



QUARTERLY ACTIVITY REPORT For the period ending 30 September 2010

The Directors wish to report the following activities for the quarter ended 30 September 2010;

Highlights:

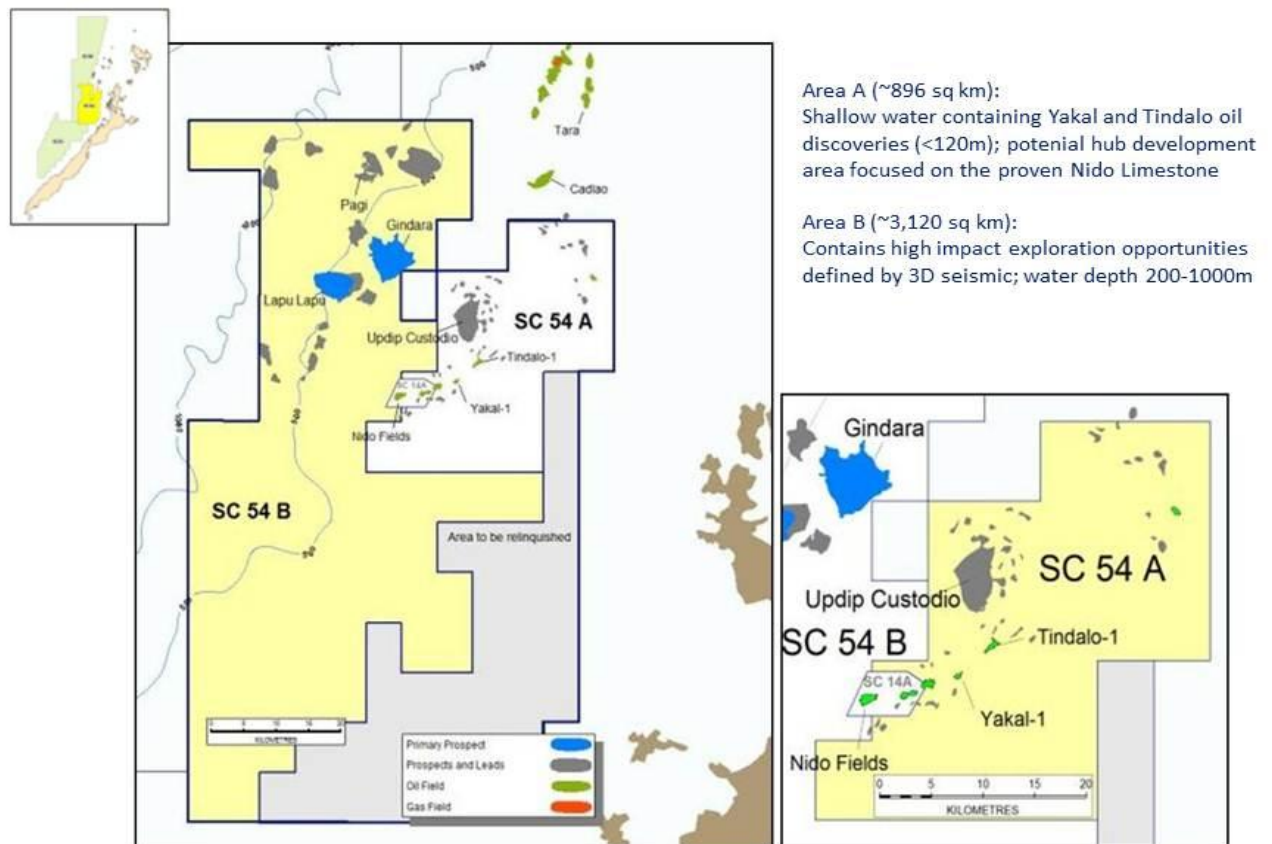
- ❖ **SC54B farm out to Shell**
 - Shell to contribute 75% of the Gindara-1 exploration well cost up to a maximum well cost of US\$24 million
 - Gindara drilling window narrowed to March - May 2011
 - Drill-ship 'Frontier Phoenix' identified for potential use on Gindara-1
 - ❖ **Tindalo Sidetrack Completed and work-over in progress**
 - ❖ **Tindalo 1st sale of Oil of 194,336 bbls (Kairiki net 58,495 bbls) to South Korean buyer**
 - ❖ **Completion of Placement and Announcement of Rights Issue to raise up to \$8,519,280 (before issue costs).**
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Oil & Gas Activities

