

Kairiki Energy Limited
ACN 002 527 906

Prospectus

For the offer of:

1. a renounceable pro rata rights issue of approximately 296,630,666 New Shares on the basis of one (1) New Share for every three (3) Shares held on the Record Date at an issue price of \$0.03 per New Share to raise approximately \$8,898,920 together with one (1) free Attaching Option for every two (2) New Shares issued. If an Attaching Option is exercised between 1 August 2011 and 31 August 2011 the Attaching Option holder is entitled to receive a Secondary Option (**Rights Issue Offer**);
2. 98,876,889 Options to the Underwriter or its nominees (**Underwriter Offer**); and
3. 58,000,000 Options to the allottees of the Placement Shares (**Placement Offer**).

Underwriter and Lead Manager
Patersons Securities Limited

Important Notice

This is an important document and should be read in its entirety.
This Prospectus is a transaction-specific prospectus issued in accordance with Section 713 of the Corporations Act 2001. If you have any queries about any part of the Prospectus, please contact your professional adviser without delay.

The Securities offered by this Prospectus should be considered speculative.

Kairiki Energy Limited

TABLE OF CONTENTS

TABLE OF CONTENTS	1
IMPORTANT INFORMATION	2
CORPORATE DIRECTORY	3
TIMETABLE AND IMPORTANT DATES	4
SECTION 1 DETAILS OF THE OFFERS	5
SECTION 2 RISK FACTORS	11
SECTION 3 PURPOSE AND EFFECT OF THE OFFERS	16
SECTION 4 RIGHTS ATTACHING TO SECURITIES	19
SECTION 5 ADDITIONAL INFORMATION	22
SECTION 6 INFORMATION AVAILABLE TO SHAREHOLDERS	30
SECTION 7 DIRECTORS' CONSENT	32
SECTION 8 DEFINITIONS	33

Kairiki Energy Limited

IMPORTANT INFORMATION

This Prospectus is dated 4 February 2011 and was lodged with ASIC on that date. Neither ASIC nor ASX, nor any of their officers, take any responsibility for the contents of this Prospectus.

No Securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. An application will be made to ASX within 7 days after the date of this Prospectus for the quotation of the Securities the subject of this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe the requirements of these laws. Non-observance by such persons may violate securities laws. Any recipient of this Prospectus residing outside Australia should consult their professional advisers on requisite formalities.

In preparing this Prospectus, regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and that certain matters may reasonably be expected to be known to investors and their professional advisers. This Prospectus is issued pursuant to Section 713 of the Corporations Act. Section 713 allows the issue of a more concise prospectus in relation to an offer of continuously quoted securities. This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all information that would be included in a prospectus for an initial public offering.

This document is important and it should be read in its entirety. The Securities to be issued pursuant to this Prospectus should be viewed as a speculative investment and Shareholders should refer to the Risk Factors affecting the Company set out in Section 2. Shareholders should consult their stockbroker, solicitor, accountant or other professional adviser if necessary.

No person is authorised to give any information or to make any representation in relation to the Offers which is not contained in this Prospectus and any such information may not be relied upon as having been authorised by the Directors.

A copy of this Prospectus can be downloaded from the Company's website at www.kairikienergy.com. The offer constituted by an electronic version of this Prospectus is only available to persons receiving an electronic version of this Prospectus within Australia. Any Shareholder may obtain a hard copy of this Prospectus by contacting the Company.

A number of terms and abbreviations used in this Prospectus have defined meanings set out in Section 8.

Kairiki Energy Limited

CORPORATE DIRECTORY

Directors

Paul Damien John Fry
Mark Walker Fenton
Neville John Bassett

Company Secretary

Neville John Bassett

Registered and Principal Office

Suite 3, Churchill Court
331-335 Hay Street
SUBIACO WA 6008

Telephone: (08) 9388 6711
Facsimile: (08) 9388 6744
Website: www.kairikienergy.com

Securities Exchange Listing

ASX Limited
(Home Branch – Perth)
ASX Code: KIK

Underwriter and Lead Manager

Patersons Securities Limited
Level 23, Exchange Plaza
2 The Esplanade
PERTH WA 6000

* These parties are included for information purposes only. They have not been involved in the preparation of this Prospectus.

Share Registry*

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

Investor enquiries:
Telephone: 1300 557 010
(08) 9323 2000
Facsimile: (08) 9323 2033

Solicitors

Price Sierakowski Corporate
Level 24, St Martin's Tower
44 St Georges Terrace
Perth WA 6000

Auditors*

Rothsay
Chartered Accountants
96 Parry Street
PERTH WA 6000

Kairiki Energy Limited

TIMETABLE AND IMPORTANT DATES

EVENT	DATE
Announcement of Placement and Rights Issue	25 January 2011
Prospectus lodged with ASIC and ASX	4 February 2011
Notice of Rights Issue sent to Shareholders	7 February 2011
“Ex” Date (date from which Shares commence trading without the entitlement to participate in the Rights Issue)	9 February 2011
Rights trading commences on ASX	9 February 2011
Record Date (date for determining Shareholder entitlements to participate in the Rights Issue)	15 February 2011
Prospectus sent to Shareholders and Opening Date of Offers	21 February 2011
Rights Trading on ASX ends	4 March 2011
General Meeting	10 March 2011
Closing Date of Offers	11 March 2011
Notification of under-subscriptions to Underwriter and ASX	15 March 2011
Shortfall Settled	17 March 2011
Despatch date/Shares and Options entered into Shareholders’ security holdings	21 March 2011

Dates are indicative only. Subject to the Listing Rules, the Directors may vary the dates without prior notice.

Kairiki Energy Limited

SECTION 1 DETAILS OF THE OFFERS

1.1 Details of the Rights Issue Offer

The Company is making a pro rata renounceable offer to issue approximately 296,630,666 New Shares under this Prospectus at an issue price of \$0.03 per New Share to raise approximately \$8,898,920. The Shares will be issued with one Attaching Option for every two New Shares issued at no additional cost, such that a maximum of 148,315,333 Attaching Options are issued.

The New Shares are being offered on the basis of one New Share for every three Shares held on the Record Date of 15 February 2011. In the calculation of any entitlement, fractions will be rounded down to the nearest whole number.

The New Shares offered pursuant to this Prospectus will rank equally with existing Shares on issue. The Attaching Options have an exercise price of \$0.04 and an expiry date of 31 August 2011. If an Attaching Option is exercised between 1 August 2011 and 31 August 2011, the Attaching Option holder is entitled to receive a Secondary Option exercisable at \$0.05 on or before 31 August 2013. The full terms and conditions of the New Shares, Attaching Options and Secondary Options are set out in Sections 4.1 to 4.3 respectively.

