mineral Resources	49%
	ER 272	Recommended for by Petroleum Agency of South Africa to Department of Mineral Resources	49%
Botswana – 12 tenements	PL 029	Granted by Botswana Departments of Mines	100%
	PL 229 – PL 301	Granted by Botswana Departments of Mines	100%
	PL 444 – PL 451	Granted by Botswana Departments of Mines	100%

CORPORATE GOVERNANCE

The Board is responsible for establishing the Company's corporate governance framework, the key features of which are set out below. In establishing its corporate governance framework, the Board has referred to the 3rd edition of the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations.

The corporate governance statement set out below discloses the extent to which the Company follows the recommendations. The Company will follow each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices will follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices will not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company will adopt instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at www.kinetiko.com.au, under the section marked "Corporate Governance":

- (a) Board Charter;
- (b) Board Performance Evaluation Policy;
- (c) Code of Conduct;
- (d) Audit Committee Charter;
- (e) Remuneration and Nomination Committee Charter;
- (f) Security Trading Policy;
- (g) Continuous Disclosure Policy;
- (h) Shareholder Communication and Investor Relations Policy;
- (i) Risk Committee Charter;
- (j) Risk Management Policy; and
- (k) Diversity Policy.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management, and has documented this in its Board Charter.

The responsibilities of the Board include but are not limited to:

- (a) setting and reviewing strategic direction and planning;
- (b) reviewing financial and operational performance;
- (c) identifying principal risks and reviewing risk management strategies; and
- (d) considering and reviewing significant capital investments and material transactions.

In exercising its responsibilities, the Board recognises that there are many stakeholders in the operations of the Company, including employees, shareholders, co-ventures, the government and the community.

The Board has delegated responsibility for the business operations of the Company to the Chief Executive Officer (currently the Joint Managing Directors). The Chief Executive Officer is accountable to the Board.

Recommendation 1.2

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect a director.

The checks which are undertaken, and the information provided to shareholders, are set out in the Company's Remuneration and Nomination Committee Charter.

Recommendation 1.3

The Company has a written agreement with each of the Directors and senior executives setting out the terms of their appointment. The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Chief Executive Officer, any of its directors, and any other person or entity who is a related party of the Chief Executive Officer or any of its directors will be disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

Recommendation 1.4

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Company Secretary is responsible for the application of best practice in corporate governance and also supports the effectiveness of the Board by:

- (a) ensuring a good flow of information between the Board, its committees, and Directors;
- (b) monitoring policies and procedures of the Board;
- (c) advising the Board through the Chairman of corporate governance policies; and
- (d) conducting and reporting matters of the Board, including the despatch of Board agendas, briefing papers and minutes.

Recommendation 1.5

The Company has a Diversity Policy, the purpose of which is:

- (a) to outline the Company's commitment to creating a corporate culture that embraces diversity and, in particular, focuses on the composition of its Board and senior management; and
- (b) to provide a process for the Board to determine measurable objectives and procedures which the Company will implement and report against to achieve its diversity goals.

The Board intends to set measurable objectives for achieving diversity, specifically including gender diversity and will review and report on the effectiveness and relevance of these measurable objectives. However, due to the current size of the Board and management, these measurable objectives have not yet been set.

Recommendation 1.6

The Chief Executive Officer will be responsible for evaluating the performance of the Company's senior executives in accordance with the process disclosed in the Company's Process for Performance Evaluations, which is currently being developed by the Board.

The Chair will be responsible for evaluating the performance of the Company's Chief Executive Officer in accordance with the process disclosed in the Company's Process for Performance Evaluations, which is currently being developed by the Board.

During the current reporting period, the Company has not conducted an evaluation of its Chief Executive Officer.

Recommendation 1.7

The Chair will be responsible for evaluating the performance of the Board, Board committees and individual directors in accordance with the process disclosed in the Company's Board performance evaluation policy.

This policy is to ensure:

- (a) individual Directors and the Board as a whole work efficiently and effectively in achieving their functions;
- (b) the executive Directors and key executives execute the Company's strategy through the efficient and effective implementation of the business objectives; and
- (c) committees to which the Board has delegated responsibilities are performing efficiently and effectively in accordance with the duties and responsibilities set out in the board charter.

This policy will be reviewed annually.

The Company will report on whether an evaluation of the Board, its committees and individual directors has taken place in the relevant reporting period, and whether the process was in accordance with the process disclosed, in each of its corporate governance statements.