Philippines Offshore Oil and Gas Permit

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

* Kairiki's participating interest is 40% which will reduce to 22% on completion of the Shell's farm – Refer SC54B section



SC 54A – Tindalo Development

Production and Crude Oil Lifting

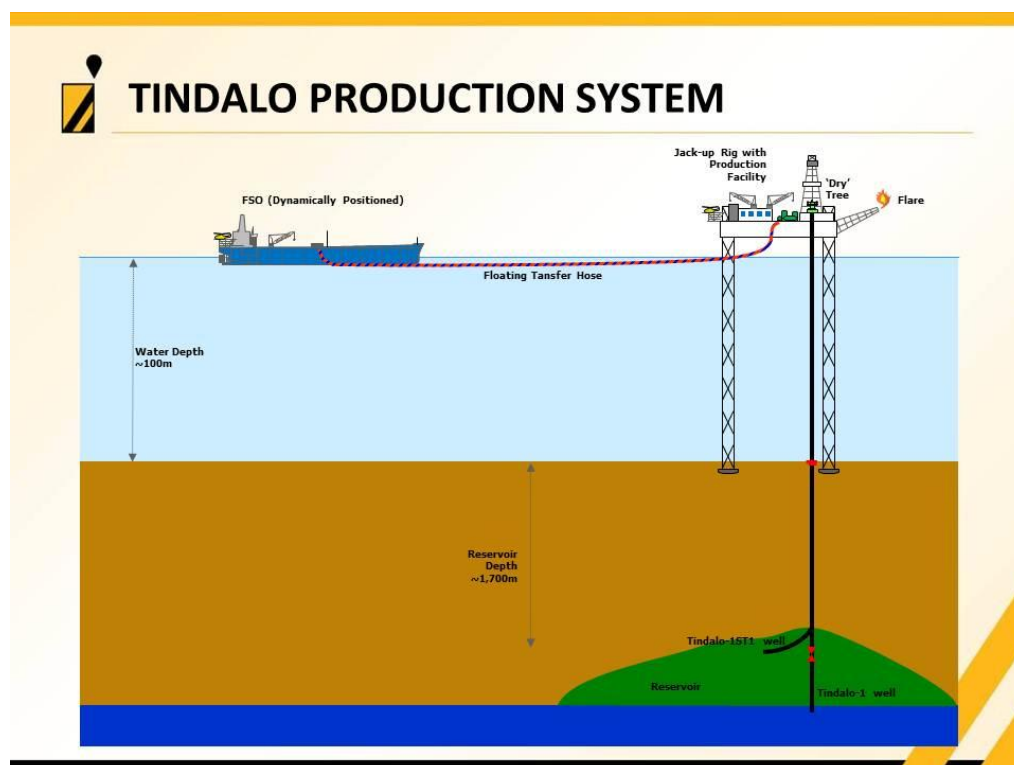
	Joint venture	Kairiki's Share 30.1%
Inventory balance at beginning of quarter	97,883	29,463
Production for the quarter	112,544	33,876
Lifting during the quarter	(194,336)	(58,495)
Inventory balance at the end of the quarter	16,091	4,843

During the quarter 112,544 barrels of oil gross were produced from the Tindalo oil field (33,876 barrels net to Kairiki).