The Company has on issue 889,891,998 Shares. The Company also has on issue 500,000 unlisted options and 10,000,000 unlisted convertible notes. All holders of Shares in the Company on the Record Date are entitled to participate in the Rights Issue Offer. Option holders who exercise their Options after the date of this Prospectus but prior to the Record Date are entitled to participate in the Rights Issue Offer. The same applies for the Company's sole Note Holder, should it choose to convert its Notes into Shares.

The number of New Shares to which you are entitled as an Eligible Shareholder is shown on the accompanying personalised Rights Issue Offer Entitlement and Acceptance Form.

The Rights Issue Offer is fully underwritten by Patersons Securities Limited ("**Underwriter**"). Refer to Section 5.4.2 of this Prospectus for further details of the terms of the underwriting.

1.2 Details of the Underwriter Offer

Under the terms of the Underwriting Agreement, the Company has agreed to issue 98,876,889 Options (**Underwriter 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 three Shares underwritten.

The offer of the Underwriter Options is a separate offer pursuant to this Prospectus and only those persons directed by the Underwriter should complete the accompanying personalised Underwriter Offer Entitlement and Acceptance Form.

1.3 Details of the Placement Offer

On 31 January 2011, the Company completed a placement to raise \$3,480,000 by the issue of 116,000,000 Shares at an issue price of \$0.03 per Share to professional and sophisticated investors (**Placement**). The Placement was undertaken under the Company's 15% placing authority under Listing Rule 7.1.

Patersons Securities Limited acted as lead manager for the Placement pursuant to the Mandate, further details of which are set out in Section 5.4.1 of this Prospectus.

Kairiki Energy Limited

Under the terms of the Mandate, the Company agreed to issue 58,000,000 Options (**Placement Options**) to the allottees of the Placement Shares on the same terms and conditions as the Attaching Options on the basis of one Placement Option for every two Placement Shares.

The offer of the Placement Options is a separate offer pursuant to this Prospectus and only the allottees of the Placement Shares should complete the accompanying personalised Placement Offer Entitlement and Acceptance Form.

1.4 Conditional Offers

The Underwriter Offer and the Placement Offer ("**Conditional Offers**") are subject to and conditional upon Shareholders approving the issue of the Underwriter Options and the Placement Options (referred to in the Notice of Meeting as the "Commitment Options") for the purposes of Listing Rule 7.1 at the General Meeting of the Company to be held on 10 March 2011.

1.5 Rights Trading

Entitlements to Securities pursuant to the Rights Issue Offer are renounceable and accordingly, Rights will be traded on ASX. Details on how to sell your Rights are set out in Section 1.6 below.

1.6 How to Accept the Rights Issue Offer

1.6.1 If you wish to take up your Rights

If you are an Eligible Shareholder and you wish to take up all or part of your Rights, you must accept the Rights Issue Offer by completing the personalised Entitlement and Acceptance Form mailed to you with this Prospectus. Your personalised Entitlement and Acceptance Form will detail your entitlement to New Shares and Attaching Options under the Rights Issue Offer. You should complete the form in accordance with the instructions set out on the reverse side of the form.

Your completed Entitlement and Acceptance Form must be accompanied by the requisite Application Monies calculated at three (3) cents in aggregate for each New Share or payment must be made via Bpay® following the instructions on your personalised Entitlement and Acceptance Form. Please ensure that the completed Entitlement and Acceptance Form, together with your Application Monies is received by the Share Registry by not later than 5.00pm WST on 11 March 2011 or such later date as the Directors advise.

1.6.2 If you wish to sell your Rights in full on ASX

If you wish to sell all of your Rights on ASX, follow the instructions on the back of the accompanying Entitlement and Acceptance Form headed "**Sale of your Entitlement in full by your Stockbroker/Agent**".

You can sell your Rights on ASX from 9 February 2011. All sales on ASX must be effected by close of trading on 4 March 2011, when Rights trading ends on the ASX.

The Company does not accept any responsibility for any failure by your stockbroker to carry out your instructions.

Kairiki Energy Limited

1.6.3 If you wish to sell part of your Rights on ASX and take up the balance

If you wish to sell part of your Rights on ASX and take up the balance, follow the instructions on the back of the accompanying Entitlement and Acceptance Form headed “**Sale of your Entitlement in part by your Stockbroker/Agent and acceptance of the balance**”.

You can sell your Rights on ASX from 9 February 2011. Any sale of part of your Rights on ASX must be effected by the close of trading on 4 March 2011, when Rights trading ends on ASX.

To take up the remaining part of your Rights, your stockbroker will need to ensure that the completed Entitlement and Acceptance Form together with the requisite Application Monies reaches the Share Registry by not later than 5.00pm WST on 11 March 2011 or such later date as the Directors advise.

The Company does not accept any responsibility for any failure by your stockbroker to carry out your instructions.

1.6.4 If you wish to transfer all or part of your Rights to another person other than on ASX

If you hold Shares on the issuer-sponsored register and you wish to transfer all or part of your Rights to another person other than on ASX, forward a completed standard renunciation form (which can be obtained from your Stockbroker or the Share Registry) signed by you (as the seller) and the buyer by not later than 5.00pm WST on 4 March 2011, together with your Entitlement and Acceptance Form completed by the buyer and the buyer's cheque or bank draft for the appropriate Application Monies to reach the Share Registry by not later than 5.00pm WST on 11 March 2011 or such later date as the Directors advise.

If you are an Eligible Shareholder holding Shares on CHESS and you wish to transfer all or part of your Rights to another person other than on ASX, you should contact your sponsoring participant.

If the Share Registry receives both a completed renunciation form and a completed Entitlement and Acceptance Form in favour of the same Shareholder in respect of the same Rights, the renunciation will be given effect in priority to the acceptance.

1.6.5 If you do nothing

If you are an Eligible Shareholder and you do nothing by 5.00pm WST on 11 March 2011, being the Closing Date, your Rights will form part of the Shortfall which will be dealt with by the Underwriter as outlined in Section 1.9.

1.6.6 Form of Payment

All cheques must be drawn on an Australian Bank or Bank Draft made payable in Australian currency to “Kairiki Energy Limited Share Issue” and crossed “Not Negotiable”.

Your completed Entitlement and Acceptance Form, together with your cheque, must be forwarded to:

By Mail:

Kairiki Energy Limited
Computershare Investor Services Pty Ltd
GPO Box D182
Perth WA 6840

In Person:

Kairiki Energy Limited
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000

Kairiki Energy Limited

Those who elect to pay via BPAY must follow the instructions for BPAY set out in the Entitlement and Acceptance Form. Investors who elect to pay via BPAY will not need to return their completed Entitlement and Acceptance Form.

Completed Entitlement and Acceptance Forms or payment by BPAY must be received no later than 5.00pm (WST) on the Closing Date.

