

## **QUARTERLY ACTIVITY REPORT**

### **For the period ending 30 June 2011**

The Directors wish to report the following activities for the quarter ended 30 June 2011:

---

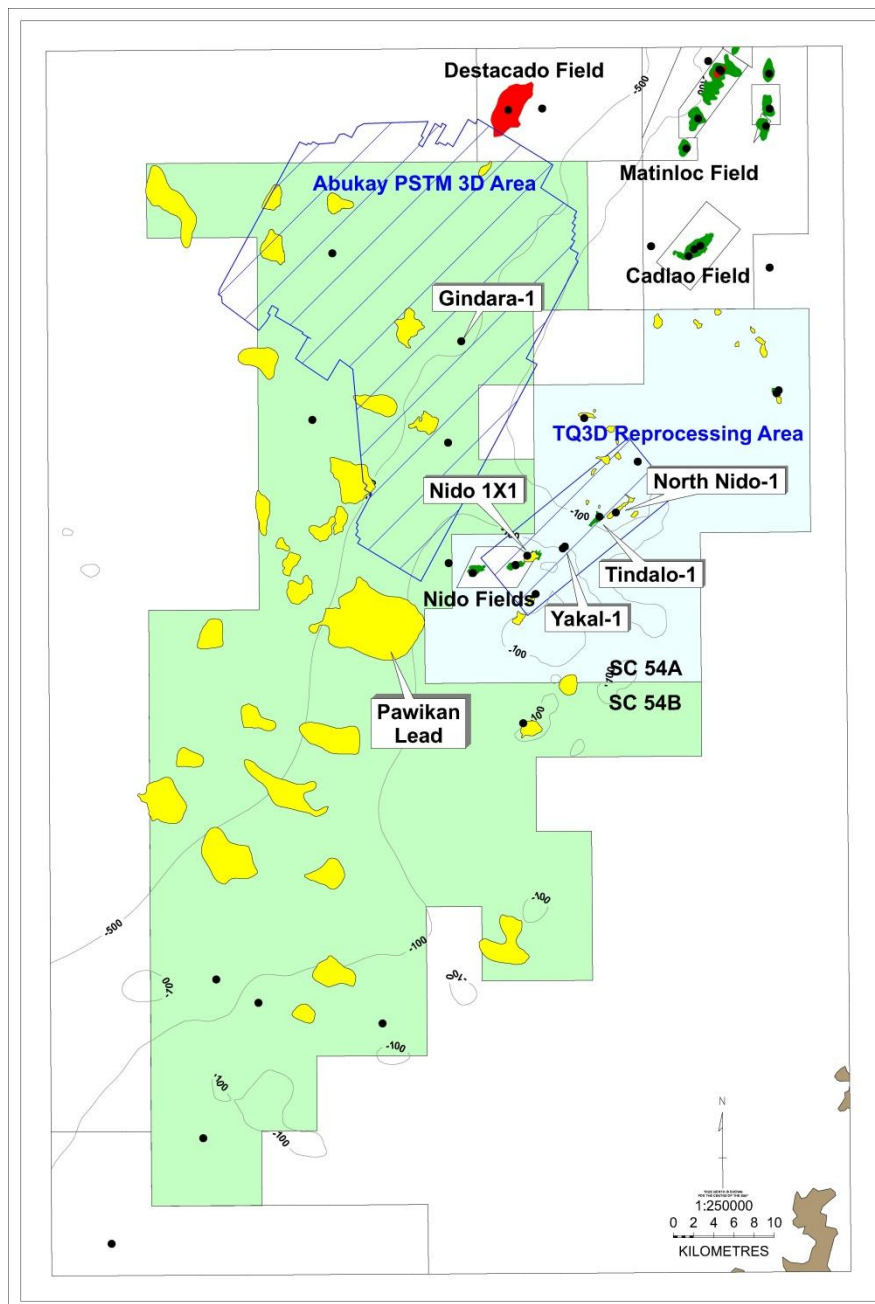
#### **Highlights:**

- ❖ The Gindara-1 well was drilled during the quarter and a 187 metre hydrocarbon column discovered. However, the discovery was considered non-commercial due to the poor quality reservoir encountered.
  - ❖ In July 2011 the Company announced it had selected its preferred farm-in partner in SC 54A and provided that party with an exclusive 60 day period to complete due diligence and execute relevant agreements.
  - ❖ In July 2011 the Company announced a Rights Issue that is underwritten by Patersons Securities to an amount of \$6.0 million. The maximum amount to be raised under the Rights issue is \$7.1 million (before issue costs) and is expected to close in August 2011.
  - ❖ A 12 month extension to the current SC 54A and SC 54B services contracts was approved by the Philippines Department of Energy in July 2011.
-

