

December 2016 Quarterly Report

Highlights

- **Agreement to acquire Bowen Coking Coal Pty Ltd**

As announced on 28 December 2016, Kairiki Energy Limited advised it has entered into a conditional agreement to acquire 100% of Bowen Coking Coal Pty Ltd (BCC) issued shares for shares in the company. This acquisition will be subject to shareholder approval and the ASX Listing Rules.

- **Since the announcement, BCC has executed a binding option agreement to acquire 100% of the Comet Ridge Project from Acacia Coal Ltd. (ASX: AJC)**
- **Negotiations by BCC to secure more coking coal projects are advanced and ongoing.**
- **Since the end of the quarter the company completed a placement and raised \$320,000 (before expenses).**



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

As announced on 28 December 2016, Kairiki Energy Limited (“Kairiki”) advised it has entered into a conditional agreement to acquire 100% of Bowen Coking Coal Pty Ltd (“BCC”) through the issue of 240m shares in the company, with a further 160m shares contingent on securing more projects. In January 2017 BCC secured a binding option to acquire the Comet Ridge coking coal Project from Acacia Coal. Comet Ridge will complement the current asset make up of BCC, and is regarded as the most advanced project when compared to the other BCC assets, considering the granted Environmental Authority and advanced Mining Lease Application. Following the Comet Ridge transaction, the Board of KIK has agreed to a further 110m of the potential 160m Contingent shares being classified as Consideration Shares.

The key terms of the transaction are as follows:

- 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.
 - A binding option to acquire 100% interest in the advanced Comet Ridge Project from Acacia Coal (EPC 1230, MLA 700005 and Environmental Authority EPML 03080315)
- 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 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 in coming weeks. 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 350 000 000 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 50 000 000 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 the Comet Ridge Project

The Comet Ridge (“The Project”) is located in the Bowen Basin, South of the township of Comet, between Emerald and Blackwater in Queensland. The tenement covers the structural dome of the Comet Anticline which hosts the Burngrove and Fairhill formations, and is proximate to the Mackenzie Joint Venture between Stanmore Coal (ASX: SMR) and BCC. The Project is close to infrastructure and hosts a 2012 JORC compliant Measured and Indicated Resource of 57MT at depth of less than 50 meters in the Fairhill seam and the Triumph seam (*Note 2*). The most recent exploration was completed in late 2015 and included the excavation of a test pit for a bulk sample in the Triumph Seam. Project spend since 2011 on the project amounts to \$7.5m, which includes a Pre-feasibility study (2013), advanced Mine Lease Application (MLA700005 lodged March 2015) and approved Environmental Authority EPML 03080315 (Granted August 2016)

The outcome of the 2013 Pre-feasibility study (*Acacia Coal ASX release 6 March 2013*) claimed for the project to be viable as a small scale open pit mine producing between 350 000t to 450 000t of semi-hard coking coal and a secondary high ash thermal coal in a ratio of circa 65:35 from the Fairhill and Triumph seams.

Coal is expected to be extracted from three shallow open pits via conventional truck and shovel mining. ROM treatment to de-stone the coal will be conducted “in pit” to minimise cost before a sending the de-stoned ROM to a conventional CHPP. The study also assumed the blending of the final product from the two coal seams to achieve a desirable quality in terms of ash and sulphur.

