

QUARTERLY ACTIVITY REPORT

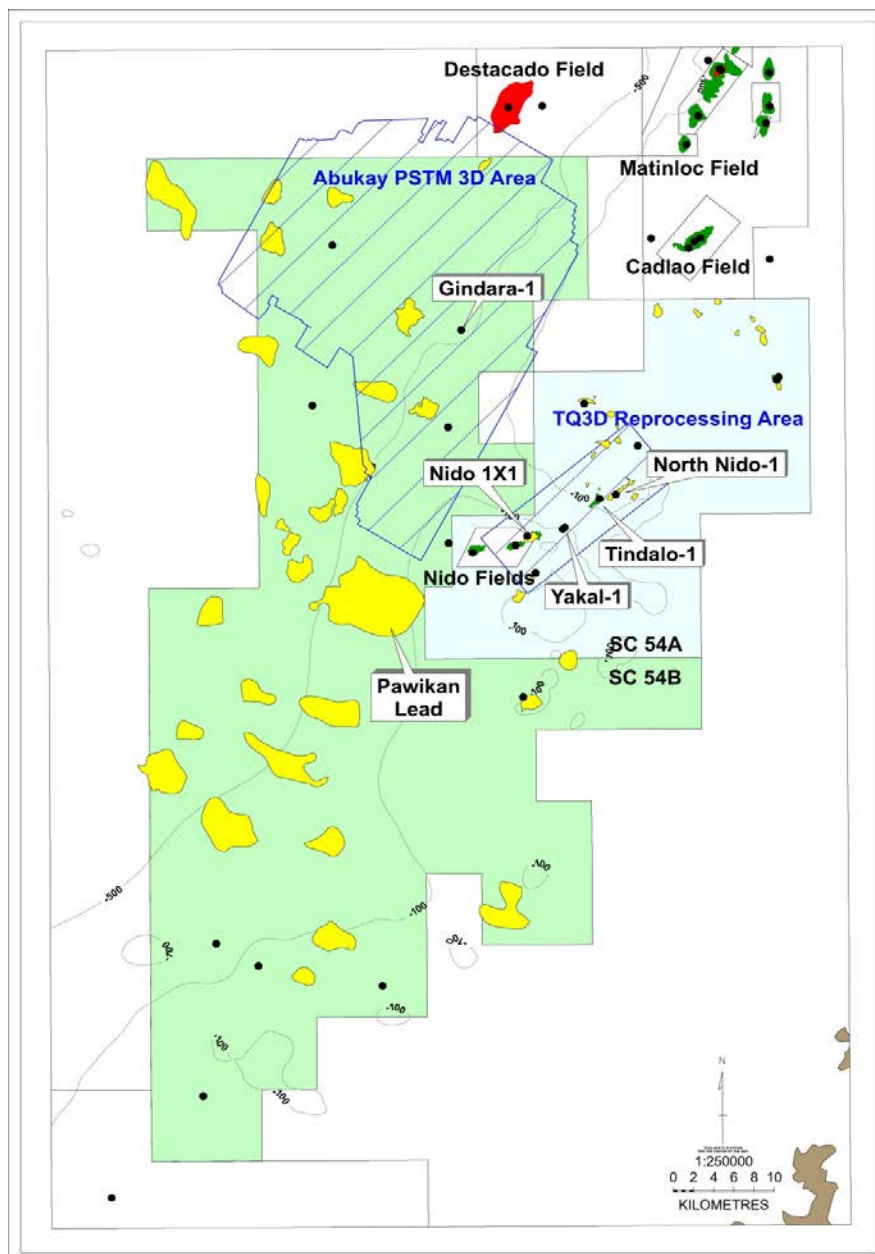
For the period ending 31 December 2014

The Directors wish to report the following activities for the quarter ended 31 December 2014:

