

June 2018 Quarterly Report

Highlights

- Subsequent to the end of the quarter the Company announced on 19 July 2018 that it has signed an agreement to acquire the RPM Automotive Group. A copy of the ASX announcement is attached to this report.
- The Company's cash at the end of the quarter was \$158,000.



About Kairiki Energy

Kairiki Energy Limited (ASX: KIK) is an oil and gas company. It has been involved with the oil and gas industry and has a strategy of holding acreage in proven oil and gas basins. It currently is looking for new projects. The Company's immediate-term plan is to focus on resource projects both domestically and internationally which can be commercialised. The board of Kairiki has a proven track record of successfully managing publicly listed companies, and collectively have extensive exploration, oil and gas and commercial experience.

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Campbell Welch Non-executive Chairman
Scott Brown Non-executive Director
Robert Downey Non-executive Director

Wayne Kernaghan Company Secretary

Update

The Company continued to review and evaluate opportunities during the quarter.

Subsequent to the end of the quarter the Company announced on 19 July 2018 it reached an agreement to acquire the RPM Automotive Group. A copy of the ASX announcement is attached to this report which details the businesses to be acquired together with an indicative timetable for the proposed transaction.

Corporate

The Company's cash at the end of the quarter was \$158,000.

For further information please contact:

Campbell Welch
Chairman
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Kairiki Energy Limited

ASX Announcement

Kairiki Energy to acquire RPM Automotive Group

- RPM Automotive Group ("RPM Group") is a group of unlisted businesses operating in the Australian automotive aftermarket with FY18 sales revenue of \$56.5 million and NPAT of \$3.4 million
- RPM Group offers a nationwide footprint focusing on wholesale distribution and retail of tyres, auto parts and accessories and owns a variety of well-known and respected brands in the automotive market
- RPM Group's founders have over 25 years experience and a successful track record in the sector
- The Australian automotive aftermarket is estimated at over \$25 billion per annum, which includes new wheel/tyre sales, servicing, repairs, auto parts & accessories
- Automotive represents a growing sector, with Australia's car park increasing by over 1.2 million new cars sold annually. The sector also represents a highly fragmented industry ripe for consolidation
- A proposed capital raising of \$10 million to fund growth both organically and via acquisition
- Kairiki to be renamed RPM Automotive Group Limited.

19 July 2018, Sydney: The Directors of Kairiki Energy Limited ("Kairiki" or the "Company") (ASX: "KIK") are pleased to announce the Company has executed a conditional agreement to acquire 100% of a number of automotive businesses collectively known as the RPM Group. The transaction is subject to the successful completion of due diligence by both parties.

Kairiki will prepare a Notice of General Meeting and send to shareholders in due course.

The acquisition is deemed a significant change in the nature and scale of the Company's activities and will require shareholder approval under Chapter 11 of the ASX Listing Rules. Also, the Company's securities will remain suspended until KIK has re-complied with Chapters 1 and 2 of the Listing Rules. The ASX retains absolute discretion in deciding whether to re-admit the Company to the official list and to quote its securities. If any of these requirements are not met or the ASX exercises its discretion not to re-admit the Company's shares to trading on the ASX then the transaction may not proceed.

Overview of the RPM Automotive Group

The RPM Group is built on a simple philosophy of customer service, respected brand names and the range and quality of product and service offerings. The company is constructed around 4 key pillars in the Australian auto aftermarket industry:

- Motorsport and Racing Gear
- Tyres and Wheels
- Emissions and Performance
- Parts and Accessories

RPM Group is coming together to create a company that has scale and can address opportunities in the Australian automotive sector with market-leading capabilities and brands. The following businesses have or are combining as part of the listing of the RPM Group on the ASX;