1.7 How to Accept the Conditional Offers

Your acceptance of the Conditional Offers must be made on the relevant Entitlement and Acceptance Form accompanying this Prospectus. Applicants will be issued with an allocated number of Options under the relevant Offer as shown on that form. Applicants may not apply for additional Options.

All Entitlement and Acceptance Forms must be completed in accordance with the instructions set out on the reverse side of the form.

Your completed Entitlement and Acceptance Form must be received by the Share Registry by no later than 5.00pm WST on the Closing Date.

1.8 Minimum Subscription

There is no minimum subscription for the Offers.

1.9 Shortfall

If you do not wish to take up any part of your Entitlement or trade your Rights under the Rights Issue Offer, you are not required to take any action. That part of your Entitlement not taken up or traded will form part of the Shortfall and will revert to the Underwriter.

The offer of the Shortfall is a separate offer pursuant to this Prospectus. The issue price of any Shares offered pursuant to the Shortfall Offer shall be \$0.03 being the price at which the Entitlement has been offered to Shareholders pursuant to this Prospectus and will include one free Attaching Option for every two New Shares allotted.

To the extent Shareholders do not take up their Entitlement in full the Shortfall will be placed at the discretion of the Underwriter. Applications for additional new securities in excess of an Entitlement will not be accepted in part or in full and the application monies will be refunded (without interest) in accordance with the provisions of the Corporations Act.

In the event that the Shortfall or part of the Shortfall is not dealt with by the Underwriter for any reason, the Directors reserve the right to issue the Shortfall at their discretion.

1.10 Australian Securities Exchange Listing

The Company will apply to ASX for quotation of the Securities offered pursuant to this Prospectus within seven days after the date of this Prospectus. If an application for quotation of the Securities is not made within seven days after the date of this Prospectus, or ASX does not grant permission for official quotation of the Securities within three months after the date of this Prospectus, the Company will not issue any Securities and will repay all application monies for the Securities within the time prescribed under the Corporations Act, without interest.

Kairiki Energy Limited

The fact that ASX may grant official quotation to the Securities is not to be taken in any way as an indication of the merits of the Company or the Securities now offered under this Prospectus.

1.11 Allotment of Securities

Securities issued pursuant to the Offers will be allotted in accordance with the Timetable and Important Dates and otherwise in accordance with the Listing Rules. Where the number of Securities issued is less than the number applied for, or where no allotment is made under the Shortfall Offer, surplus Application Monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

Pending the allotment and issue of the Securities or payment of refunds pursuant to this Prospectus, all Application Monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

1.12 Secondary Options

Any Secondary Option issued upon exercise of the Attaching Options, Underwriter Options or Placement Options will not be issued to holders of such Options until such time as the Company has prepared a disclosure document for the purposes of complying with the technical requirements of the Corporations Act in respect of the grant of those subsequent Secondary Options.

1.13 CHESS and Issuer Sponsorship

The Company operates an electronic CHESS sub-register and an electronic issuer sponsored sub-register. These two sub-registers make up the Company's register of Securities. The Company will not issue certificates to investors. Rather, holding statements (similar to bank statements) will be dispatched to investors as soon as practicable after allotment.

Holding statements will be sent either by CHESS (for new investors who elect to hold their Securities on the CHESS sub-register) or by the Company's Share Registry (for new investors who elect to hold their Securities on the Issuer sponsored sub-register). The statements will set out the number of New Shares and Options allotted under the Prospectus and provide details of a Holder Identification Number (for new investors who elect to hold their Securities on the Chess sub-register) or Reference Number (for new investors who elect to hold their Securities on the issuer sponsored sub-register). Updated holding statements will also be sent to each new investor following the month in which the balance of their holding of New Shares and Options changes, and also as required by the Listing Rules or the Corporations Act.

1.14 Risks

As with any share investment, there are risks associated with investing in the Company. The principal risks that could affect the financial and market performance of the Company are detailed in Section 2 of this Prospectus. The Securities on offer under this Prospectus should be considered speculative. Accordingly, before deciding to invest in the Company, investors should read this Prospectus in its entirety and should consider all factors in light of their individual circumstances and seek appropriate professional advice.

Factors affecting an investment in the Company include drilling and operating risks, resource and reserve estimates, regulation in the Philippines, joint venture risk,

Kairiki Energy Limited

insurance risk, stock market fluctuations, competition risks, foreign currency exchange rate fluctuations, economic risks and external market factors, additional requirements for capital and governmental policy regarding environmental protection.

1.15 Overseas Shareholders

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify the Securities the subject of this Prospectus or otherwise permit a public offering of the Securities the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Securities pursuant to this Prospectus. The return of a completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained.

1.16 Taxation

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them by consulting their own professional tax advisers. Taxation consequences will depend on particular circumstances. Neither the Company nor any of its officers accept any liability or responsibility in respect of the taxation consequences of the matters referred to above or any other taxation consequences connected with an investment in the Securities in the Company.

1.17 Privacy Disclosure

Persons who apply for Securities pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess applications for Securities to provide facilities and services to Shareholders and Optionholders, and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, applications for Securities will not be processed. In accordance with privacy laws, information collected in relation to specific Shareholders and Optionholders can be obtained by that Shareholder or Optionholder through contacting the Company or the Share Registry.

1.18 Enquiries

This document is important and should be read in its entirety. Persons who are in any doubt as to the course of action to be followed should consult their stockbroker, solicitor, accountant or other professional adviser without delay.

If you have any questions relating to the Offers, please contact the Company on (08) 9388 6711.

Kairiki Energy Limited

SECTION 2 RISK FACTORS

2.1 Introduction

The Securities offered under this Prospectus should be considered speculative because of the nature of the Company's business.

Whilst the Directors recommend that Shareholders take up their Entitlement, there are however numerous risk factors involved. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. Accordingly, an investment in the Company carries no guarantee with respect to the payment of dividends, return of capital or price at which the Securities will trade.

The following is a summary of the more material matters to be considered and should be read in conjunction with specific matters referred to in the Company's announcements and reports. However, the summary is not exhaustive and potential investors should examine the contents of this Prospectus in its entirety and consult their professional advisors before deciding whether to apply for the Securities.

2.2 Specific Risks

A number of specific risk factors that may impact the future performance of the Company are described below. Shareholders should note that this list is not exhaustive.

2.2.1 General Operational Risks

The business of oil and gas exploration, project development and production, by its nature, contains elements of significant risk with no guarantee of success. Ultimate and continuous success of these activities is dependent on, amongst other things:

- the discovery and-or acquisition of economically recoverable reserves;
- access to adequate capital for project development;
- design and construction of efficient development and production infrastructure within capital expenditure budgets;
- securing and maintaining title to interests;
- obtaining consents and approvals necessary for the conduct of oil and gas exploration, development and production; and
- access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

Whether or not income will result from projects undergoing exploration and development programs depends on successful exploration and establishment of production facilities. Factors including costs, actual hydrocarbons and formations, flow consistency and reliability and commodity prices affect successful project development and operations.