Oil & Gas Activities

Philippines Offshore Oil and Gas Permit

- SC 54A - 30.1% Participating Interest
- SC 54B - 40% Participating Interest

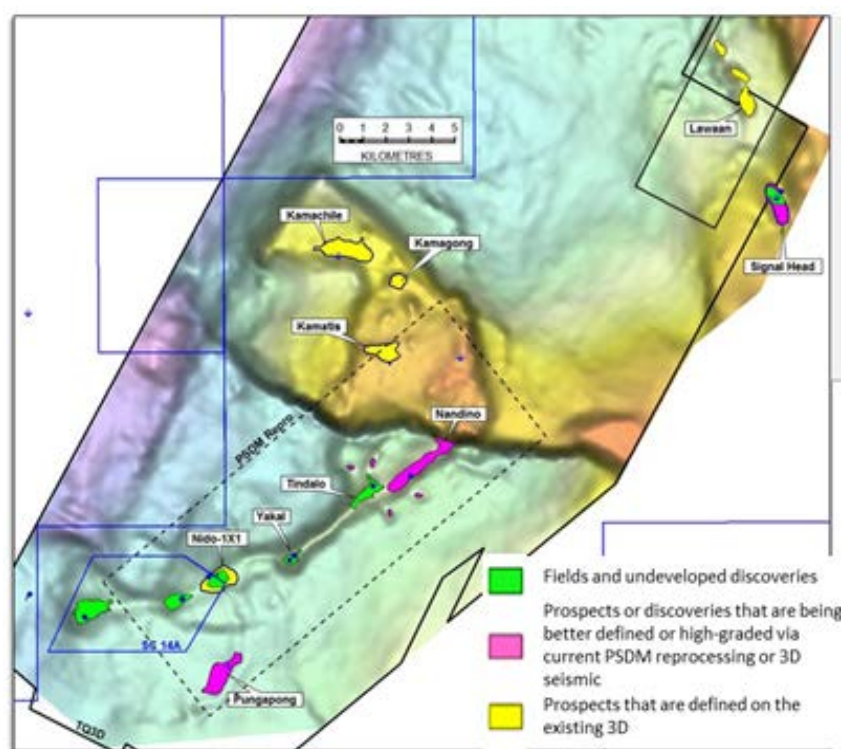


Location map – Blocks SC 54A & SC 54B

The Philippines Department of Energy has granted a moratorium on Service Contract 54 from 5 August 2014 to 5 August 2017 to give the joint venture sufficient time to study the development of the discovered marginal resources in the block. At the end of the moratorium period, the joint venture should elect to enter sub-phase 7 with a commitment to drill one well. If the Joint Venture elects to continue into the production period, the 3 year moratorium period will be automatically deducted to the initial production period.

SC 54A

No work was carried out by the Joint Venture during the quarter.



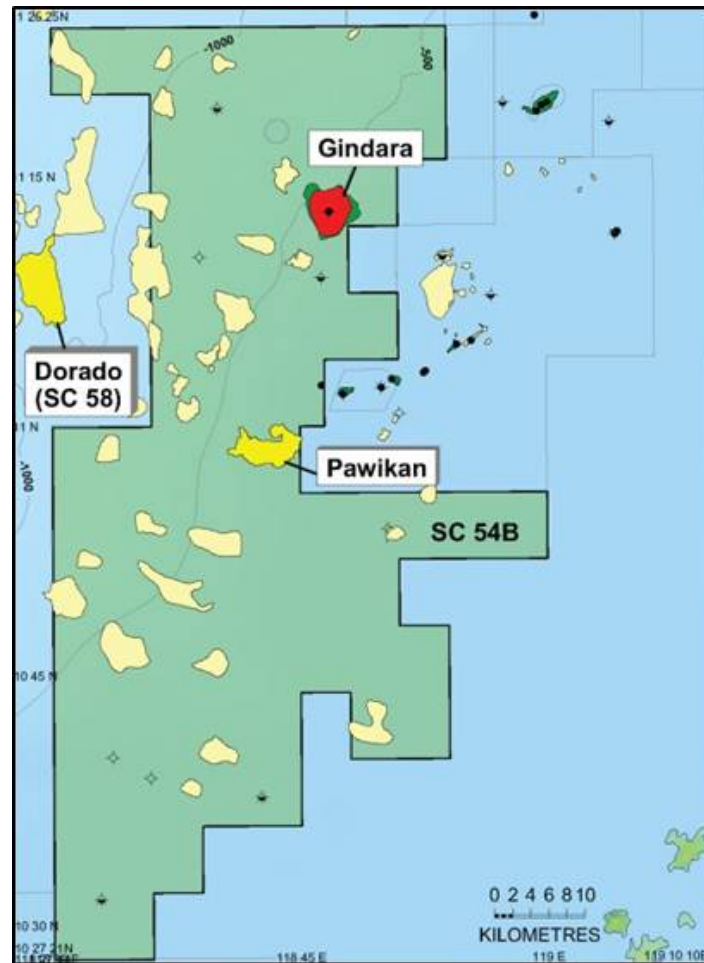
Location Map and Portfolio Inventory – SC 54A