Figure 1: Location of Comet Ridge

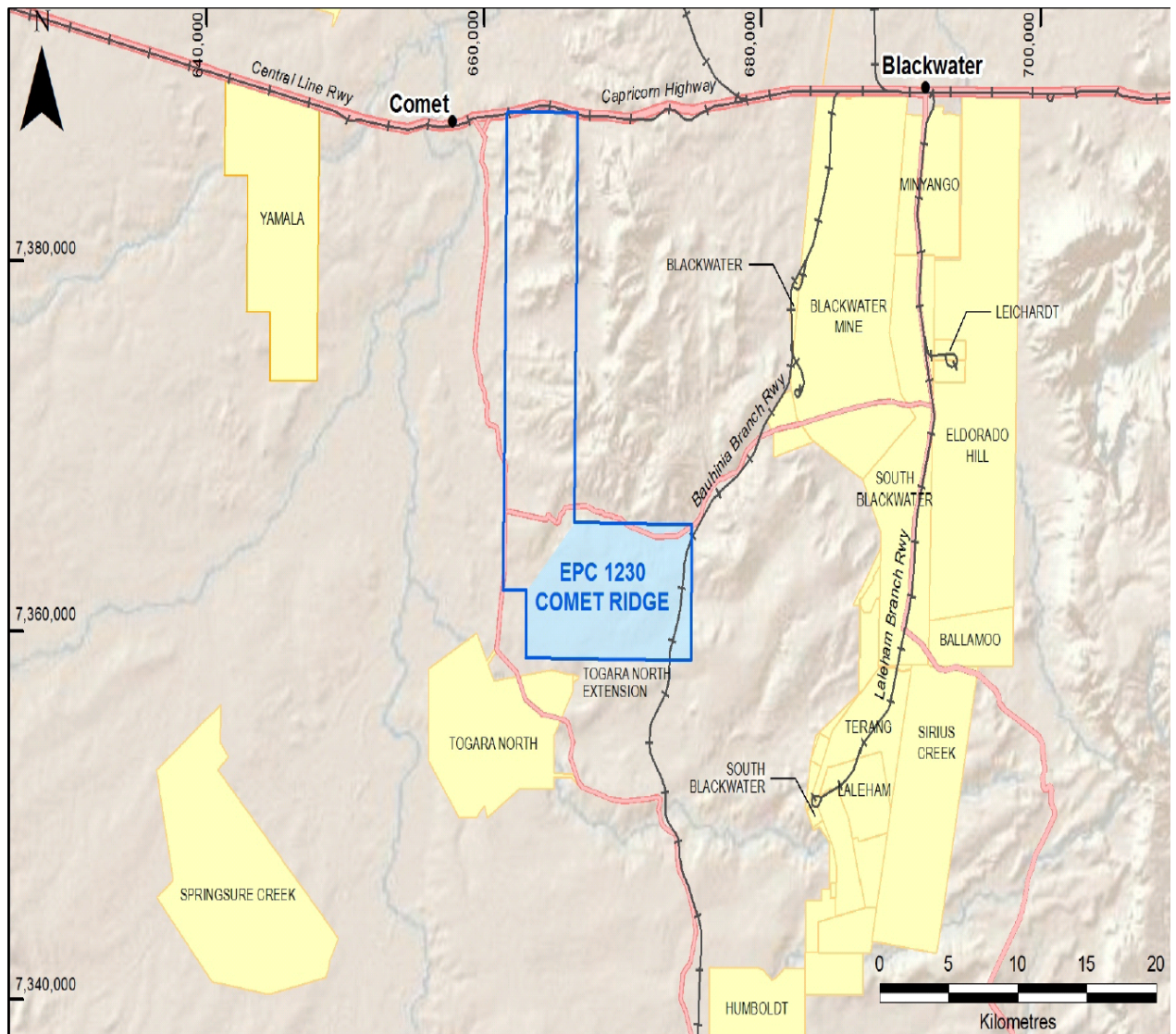


Figure 2: Comet Ridge Resource. (Acacia Coal ASX release 16 July 2014)

Mining Method	Depth Interval (m)	Measured (Mt)	Indicated (Mt)	Measured + Indicated (Mt)	Inferred (Mt)
Open cut	0 – 30	6.8	3.6	10.4	8
Open cut	30 – 50	0.7	5.8	6.5	35
Total		7.5	9.4	16.9	43
Total Resources (rounded)		8	9	17	40

Notes on the Resource:

Details of the JORC compliant resource are contained in the Competent Person Report, which can be found on Acacia Coal's website (www.acaciacoal.com).

Independent Geologists McElroy Bryan Geological Services (MBGS) have prepared the JORC Compliant Resources Report in accordance with the Australasian Code for Reporting Exploration Results, Mineral (Resources and Ore Reserves 2012 Edition (The JORC Code).