## Oil & Gas Activities

### Philippines Offshore Oil and Gas Permit

- SC 54A - 30.1% Participating Interest
- SC 54B - 22% Participating Interest



**Location map – Blocks SC 54A & SC 54B**

## SC 54B

### Gindara-1

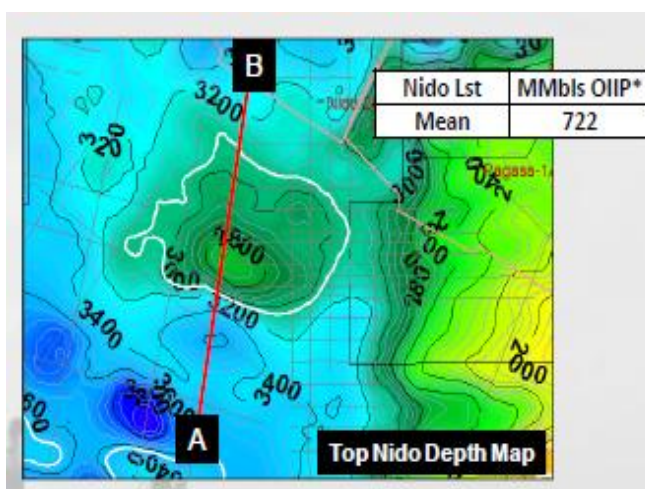
The Gindara-1 well was drilled to a depth of 3,660 metres MD during May and June 2011 using the semi-submersible rig “Atwood Falcon”.

The well discovered a 187 metre hydrocarbon column (144 metres of gas and an additional 43 metres of possible oil). However, due to the hydrocarbon column being contained in poor quality reservoir, the discovery is considered non-commercial.

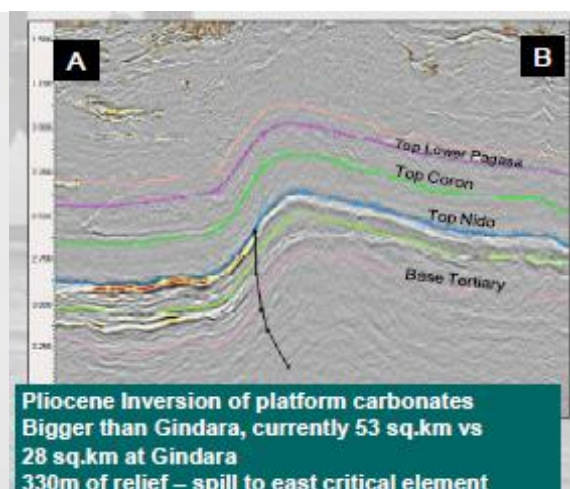
The Gindara result clearly demonstrates that there is an active hydrocarbon system in SC 54B. A thorough review of the Gindara results in combination with the seismic data in the area is currently underway. Should the results confirm substantial hydrocarbon charge has come from the Malampaya Trough this will have implications for leads such as Pawikan that would drain any possible extension of the Malampaya Trough in the central and southern areas of SC 54B.

### Pawikan

During the period, seismic mapping of the central and southern parts of SC 54B has highlighted the potential significance of the Pawikan lead. The Pawikan lead is larger and potentially more oil-prone than Gindara, at 53 km<sup>2</sup> in size with an approximately 300 metre relief. In-place oil is estimated at 700+ mln bbls (unrisked estimate by Operator). Further seismic will be required before firming the lead to prospect drilling status. In addition, seismic reprocessing of some 2D seismic lines within the southern portion of SC 54B has provided some preliminary evidence for the possible existence of the southern extension of the Malampaya Trough adjacent to the Pawikan lead. This could have implications for the prospectivity of the southern part of SC 54B as the Malampaya Trough is considered to have generated the hydrocarbons encountered in Gindara-1 approximately 30 km to the north of Pawikan.