- **Revolution Racegear** is the Australian leader in supplying race safety gear and performance accessories to the motorsport industry. Revolution owns the RPM brand name and has 5 corporate retail stores and 13 franchised stores nationally. (www.revolutionracegear.com.au)
- **Carline Automotive** has over 120 franchise and licensee stores nationwide offering customers a fully equipped workshop with a focus on exhaust and mechanical repair. (www.carline.com.au)
- **The Tyre Factory (TTF)** is an importer, wholesaler and retailer of wheels and tyres. TTF has 13 retail stores located throughout Victoria. TTF also owns its own patented tyre brand, Austyre, with tyres for both the car and truck markets as well as a truck-wheel brand, Supalite. (www.ttf.com.au)
- **RW Tyres** is an importer and nationwide wholesaler of tyres. RW Tyres also encompasses 3 retail stores that are a blueprint for RPM Group's future organic growth story.
- **Wildcat (Genie Headers)**, services the performance auto market through the design, development and manufacture of performance headers and exhausts. It has a manufacturing facility in Queensland and is distributed nationally.
- **RPM either owns or has exclusive Australian distribution rights to the following iconic automotive brands:**
 - RPM – the RPM brand is 100% owned by Revolution Racegear.
 - Carline – the Carline business and brand will become 100% owned by the RPM Group on completion of the transaction.
 - Bell Motorsport Helmets – Revolution Racegear has held the exclusive Australian distribution rights for Bell Motorsport Helmets for over 20 years. (The distribution rights do not include Bell motorcycle helmets.)
 - Alpine Star Race Wear - Revolution Racegear has held the exclusive Australian distribution rights for Alpine Stars Auto Racing Apparel for over 5 years. (The distribution rights do not include motorcycle apparel.)

- Lukey – Carline has exclusive worldwide distribution rights to the Lukey brand name for performance exhausts.
- Genie – Wildcat owns and has 100% rights in the Genie performance headers brand name.
- Austyre – The Tyre Factory has trademarked, patented and owns 100% of the Intellectual Property in the Austyre tyre brand.
- Supalite – The Tyre Factory has trademarked, patented and owns 100% of the Intellectual Property in the Supalite tyre brand.
- Cobra - Revolution Racegear has held the exclusive Australian distribution rights for Cobra seats for over 20 years.

RPM Group FY18 Financials

The table below presents financial results (unaudited) of the individual RPM Group businesses for the financial year ended 30 June 2018. The financial results are derived from the financial and management accounts of the individual businesses that comprise the RPM Group.

Business	Sales (\$)	EBITDA (\$)	NPAT (\$)
Tyre Factory	31,000,000	2,500,000	1,178,000
Revolution Racegear	6,300,000	850,000	527,000
Wildcat	2,000,000	250,000	175,000
RW Tyres	16,775,000	1,900,000	1,450,000
Carline Automotive	500,000	150,000	100,500
Total	56,575,000	5,650,000	3,430,500

The information in the table above has been provided by the directors of the RPM Group and prepared by Novus Capital. All amounts are in AUD.

Acquisition Consideration

In consideration for the acquisition of 100% of the individual businesses that comprise the RPM Group;

- Kairiki will issue 84,616,000 ordinary fully-paid shares (post-consolidation) to RPM's shareholders ("Vending Shareholders"), founders, staff and Convertible Noteholders. ("Consideration Shares")
- Kairiki will issue a further 18,984,000 ordinary fully-paid shares (post-consolidation) to the Vending Shareholders of the individual RPM Group businesses subject to their businesses meeting or exceeding the EBITDA targets for FY19 (The EBITDA targets for FY19 are the EBITDA results for FY18 as detailed in the table above). ("Performance Shares")
- Kairiki will issue 18,984,000 ordinary fully-paid (post-consolidation) shares to the Vending Shareholders of the individual RPM Group businesses if their businesses exceed the EBITDA targets for FY19 (being the EBITDA results for FY18) by 20%. The shares will be issued on a pro-rata basis, relative to the percentage by which the business result exceeds the EBITDA target for FY19, but will be capped with respect to the maximum number of shares that may be issued. (See below for more detail). ("Earnout Shares")
- Kairiki will also payout \$1.8 million in cash to an RPM Group shareholder retiring from the business.

