



Kairiki Energy Limited



ASX Announcement

28 December 2016, Sydney

Kairiki Energy to acquire Bowen Coking Coal Pty Ltd

- **Bowen Coking Coal Pty Ltd ("BCC") is currently 100% owned by Cape Coal Pty Ltd ("Cape Coal") and holds the rights to the following Australian coking coal assets:**
 - **15% interest in the Lilyvale Joint Venture and 5% interest in the Mackenzie Joint Venture with Stanmore Coal Limited (ASX: SMR) The remaining 85% and 95% in these two Joint Ventures are held by Stanmore Coal Limited.**
 - **A binding option to acquire 100% of the Cooroorah Project (MDL 453) and 100% of the Hillalong Project (EPC 1824) from Australian Pacific Coal Limited (ASX: AQC). The option will be exercised on completion.**
- **BCC is currently in advanced discussions to secure more coking coal projects. The outcome of these negotiations will be known in Q1 2017.**
- **Kairiki's acquisition of BCC will be solely by the issue of ordinary shares in Kairiki which will be subject to shareholder approval.**
- **Kairiki complying with Chapters 1 and 2 of the ASX Listing Rules.**
- **Kairiki to appoint two new Directors with extensive coal experience.**
- **Following the acquisition of BCC Kairiki will become a pure Australian coking coal explorer and developer, only the second such company on the ASX**

The Directors of Kairiki Energy Limited ("**Kairiki**" or the "**Company**") (ASX: KIK) are pleased to announce that the Company has executed a conditional agreement to acquire 100% of the issued capital of Bowen Coking Coal Pty Ltd (ACN 615 317 907) ("**BCC**"), an unlisted Australian company. BCC holds rights to Australian coking coal assets located in Queensland. Kairiki will acquire 100% of BCC's issued shares in exchange for 240 000 000 fully paid ordinary shares in Kairiki.

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. The Company intends to comply with Chapter 1 and Chapter 2 of the ASX Listing Rules. The Company will despatch a Notice of General Meeting to shareholders seeking all necessary shareholder approvals early in 2017. The Notice of General Meeting will contain detailed information relating to the Company's acquisition of BCC. The Company will also prepare a disclosure document.

Acquisition Consideration

- In consideration for the acquisition of 100% of the ordinary shares on issue in BCC, Kairiki will issue 240 000 000 fully paid ordinary shares in Kairiki to BCC's shareholder ("**Consideration Shares**").
- In addition to the Consideration Shares, Kairiki may issue a further maximum of 160 000 000 fully paid ordinary shares ("**Contingent Shares**") to BCC's shareholder if BCC obtains rights to acquire certain additional interests in complementary Queensland coking coal tenements prior to 31 March 2017. The Board believes that given the discussions in relation to the potential acquisition of any such additional interests are at such an early stage and the outcome therefore too uncertain, particularly when combined with confidentiality requirements of potential counterparties, it would be potentially misleading to provide any details of them at this stage. The Board will update shareholders if and when matters progress in accordance with continuous disclosure obligations.
- The Consideration and Contingent Shares are likely to be subject to ASX escrow for at least 12 months commencing from when KIK is relisted on the ASX. These shares will be only be issued when the Company complies with Chapters 1 and 2 of the ASX Listing Rules.

Overview of BCC

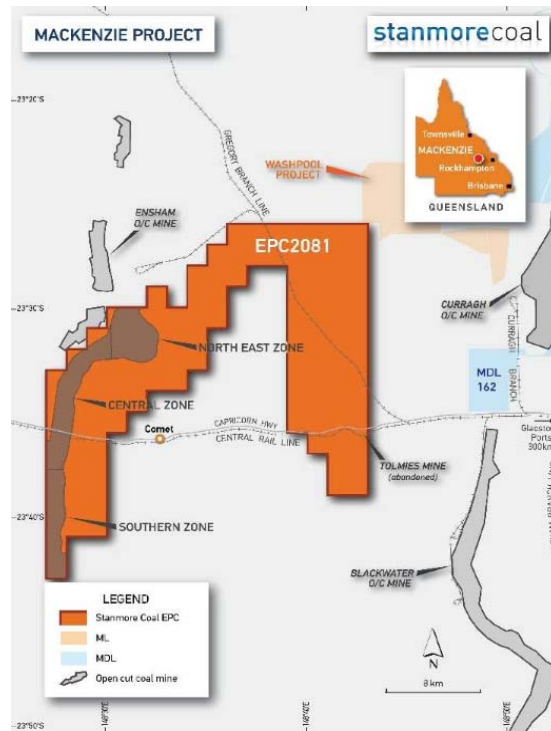
- BCC is a wholly-owned subsidiary of Cape Coal. BCC holds all rights to Cape Coal's coal exploration and development business. BCC holds certain legal and beneficial rights in two Joint Ventures with SMR.