There is no assurance that any exploration on current or future interests will result in the discovery of an economic deposit of oil or gas. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically developed.

Kairiki Energy Limited

2.2.2 Drilling and Operating Risk

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The actual costs of drilling a well may be substantially more than the drilling costs estimated prior to spudding the well due to unforeseen circumstances when drilling. Drilling activities carry risk as such activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of drill rigs or other equipment and compliance with government requirements.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Hazards are incidental to the exploration and development of oil and gas properties such as unusual or unexpected formations, pressures, oceanographic conditions and other factors are inherent in drilling and operating a well and may be encountered by the Company.

Industry operating risks include fire, explosions, blow outs, pipe failures and environmental hazards such as accidental spills or leakage of liquids, gas leaks, ruptures or discharges of toxic gases. The occurrence of any of these risks could result in legal proceedings against the Company and substantial losses to the Company due to injury or loss of life, damage to or destruction of property, natural resources or equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation, and penalties or suspension of operations. Damage occurring to third parties as a result of such risks may give rise to claims against the Company.

2.2.3 Resource and Reserve Estimates

Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when made may change significantly when new information becomes available. In addition, resource estimates are necessarily imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter oil and/or gas deposits or formations different from those predicted by past drilling, sampling and similar examinations, resource estimates may have to be adjusted and production plans may have to be altered in a way which could adversely affect the Company's operations.

2.2.4 Regulation in the Philippines

Operations by the Company may require approvals from regulatory authorities, which include renewals of existing Philippines service contracts, which may not be forthcoming or which may not be able to be obtained on terms acceptable to the Company. While the Company has no reason to believe that all requisite approvals will not be forthcoming and while the Company's obligations for expenditure will be predicated on any requisite approvals being obtained it should be understood that the Company cannot guarantee that any requisite approvals will be obtained. A failure to obtain any approvals would mean the ability of the Company to develop or operate any project, or possibly acquire any project, may be limited or restricted either in part or absolutely.

2.2.5 Ability to Exploit Successful Discoveries

It may not always be possible for the Company to participate in the exploitation of successful discoveries made in areas in which the Company has an interest. Such exploitation will involve the need to obtain the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretions by such authorities. It may or may not be possible for such conditions to be satisfied. The infrastructure requirements around a successful discovery may also impact

Kairiki Energy Limited

on the exploitation of a discovery. Further the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Company. As described above, such work may require the Company to meet or commit to financing obligations for which it may have not planned.

2.2.6 Joint Venture Parties, Agents and Contractors

The Directors are unable to predict the risk of financial failure or default by a participant in any joint venture to which the Company is or may become a party or the insolvency or managerial failure by any of the contractors used by the Company in any of its activities or the insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

2.2.7 Environmental

The Company's activities are subject to the environmental risks inherent in the oil and gas industry. The Company is subject to environmental laws and regulations in connection with operations it may pursue in the oil and gas industry. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Company may be the subject of accidents or unforeseen circumstances that could subject the Company to extensive liability.

Further, the Company may require approval from the relevant authorities before it can undertake activities likely to impact the environment. Failure to obtain such approvals will prevent the Company from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations on any area.

The Company's operational risks include environmental hazards such as accidental spills or leaks of petroleum liquids or gas, ruptures and the discharge of toxic gases. The occurrence of any such incident could result in substantial costs to the Company for environmental rehabilitation, damage control and losses.

2.2.8 Future capital needs and additional funding

The funding of any further ongoing capital requirements beyond the requirements as set out in this Prospectus will depend upon a number of factors including the extent of the Company's ability to generate income from activities which the company cannot forecast with any certainty.

Any additional equity financing will be dilutive to shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional funding as needed, it may not be able to take advantage of opportunities or develop projects. Further, the Company may be required to reduce the scope of its operations or anticipated expansion and it may affect the Company's ability to continue as a going concern.

2.2.9 Insurance

Insurance against all risks associated with oil and gas production is not always available or affordable. The Company will maintain insurance where it is considered appropriate for its needs however it will not be insured against all risks either because appropriate cover is not available or because the Directors consider the required premiums to be excessive having regard to the benefits that would accrue.

Kairiki Energy Limited

Although the Company believes that it or the operator of SC54A and SC54B will carry adequate insurance with respect to its operations in accordance with industry practice, in certain circumstances the Company's or the operator's insurance may not cover or be adequate to cover the consequences of all events. In addition, the Company may be subject to liability for pollution, blow-outs or other hazards against which the Company or the operator does not insure or against which it may elect not to insure because of high premium costs or other reasons. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the operations of the Company. There is no assurance that the Company will be able to maintain adequate insurance in the future at rates that it considers is reasonable.

2.3 General Risks

The future prospects of the Company's business may be affected by circumstances and external factors beyond the Company's control. Financial performance of the Company may be affected by a number of business risks that apply to companies generally and may include economic, financial, market or regulatory conditions.

2.3.1 General Economic Climate

Factors such as inflation, currency fluctuation, interest rates and supply and demand have an impact on operating costs, commodity prices and stock market prices. The Company's future revenues and Share price may be affected by these factors, as well as by fluctuations in the price of oil or gas, which are beyond the Company's control.

2.3.2 Changes in Legislation and Government Regulation

Government legislation in Australia, the Philippines or any other relevant jurisdictions, including changes to the taxation system, may affect future earnings and relative attractiveness of investing in the Company. Changes in government policy or statutory changes may affect the Company and the attractiveness of an investment in it.

2.3.3 Competition

The Company competes with other companies, including major oil companies. Some of these companies have greater financial and other resources than the Company and, as a result may be in a better position to compete for future business opportunities. Many of the Company's competitors not only explore for and produce oil and gas, but also carry refining operations and market petroleum and other products on a worldwide basis. There is no assurance that the Company can compete effectively with these competitors.

2.3.4 Oil and gas price volatility

The demand for, and price of, oil and natural gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments.

International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular a material decline in the price of oil or gas may have a material adverse effect on the Company's business, financial condition and results or operations.

Kairiki Energy Limited

2.3.5 Foreign exchange risk

The Company holds interests in operations in the Philippines and the costs of and any revenues from these operations will be in United States dollars. As the Company's financial reports are presented in Australian dollars, the Company will be exposed to the volatility and fluctuations of the exchange rate between the United States dollar and the Australian dollar.

Global currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities together with the ability to fund those plans and activities.