Principle 2: Structure the board to add value

Recommendation 2.1

Due to the size of the Board, the Company does not have a separate nomination committee. The roles and responsibilities of a nomination committee are currently undertaken by the Board.

The duties of the full Board in its capacity as a nomination committee are set out in the Company's Remuneration and Nomination Committee Charter which is available on the Company's website.

When the Board meets as a remuneration and nomination committee it carries out those functions which are delegated to it in the Company's Remuneration and Nomination Committee Charter. Items that are usually required to be discussed by a Remuneration and Nomination Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Remuneration and Nomination Committee Charter which describes the role, composition, functions and responsibilities of a Nomination Committee and is disclosed on the Company's website.

Recommendation 2.2

The mix of skills and diversity which the Board is looking to achieve in its composition is:

- (a) a broad range of business experience; and
- (b) technical expertise and skills required to discharge duties.

Recommendation 2.3

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles and Recommendations.

Currently the Board is structured as follows:

- (a) Adam Sierakowski (Non-executive Chairman);
- (b) James Searle (Non-Executive Director); and
- (c) Geoff Michael (Non-Executive Director).

The Chairman, Mr Adam Sierakowski has been a director of the Company since 8 December 2010. He is a director and shareholder of Trident, a provider of material professional services, and accordingly, is not independent. Dr James Searle and Mr Geoff Michael have been directors of the Company since 25 January 2010.

Recommendation 2.4

Currently, the Board considers that membership weighted towards relevant expertise is appropriate at this stage of the Company's operations. Accordingly, the Board does not have a majority of independent directors.

Recommendation 2.5

As noted above, Mr Sierakowski is not an independent Chairman. Mr Sierakowski is considered to be the most appropriate person to Chair the Board because of his public company experience.

Recommendation 2.6

It is a policy of the Company, that new Directors undergo an induction process in which they are given a full briefing on the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

Principle 3: Act ethically and responsibly

Recommendation 3.1

The Company is committed to promoting good corporate conduct grounded by strong ethics and responsibility. The Company has established a Code of Conduct (Code), which addresses matters relevant to the Company's legal and ethical obligations to its stakeholders. It may be amended from time to time by the Board, and is disclosed on the Company's website.

The Code applies to all Directors, employees, contractors and officers of the Company.

The Code will be formally reviewed by the Board each year.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1

Due to the size of the Board, the Company does not have a separate Audit Committee. The roles and responsibilities of an audit committee are undertaken by the Board.

The full Board in its capacity as the audit committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The duties of the full Board in its capacity as the audit committee are set out in the Company's Audit Committee Charter which is available on the Company's website.

When the Board meets as an audit committee is carries out those functions which are delegated to it in the Company's Audit Committee Charter. Items that are usually required to be discussed by an Audit Committee are marked as separate agenda items at Board meetings when required.

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

The Board has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee and is disclosed on the Company's website.

Recommendation 4.2

Before the Board approves the Company financial statements for each financial period it will receive from the Chief Executive Officer and the Chief Financial Officer or equivalent a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered, and does not arrange to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company will write to the Company's auditor to inform them of the date of the Company's annual general meeting. In accordance with section 250S of the Corporations Act, at the Company's annual general meeting where the Company's auditor or their representative is at the meeting, the Chair will allow a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or its representative) questions relevant to the conduct of the audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair will also allow a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

The Company is committed to:

- (a) ensuring that shareholders and the market are provided with full and timely information about its activities;
- (b) complying with the continuous disclosure obligations contained in the Listing Rules and the applicable sections of the Corporations Act; and
- (c) providing equal opportunity for all stakeholders to receive externally available information issued by the Company in a timely manner.

The Company has adopted a Disclosure Policy, which is disclosed on the Company's website. The Disclosure Policy sets out policies and procedures for the Company's compliance with its continuous disclosure obligations under the ASX Listing Rules, and addresses financial markets communication, media contact and continuous disclosure issues. It forms part of the Company's corporate policies and procedures and is available to all staff.

The Chief Executive Officer manages the policy. The policy will develop over time as best practice and regulations change and the Company Secretary will be responsible for communicating any amendments. This policy will be reviewed by the Board annually.

Principle 6: Respect the rights of security holders

Recommendation 6.1

The Company provides information about itself and its governance to investors via its website at www.kinetiko.com.au. The Company is committed to maintaining a Company website with general information about the Company and its operations and information specifically targeted at keeping the Company's shareholders informed about the Company. In particular, where appropriate, after confirmation of receipt by ASX, the following will be posted to the Company website:

- (a) relevant announcements made to the market via ASX;
- (b) media releases;
- (c) investment updates;
- (d) Company presentations and media briefings;
- (e) copies of press releases and announcements for the preceding three years; and
- (f) copies of annual and half yearly reports including financial statements for the preceding three years.