- **Mackenzie 5% (SMR 95%)**

In November 2011, Xenith Consulting Pty Ltd estimated a resource in accordance with the 2004 JORC code of 144 Mt (26 Mt Indicated and 136 Mt Inferred) for 100% of the Mackenzie Project. This Resource has not yet been converted in accordance with the 2012 JORC code. Therefore, no Resource is stated for this report. Desktop studies indicated that the Mackenzie Project may be amenable to open cut mining or trench high wall mining. The Mackenzie Project in the Bowen Basin is well located for export as it lies on the rail line to Gladstone. It is located between the existing Ensham and Curragh operating mines. It is adjacent to the Washpool coking coal project, which is also targeting the Burngrove Coal Formation.

A total of 80 holes have been drilled in the Mackenzie Project. The coal sequence comprises two main coal seams, being the Leo and Aquarius seams within the Burngrove Formation. The seams strike in a general north-south direction over an approximate 27 km strike length, and dip towards the west at approximately two degrees. The main coal seams occur at depths of 10–110 m. (Source: SMR Annual Report 2013)

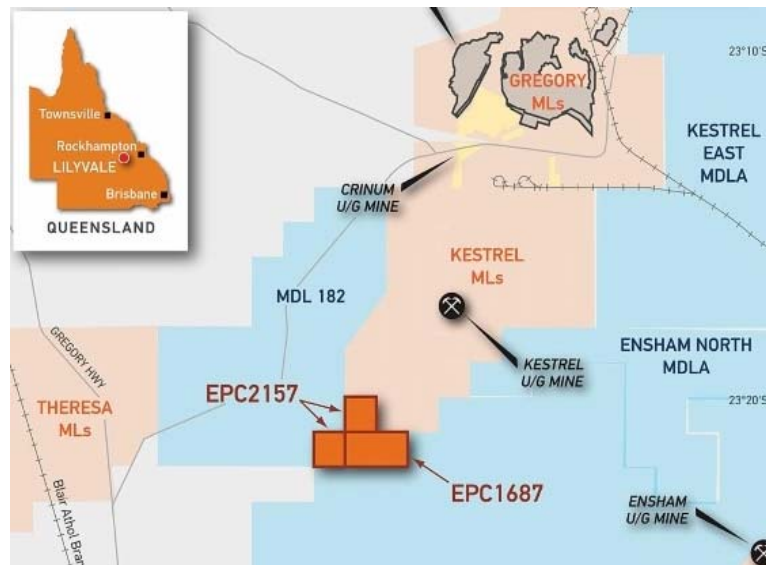
Figure 1: Mackenzie Project



○ **Lilyvale 15% (EPC2157 and EPC1687) (SMR 85%)**

The Lilyvale Project is located 25 km north east of Emerald. It is in close proximity to the operating Kestrel South and Gregory-Crinum coking coal mines. Based on analysis of historical geophysical logs and bore holes in the surrounding region (including two cored holes with quality data within the Lilyvale Project area) SMR estimates that the Lilyvale project hosts the German Creek seam from 336 m in depth with a typical thickness across the project area of 2.2–2.5m. The geology of the Lilyvale Project and surrounding areas is well understood and is not expected to be geologically complex. Adjacent underground mines at Kestrel (Rio Tinto) and Gregory-Crinum (BHP Mitsubishi Alliance) produce a low ash, high quality coking coal from the German Creek seam. (Source: SMR Annual Report 2016)