SC 54A Working Interests

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) – Operator	42.4%
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	30.1%
Trafigura Ventures III BV (Trafigura)	15.0%
TG World (BVI) Corporation (TG World)	12.5%

SC 54B

No further technical work was carried out by the Joint Venture during the quarter.



SC 54B Working Interests

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) – <i>Operator</i>	60%
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	40%

Corporate Summary

Disposal of Interest in Service Contract 54A and 54B

During the quarter, the Company entered into a binding term sheet with Focus Oil and Gas Limited (**Focus**) (**Agreement**) for the disposal of its entire interest in the share capital of Yilgarn Petroleum Philippines Pty Ltd (**Yilgarn**), the holder of the Company's interest in Service Contract 54A and 54B, being the main undertaking of the Company (**Disposal**).

As non-operator of service contract 54A and 54B the Company has minimal control (other than through its minority participating interest) over future activities within the licences and therefore any future financial obligations, including timing. In addition, the moratorium approved by the DOE could potentially result in the Company being relatively inactive over the next 3 years.

The Company has limited cash resources to undertake any potential exploration programme and limited opportunity to raise new capital without certainty over the future direction of service contract 54A and 54B.

Based on the Company's current position, the Directors consider that the proposed Disposal is in the best interests of the Company and will allow it to seek new opportunities to add Shareholder value.

Key Terms

The key terms of the Disposal are as follows:

- (i) Completion of the Disposal is subject to and conditional on:
 - (a) The Company obtaining shareholder approval for the Disposal pursuant to ASX Listing Rule 11.2; and
 - (b) Focus conducting financial, technical and legal due diligence enquiries with respect to Yilgarn and the service contracts and being satisfied with the results of those enquiries in its absolute discretion;
 - (c) Execution of a formal share purchase agreement and royalty agreement on terms reasonably acceptable to Kairiki and Focus;
 - (d) Focus concluding an investor contract with its financier (dependent upon completion of a number of conditions precedent therein);
 - (e) The approval of the other joint venture partners to service contract 54A and service contract 54B, to the extent required pursuant to each Joint Operating agreement, of the change of control of Yilgarn;
 - (f) The approval of the Philippines Department of Energy to the Disposal and to the extension of the term of the service contracts on terms satisfactory to Focus acting reasonably; and
 - (g) The approval of the General Investment Committee of IMC Oil & Gas Investments Ltd (**IMC**) to the discharge of Yilgarn's secured obligations to IMC.



(ii) The consideration to be paid by Focus for the Disposal comprises:

- (a) A cash payment of US\$1,500,000 on completion of the Disposal; and
- (b) A royalty of US\$0.50 per barrel of oil or condensate sold from the Service Contracts up to a maximum of 35,000,000 barrels of oil or condensate cumulative, based upon Yilgarn allocated barrels.

Shareholder approval for the proposed sale was received at the company's AGM held on 28 November 2014. The remaining conditions remain to be satisfied and are progressing.

Financial effect of the Disposal on the Company

The impact of the Disposal on the Company's financial position will be:

- 1. On completion provide net cash of approximately \$1.3 million;
- 2. The extinguishment of all debt, including secured loan facilities;
- 3. The release of all security obligations; and
- 4. Other than cash, the company will have no assets.

There will be no impact on the capital structure of the Company.

New Ventures

During the quarter, the Company continued to review new project opportunities, however, none were considered appropriate for the Company.

Yours faithfully

N J Bassett
Company Secretary
For more information on the Company visit www.kairikienergy.com