2.3.6 Reliance on Key Personnel

The Company's success depends largely on the core competencies of its directors and management, and their familiarisation with, and ability to operate, in the oil and gas industry and the Company's ability to find and retain key executives.

2.3.7 Sharemarket Conditions

The market price of the Company's Shares may be subject to varied and unpredictable influences on the market for equities in general and resources stocks in particular.

2.4 Speculative Nature of Investment

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities offered under this Prospectus. Therefore, the Securities offered pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the Securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Securities.

Kairiki Energy Limited

SECTION 3 PURPOSE AND EFFECT OF THE OFFERS

3.1 Purpose of the Offers

The purpose of the Offers is to raise approximately \$8,898,920 (before expenses). The proceeds of the Offers are planned to be used in accordance with the table set out below:

Proceeds of Offers	Full Subscription (\$)
Demobilisation and decommissioning costs for the Tindalo Project (SC54A)	\$500,000
Costs related to the Gindara Project (SC54B)	\$2,800,000
Convertible Note	\$2,010,000
Working Capital	\$2,903,920
Expenses of the Offers ¹	\$685,000
Total	\$8,898,920

Notes:

1. Please refer to Section 5.9 of this Prospectus for further details of the expenses of the Offers.
2. The above table is a statement of current intentions as at the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the ultimate way funds will be applied. The Directors reserve the right to alter the way funds are applied on this basis.

3.2 Effect of the Offers and Pro Forma Consolidated Statement of Financial Position

The principal effect of the Offers will be to:

- (a) increase the cash reserves by approximately \$8,898,920 (before expenses) immediately after completion of the Offers;
- (b) increase the number of Shares on issue from 889,891,998 to approximately 1,186,522,664 Shares following completion of the Offers; and
- (c) increase the number of Options on issue from 500,000 Options prior to the date of this Prospectus to approximately 305,692,222 following completion of the Offers. If an Option is exercised such that a Secondary Option is also issued, then the total number of Options on issue will remain the same.

3.3 Pro Forma Consolidated Statement of Financial Position

The unaudited Consolidated Statement of Financial Position as at 31 December 2010 and the unaudited Pro Forma Statement of Financial Position as at 31 December 2010 shown on the following page have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. They have been prepared on the assumption that all New Shares and Options pursuant to the Offers in this Prospectus are issued.

The unaudited Statements of Financial Position have been prepared to provide Shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

Kairiki Energy Limited

Unaudited Consolidated Statement of Financial Position and Pro-Forma Statement of Financial Position as at 31 December 2010

	Unaudited Consolidated 31 December 2010 \$'000	Pro-Forma Unaudited Consolidated 31 December 2010 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	2,880	14,400
Trade and other receivables	1,098	1,098
Inventory	1,876	1,876
Total Current Assets	5,854	17,374
Non-Current Assets		
Plane and equipment	13	13
Deferred exploration expenditure	20,830	20,830
Total Non-Current Assets	20,841	20,841
Total Assets	26,695	38,215
LIABILITIES		
Current Liabilities		
Trade and other payables	9,161	9,161
Provisions	6	6
Total Current Liabilities	9,167	9,167
Non-Current Liabilities		
Convertible notes	8,928	8,928
Total Non-Current Liabilities	8,928	8,928
Total Liabilities	18,095	18,095
Net Assets	8,600	20,120
EQUITY		
Issued capital	58,804	70,324
Reserves	(3,229)	(3,229)
Accumulated losses	(46,975)	(46,975)
Total Equity	8,600	20,120

The above pro forma unaudited Consolidated Statement of Financial Position has been prepared on the basis that there have been no material movements in the assets and liabilities of the Company between 31 December 2010 and the completion of the Offers, except:

- (a) completion of the Rights Issue to raise \$8,898,920 (before expenses of the Rights Issue Offer);
- (b) expenses of the Rights Issue Offer of approximately \$685,000 which have been offset against proceeds of the issue; and
- (c) net proceeds from the Placement completed on 31 January 2011 of \$3,306,000.

Kairiki Energy Limited

3.4 Effect on Capital Structure After Completion of Offers

A comparative table of changes in the capital structure of the Company as a consequence of the Offers is set out below, assuming that the Offers are fully subscribed and no Options are exercised prior to the Record Date.

Shares

	Number
Shares on issue at date of Prospectus (excluding Placement)	773,891,998
Shares issued pursuant to the Placement	116,000,000
New Shares issued pursuant to the Rights Issue Offer	296,630,666
Total Shares on issue after completion of the Offers¹	1,186,522,664

Options

	Number
Options currently on issue:	
Unlisted options exercisable at \$0.30 on or before 31 May 2011	500,000
Options offered pursuant to the Offers:	
Attaching Options	148,315,333
Underwriter Options	98,876,889
Placement Options	58,000,000
Total Options on issue after completion of the Offers	305,692,222

Notes

	Number
Notes currently on issue:	
Unlisted convertible notes ²	10,000,000
Total Notes on issue after completion of the Offers	10,000,000

Notes:

1. The number of Shares issued assumes that the Rights Issue Offer is fully subscribed and no Options or Notes currently on issue are exercised prior to the Record Date.
2. The remaining value of the Note at the date of this Prospectus is US\$9,530,000. The Note Holder has the right to convert the Notes into Shares at an issue price determined as the lesser of:
 - (a) A\$0.185; and
 - (b) the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16.

Kairiki Energy Limited

SECTION 4 RIGHTS ATTACHING TO SECURITIES

4.1 Terms and Conditions of Shares

The following is a general description of the more significant rights and liabilities attaching to the Shares. This summary is not exhaustive. Full details of provisions relating to rights attaching to the Shares are contained in the Corporations Act, the Listing Rules and the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

- (a) At the date of this Prospectus all Shares are of the same class and rank equally in all respects. Specifically, the New Shares issued pursuant to this Prospectus will rank equally with existing Shares on issue.
- (b) Subject to any special rights or restrictions (at present there are none), at any meeting each member present in person or by proxy has one vote on a show of hands, and on a poll has one vote for each Share held.
- (c) Subject to any special rights (at present there are none), any dividends that may be declared by the Company are payable on all Shares in proportion to the amount paid up.
- (d) The rights attaching to the Shares may only be varied by the consent in writing of the holders of a majority of the Shares of the affected class, or with the sanction of an ordinary resolution passed at a meeting of the holders of the Shares of the affected class.
- (e) Subject to the Company's Constitution, the Corporations Act or any other applicable laws of Australia and the Listing Rules, the Shares are freely transferable. The Directors may refuse to register a transfer of Shares only in limited circumstances, such as where the Company has a lien on those Shares.
- (f) Each Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be furnished to Shareholders under the Company's Constitution, the Corporations Act and the Listing Rules.
- (g) The Company's Constitution provides for the sale of unmarketable parcels subject to any applicable law and provided a notice is given to the minority shareholders stating that the Company intends to sell their relevant Shares unless an exemption notice is received by a specified date.
- (h) If the Company is wound up, the liquidator may, with the sanction of a special resolution:
 - (i) divide among the Shareholders the whole or any part of the Company's property; and
 - (ii) decide how the division is to be carried out between the Shareholders.

