

KAIRIKI ENERGY LIMITED

ABN 34 002 527 906

Half-Year Report

31 December 2016

Kairiki Energy Limited

ABN 34 002 527 906

Corporate Directory

Directors

Campbell Welch
Scott Brown
Robert Downey

Company Secretary

Wayne Kernaghan

Registered Office

Level 3
32 Walker Street
North Sydney NSW 2060

Telephone: (02) 9955 4008
Facsimile: (02) 9954 6408
Website: www.kairikienergy.com

Share Registry

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000

Investor enquiries:

Telephone: 1300 557 010
(08) 9323 2000
Facsimile: (08) 9323 2033

Auditor

Rothsay Chartered Accountants
Level 1, Lincoln House
4 Ventnor Avenue
West Perth WA 6005

Stock Exchange Listing

ASX Limited (Home Branch: Sydney)
ASX Code: KIK

Kairiki Energy Limited

Directors' Report

The Directors of Kairiki Energy Limited ("Kairiki" or "the Company") submit herewith the financial report of the consolidated entity ("the Group") for the half-year ended 31 December 2016.

Directors

The names of Directors who held office during or since the end of the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

| | |
|----------------|------------------------|
| Campbell Welch | Non-Executive Chairman |
| Scott Brown | Non-Executive Director |
| Robert Downey | Non-Executive Director |

Review and Results of Operations

The principal activity of the Company during the period was evaluating new project opportunities.

The net loss for the half-year ended 31 December 2016 from continuing operations was \$55,775 (2015: \$301,718). The net loss included the following items:

- General and administration costs of \$56,360 (2015: \$336,337); and
- Cash interest expenses of \$nil (2015: \$12,110).

New Ventures

On 28 December 2016, the Company announced that it had entered into a binding Terms Sheet (with Bowen Coking Coal Pty Ltd (**Bowen**) under which the Company conditionally agreed to acquire 100% of the issued capital of Bowen from Cape Coal Pty Ltd (the **Acquisition**).

The Company believes that the Acquisition of Bowen presents a good opportunity to participate in Australia's coking coal industry with its attractive economics and long-term viability. The management of Bowen are exploring and developing coking coal projects in Queensland's Bowen Basin for export to Asian steel makers.

This acquisition is subject to shareholder approval with a shareholders meeting to be held in the next two months. The Company will apply for the relisting of its shares on the ASX should shareholders approve the Acquisition.

Changes in State of Affairs

During the half-year ended 31 December 2016 there was no significant change in the entity's state of affairs other than those referred to in this Directors' report, the half-year financial statements or notes thereto.

Kairiki Energy Limited

Directors' Report

Events Subsequent to Reporting Date

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years other than:

- The placement of 80m shares at an average price of \$0.004 to raise \$320,000 (less expenses)

Auditor's Independence Declaration

An independence declaration from our auditors is attached to the Auditor's Independent Review Report and forms part of this Directors' Report.

This report is made in accordance with a resolution of the directors.



Campbell Welch
Chairman

7 March 2017

Kairiki Energy Limited

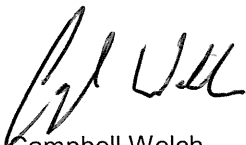
Directors' Declaration

In accordance with a resolution of the Directors of Kairiki Energy Limited, I state that:

In the opinion of the Directors:

- 1) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (a) complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001;
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year then ended; and
- 2) Subject to the achievement of the matter set out in Note 1 of the financial report, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts when they become due and payable.

On behalf of the Board



Campbell Welch
Chairman

7 March 2017

Kairiki Energy Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year Ended 31 December 2016

| | Note | Consolidated Half-Year ended 31 Dec 2016 \$ | Consolidated Half-Year ended 31 Dec 2015 \$ |
|---|------|---|---|
| Continuing operations | | | |
| Revenue and other income | | | |
| Interest revenue | | 586 | 11 |
| Other income – foreign exchange gains | | - | 46,718 |
| Expenses | | | |
| Finance costs | | - | (12,110) |
| Employee benefits expense | | - | (150,190) |
| Loss on disposal of investment | | (5,716) | - |
| Other costs | | (50,645) | (186,147) |
| Loss before income tax expense | | (55,775) | (301,718) |
| Income tax expense | | - | - |
| Loss after tax for the period from continuing operations | | (55,775) | (301,718) |
| Discontinued operations | | | |
| Profit / (loss) after tax for the period from discontinued operations | | - | 1,156,603 |
| Profit / (loss) after tax for the period | | (55,775) | 854,885 |
| Other comprehensive income / (loss) | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Gain on available for sale financial assets | | (8,823) | 3,782 |
| Foreign currency translation differences | | - | 622 |
| Reclassification to profit or loss of cumulative foreign currency gain on disposal of subsidiary | | - | (1,208,987) |
| Total other comprehensive income / (loss) | | (8,823) | (1,204,583) |
| Total comprehensive income / (loss) for the period attributable to members of Kairiki Energy Limited | | (64,598) | (349,698) |
| | | Cents | Cents |
| Profit / (loss) per share attributable to ordinary equity holders of the parent | | | |
| From continuing operations | | (0.02) | (0.13) |
| From discontinued operations | | - | 0.49 |
| Total | | (0.02) | 0.36 |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Kairiki Energy Limited