A lift of the first crude oil cargo from Tindalo of 194,336 barrels occurred on 20 September 2010 and resulted in Kairiki receiving US \$4,401,056 (AU\$ 4,774,861) for its share of revenues from the 58,495 barrels of oil sold to a buyer in South Korea.

As at 30 September, 16,091 barrels of crude inventory were stored aboard the FSO (4,843 barrels net to Kairiki).

Tindalo Production System



Tindalo Extended Well Testing (EWT) Continued

The EWT at Tindalo continued during the quarter with water cuts from the Tindalo-1 well increasing steadily. In early September the well was shut-in for remediation work. In mid August the Joint Venture approved the Tindalo-1 well intervention and remediation programme with the objective of achieving one or more of the following options, dependent upon the results of diagnostic logging:

- re-perforation deeper in the oil column;
- water shutoff via cement squeeze; or
- sidetrack drilling within the Nido Limestone

Tindalo Well Intervention and Sidetrack

Well intervention work on the original Tindalo-1 well commenced on 5 September and during the execution of the programme it was determined that access to the vertical hole was impeded by the down hole perforation equipment. As the down hole equipment could not be retrieved and was becoming a time-consuming exercise the logging program was cancelled and a decision was made to proceed directly to the sidetracking of the well.

Following the successful cementing of the vertical wellbore a 180 metre sidetrack was drilled to the south-south west of Tindalo-1. The final well track of the new well was drilled within 50 metres of the top of the oil column, giving some 120 metres of near horizontal producing section.

Stimulation of the new sidetrack well was undertaken using a coiled tubing unit to deploy acid within the well. Following two acid soaks well productivity had improved considerably with production rates of approximately 5,000 barrels of oil per day (bopd), natural flow, with less than 1% water cut. A third acid soak was completed at the end of quarter and following this stimulation well productivity increased further with maximum flow rates of 9,000bopd, natural flow, with an average water cut of 50-60%. Shortly after the downhole electric submersible pump was engaged to increase flow rates from the well and water cut increased over a period to approximately 75%.

Following the end of the quarter, detailed diagnostics using coiled tubing deployed production logging tool (CT-MPLT) were run to determine the origin of the water ingress. The acquired diagnostic data indicates that mechanical failure has resulted in early water influx in the sidetrack and is most likely due to the packer system failing to provide adequate isolation from the previous vertical Tindalo -1 well. The water ingress to the sidetrack is likely from the same water source as supplied the original vertical wellbore and is being produced via the sidetrack liner annulus into the sidetrack itself past the failed packer. Based on the diagnostics, little or no water appears to be coming from the open hole section of the sidetrack.

Following an assessment and review of available alternatives, the Joint Venture has agreed that the most appropriate remediation option is to work-over the well and re-run the liner and completion to reinstate isolation of the liner annulus. Work-over activities are expected to commence in early November and are anticipated to take two weeks to complete.



Commissioning of Production Processing Equipment Finalised

Significant progress was made on the commissioning and enhancement of the production processing equipment installed on the jack-up rig Aquamarine Driller. A number of upgrades were made to improve the efficiency of the water handling capability and by the end of the quarter the system was operational.

Yakal Plan of Development Approved

All planning for the Yakal development has been completed and early in the quarter the Philippine Department of Energy approved the Yakal Plan of Development (POD).

Also, as part of the SC 54A contingency planning process, the Joint Venture has purchased all necessary materials and equipment and mobilised them to its logistics base in the Philippines to enable the expedited execution of the Yakal POD, if required.