Subject to any special rights (at present there are none), any surplus assets on a winding up are to be distributed to Shareholders in proportion to the number of Shares held by them irrespective of the amounts paid or credited as paid.

Kairiki Energy Limited

4.2 Terms and Conditions of Attaching Options, Underwriter Options and Placement Options (“Options”)

The material terms and conditions of the Options offered pursuant to this Prospectus are as follows:

- (a) Each Option entitles the holder to, subject to any Shareholder approval under Item 7 of section 611 of the Corporations Act (if required):
 - (i) subscribe for one (1) Share in the Company; and
 - (ii) be granted one (1) Secondary Option,at the exercise price of \$0.04.
- (b) The Options are exercisable on and from 1 August 2011 and expire at 5.00pm WST on 31 August 2011 (**Expiry Date**). Any Options not exercised on or before the Expiry Date will automatically lapse.
- (c) All Shares in the Company allotted on the exercise of Options rank equally in all respects with the then existing Shares.
- (d) The Options are freely transferable and it is intended that application will be made to ASX for quotation of the Options.
- (e) The Company must apply for quotation of all Shares allotted pursuant to the exercise of Options not later than 10 Business Days after the date of allotment.
- (f) Option Holders may only participate in new issues (**Issue**) of securities to holders of Shares in the Company if the Options have been exercised and Shares are allotted in respect of the Options before the record date for determining entitlements to the Issue.
- (g) The Company must give Option Holders at least 7 Business Days’ notice of any Issue before the record date for determining entitlements to the Issue in accordance with the Listing Rules.
- (h) There will be no change to the exercise price of the Options or the number of Shares over which the Options are exercisable in the event of the Company making a pro-rata issue of Shares or other securities to the holders of Shares in the Company (other than a bonus issue).
- (i) If there is a bonus issue (**Bonus Issue**) to the holders of Shares in the Company, the number of Shares over which the Options are exercisable will be increased by the number of Shares which the Option Holder would have received if the Option had been exercised before the record date for the Bonus Issue (**Bonus Shares**). The Bonus Shares must be paid up by the Company out of the profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue and upon issue rank equally in all respects with the other Shares on issue as the date of issue of the Bonus Shares.
- (j) If prior to the Expiry Date, there is a re-organisation of the issued capital of the Company, the Options are to be treated in the manner set out in the Listing Rules.

Kairiki Energy Limited

4.3 Terms and Conditions of Secondary Options

The terms and conditions of the Secondary Options are as follows:

- (a) Each Secondary Option entitles the holder to, subject to any Shareholder approval under Item 7 of section 611 of the Corporations Act (if required), subscribe for one (1) Share in the Company at the exercise price of \$0.05.
- (b) The Secondary Options are exercisable on and from the date of issue and expire at 5.00pm WST on 31 August 2013. Any Secondary Options not exercised on or before that date will automatically lapse.
- (c) The Secondary Options will only be issued under a disclosure document to be lodged with the ASIC on or about 31 August 2011.
- (d) The terms and conditions of the Secondary Options are otherwise the same as the Options set out in Section 4.2 above.

Kairiki Energy Limited

SECTION 5 ADDITIONAL INFORMATION

5.1 Nature of this Prospectus

This Prospectus is issued under the special prospectus content rules for continuously quoted securities in Section 713 of the Corporations Act. This enables listed disclosing entities, such as the Company, to issue a prospectus for continuously quoted securities with modified disclosure requirements if they satisfy certain requirements.

The information in this Prospectus principally concerns the terms and conditions of the Offers and the information reasonably necessary to make an informed assessment of:

- (i) the effect of the Offers on the Company; and
- (ii) the rights and liabilities attaching to the Shares and Options offered pursuant to this Prospectus.

The Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Shareholders should therefore also have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest in the Company.

5.2 Continuous Reporting and Disclosure Obligations

The Company is listed on ASX and its Shares are quoted on ASX under the code “KIK”.

The Company is a “disclosing entity” for the purposes of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations, which require it to disclose to ASX any information of which it is or becomes aware concerning the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

The Company will provide a copy of all documents used to notify ASX of information relating to the Company under the provisions of the Listing Rules since the Company lodged its most recent Annual Financial Report on 30 September 2010 free of charge to any investor who so requests prior to the Closing Date. A list of those documents for the period from 30 September 2010 to the time of lodging this Prospectus is set out in Section 6. The Company will also provide a copy of the Annual Financial Report for the period ended 30 June 2010 free of charge upon request.

5.3 Market Price of Shares

The highest and lowest recorded closing market sale prices of the Shares quoted on ASX during the three (3) month period immediately prior the date of this Prospectus were \$0.071 and \$0.034 respectively. The last closing market sale price of the Shares quoted on ASX on the last day that trading took place in the Shares prior to the date of this Prospectus was \$0.034.

Kairiki Energy Limited

5.4 Material Contracts

5.4.1 Corporate Mandate

On 25 January 2011 the Company announced that it had entered into a Mandate with Patersons Securities Limited to act as lead manager for a Placement to raise up to \$3,480,000 by the issue of 116,000,000 Shares at an issue price of \$0.03 per Share to professional and sophisticated investors (**Placement**).

The Placement was completed on 31 January 2011 and was undertaken under the Company's placing authority under Listing Rule 7.1.

Pursuant to the Mandate, Patersons Securities Limited has agreed to act as Lead Manager for both the Placement and the Rights Issue. The Company has agreed to pay Lead Manager fees of \$60,000 (excluding GST) upon completion of both the Placement and the Rights Issue and a Placement fee of 5.0% (excluding GST) of the gross amount raised under the Placement. It has also agreed to pay Patersons Securities Limited an option exercise fee of 3% on the amount raised by exercise of the Options offered pursuant to this Prospectus, as well as reimbursement of expenses.

Pursuant to the Mandate, the Company also agreed to issue the Placement Options to the allottees of the Placement Shares.

5.4.2 Underwriting Agreement

Pursuant to an agreement between Patersons Securities Limited (**Underwriter**) and the Company (**Underwriting Agreement**), the Underwriter has agreed to fully underwrite the Offer for 296,630,666 New Shares and 148,315,333 free Attaching Options.