- The total notional consideration paid by Kairiki to acquire the RPM Group (excluding the Earnout Shares) is 103,600,000 Shares at \$0.20/Share which gives equity consideration of \$20.72 million and \$1.8 million in cash for a total consideration of \$22.52 million.

The equity consideration for the acquisition by Kairiki of the RPM Group is summarised in the table below.

BUSINESS	CONSIDERATION SHARES	PERFORMANCE SHARES	EARNOUT SHARES	TOTAL SHARES
RW Tyres	21,331,200	5,332,800	5,332,800	31,996,800
Revolution Racegear	10,828,800	2,707,200	2,707,200	16,243,200
Wildcat	4,224,000	1,056,000	1,056,000	6,336,000
Tyre Factory	37,248,000	9,312,000	9,312,000	55,872,000
Carline Automotive	2,304,000	576,000	576,000	3,456,000
Founder's shares	5,180,000	-	-	5,180,000
Convertible Noteholders	3,000,000	-	-	3,000,000
Staff share issue	500,000	-	-	500,000
Total	84,616,000	18,984,000	18,984,000	122,584,000

Kairiki will utilise its placement capacity under ASX listing rule 7.1 and/or 7.1A for the issue of the Performance Shares and Earnout Shares, respectively, or will seek shareholder approval at the time of issuing the shares.

Earnout Shares

The Earnout Shares are designed to reward the Vending Shareholders of the individual RPM Group businesses if they outperform their target EBITDA in FY19 (Their EBITDA targets as detailed in the table below are their FY18 EBITDA results). The Earnout Shares will be issued to the shareholders of the individual RPM Group business pro-rata to the extent their actual EBITDA FY19 result outperforms the target EBITDA result. The maximum number of Earnout Shares the Vending Shareholders can receive in total is 18,984,000 shares. The Table below shows the maximum number of Earnout Shares that Kairiki will issue to the Vending Shareholders of the individual RPM Group businesses if they exceed their target EBITDA by more than 20%. The Earnout Shares will be issued once the financial results for FY19 are known.

BUSINESS	Target EBITDA (\$)	Outperformance	Actual EBITDA (\$)	EARNOUT SHARES
RW Tyres	1,900,000	20%	2,280,000	5,332,800
Revolution Racegear	850,000	20%	1,020,000	2,707,200
Wildcat	250,000	20%	300,000	1,056,000
Tyre Factory	2,500,000	20%	3,000,000	9,312,000
Carline Automotive	150,000	20%	180,000	576,000
Total	5,650,000		6,780,000	18,984,000

As an example; If the RW Tyres business achieves an EBITDA result of \$2.28 million or more in FY19, then the Vending Shareholders of the RW Tyres business will be entitled to the full amount of Earnout Shares, and will be issued 5,332,800 Kairiki shares within 3 months of the end of FY19. However, if the RW Tyres business achieves an EBITDA result between \$1.9 million and \$2.28 million then the Vending Shareholders of the RW Tyres business will be entitled to Earnout Shares equal to the percent (%) by which their EBITDA result exceeds \$1.9 million times the total of Consideration and Performance Shares issued to them. And if the FY19 EBITDA result for the RW Tyres business is below \$1.9 million then the Vending Shareholders will not be entitled to any Earnout Shares.

Assumption of Debt and Acquisition of Trading Stock

As a result of the transaction Kairiki will assume approximately \$5.35 million of debt and acquire \$8.375 million in trading stock of the individual RPM Group businesses per the table below. The debt and stock will be held by the individual businesses and be non-recourse.

