

QUARTERLY ACTIVITY REPORT For the period ending 30 June 2009

The Directors wish to report the following activities for the quarter ended 30 June 2009;

Highlights:

- ❖ Funds raised of A\$10.0 million to fund SC54 Development Program
- ❖ Kairiki retains 40% interest in SC54 after Inboard Farm-Out conditions not met
- ❖ SC54 JV announces intention to approve FID by September 2009 and target First Oil early 2010
- ❖ Abukay 3D final PSDM processing received; significant image improvement and enhanced resolution further derisks Gindara prospect presence
- ❖ Strategic focus on building value in the Philippines

Oil & Gas Activities

Philippines Offshore Oil and Gas Permit (SC 54) - 40% Participating Interest

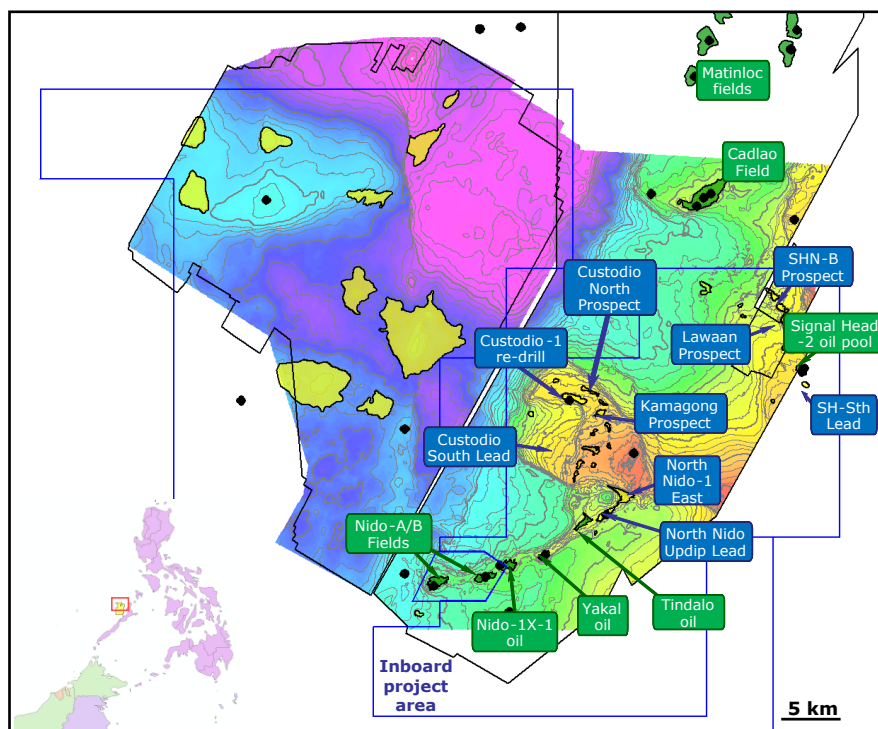


Figure 1: Northern portion of Service Contract 54 showing key prospects and leads and 3D seismic coverage of both the inboard and outboard.

During the quarter, the Joint Venture continued to pursue the relevant approvals to partition the SC 54 block into two separate areas; SC 54A and SC 54B.

This partitioning aims to separate the shallow water development area (SC 54A) containing the Yakal and Tindalo discoveries, among others, from the deeper water exploration area containing the large Gindara Prospect (SC 54B). Subsequent to the end of the quarter, DOE approval was obtained for this partitioning.

The Joint Venture participation and working interests in the two blocks remain unchanged.

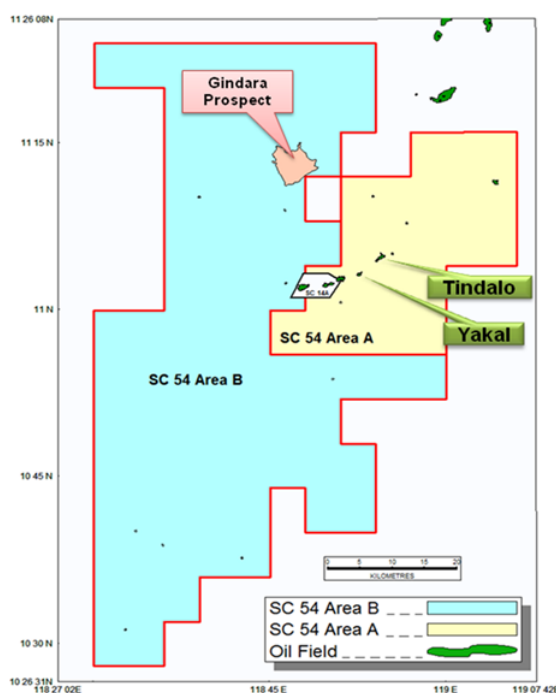


Figure 2: Partitioned areas SC 54A (Inboard) and SC 54B (Outboard)