Overview of BCC

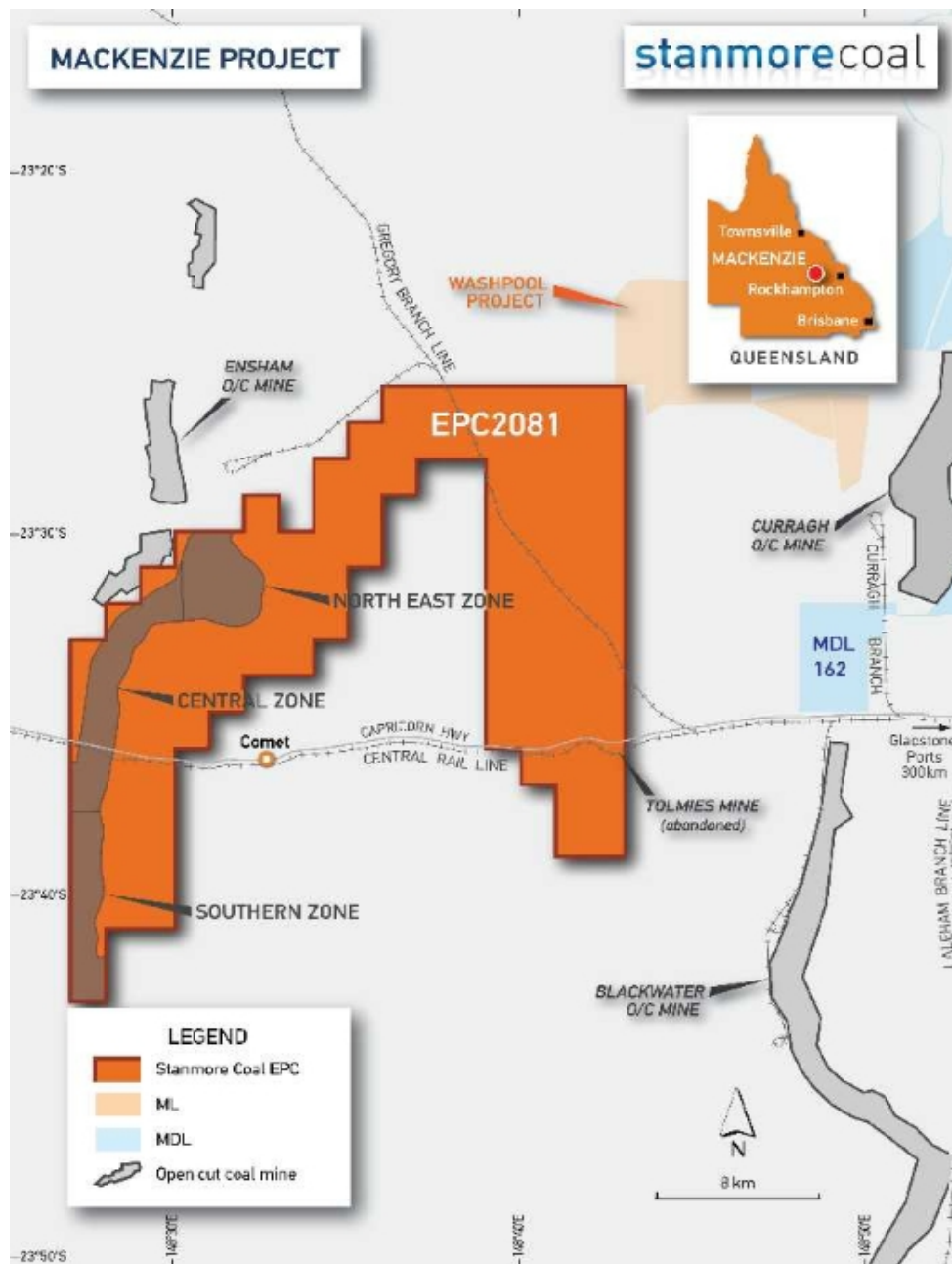
- BCC is a wholly-owned subsidiary of Cape Coal. BCC holds all rights to Cape Coal's coal exploration and development business. BCC holds certain legal and beneficial rights in two Joint Ventures with SMR.