BUSINESS	DEBT (\$)	STOCK (\$)
Tyre Factory	(550,000)	2,000,000
Revolution Racegear	(1,800,000)	2,000,000
Wildcat	-	375,000
RW Tyres	(3,000,000)	4,000,000
Carline Automotive	-	-
Total	(5,350,000)	8,375,000

The debt and trading stock amounts are included in the pricing formula Kairiki has used in valuing the individual RPM Group businesses to determine the acquisition consideration it has offered the Vending Shareholders of the individual RPM Group businesses.

RPM Group Vendor Shareholdings

The shareholdings of the RPM Group vending shareholders post a successful transaction are listed in the Table below;

ENTITY	CONSIDERATION SHARES	PERFORMANCE SHARES	EARNOUT SHARES	TOTAL SHARES	PERCENT
Ejay Rahmani or related entities	37,248,000	9,312,000	9,312,000	55,872,000	30.5%
Founders individual shareholdings	5,180,000	-	-	5,180,000	2.8%
RPM Worldwide Pty Ltd	15,812,352	3,953,088	3,953,088	23,718,528	13.0%
RPM Australasia Pty Ltd	10,828,800	2,707,200	2,707,200	16,243,200	8.9%
Convertible Noteholders	3,000,000	-	-	3,000,000	1.6%
Staff shares	500,000	-	-	500,000	0.3%
Other vending shareholders	12,046,848	3,011,712	3,011,712	18,070,272	9.9%
Total shares issued to RPM Group vendors	84,616,000	18,984,000	18,984,000	122,584,000	67.0%

Notes:

- 1) The percentages in the table above are based on a total of 183,019,742 Kairiki shares on issue, which assumes all the Earnout and Performance shares are issued to the Vending Shareholders.
- 2) The percentages in the table above do not take account of outstanding options.
- 3) Ejay Rahmani or related entities will hold over 20% of KIK's issued shares requiring a shareholder resolution at KIK's general meeting to approve the share issue.
- 4) The founders (Lawrence Jaffe, Clive Finkelstein) or related entities own 75% of RPM Worldwide P/L.
- 5) The founders (Lawrence Jaffe, Clive Finkelstein) or related entities own 45.96% of RPM Australasia P/L.

The Convertible Notes were issued by RPM Worldwide Pty Ltd in relation to a \$300,000.00 capital raising to fund the costs of the ASX-listing and will mandatorily convert in full under a formula in the Convertible Note Deed at a discount of 50% to the ASX-listing transaction price being \$0.10/share. The Convertible Notes will convert on issue of the Consideration Shares to the Vending Shareholders. The ASX may impose mandatory escrow in respect of the Shares issued to the Convertible Noteholders.

Voluntary Escrow Arrangements

The following arrangements have been agreed with the Vending Shareholders of the individual RPM Group businesses;

- The 84,616,000 Consideration Shares will be subject to voluntary escrow until the earlier of; (i) the FY19 financial results are released and the actual EBITDA at a group level is equal to or greater than the forecast FY19 EBITDA of \$5.65 million or, (ii) 24 months following the re-commencement of trading in the Company's securities on the ASX. In the event that the ASX imposes mandatory escrow in respect of the Consideration Shares, then the voluntary escrow period will align with the ASX mandatory escrow period, being 24 months following recommencement of trading in the Company's securities on the ASX.
- If the Performance Shares are issued they will not be subject to voluntary escrow arrangements. In the event that the ASX imposes mandatory escrow in respect of the Performance Shares, then the voluntary escrow arrangements will align with the ASX mandatory escrow period.
- If the Earnout Shares are issued they will not be subject to voluntary escrow arrangements. In the event that the ASX imposes mandatory escrow in respect of the Earnout Shares, then the voluntary escrow arrangements will align with the ASX mandatory escrow period.
- The Consideration Shares, Performance Shares and Earn out Shares will be subject to the ASX Listing Rules and determination by ASX in respect of the application of ASX mandatory escrow.

Indicative Capital Structure

The indicative capital structure of the Company following completion of acquisition is set out in the Table below.