Pursuant to the Underwriting Agreement, the Company has agreed to:

- (a) pay the Underwriter an underwriting fee of 6% on the underwritten amount of the Rights Issue;
- (b) pay the Underwriter a lead manager fee of \$60,000 (exclusive of GST) as mentioned in Section 5.4.1 above; and
- (c) issue to the Underwriter (or its nominees) the Underwriter Options.

The Underwriting Agreement is conditional upon the following conditions precedent:

- (a) (**Due Diligence**) the Underwriter being satisfied with the due diligence investigations and the due diligence results by the Lodgement Date;
- (b) (**Underwriter's consent to be named**): the Underwriter being satisfied with the form of the Prospectus (in its absolute discretion) and having given its consent to be named in the Prospectus by the Lodgement Date as evidence thereof;
- (c) (**Legal sign off**): a legal sign off letter being provided by the Company's solicitors, to the satisfaction of the Underwriter;
- (d) (**Prospectus**): the Prospectus being lodged with the ASIC prior to 5.00pm WST on the Lodgement Date;
- (e) (**Sub-Underwriting**): the Underwriter entering into sub-underwriting agreements with sub-underwriters on terms and conditions satisfactory to the Underwriter (in its absolute discretion) for the entire offer prior to 5.00pm WST on the Lodgement Date;

Kairiki Energy Limited

- (f) **(Placement):** the Placement being completed and the Shares allotted by the Lodgement Date and
- (g) **(Shareholder Approval):** Shareholders having approved the issue of the Underwriter Options and the Placement Options at the General Meeting by the Closing Date.

The obligation of the Underwriter to underwrite the Rights Issue Offer is subject to certain events of termination. The Underwriter may terminate its obligations under the Underwriting Agreement on the occurrence of specified events including:

- (a) **(Indices Fall)** any of the All Ordinaries Index, S&P/ASX 200 Index, or the S&P/ASX 300 Energy Index as published by ASX is at any time after the date of the Underwriting Agreement 10% or more below its respective level at the close of business on the Business Day prior to the date of the Underwriting Agreement;
- (b) **(Share Price)** the ordinary fully paid shares of the Company finish trading on the ASX under the ASX code of "KIK" on any three consecutive trading days with the closing price that is less than the Share issue price;
- (c) **(Prospectus)** the Company does not lodge the Prospectus on the Lodgement Date;
- (d) **(No Official Quotation)** official quotation has not been granted by the date of the notice of shortfall being given by the Company or, having been granted, is subsequently withdrawn, withheld or qualified;
- (e) **(Restriction on Allotment)** the Company is prevented from allotting the Shares or Options within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi governmental agency or authority;
- (f) **(ASIC Prosecution)** an application is made by ASIC as to a deficiency in the Prospectus or ASIC gives notice of an intention to hold a hearing, examination or investigation, or it requires information to be disclosed by the Company;
- (g) **(Takeovers Panel)** the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act;
- (h) **(Hostilities)** there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of the Underwriting Agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, India, Pakistan, the Philippines or the Peoples Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;
- (i) **(Authorisation)** any authorisation which is material to anything referred to in the Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter;
- (j) **(Indictable Offence)** a director or senior manager of the Company or any of its subsidiaries is charged with an indictable offence;

Kairiki Energy Limited

- (k) **(Sub-underwriters)** any of the designated sub-underwriters do not or threaten not to comply with its obligations under the sub-underwriting agreements; or
- (l) **(Termination Events)** the occurrence of the following termination events which have or are likely to have a Material Adverse Effect (as defined in the Underwriting Agreement):
 - (i) **(Default)** default or breach by the Company under the Underwriting Agreement of any terms, condition, covenant or undertaking;
 - (ii) **(Incorrect or untrue representation):** any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect;
 - (iii) **(Contravention of Constitution or Corporations Act)** a contravention by the Company of any provision of its constitution, the Corporations Act, the Listing Rules or any other legislation or policy requirement of the ASX or ASIC;
 - (iv) **(Adverse Change)** an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of the Underwriting Agreement in relation to the Company or any of its subsidiaries;
 - (v) **(Public Statements)** without the prior approval of the Underwriter a public statement is made by the Company in relation to the Rights Issue Offer;
 - (vi) **(Misleading Information)** any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Rights Issue Offer or the Rights Issue or the affairs of the Company or any of its subsidiaries is or becomes misleading or deceptive or likely to mislead or deceive;
 - (vii) **(Official Quotation Qualified)** the official quotation is qualified or conditional;
 - (viii) **(Change in Act or Policy)** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or budget or Reserve Bank of Australia authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
 - (ix) **(Prescribed Occurrence)** a Prescribed Occurrence (as defined in the Underwriting Agreement) occurs, other than as disclosed in the Prospectus;
 - (x) **(Event of Insolvency)** an Event of Insolvency (as defined in the Underwriting Agreement) occurs in respect to the Company or any of its subsidiaries;
 - (xi) **(Judgment)** a judgment in an amount exceeding \$1 million is obtained against the Company or any of its subsidiaries and is not set aside or satisfied within 7 days;
 - (xii) **(Litigation)** litigation, arbitration, administrative or industrial proceedings are after the date of the Underwriting Agreement commenced or

Kairiki Energy Limited

threatened against the Company or any of its subsidiaries, exceeding \$1 million, other than any claims foreshadowed in the Prospectus;

- (xiii) **(Change in Shareholdings)** there is a material change in the major or controlling shareholdings of the Company or a takeover offer or scheme of arrangement is publicly announced in relation to the Company;
- (xiv) **(Timetable)** there is a delay in any specified date in the Timetable which is greater than three (3) business days and the Underwriter has not given prior written consent agreeing to the delay exceeding three (3) business days;
- (xv) **(Force Majeure)** a Force Majeure (as defined in the Underwriting Agreement) affecting the Company's business or any obligation under the Underwriting Agreement lasting in excess of 7 days occurs;
- (xvi) **(Certain Resolutions Passed)** the Company or any of its subsidiaries passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- (xvii) **(Capital Structure)** the Company or any of its subsidiaries alters its capital structure in any manner not contemplated by the Prospectus;
- (xviii) **(Investigation)** any person is appointed under any legislation in respect of companies to investigate the affairs of the Company;
- (xix) **(Market Conditions)** a suspension or material limitation in trading generally on ASX occurs; or
- (xx) **(Suspension)** a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets.
- (xxi) **(Supplementary prospectus):**
 - (i) the Underwriter, having elected not to exercise its right to terminate its obligations under the Underwriting Agreement forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require; or
 - (ii) the Company lodges a supplementary or replacement prospectus without the prior written agreement of the Underwriter;
- (xxii) **(Non compliance with disclosure requirements):** it transpires that the Prospectus does not contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of:
 - (i) the effect of the Offers on the Company; and
 - (ii) the rights and liabilities attaching to the Securities;

Kairiki Energy Limited

- (xxiii) **(Misleading Prospectus)** it transpires that there is a statement or omission in the Prospectus that is, or becomes misleading or deceptive or likely to mislead or deceive, or that any statement in the Rights Issue documentation becomes misleading or deceptive or likely to mislead and deceive).