Figure 2: Lilyvale

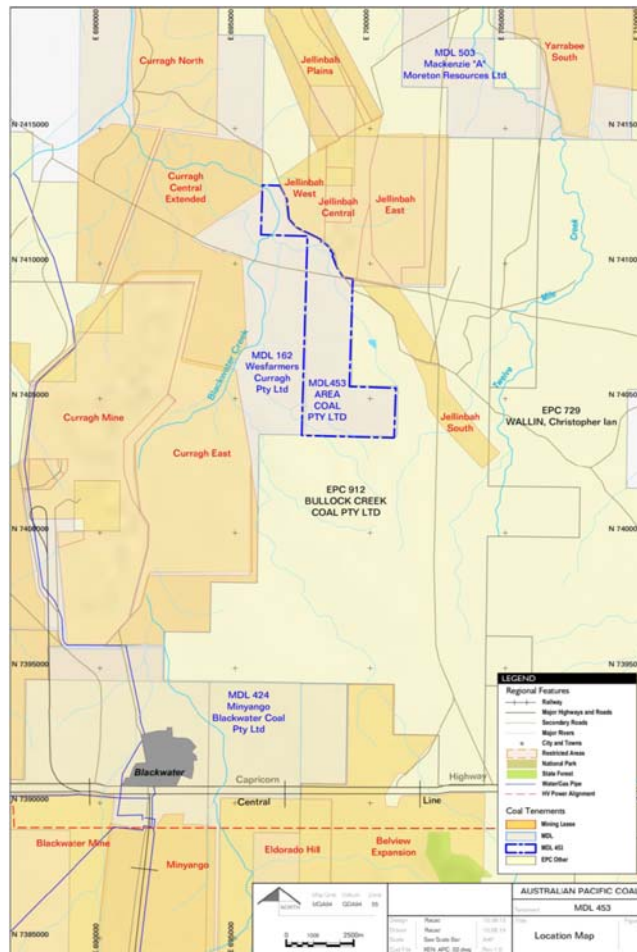


- BCC entered into a binding Memorandum of Understanding with Australian Pacific Coal Limited (ASX: AQC) through which it secured an option to acquire 100% of the Cooroorah (MDL 453) and Hillalong (EPC1824) Projects.

- **Cooroorah (MDL 453)**

The Cooroorah Project is an underground coking coal/PCI project hosting a 2012 JORC Resource of 125 Mt, of which 70 Mt is Indicated and 55 Mt is Inferred (*Competent Person Note 1*). The Cooroorah Project is located adjacent to Wesfarmers' Curragh mine and MDL 162. It covers 4 seams from the Rangal Coal Measures as mined by abutting mines as Coking and PCI coal.

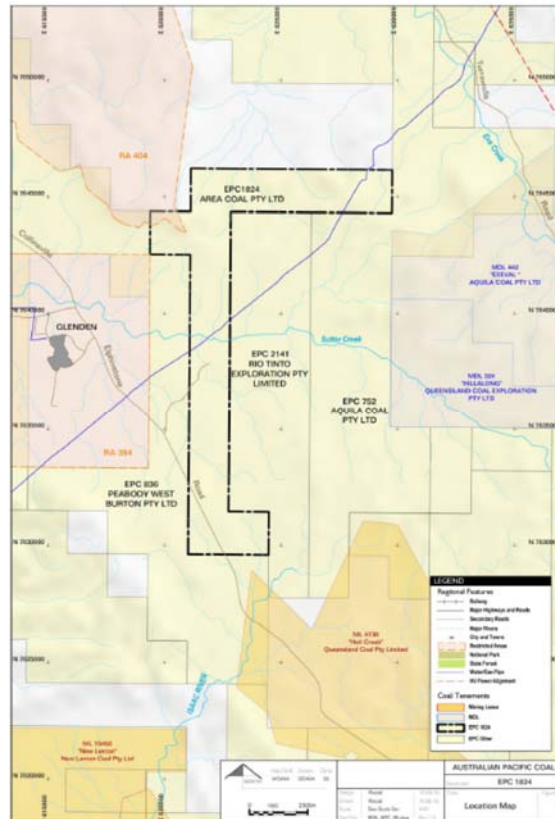
Figure 3: Cooroorah (MDL453)



- **Hillalong EPC 1824**

The Hillalong Project, EPC 1824, is located 100 km south west of Mackay in central Queensland, 10 km by road southeast of Glenden and approximately 65 km by road northwest of Nebo. It is proximate to Rio Tinto's Hail Creek mine. Rio Tinto had a previous Exploration Option and Joint Venture Agreement with Australian Pacific Coal Limited's subsidiary, Area Coal Pty Ltd, to explore for coal on this tenement, which expired in 2015. The tenement contains the Rangal Coal Measures at depths commencing at 150m below the surface. The seams sub-crop in the adjacent lease to the east and steeply dip to the west at the limb of the Hillalong anticline. Within EPC 1824, the strata are interpreted to flatten out at depth. The shallowest coal is believed to occur in the far north and south of this EPC. Limited exploration has been conducted to date and no resource has been declared over the area.

Figure 4: Hillalong (EPC1824)



- Ongoing negotiations are taking place to secure proximate assets to supplement BCC’s current coal exploration portfolio and to maximise potential synergies that may exist with respect to these tenements.