KIK CAPITAL STRUCTURE	SHARES	PERCENT	FULLY DILUTED
Kairiki current issued capital	349,122,480		
Share consolidation to \$0.20 (1:37 consolidation)	9,435,743	6.5%	4.7%
Consideration shares issued to RPM shareholders/noteholders/staff	84,616,000	58.3%	42.0%
Total	94,051,743		
Capital raising shares (\$10 million @ 20c/share)	50,000,000	34.5%	24.8%
Broker shares	1,000,000	0.69%	0.5%
Kairiki shares on completion of RPM acquisition and capital raising	145,051,743	100.0%	
Performance shares issued to RPM shareholders	18,984,000		9.4%
Capital raising options (1:4, 25c strike, 2 year)	12,500,000		6.2%
Kairiki shareholder options (1:2, 25c strike, 2 year)	4,717,871		2.3%
Broker options (25c strike, 2 year)	1,000,000		0.5%
Kairiki fully-diluted capital structure on completion	182,253,614		
Earnout shares issued to RPM shareholders	18,984,000		9.4%
Kairiki fully-diluted capital structure incl. Earnout	201,237,614		100.0%

Capital Raising

As part of the proposed transaction the Company will seek to raise \$10 million via the issue of new shares in Kairiki at \$0.20/share (minimum subscription of \$5 million). A prospectus will be issued to complete the capital raising. As part of the capital raising incoming investors will also receive a free option at the rate of one option for every four shares subscribed for. The option will have a strike price of \$0.25 and expiry of 2 years from the date of re-commencement of quotation of the Company's shares. Kairiki will endeavour to have the options listed on the ASX.

The capital raising is not underwritten.

The Company will seek to give preferential allocation in the capital-raising to existing Kairiki shareholders who wish to participate.

Use of Funds

The intended use of the funds raised by Kairiki in the proposed transaction is;

ITEM	MINIMUM RAISE (\$)	MAXIMUM RAISE (\$)
Cash Kairiki	184,000	184,000
Cash RPM Group	1,152,000	1,152,000
Capital Raising	5,000,000	10,000,000
Less: Transaction Costs	(1,000,000)	(1,000,000)
Less: Payout of RPM Group shareholder	(1,800,000)	(1,800,000)
Total Cash Post Transaction	3,536,000	8,536,000
Working Capital	1,500,000	1,500,000
Organic Growth	2,000,000	2,000,000
Acquisitions	36,000	5,036,000
Total Use of Funds	3,536,000	8,536,000

Pro-Forma Balance Sheet

The balance sheet below summarises the impact of the proposed transaction on Kairiki's balance sheet. The column RPM includes the consolidated (unaudited) balance sheets for all the individual business that comprise the RPM Group.

PRO-FORMA BALANCE SHEET	KIK (\$)	RPM (\$)	TRANSACTION (\$)	CONSOLIDATED (\$)
Cash	184,000	1,152,000	7,200,000	8,536,000
Current Assets	-	12,596,000		12,596,000
Fixed Assets	-	3,070,000		3,070,000
Intangible Assets	-	5,237,000		5,237,000
Total Assets	184,000	22,055,000		29,439,000
Current Liabilities	215,000	6,421,000		6,636,000
Borrowings/trade finance	-	5,350,000		5,350,000
Non-current Liabilities	-	155,000		155,000
Total Liabilities	215,000	11,926,000		12,141,000
Net Assets	(31,000)	10,129,000	7,200,000	17,298,000

Transaction Conditions Precedent

The proposed transaction is subject to the following pre-conditions;

- Kairiki raising a minimum of \$5 million via the issue of shares to investors. (The capital raising is not underwritten.)
- Completion of Due Diligence by Kairiki on The RPM Group
- Kairiki consolidating its shares on a 1:37 basis
- Kairiki obtaining all necessary regulatory and shareholder approvals, including re-complying with Chapters 1 & 2 of the ASX listing rules under the Assets test.
- Completion of the binding business sale agreements between Kairiki and the individual companies in the RPM Group.