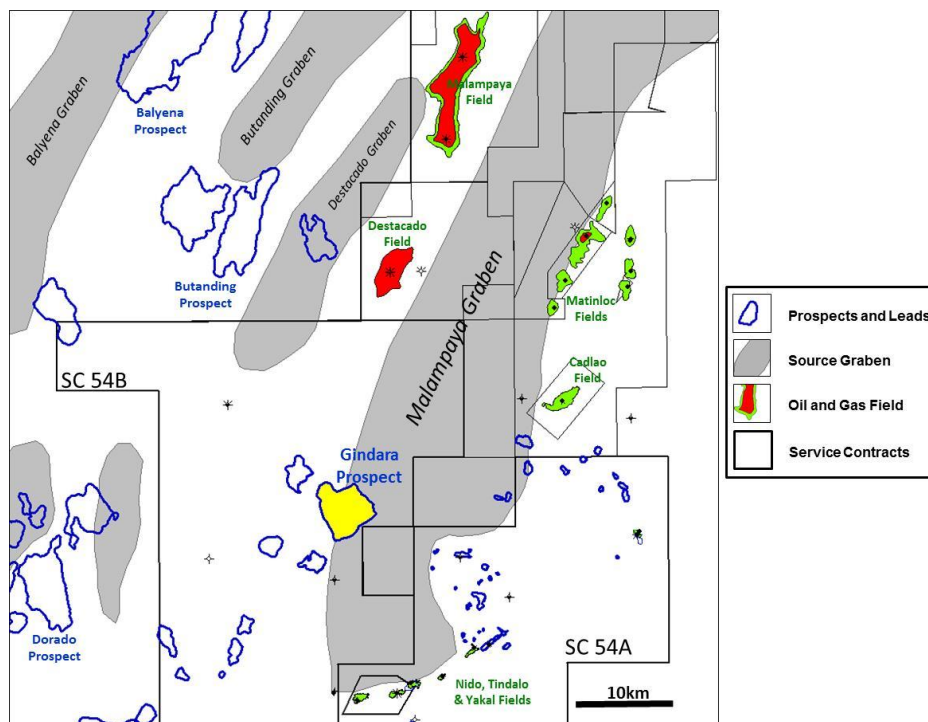
Other

In addition to the activities being undertaken on Tindalo, Yakal and Lawaan, the Joint Venture has been progressing the reprocessing of 3D seismic data covering an area of 140 sq. km within the central portion of the contract area which includes the Tindalo, Nido 1X1 and Yakal discoveries, and the Pungapong and Nandino prospects along with numerous smaller leads. Preliminary data has been received and shows marked improvement in the clarity of the seismic. The reprocessing project is expected to be completed in 4Q 2010.

SC 54A Working Interests

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) <i>Operator</i>	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



The SC 54B Joint Venture continued to engage companies during the period with a view to farming-out the acreage and obtaining a partner to assist in funding the drilling of the Gindara prospect. These efforts culminated in Kairiki's wholly owned subsidiary, Yilgarn Petroleum Philippines Pty Ltd, announcing on 25 October 2010 that it successfully entered into an agreement with Shell Philippines Exploration B.V. ("Shell"), a subsidiary of the Royal Dutch Shell Group, to farm-out 18% out of its current 40% participating interest in SC54B.

Highlights of the transaction include:

- Shell acquires a 45% participating interest in SC 54B (Kairiki contributing 18% and SC 54B partner Nido Petroleum Limited ("Nido") contributing 27%);
- Gindara drilling window narrowed to March - May 2011;
- Drill-ship 'Frontier Phoenix' identified for potential use on Gindara-1; and
- Nido will remain Operator for the drilling of the Gindara-1 exploration well.

To earn its participating interest, Shell will undertake the following:

- Contribute 75% of the Gindara-1 exploration well cost up to a maximum well cost of US\$24 million;
- Pay US\$2.5 million towards past seismic costs; and
- Pay its pro-rata share of the 2010 and 2011 Work Programme and Budget from the date of signing.



On completion of Shell's farm-in and fulfilment of the conditions precedent in the Farm-in Agreement, participating interests in SC 54B will be as follows:

Shell Philippines Exploration B.V. (Shell)	45%
Nido Petroleum Philippines Pty Ltd (Nido, ASX: NDO) – Operator	33%
Yilgarn Petroleum Philippines Pty Ltd, (Kairiki, ASX: KIK)	22%

The transaction is subject to certain conditions, including joint venture approvals, release of security held by convertible note holder (IMC) and the finalisation of associated priority arrangements, the approval by the Philippine Department of Energy (DOE) of certain amendments to the Service Contract and the assignment of the relevant participating interest to Shell.

