

KAIRIKI ENERGY LIMITED

ABN 34 002 527 906

Half-Year Report

31 December 2014

Kairiki Energy Limited

ABN 34 002 527 906

Corporate Directory

Directors

Joseph Lacson
Peter Cockcroft
Robert Downey
Stephen Harrison

Company Secretary

Neville Bassett

Registered Office

C/- Westar Capital Limited
Level 45
108 St Georges Terrace
Perth WA 6000

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Website: www.kairikienergy.com

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
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Investor enquiries:

Tel: 1300 557 010
(08) 9323 2000
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Auditor

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

Stock Exchange Listing

ASX Limited (Home Branch: Perth)
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 2014.

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.

Joseph Lacson	Non-Executive Chairman
Peter John Cockcroft	Non-Executive Director
Robert Downey	Non-Executive Director
Stephen Harrison	Non-Executive Director

Review and Results of Operations

The principal activity of the Company during the period was maintenance of its oil and gas joint venture interests and evaluating new project opportunities. The net loss for the half-year ended 31 December 2014 was \$132,085 (31 December 2013: \$435,086). The net loss included the following items:

- General and administration costs of \$163,583 (2013: \$446,109); and
- Cash interest expenses of \$23,296 (2013: \$2,751).

Oil and Gas Interests

Philippines Offshore Oil and Gas (SC 54)

The following activities occurred in respect of the Company's Philippine oil and gas operations:

The Philippines Department of Energy approved a request for 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 – 30.1% Participating Interest

No work was carried out by the Joint Venture during the half-year.

SC 54B – 40% Participating Interest

No work was carried out by the Joint Venture during the half-year.

Disposal of Interest in SC 54A and SC 54B

During the half-year, 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**).

Key Terms

The key terms of the Disposal are as follows:

- (i) Completion of the Disposal is subject to and conditional on:

Kairiki Energy Limited

Directors' Report

- (a) The Company obtaining shareholder approval for the Disposal pursuant to ASX Listing Rule 11.2;
 - (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.

Corporate

The IMC drawdown facility was drawn down by a further \$148,000 during the half-year. The facility is now fully drawn.

New Ventures

During the half-year the Company reviewed a number of project opportunities, however, none were considered appropriate for the Company. The Company continues to pursue new projects in an effort to recapitalise and reinvigorate the asset portfolio of the Group.

Changes in State of Affairs

During the half-year ended 31 December 2014 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.

Events Subsequent to Reporting Date

No 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.

Kairiki Energy Limited

Directors' Report

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.

A handwritten signature in black ink, appearing to read 'R Downey', with a long horizontal flourish extending to the right.

Robert Downey
Director

16 March 2015

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 2014 and of its performance for the half-year then ended; and
- 2) Subject to the achievement of 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



Robert Downey
Director

16 March 2015

Kairiki Energy Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year Ended 31 December 2014

	Note	Consolidated Half-Year ended 31 Dec 2014 \$	Consolidated Half-Year ended 31 Dec 2013 \$
Interest revenue		1,578	3,451
Royalty revenue		2,448	-
Other income – foreign exchange gains		50,768	292,908
Expenses			
Finance costs		(23,296)	(262,648)
Employee benefits expense		(66,564)	(117,402)
Impairment of non-current financial assets classified as available for sale		-	(22,688)
Depreciation		-	(450)
Other costs		(97,019)	(328,257)
Loss before income tax expense		(132,085)	(435,086)
Income tax expense		-	-
Loss after tax for the period		(132,085)	(435,086)
Other comprehensive income / (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		286,435	(12,686)
Total comprehensive income / (loss) for the period attributable to members of Kairiki Energy Limited		154,350	(447,772)
		Cents	Cents
Loss per share attributable to ordinary equity holders of the parent	2	(0.06)	(0.51)

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 2014

	Note	Consolidated	
		31 Dec 2014	30 June 2014
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		62,969	91,575
Trade and other receivables		12,606	4,556
Total Current Assets		75,575	96,131
Non-Current Assets			
Financial assets classified as available for sale		1,260	1,260
Deferred exploration and evaluation expenditure	3	2,532,599	2,193,000
Total Non-Current Assets		2,533,859	2,194,260
Total Assets		2,609,434	2,290,391
LIABILITIES			
Current Liabilities			
Trade and other payables		94,147	77,454
Interest-bearing loans	4	488,000	340,000
Total Current Liabilities		582,147	417,454
Total Liabilities		582,147	417,454
Net Assets		2,027,287	1,872,937
EQUITY			
Issued capital		85,660,548	85,660,548
Reserves		(2,219,494)	(2,505,929)
Accumulated losses		(81,413,767)	(81,281,682)
Total Equity		2,027,287	1,872,937