Consolidated Statement of Financial Position

As at 31 December 2016

| | Note | Consolidated 31 Dec 2016 \$ | 30 June 2016 \$ |
|---|------|-----------------------------------|--------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 29,445 | 107,805 |
| Trade and other receivables | | 14,875 | - |
| Total Current Assets | | 44,320 | 107,805 |
| Non-Current Assets | | | |
| Financial assets classified as available for sale | | - | 10,083 |
| Total Non-Current Assets | | - | 10,083 |
| Total Assets | | 44,320 | 117,888 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | | 211,229 | 220,199 |
| Total Current Liabilities | | 211,229 | 220,199 |
| Total Liabilities | | 211,229 | 220,199 |
| Net (Deficit) / Assets | | (160,909) | (102,311) |
| EQUITY | | | |
| Issued capital | | 85,783,048 | 85,783,048 |
| Reserves | | (6,885,355) | (6,876,532) |
| Accumulated losses | | (79,064,602) | (79,008,827) |
| Total Equity | | (160,909) | (102,311) |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Kairiki Energy Limited

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2016

| Consolidated | Issued Capital \$ | Share- based Payments Reserve \$ | Available for Sale Reserve \$ | Translation Reserve \$ | Accumulated Losses \$ | Total \$ |
|---|-------------------------|--|--|------------------------------|-----------------------------|------------------|
| Balance at 1 July 2015 | 85,660,548 | 3,594,180 | 504 | (5,680,504) | (83,487,767) | 87,159 |
| Profit for the period | - | - | - | - | 854,885 | 854,885 |
| Other comprehensive income | - | - | 3,782 | (1,208,365) | - | (1,204,583) |
| Total comprehensive loss for the half-year | - | - | 3,782 | (1,208,365) | 854,885 | (1,204,583) |
| Balance at 31 December 2015 | 85,783,048 | 3,594,180 | 4,286 | (6,885,355) | (82,632,684) | (262,539) |
| Balance at 1 July 2016 | 85,783,048 | - | 8,823 | (6,885,355) | (79,008,827) | (102,311) |
| Loss for the period | - | - | - | - | (55,775) | (55,775) |
| Other comprehensive income | - | - | (8,823) | - | - | (8,823) |
| Total comprehensive loss for the half-year | - | - | (8,823) | - | (55,775) | (64,598) |
| Balance at 31 December 2016 | 85,783,048 | - | - | (6,885,355) | (79,064,602) | (166,909) |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Kairiki Energy Limited

Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2016

| | | Consolidated Half-Year ended 31 Dec 2016 \$ | Half-Year ended 31 Dec 2015 \$ |
|--|------|---|---|
| | Note | | |
| Cash Flows from Operating Activities | | | |
| Payments to suppliers and employees | | (85,922) | (217,836) |
| Interest received | | 586 | 11 |
| Interest and other costs of finance paid | | - | (20,341) |
| Net cash used in operating activities | | (85,336) | (238,166) |
| Cash Flows from Investing Activities | | | |
| Proceeds from sale of financial assets | | 6,976 | - |
| Proceeds from disposal of subsidiary | 3 | - | 758,828 |
| Net cash provided by investing activities | | 6,976 | (758,828) |
| Cash Flows from Financing Activities | | | |
| Proceeds from borrowings | | - | 296,000 |
| Repayment of borrowings | | - | (784,000) |
| Net cash used in / provided by financing activities | | - | (488,000) |
| Net change in cash and cash equivalents | | (78,360) | 32,662 |
| Cash and cash equivalents at beginning of half-year | | 107,805 | 17,631 |
| Effect of exchange rate changes | | - | - |
| Cash and cash equivalents at end of half-year | | 29,445 | 50,293 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2016

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as the annual financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Kairiki Energy Limited as at 30 June 2016. It is also recommended that the half-year financial report be considered together with any public announcements made by Kairiki Energy Limited during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

The half-year financial report has been prepared in accordance with the historical cost basis.

The half-year consolidated financial statements comprise the financial statements of Kairiki Energy Limited and its subsidiaries ("the Group") as at 31 December 2016.

Going Concern

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's assets and the discharge of its liabilities in the normal course of business.

As at 31 December 2016, the Company had cash and cash equivalents of \$29,445, a loss for the half year from continuing operations of \$55,775 and a net cash outflow from operating and investing activities of \$78,360. The Company has a working capital deficiency of \$166,909.

Since the end of the half year the Company has raised \$320,000(before expenses) from the issue of 80m shares at an average price of \$0.004.

The ability of the Group to continue as a going concern is principally dependent upon raising additional capital to fund the Group's ongoing working capital requirements, as and when required.

The Directors believe it is appropriate to prepare the financial statements on a going concern basis.

Although the Directors believe they will be successful in raising additional capital to fund working capital requirements, if they are not, there is a material uncertainty that the Group may be unable to continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2016

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's annual financial report for the year ended 30 June 2016, except as stated below.