This arrangement enables Kairiki and the SC54B Joint Venture to drill Gindara, our leading prospect in SC 54B in the first half of 2011. Gindara lies approximately 50km immediately south of the Shell operated Malampaya gas field in SC38, the largest discovery made in the Philippines to date and currently on production. The SC 54B Joint Venture will now commence detailed drilling planning, including the ordering of long-lead items and materials, to allow the Gindara prospect to be drilled during the March to May 2011.

SC 54B Current Working Interests Until Farm-down Completed

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) – Operator	60%
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	40%*

* On completion of farm-in to Shell, Yilgarn Petroleum Philippines Pty Ltd interest reduces to 22%.



Corporate Summary

Cash Position

At 30 September 2010, Kairiki had a cash balance of \$4,746,000. The decrease in cash during the quarter of \$4,282,000 was attributable to the following:

- Tindalo development costs of \$9.05 million;
- Payment of interest on the Convertible Note of \$0.35 million;
- General and administrative costs, net of interest received, of \$0.53 million; and
- Exchange losses on USD cash held of \$0.38 million.

Offset by:

- Proceeds from oil sales of \$4.78 million; and
- Deferred consideration of \$1.26 million received from the sale of a 4.9% interest in SC 54A to TG World in March 2010.

Placement and Underwritten Rights Issue

On 25 October 2010, the Company announced that it had reached agreement on a two part capital raising, involving a placement and rights issue. Both issues were arranged by Patterson Securities Limited who will also underwrite the Rights Issue as Lead Manager.

The placement which was completed on 27 October 2010 for 84,000,000 shares was issued at a price of 4 cents per share to raise \$3,360,000 (**Placement**). The Placement was made to selected institutional and sophisticated investors which the company believes will provide a strengthened shareholder base supportive of the Company's growth and development. Those who participated in the Placement will be eligible to participate in the Rights Issue.

In recognition of the Company's existing shareholders, the Company also approved a rights issue for one (1) new share for every five (5) shares held with a total of approximately 128,982,000 shares to be issued at 4 cents per share, raising approximately \$5,159,280 (**Rights Issue**). The Rights Issue is renounceable meaning Shareholders may sell your rights through trading on the Australian Securities Exchange. The rights issue has been underwritten by Paterson Securities Limited.

The funds raised will be applied towards the ongoing participation of the Company's interest in the Philippines Offshore Exploration Service Contract SC54A and SC54B, costs of the Offer and for additional working capital.



Board Changes

On 25th August 2010, Mr John Morton replaced Ms Jyn Sim Baker as IMC Group's representative on the Board of Kairiki and then subsequently resigned on 28th September 2010. Mr Morton resigned to avoid any future situation that may impact his independence or his capacity to fully discharge his role as a director of Kairiki. On 28th September 2010 Kairiki appointed Mr Neville Bassett, Kairiki's Company Secretary, to fill the vacancy resulting from Mr Morton's resignation and will be looking to appoint a new director with the requisite oil and gas skills and experience in the near term.

On 30th August 2010, Mr Laurie Brown resigned due to health and personal reasons.

Yours faithfully

Dr Mark Fenton
Managing Director

For more information on the Company visit www.kairikienergy.com

Competent Persons Statement:

The information in this report relating to potential hydrocarbon resource estimates have been compiled by Dr M Fenton, the Company's Managing Director, in consultation with the operator of the respective Joint Venture, where appropriate. Dr Fenton has a PhD and a Bachelor of Science (Honours) in Geology from the University of Melbourne and is also a member of the Society of Petroleum Engineers (SPE) and has more than 25 years of relevant experience in the oil and gas industry.