Cape Coal Managing Director Gerhard Redelinghuys said of the agreement with Kairiki: *“Australian coking coal is a scarce commodity, and I am very excited about our impending deal with Kairiki and the future opportunities that may be able to be identified through further exploration and development. This development has the potential to create significant value for all stakeholders.”*

Board Changes

The Company will also see a change in the current Board composition of Kairiki. Mr Robert Downey will step down from the Kairiki Board. At the same time the following personnel will join the Board:

Mr Gerhard Redelinghuys (Managing Director and CEO)

B Comm. Acc, Hons B.Compt, GAICD

Gerhard is the Managing Director of Cape Coal and has 24 years’ experience in financial and project development within the mining sector. After studying finance at the University of Pretoria. Gerhard joined Price Waterhouse Coopers, before commencing his employment with EXXARO Resources Ltd (Former ISCOR and KUMBA Resources) in 1995. Since 1995 he has held various senior management positions on both open cut and underground mining operations in South Africa. He had held directorships in Australia, including the position of Managing Director for Exxaro Australia Pty Ltd. In addition to his business analysis experience, Gerhard has extensive experience in mining project acquisitions and deal making on an international level. Gerhard was the owner’s representative in a multi-billion dollar underground coal project in Queensland. In 2013, Gerhard became a graduate member of the Australian Institute of Company Directors.

Mr James Agenbag

B Eng. Chemical Engineering

James has 13 years' experience in the mining industry covering all phases of business and project development, process design, including the commissioning and optimisation of processing facilities across multiple commodities. After completing his Chemical Engineering degree at the University of Stellenbosch in 2003, James worked as a process design engineer at EPCM companies including GRD Minproc and DRA Mineral Projects. In 2008, James moved to Australia to help build DRA's Brisbane office. His responsibilities included research and development of new business and client management in Southern Africa, Australia and Indonesia. James also has substantial experience in beneficiation optimisation with emphasis on various technologies including some technologies where he jointly holds patent rights. James has delivered technical papers within his area of expertise within the chemical engineering area. More recently, he has been responsible for the process engineering discipline across Peabody Energy Australia's mineral projects. James is also affiliated with ECSA as a Professional Engineer, he is a Member of IEAust (Chem), and is an active Member of the Australian Coal Processing Society.

Indicative Capital Structure

The indicative capital structure of the Company following Kairiki's completion of the acquisition of BCC is set out below on a pre-consolidation basis. Subject to shareholder approval and an ASX waiver the Company would seek to consolidate its shares on a 4:1 basis.

	Number of Shares
Current issued capital	269,122,480
Raise \$300,000 (Gross) for working capital and transaction costs at average of \$0.004 per share	75,000,000
Consideration shares to Cape Coal	240,000,000
Maximum contingent shares to Cape Coal	160,000,000
Capital raise \$4m (Gross)	666,666,667
Total estimate of Kairiki's issued shares post transaction and fund raising	1,410,789,147

Financial Effect

The main effect on the consolidated total assets would be an increase of \$4,300,000 (gross) in cash and an increasing in equity as noted in the indicative capital structure above. The transaction is likely to have no material effect on the operating revenue, EBITDA or consolidated profit before tax as the Company's activities are still in the exploration or development phase and will not generate operating revenue in the short term.

Timetable

The Company is proposing to complete the transactions outlined in this announcement by the end of first quarter of 2017, including holding a shareholders meeting to approve the proposed transaction and complying with Chapters 1 and 2 of the ASX Listing Rules. The timetable is subject to a number of variables including obtaining relevant approvals from the ASX. The Company will advise the timetable to shareholders once firmer dates are established.

Other Key Conditions

Kairiki's acquisition of BCC is conditional upon:

- Kairiki and BCC satisfactorily completing mutual due diligence customary for a transaction of this nature.
- Kairiki raise \$300 000 within 30 days of this announcement at \$0.004 per share
- Kairiki obtaining shareholder approval at a General Meeting to:
 - change the nature and/or scale of its activities in accordance with ASX Listing Rule 11.1.2;
 - change its name to Bowen Coking Coal Limited;
 - issue and allot the Consideration Shares and Contingent Shares to Cape Coal;
- Kairiki re-complying with Chapters 1 and 2 of the ASX Listing Rules; and
- Cape Coal obtaining all necessary shareholder approvals required to complete the transaction.

Campbell Welch Chairman

Competent Person Statement:

The information in this report relating to the Mackenzie Resource is based on information reviewed by Mr Troy Turner who is a member of the Australian Institute of Mining and Metallurgy and is a full time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves." Mr Turner consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

Note 1:

The Resource stated for Cooroora Project is based on an ASX release dated 29 November 2013 by Australian Pacific Coal Limited (ASX: AQC), which included Table 1 and the following statement:

"The information in the report, to which this statement is attached, that relates to the Coal Resources of Cooroora coal deposit ("EPC1827") is based on information compiled and reviewed by Mr Craig Williams, who is a Member of the Australian Institute of Mining & Metallurgy and works full time for HDR | Salva Pty Ltd (Salva). Mr Williams, Principal Geologist and a fulltime employee of Salva, has sufficient experience that is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code).

Mr Williams consents to the inclusion of the above statement in this report