New Accounting Standards and Interpretations

Since 1 July 2016 the Group has adopted all Australian Accounting Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2016. These standards did not have a material effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

2. DISCONTINUED OPERATIONS

On 8 June 2015 the Company entered into Share Purchase Agreement with IMC for the disposal of its entire interest in the share capital of its subsidiary Yilgarn Petroleum Philippines Pty Ltd ("Yilgarn"). Yilgarn was the holder of the Company's interest in Service Contract 54A and 54B in the Philippines, which was the Company's main undertaking. Shareholder approval was granted on 19 August 2015 and the transaction was completed on 27 November 2015.

(a) Consideration received

| | \$ |
|---|----------|
| Sale amount – cash and cash equivalents | 784,000 |
| Less: agreed deductions | (25,172) |
| | 758,828 |

(b) Assets and liabilities over which control was lost as at 27 November 2015

| | \$ |
|---|----------|
| <u>Non-Current Assets</u> | |
| Deferred exploration and evaluation expenditure | 832,619 |
| <u>Current Liabilities</u> | |
| Trade and other payables | (32,641) |
| | 799,978 |

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2016

2. DISCONTINUED OPERATIONS (CONTINUED)

(c) Gain on disposal of subsidiary

| | \$ |
|--|-----------|
| Consideration received | \$758,828 |
| Net assets disposed of | |
| Loss on disposal before reclassification from equity of cumulative exchange differences relating to the net assets of the subsidiary | (799,978) |
| | (41,150) |
| Reclassification from equity of cumulative exchange differences relating to the net assets of the subsidiary | 1,208,987 |
| Gain on disposal of subsidiary | 1,167,837 |

The gain on disposal is included in the profit from discontinued operations (Note 2(d)).

(d) Profit / (loss) from discontinued operations

| | 1 July 2016 – 31 Dec 2016 | 1 July 2015 – 31 Dec 2015 |
|--|------------------------------|------------------------------|
| | \$ | \$ |
| Expenses | - | (11,234) |
| Loss before tax | - | (11,234) |
| Attributable income tax benefit | - | - |
| Loss after tax | - | (11,234) |
| Gain on disposal of subsidiary (Note 2(c)) | - | 1,167,837 |
| Profit / (loss) from discontinued operations | - | 1,156,603 |

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2016

4 FAIR VALUES OF FINANCIAL INSTRUMENTS

Recurring fair value measurements

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs that are not based on observable market data.

The fair value of the listed equity investments is based on quoted market prices (Level 1). Quoted market prices represent the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The Group's financial assets measured and recognised at fair value at 31 December 2016 and 30 June 2016 are as follows:

| | 31 Dec 2016 \$ | 30 June 2016 \$ |
|---|-------------------|--------------------|
| <i>Level 1 – Quoted Market Price</i> | | |
| Financial assets classified as available for sale | - | 10,083 |

The financial assets were sold during the half year.

Due to their short-term nature, the carrying amounts of current receivables and current trade and other payables is assumed to equal their fair value.

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2016

5. RELATED PARTY INFORMATION

Transactions with Director-related Entities

A legal firm of which director Robert Downey is a principal provided services totalling \$Nil during the half-year ended 31 December 2016 (half-year ended 31 December 2015: \$38,232). No amount was outstanding at 31 December 2016 (\$Nil as at 30 June 2016).

An entity related to director Robert Downey provided consulting services totalling \$Nil during the half-year ended 31 December 2016 (half-year ended 31 December 2015: \$40,000). This amount remained in trade creditors as at 31 December 2016.

6. SEGMENT REPORTING

The Group's only continuing operation is reviewing new project opportunities. Its assets and liabilities relate only to Australia. Accordingly, it has only one segment at this time.

7. EVENTS SUBSEQUENT TO REPORTING DATE

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years other than:

- The placement of 80m shares at an average price of \$0.004 to raise \$320,000 (less expenses)



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Independent Review Report to the Members of Kairiki Energy Ltd

The financial report and directors' responsibility

The interim consolidated financial report comprises the statement of financial position, statement of comprehensive income, statement of changes in equity, cashflow statement, accompanying notes to the financial statements, and the directors' declaration for Kairiki Energy Ltd for the half-year ended 31 December 2016.

The Company's directors are responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim consolidated financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated financial position as at 31 December 2016 and the performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Kairiki Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

- giving a true and fair view of the consolidated financial position as at 31 December 2016 and of the performance for the half-year ended on that date; and
- complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Chartered Accountants



Emphasis of Matter regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates the basis for preparing the accounts on a going concern basis.

As stated in Note 1 in the event the consolidated entity is unable to raise additional funds there is a material uncertainty as to whether the consolidated entity could continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and for the amounts stated in the financial report.

Rothsay Auditing

**Graham Swan FCA
Partner**

Dated 7th March 2017



Chartered Accountants



Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
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The Directors
Kairiki Energy Ltd
Level 3, 32 Walker St
North Sydney NSW 2000

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit review of the 31 December 2016 interim financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the review.

Graham Swan FCA (Lead auditor)

Rothsay Auditing

Dated 7th March 2017



Chartered Accountants