Service Contract 54 Area ‘A’

- Working interest: Nido 60% (Operator), Kairiki Energy 40%
- Water Depth: 30-120 metres
- Area: 867 km²
- 2008 Discoveries: 2 vertical wells – both suspended as possible future producers
 - Tindalo - 124-144m oil column
 - Yakal - 78-93m oil column
- **Development Screening Studies**

During the first quarter the Joint Venture obtained an independent third party to confirm the in-place probabilistic resource volumes (STOIIP) in the Yakal and Tindalo oil pools. As a result of the independent report, the Joint Venture completed initial screening studies on the potential of the Tindalo and Yakal discoveries with encouraging economics for a standalone development of the contingent resources confirmed at Tindalo.



Contingent resources have been independently confirmed by ISIS Petroleum Consultants Pty Ltd at the Tindalo and Yakal oil discoveries.

	Tindalo				Yakal			
	P90	P50	P10	Mean	P90	P50	P10	Mean
Oil in Place (MMbbls)	5.0	11.0	24.5	13.4	2.4	5.1	10.7	6.0

- **Joint Venture to Pursue Tindalo Development**

The Joint Venture has decided to pursue the Tindalo development and will be seeking to achieve a Final Investment Decision (FID) in the September quarter of 2009 after the following work program has been successfully concluded by the Joint Venture:

- Confirmation of key project criteria including production and capital cost ranges and availability of project services and hardware;
- Finalisation of the detailed Plan of Development (POD); and
- Securing appropriate Joint Venture and Philippine Government approvals

Subject to FID, amongst other things, the Joint Venture is targeting First Oil from the Tindalo development in early 2010.

- **Project Execution**

The objective of the Tindalo development is to utilise a jack-up drill rig to complete the already drilled Tindalo-1 well and produce oil into a floating storage and offtake vessel (FSO). Nido Petroleum, the operator, has advised that discussions with several service providers indicate that these services and associated hardware will be readily available in the current "soft-market" at costs discounted to those experienced even 12 months ago.

Coordinating the mobilisation of key pieces of hardware will determine the schedule from FID to First Oil and this will be confirmed at FID.

The initial Tindalo development is expected to fund and support the subsequent development of the remaining inboard area of SC 54, which includes three further discoveries and as many as 20 follow-up, low risk drilling targets.



- **SC54A Farm-Out**

On 30 April 2009, Kairiki Energy announced that it had entered into a Farm-Out agreement with Focus Oil and Gas Pte Ltd (Focus), a private oil and gas investment company, to farm-out a 17% interest in the inboard portion of Service Contract 54 ("SC 54") in the Philippines.

During the quarter, Focus advised Kairiki that it was unable to meet the required condition precedent of concluding its investor contracts to fund their obligations under the Farm-out Agreement and consequently the agreement lapsed on 30 June 2009.

As a result, against a background of firming oil price, improving economic climate and scope for attractively priced services, a capital raising was conducted during the June quarter, resulting in Kairiki maintaining its full 40% equity and raising funds towards pursuing the development of the Tindalo oil discovery consistent with the Service Contract 54 (SC54) operator's plans announced in May 2009.

Service Contract 54 Area 'B'

- Working Interest: Nido 60% (Operator), Kairiki Energy 40%
- Area: 3179 km²
- Water Depth: up to 1,000 metres
- Work commitment: Work commitments in current sub-phase completed; next commitment well in 2011

During the quarter, following 6 months of intensive seismic processing by CGG Veritas, the Joint Venture received final prestack depth migration (PSDM) processing over the entire Abukay 3D volume.

PSDM is widely recognised as a high-end processing product, ordinarily the reserve of larger oil companies, which requires many iterations and significant manpower effort as part of the processing sequence, but which ultimately delivers substantial image clarity and reduced uncertainty in depth imaging, critical to further de-risking depth-sensitive targets such as those in the outboard portion of SC54, the Gindara and Lapu Lapu prospects. The PSDM is of exceptionally good quality with substantially improved image quality and resolution across the entire volume, enabling the outboard inventory to be finally defined with considerably greater confidence and reduced uncertainty relative to all earlier evaluation work.