- **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 3: Mackenzie Project

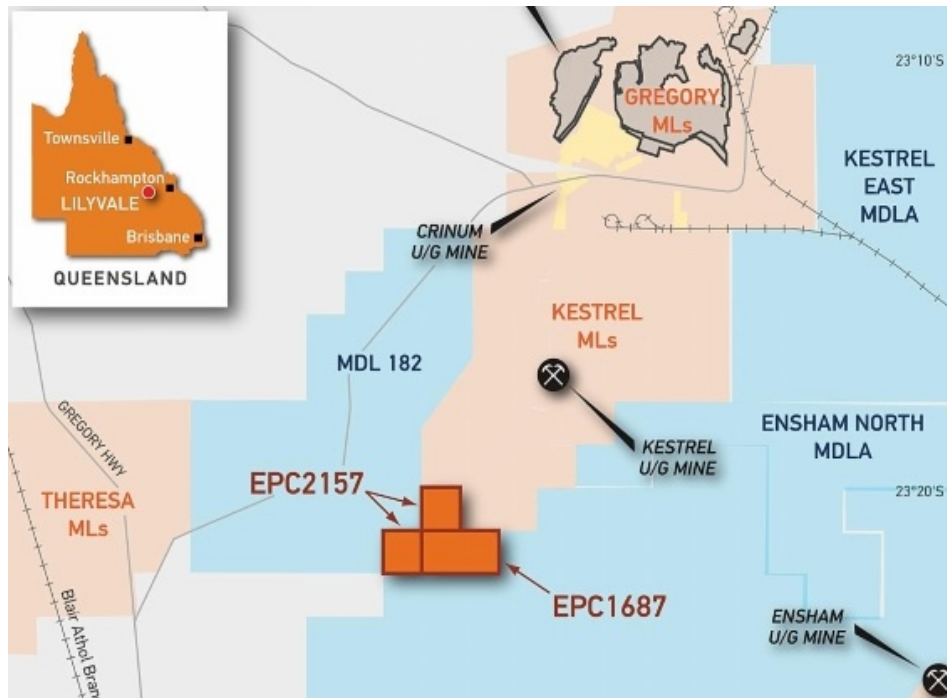


- **Lilyvale 15% (EPC2157 and EPC1687) (SMR 85%)**

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 4: Lilyvale

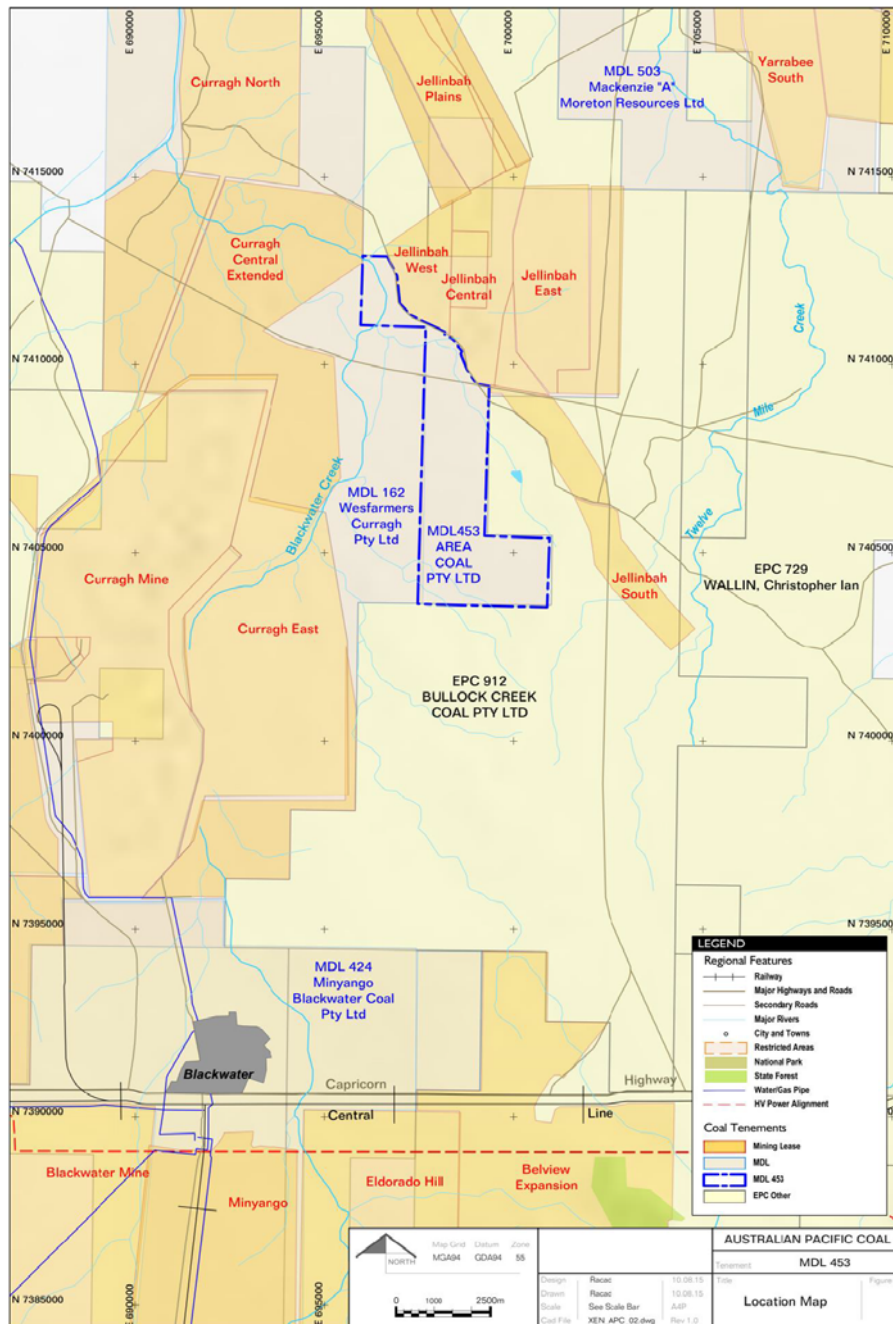


- BCC entered into a binding Memorandum of Understanding with Australian Pacific Coal Limited (ASX: AQC) through which it secured an option to acquire 100% of the Cooroorah (MDL 453) and Hillalong (EPC1824) Projects.

- **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 for Coking and PCI coal.

Figure 5: Coororah (MDL453)

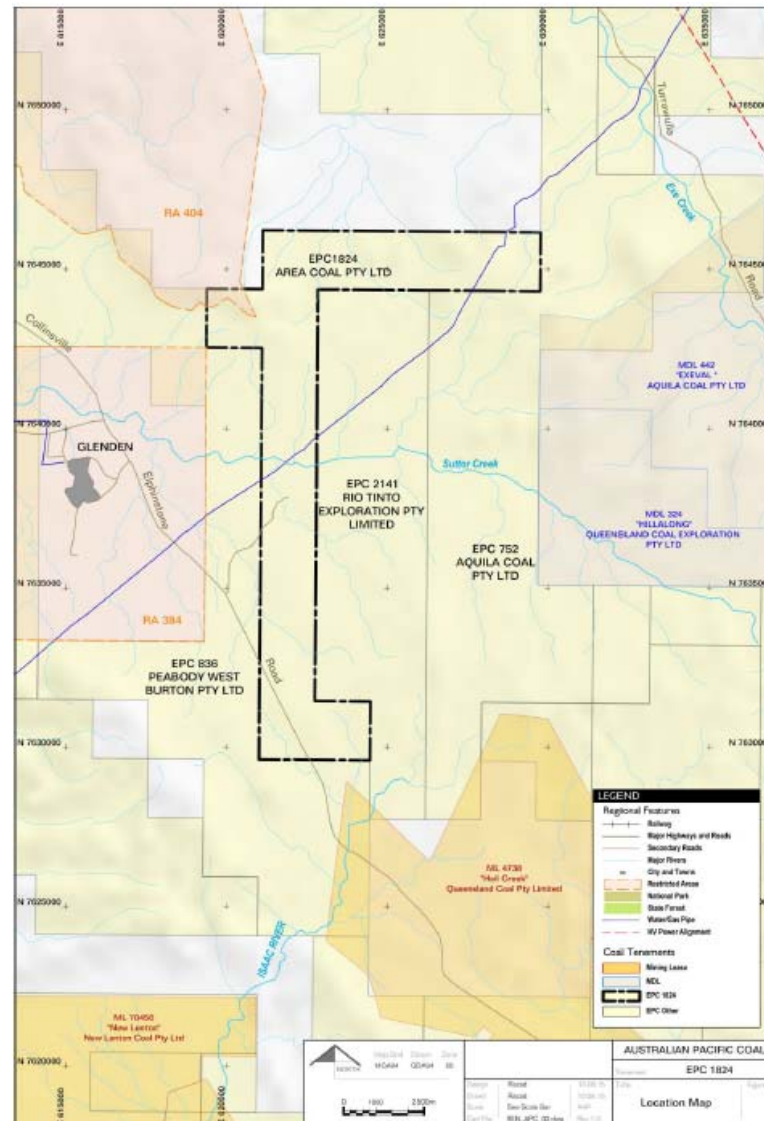


○ **Hillalong EPC 1824**

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 6: 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.

The market will be kept informed as the Company progresses the transaction.

Since the end of the quarter the Company has completed a placement and raised \$320,000 (before expenses).

The Company's annual general meeting was held on 29 November 2016 with all resolutions being approved by shareholders.

For further information please contact:

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 Cooroorah 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 Cooroorah 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.

Note 2:

The information in this announcement that relates to the mineral resources of Comet Ridge is based on information evaluated by Rob Dyson who is a Fellow of The Australasian Institute of Mining and Metallurgy (AusIMM). Mr Dyson is a fulltime employee of McElroy Bryan Geological Services Pty Ltd. Mr Dyson is a qualified Geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code).

Mr Dyson consents to the inclusion of the above statement in this report.