**Pawikan lead – Top Nido Depth Map**



**Pawikan Lead – Seismic Section**

## SC 54B Current Working Interests

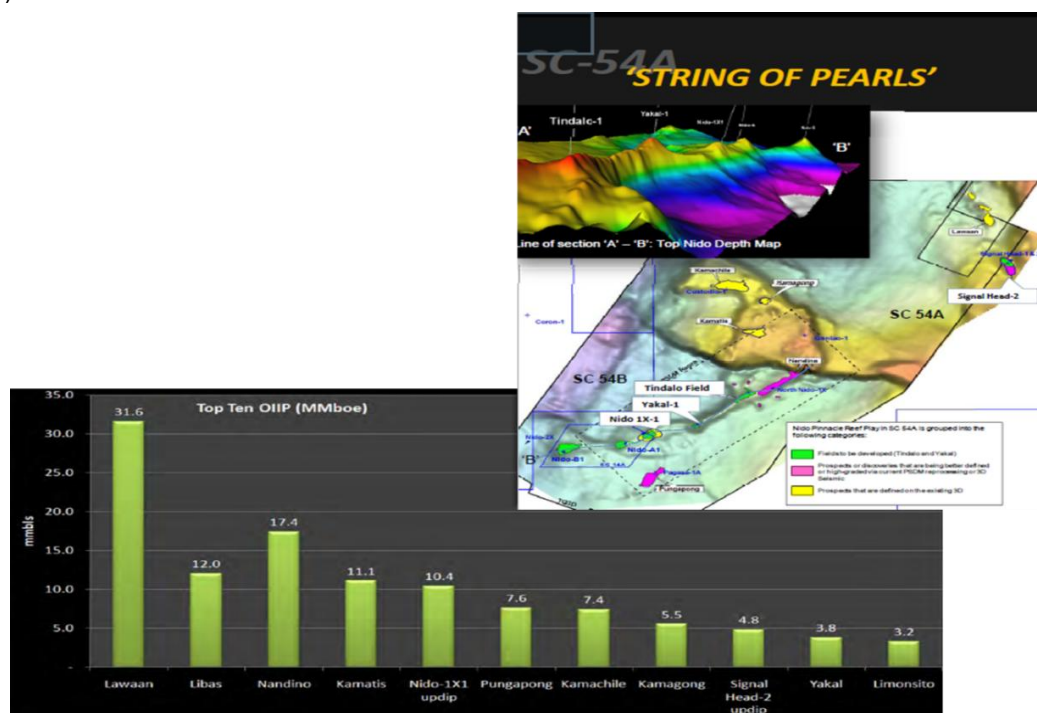
Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) – <i>Operator</i>	33%
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	22%
Shell Philippines Exploration B.V. (Shell)	45%

## SC 54A

### Seismic Reprocessing

Assessment of the results of Pre-stack Depth Migration seismic reprocessing of the area covering the Nido 1X1 oil discovery has confirmed the robustness of the oil-bearing Nido Limestone pinnacle reef. Work is currently ongoing to determine the potential oil volumes within the structure and commercialisation scenarios.

A substantial portfolio of potentially economic prospects and discoveries has been re-affirmed, with the highest graded opportunities identified to be the Nido 1X1 discovery and the Lawaan exploration prospect. Total oil in place resources are estimated by the Operator at 112 mmbbls in the top 10 prospects/discoveries (gross un-risked).



## Farmin

Subsequent to the end of the quarter, Kairiki announced that it had selected its preferred farminee party to farm-in to the SC 54A permit. The Party has been granted an exclusive 60 day period to finalise its due diligence review and complete and execute farm-out and associated agreements.

A condition of the farm-in negotiations requires the identity of the Party together with the terms of the farm-in agreement to remain confidential until the necessary farm-out documents have been executed.

The transaction contemplated will, if completed, result in Kairiki reducing its interest in SC 54A from 30.1% to 15.05% in return for a funded work programme involving drilling within the permit. Kairiki's expenditure commitments in SC 54A in the short to medium term are therefore expected to be minimal.