Whilst the evaluation is ongoing preliminary interpretation of the Abukay 3D PSDM seismic shows that the Gindara Prospect has a greater areal extent than previously mapped and trap presence has been more robustly defined. The current work is focussing on detailed interpretation of the reservoir intervals which is expected to upgrade volumetric estimates of the Gindara and surrounding prospects.

Charge modelling has been revised following integration of mapping on the 3D PSDM with regional maps. This modelling demonstrates that the Gindara Prospect is sourced from the Malampaya Source Graben that charges the large Malampaya Field to the north.

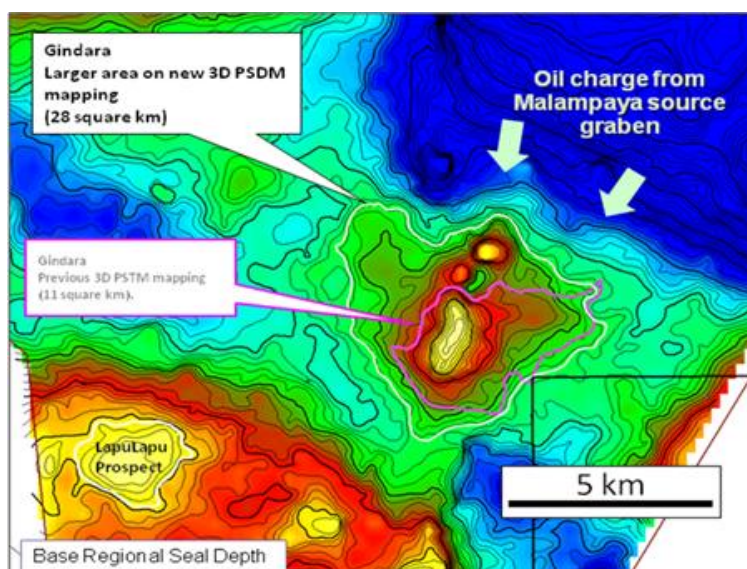


Figure 3: Mapping of the 3D PSDM data shows an increased areal extent of the Gindara Prospect from previous mapping on PSTM seismic. The Gindara prospect is favourably located to receive an oil charge from the same graben that is the source for the large Malampaya Field to the North.

Mineral Projects

In March 2009, the company announced that it has entered into term sheet agreements to farm out its mineral tenements to third parties effective immediately. The third parties will earn a 90% interest in the mineral tenements by funding 100% of the cost of all the exploration work required to maintain the tenements in good standing with the Department of Mines and Petroleum.

Kairiki will receive as consideration the following:

- 10% of the net proceeds on certain tenements up to a sum of A\$250,000 and a 1% net smelter royalty thereafter; and
- for the remaining tenements, 10% of the net revenue after 5,000 ounces of gold has been produced.

These transactions, which are subject to executing farm-out agreements, will provide Kairiki with a 10% free carry interest on its mineral tenements. The finalisation of these farm-out agreements should be concluded in the September 2009 quarter.



Corporate Summary

During the quarter, the following occurred:

- **Convertible Note**

On 31 July 2009, Kairiki received notice from IMC that they would seek repayment of the funds held in an escrow account of \$1,022,000 relating to the conversion of options at 31 December 2008 in accordance with the convertible note agreement. The repayment will reduce the convertible note debt balance of US\$10,370,000 by approximately US\$800,000.

- **Change in Substantial shareholders**

During the quarter the following changes in substantial shareholders occurred:

- IMC Resource Investments Pty Ltd interest fell below the 5% as a result of the capital raising conducted on 29 June 2009;
- RAB Energy Fund Limited interest fell below the 5% as a result of a disposition of 24,297,137 and the capital raising conducted on 29 June 2009; and
- New City Investment Managers increased holding from 23,500,000 to 28,200,000.

- **Cash Position**

At 30 June 2009, Kairiki had \$10,087,000 cash on hand, excluding \$1,022,000 held in a trust account for the benefit of IMC pursuant to the convertible note agreement (refer above). The increase in cash during the quarter of \$9,925,000 was attributable to the following:

Increases:

- Equity raisings of \$9.2 million
- Option conversions by Directors of \$0.8 million

Offset by:

- Payment of Interest on Convertible Note of \$0.5 million
- Exploration Costs of \$0.3 million
- General and administrative costs of \$0.35 million

The company continues to manage its general and administration costs very carefully as evidenced by the quarterly charge of \$351,000 and a cost for the six month period to 30 June 2009 of \$526,000.

Yours faithfully

Lawrence Brown
Managing Director