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 2014

Consolidated	Issued Capital \$	Share- based Payments Reserve \$	Translation Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2013	75,992,714	3,588,520	(5,733,173)	(76,814,627)	(2,966,566)
Loss for the period	-	-	-	(435,086)	(435,086)
Other comprehensive income	-	-	(12,686)	-	(12,686)
Total comprehensive loss for the half-year	-	-	(12,686)	(435,086)	(447,772)
Conversion of convertible note	9,684,969	-	-	-	9,684,969
Share issue costs	(17,135)	-	-	-	(17,135)
Options issued	-	5,660	-	-	5,660
Balance at 31 December 2013	85,660,548	3,594,180	(5,745,859)	(77,249,713)	6,259,156
Balance at 1 July 2014	85,660,548	3,594,180	(6,100,109)	(81,281,682)	1,872,937
Loss for the period	-	-	-	(132,085)	(132,085)
Other comprehensive income	-	-	286,435	-	286,435
Total comprehensive loss for the half-year	-	-	286,435	(132,085)	154,350
Balance at 31 December 2014	85,660,548	3,594,180	(5,813,674)	(81,413,767)	2,027,287

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 2014

	Consolidated	
	Half-Year ended 31 Dec 2014 \$	Half-Year ended 31 Dec 2013 \$
Cash Flows from Operating Activities		
Payments to suppliers and employees	(164,191)	(533,417)
Royalties received	2,448	-
Interest received	1,578	7,984
Interest and other costs of finance paid	(18,578)	(2,751)
Net cash used in operating activities	(178,743)	(528,184)
Cash Flows from Investing Activities		
Proceeds from sale of joint operation inventory	-	125,241
Net cash provided by investing activities	-	125,241
Cash Flows from Financing Activities		
Proceeds from borrowings	148,000	240,000
Net cash provided by financing activities	148,000	240,000
Net change in cash and cash equivalents	(30,743)	(162,943)
Cash and cash equivalents at beginning of half-year	91,575	306,822
Effect of exchange rate changes	2,137	4,781
Cash and cash equivalents at end of half-year	62,969	148,660

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 2014

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 2014. 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 2014 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 ("Group") as at 31 December 2014.

Going Concern

As at 31 December 2014, the Group had net current liabilities of \$506,572.

The ability of the Group to continue as a going concern is principally dependent upon the following:

- The successful completion of the disposal of the Company's interest in its subsidiary Yilgarn Petroleum Philippines Pty Ltd to Focus Oil & Gas Limited, or another farm-down or sale of its interest in SC 54A and SC 54B;
- Continued financial support by the Company's parent entity IMC Oil & Gas Investments Limited; and/or
- Raising additional capital to fund the Group's ongoing exploration and development program and working capital requirements, as and when required.

Accordingly, the Directors believe that subject to prevailing equity market conditions, Kairiki will obtain sufficient funding to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

Should Kairiki be unable to obtain sufficient funding as outlined above, there is a material uncertainty that may cast significant doubt whether it will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should it not continue as a going concern.

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2014

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 2014, except as stated below.

New Accounting Standards and Interpretations

Since 1 July 2014 the Group has adopted all Australian Accounting Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2014, including:

- Interpretation 21 Levies
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

Neither of these standards had 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. EARNINGS PER SHARE

The Company's potential ordinary shares, being its options on issue, are not considered dilutive as the conversion of the options would result in a decreased net loss per share.

The comparative earnings per share have been adjusted for the share consolidation that took place during the previous corresponding half-year.

3. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	1 July 2014 – 31 Dec 2014 \$	1 July 2013 – 30 June 2014 \$
Opening balance	2,193,000	6,341,570
Sale of joint operation inventory	-	(125,241)
Expenditure written off during the year	-	(3,840,722)
Foreign currency translation movements	339,599	(182,607)
Total deferred exploration and evaluation expenditure	2,532,599	2,193,000

Deferred exploration and evaluation expenditure is represented by expenditure relating to the SC 54A permit, which includes Yakal and various other prospects, and the SC 54B permit.

The ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation of the permits or, alternatively, sale.

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2014

4. BORROWINGS

	Consolidated	
	31 Dec 2014	30 June 2014
	\$	\$
<i>Current</i>		
Loan from related party – IMC	488,000	340,000
	<u>488,000</u>	<u>340,000</u>

The loan is interest-bearing, is secured against the assets of the Company and its subsidiary Yilgarn Petroleum Philippines Pty Ltd, and is due for repayment by 20 March 2015. The drawdown facility limit is \$488,000.

6. 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 2014 and 30 June 2014 are as follows:

	31 Dec 2014	30 June 2014
	\$	\$
<i>Level 1 – Quoted Market Price</i>		
Financial assets classified as available for sale	1,260	1,260

Fair values of financial instruments not measured at fair value

The following instruments are not measured at fair value in the statement of financial position. They had the following fair values at 31 December 2014:

	Carrying Amount	Fair Value
	\$	\$
<i>Current liabilities</i>		
Borrowings	488,000	488,000

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 2014

7. RELATED PARTY INFORMATION

Loan from Related Party

The IMC drawdown facility was drawn down by \$148,000 during the half-year. Refer to Note 4.

8. SEGMENT REPORTING

The Group has identified its operating segments based on the internal reports that are used by the Board (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the phase of operation within the oil and gas industry. At the current time and during the comparative period, the Group's only operating segment has been exploration and evaluation, which includes assets that are associated with the determination and assessment of the existence of commercial economic reserves.

Corporate costs, finance costs, interest revenue and foreign currency gains and losses are not allocated to segments as they are not considered part of the core operations of the segments and are managed on a Group basis.

Consolidated	Oil & Gas Exploration & Evaluation \$	Total \$
31 December 2014		
Segment revenue	-	-
Unallocated items:		
Interest revenue		1,578
Royalty revenue		2,448
Foreign exchange gains		50,768
Total revenue and other income		<u>54,794</u>
Segment result	(13,474)	(13,474)
Unallocated items:		
Unallocated revenue and other income		54,794
Corporate and other costs		(150,109)
Finance costs		(23,296)
Loss after tax as per the statement of profit or loss and other comprehensive income		<u>(132,085)</u>
Segment assets	2,532,599	2,532,599
Unallocated items:		
Cash		62,969
Other corporate assets		13,866
Total assets		<u>2,609,434</u>

Kairiki Energy Limited

Notes to the Financial Statements

For the Half-Year Ended 31 December 2014

8. SEGMENT REPORTING (CONTINUED)

Consolidated	Oil & Gas Exploration & Evaluation \$	Total \$
31 December 2013		
Segment revenue	-	-
Unallocated items:		
Interest revenue		3,451
Foreign exchange gains		292,908
Total revenue and other income		296,359
Segment result	(13,024)	(13,024)
Unallocated items:		
Unallocated revenue and other income		296,359
Corporate and other costs		(433,085)
Impairment of financial assets classified as available for sale		(22,688)
Finance costs		(262,648)
Loss after tax as per the statement of profit or loss and other comprehensive income		(435,086)
Segment assets as at 30 June 2014	2,193,000	2,193,000
Unallocated items:		
Cash		91,575
Other corporate assets		5,816
Total assets		2,290,391

9. EVENTS SUBSEQUENT TO REPORTING DATE

No 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.



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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 2014.

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 2014 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 2014 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 statements wherein the Directors' conclude that there is a material uncertainty that the consolidated entity has the ability to continue as a going concern and the ability therefore to realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the financial statements.

Rothsay

Rothsay

Rolf Garda

**Rolf Garda
Partner**

Dated **16** March 2015



Chartered Accountants

*R*OTHSAY

Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
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Phone (08) 9486 7094 www.rothsayresources.com.au

The Directors
Kairiki Energy Ltd
Level 45, 108 St Georges Tce
Perth WA 6000

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 2014 interim financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the review.



Rolf Garda (Lead auditor)

Rothsay Chartered Accountants

Dated 16 March 2015



Chartered Accountants