## Tindalo Project

All costs associated with the abandonment and demobilisation of the Tindalo Project were finalised by the Operator during the quarter.

## 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 54

In July 2011, a 12 month extension to the current work period (SP-6) for Service Contract 54 which ends on 4 August 2011 was granted by the Philippine Department of Energy (DOE). This extension of Sub Phase 6 until the 4 August 2012 applies to both SC 54A and SC 54B blocks.

The well commitment associated with Sub Phase 6 has been met by the drilling of Gindara-1. A one well commitment in Sub Phase 7, which follows immediately after Sub-Phase 6 and ends in August 2013, would be met by SC 54A if the SC 54A Joint Venture elected to enter the Sub Phase.

By the end of Sub Phase 7, the exploration prospectivity of the central and southern parts of SC 54B will be assessed in light of the Gindara discovery with a Joint Venture decision to be made on potential seismic acquisition and a possible follow-up exploration well over the Pawikan lead.

## Corporate Summary

### Cash Position

At 30 June 2011, Kairiki had a cash balance of \$1,802,000. The decrease in cash during the quarter of \$2,848,000 was attributable to the following:

- Exploration costs of \$2.07 million;
- Tindalo demobilisation costs of \$0.15 million;
- Payment of interest on the Convertible Note of \$0.14 million;
- General and administrative costs, net of interest received, of \$0.43 million; and
- Exchange losses of \$0.06 million.

### Underwritten Rights Issue – Announced 14 July 2011

Subsequent to quarter end, on 14 July 2011 the Company announced a pro-rata renounceable rights issue that is underwritten by Lead Manager, Patersons Securities Limited to an amount of \$6,000,000. The maximum amount to be raised under the Rights issue is \$7,125,136.

The offer will issue approximately 1,781,283,996 New Shares at an issue price of \$0.004 per New Share. The Shares will be issued with one Attaching Option for every four New Shares issued at no additional cost, such that a maximum of 445,320,999 Attaching Options are issued. The New Shares are being offered on the basis of three New Shares for every two Shares held on the Record Date of 3 August 2011. The Attaching Options have an exercise price of \$0.004 and an exercise period between 1 June 2013 and 30 June 2013. If an Attaching Option is exercised between 1 June 2013 and 30 June 2013, the Attaching Option holder is entitled to receive a Secondary Option exercisable at \$0.004 on or before 30 June 2015.

All Shareholders registered on the Company's Share register at a date approximately 6 weeks after the Closing Date will be entitled to participate in a proposed non renounceable entitlement issue of loyalty Bonus Options on the basis of one (1) loyalty Bonus Option for every two (2) Shares held. The terms and conditions of the loyalty Bonus will be on the same terms and conditions as the Attaching Options. The loyalty Bonus Issue will be offered under a separate offer document at that time.

Under the terms of the Underwriting Agreement, the Company has agreed to issue 445,320,999 Options to the Underwriter (or its nominees) on the same terms and conditions as the Attaching Options as part consideration for underwriting the Rights Issue on the basis of one Underwriter Option for every four Shares underwritten or subscribed.

The funds raised will be applied towards the ongoing participation of the Company's interest in the Philippines Offshore Exploration Service Contract SC 54A and SC 54B, repayment of US\$1 million of the outstanding balance of the convertible note, costs of the Offer and for additional working capital.





## **Convertible Note Amendments – Announced 14 July 2011**

Subsequent to quarter end, the Company also announced that it had negotiated a number of amendments to the Convertible Note agreement resulting in the following variations:

- i) The repayment date of the Convertible Notes has been extended by two years from September/October 2011 to September/October 2013;
- ii) The interest rate paid on the outstanding balance of the Convertible Notes has been reduced from 12% to 4% with the remaining 8% capitalised to the balance of the Convertible Notes and payable on maturity;
- iii) The conversion price of the Convertible Notes is now based on a 10% discount to the 20 day volume weighted average price with a minimum conversion price of 0.4 cents.

These amendments are subject to shareholder approval and the successful completion of the Right Issue.

The principal amount outstanding on the Convertible Note is currently \$US7.5 million.

Yours faithfully

Dr Mark Fenton  
Managing Director

For more information on the Company visit [www.kairikienergy.com](http://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.