Appointment of Novus Capital Ltd as Financial Advisor, Lead Manager and Sponsoring Broker

Novus Capital has been appointed by RPM Worldwide Pty Ltd to assist the Company in completing the proposed transaction. Novus will be entitled to the following fees;

- (i) A monthly financial advisory fee of \$12,000.
- (ii) A sponsoring broker fee of \$35,000 plus 6.25% of funds raised
- (iii) 1,000,000 broker shares and 1,000,000 broker options
- (iv) A success fee of \$50,000 subject to raising the minimum \$5 million, increasing to \$100,000 if the maximum \$10 million is raised.

Aside from the fees outlined above, no fees are payable to any 3rd parties for assisting or facilitating the transaction. The founders of the RPM Group, Mr Clive Finkelstein and Mr Lawrence Jaffe are receiving a total of 5,180,000 Kairiki shares for promoting the transaction (as shown above in RPM Group Vendor Shareholdings). These shares are in addition to the Kairiki shares they will be issued as Vending Shareholders in RPM Worldwide Pty Ltd and RPM Australasia Pty Ltd.

Previous Capital Raisings in the preceding six months

Kairiki has not conducted any capital raisings in the previous six months. The RPM Group has raised \$300,000 via issuing convertible notes.

Proposed Dividend and Payout ratio

The Company on relisting would institute a measured and responsible dividend policy and would expect to have a proposed dividend payout ratio of 30% of NPAT.

Board Changes

The transaction will see a change in the Company's Board composition. Mr Robert Downey will retire and the directors identified below will join the Board of the Company.

Mr Lawrence Jaffe

Lawrence is a co-founder and promoter of the RPM Group. Lawrence has a strong financial background having worked in Private Equity and Mergers & Acquisitions for a major Australian financial institution. He has over 20 years experience in the automotive sector, and was the CEO of RPM Australasia until 2015 when the group sold off one of its subsidiaries. Lawrence remained on as non-executive chairman of RPM Australasia and has now re-joined the executive team. Lawrence is a significant shareholder in the RPM Group.

Mr Clive Finkelstein

Clive is a co-founder and promoter of the RPM Group. Clive has over 20 years experience in the automotive sector, having built, managed and sold a successful 4WD franchise group. Clive's experience spans manufacturing, development, wholesale, retail and franchising of automotive businesses. Clive is a significant shareholder in the RPM Group.

Due Enquiries

The Board of Kairiki has undertaken appropriate enquiries into the assets and liabilities, financial position and performance, profits and losses, and prospects of the RPM Group for the Board to be satisfied that the transaction is in the best interests of Kairiki and its shareholders.

Timetable

Below is an indicative timetable for the proposed transaction. The timetable is subject to change at the discretion of the directors of the Company, together with the ASX and ASIC.

ACTION		DATE
1	Finalisation of Audit	10-Aug-18
2	Notice of Meeting sent to KIK shareholders	31-Aug-18
6	Kairiki Shareholder meeting to approve transaction	28-Sep-18
3	Lodgement of prospectus with ASIC	1-Oct-18
4	Exposure period	1-Oct-18
5	Opening date of offer	15-Oct-18
7	Offer closing date	26-Oct-18
8	Allotment of securities to applicants	29-Oct-18
9	Despatch of holding statements	29-Oct-18
10	Re-commencement of quotation by ASX	31-Oct-18

The Company will make further announcements on the proposed transaction in due course.

ASX has an absolute discretion in deciding whether or not to re-admit the entity to the official list and to quote its securities and therefore the transaction may not proceed if the ASX exercises its discretion. The Company is required to satisfy Chapters 1 and 2 of the ASX Listing Rules before its shares can resume trading.

Investors should take account of these uncertainties in deciding whether or not to buy or sell the entity's securities.

The ASX takes no responsibility for the contents of the announcement and the entity is in compliance with its continuous disclosure obligations under Listing Rule 3.1.

For further information, please contact:

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