Recommendation 6.2

The Company has a Shareholder Communication and Investor Relations Policy which aims to ensure that Shareholders are informed of all major developments of the Company. The policy is disclosed on the Company's website.

Information is communicated to Shareholders via:

- (a) reports to Shareholders;
- (b) ASX announcements;
- (c) annual general meetings; and
- (d) the Company website.

This Shareholder Communication and Investor Relations policy will be formally reviewed by the Board each year. While the Company aims to provide sufficient information to Shareholders about the Company and its activities, it understands that Shareholders may have specific questions and require additional information. To ensure that Shareholders can obtain all relevant information to assist them in exercising their rights as Shareholders, the Company has made available a telephone number and relevant contact details (via the website) for Shareholders to make their enquiries.

Recommendation 6.3

The Board encourages full participation of Shareholders at meetings to ensure a high level of accountability and identification with the Company's strategies and goals.

However, due to the size and nature of the Company, the Board does not consider a policy outlining the policies and processes that it has in place to facilitate and encourage participating at meetings of shareholders to be appropriate at this stage.

Recommendation 6.4

Shareholders are given the option to receive communications from, and send communication to, the Company and its share registry electronically. To ensure that shareholders can obtain all relevant information to assist them in exercising their rights as shareholders, the Company has made available a telephone number and relevant contact details (via the website) for shareholders to make their enquiries.

Principle 7: Recognise and manage risk

Recommendation 7.1

Due to the size of the Board, the Company does not have a separate Risk Committee. The Board is responsible for the oversight of the Company's risk management and control framework.

When the Board meets as a risk committee is carries out those functions which are delegated to it in the Company's Risk Committee Charter. Items that are usually required to be discussed by a Risk Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Risk Committee Charter which describes the role, composition, functions and responsibilities of the Risk Committee and is disclosed on the Company's website.

The Board has adopted a Risk Management Policy, which is disclosed on the Company's website. Under the policy, responsibility and control of risk management is delegated to the appropriate level of management within the Company with the Chief Executive Officer having ultimate responsibility to the Board for the risk management and control framework.

The risk management system covers:

- (a) operational risk;
- (b) financial reporting;
- (c) compliance / regulations; and
- (d) system / IT process risk.

A risk management model is also being developed and will provide a framework for systematically understanding and identifying the types of business risks threatening the Company as a whole, or specific business activities within the Company.

Recommendation 7.2

The Board will review the Company's risk management framework annually to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board.

- (a) Arrangements put in place by the Board to monitor risk management include, but are not limited to:
- (b) monthly reporting to the Board in respect of operations and the financial position of the Company; and
- (c) quarterly rolling forecasts prepared;

Recommendation 7.3

The Company does not have, and does not intend to establish, an internal audit function. To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's Risk Management Policy.

Recommendation 7.4

Given the speculative nature of the Company's business, it is subject to general risks and certain specific risks.

The Company has identified those economic, environmental and/or social sustainability risks to which it has a material exposure, and disclosed how it intends to manage those risks.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1

Due to the size of the Board, the Company does not have a separate remuneration committee. The roles and responsibilities of a remuneration committee are currently undertaken by the Board.

The duties of the full board in its capacity as a remuneration committee are set out in the Company's Remuneration and Nomination Committee Charter which is available on the Company's website

When the Board meets as a remuneration committee is carries out those functions which are delegated to it in the Company's Remuneration and Nomination Committee Charter. Items that are usually required to be discussed by a Remuneration Committee are marked as separate agenda items at Board meetings when required.

The Board has adopted a Remuneration and Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee and is disclosed on the Company's website.

Recommendation 8.2

Details of the Company's policies on remuneration will be set out in the Company's "Remuneration Report" in each Annual Report published by the Company. This disclosure will include a summary of the Company's policies regarding the deferral of performance-based remuneration and the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Recommendation 8.3

The Company's Security Trading Policy includes a statement on the Company's policy on prohibiting participants in the Company's Employee Incentive Plan entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Employee Incentive Plan.

Security Trading Policy

In accordance with ASX Listing Rule 12.9, the Company has adopted a trading policy which 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.

The Company's Security Trading Policy is available on the Company's website.