The Underwriting Agreement also contains a number of indemnities, representations and warranties from the Company to the Underwriter that are considered standard for an agreement of this type.

The Underwriting Agreement also provides that no party will receive Shortfall Securities that would result in the party holding a total voting power in the Company equal to or greater than 19.9% following completion of the Rights Issue Offer:

The effect on control of the Company will be as follows:

- if all Shareholders of the Company on the Record Date take up their Entitlements under the Rights Issue Offer, then the issue of New Shares and Attaching Options under the Rights Issue Offer will have no effect on the control of the Company; and
- if the Shareholders take up none or only some of their Entitlements under the Rights Issue Offer then the issue of New Shares and Attaching Options under the Rights Issue Offer will have limited effect on control of the Company. As indicated above, the Underwriter must ensure that no party will receive Shortfall Securities that would result in the party holding a total voting power in the Company equal to or greater than 19.9% following completion of the Rights Issue Offer.

5.5 Litigation

The Directors are not aware of any legal proceedings which have been threatened or actually commenced against the Company.

5.6 Directors' Interests

Other than as set out below or elsewhere in this Prospectus, no Director has, or had within two years before lodgement of this Prospectus with ASIC, any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or
- the Offers,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) and no benefits have been given or agreed to be given to any Director:

- to induce him to become, or to qualify him as, a Director; or
- for services rendered by him in connection with the formation or promotion of the Company or the Offers.

The direct and indirect interests of the Directors in the Securities of the Company as at the date of this Prospectus are as follows:

Kairiki Energy Limited

Director	Shares	Options
Paul Fry	9,692,185	-
Mark Fenton	107,000	-
Neville Bassett	600,000	-

Notes:

1. The Constitution of the Company provides that the non-executive Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting to be divided between the Directors as agreed.
2. The Company incurred remuneration costs relating to its current and previous Directors of \$873,301 for the year ended 30 June 2009 and \$972,848 for the year ended 30 June 2010 (includes salary, fees, superannuation and options received as compensation). In addition to the above, the Directors have been paid remuneration totalling \$232,538 from the end of the previous financial year until the date of this Prospectus.
3. If a Director, at the request of the Board of Directors, performs extra services, the Company may pay that Director a fixed sum set by the Board of Directors for doing so. Directors are also reimbursed for out of pocket expenses incurred as a result of the directorship or any special duties.

5.7 Related Party Transactions

There are no related party transactions entered into that have not otherwise been disclosed in this prospectus other than as set out below.

IMC Oil & Gas Investments, an entity which two previous directors of the Company were associated with (Ms Jyn Sim Baker and Mr John Morton) is the holder of the Convertible Note.

5.8 Interests and Consents of Advisers

Other than as set out below or elsewhere in this Prospectus, no underwriter, promoter or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus holds, or has held within two years before lodgement of this Prospectus with ASIC, any interest in:

1. the formation or promotion of the Company; or
2. property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or
3. the Offers,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any underwriter, promoter or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, for services rendered by that person in connection with the formation or promotion of the Company or the Offers.

Pursuant to Section 716 of the Corporations Act, Patersons Securities Limited has given and has not withdrawn its consent to being named as Underwriter and Lead Manager to the Rights Issue Offer in the Corporate Directory of this Prospectus in the form and context in which it is named. Patersons Securities Limited has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this

Kairiki Energy Limited

Prospectus and takes no responsibility for any part of this Prospectus. For details of the fees payable to Patersons Securities Limited pursuant to the Offers, refer to Sections 5.4.1 and 5.4.2. In the past two years Patersons Securities Limited has been paid a total of \$720,257 (exclusive of GST) for underwriting and placement services provided to the Company.

Pursuant to Section 716 of the Corporations Act, Price Sierakowski Corporate has given, and has not withdrawn its consent to being named as Solicitors to the Company in the Corporate Directory of this Prospectus in the form and context in which it is named. Price Sierakowski has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus. Price Sierakowski will be paid approximately \$35,000 for services in relation to this Prospectus. Price Sierakowski are legal advisers to the Company and have been paid fees totalling approximately \$25,500 for services provided to the Company in relation to legal matters over the past two years. Any further services required will be charged in accordance with its normal hourly rates and on commercial terms.

5.9 Estimated Expenses of the Offers

In the event the Offers are fully subscribed, the estimated expenses of the Offers (excluding GST) are as follows:

Fees/Expenses	\$
ASIC fees	\$2,068
ASX fees	\$35,000
Underwriting and management fees	\$593,935
Legal expenses	\$35,000
Printing and other expenses	\$18,997
Total	\$685,000

5.10 Electronic Prospectus

Pursuant to Class Order 00/44, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both.

Kairiki Energy Limited

SECTION 6 INFORMATION AVAILABLE TO SHAREHOLDERS

The Company will provide a copy of each of the following documents, free of charge, to any Shareholder who so requests:

- (a) the Annual Financial Report for the Company for the period ended 30 June 2010; and
- (b) the following documents used to notify ASX of information relating to the Company during the period after lodgement of the Annual Financial Report of the Company for the period ended 30 June 2010 and prior to the date of this Prospectus.

Date	ASX Announcement
30/09/2010	Annual Report
01/10/2010	Investor Update
04/10/2010	Investor Update Amended
05/10/2010	NDO: Tindalo Operations Update
07/10/2010	NDO: Market Update
13/10/2010	Market Update
20/10/2010	Trading Halt
21/10/2010	Tindalo Operations Update
25/10/2010	SC 54B Farmout and Capital Raising
25/10/2010	NDO: Tindalo Operations update
25/10/2010	NDO: Shell Farms in to SC 54B to drill Gindara Prospect
27/10/2010	Notice of Annual General Meeting/Proxy Form
27/10/2010	Annual Report
27/10/2010	Section 708AA Notice
27/10/2010	Appendix 3B
27/10/2010	Offer Document
28/10/2010	Appendix 3B
29/10/2010	Quarterly Activities Report
29/10/2010	Quarterly Cashflow Report
29/10/2010	Letter to Shareholders
03/11/2010	Investor Presentation
12/11/2010	NDO: Tindalo Operations Update
15/11/2010	Notice of Meeting
23/11/2010	NDO: Tindalo Operations Update
29/11/2010	Becoming a substantial holder
30/11/2010	AGM Presentation
30/11/2010	Results of Meeting
01/12/2010	Rights Issue Closure and Shortfall
06/12/2010	Change in substantial holding
06/12/2010	Change in substantial holding
06/12/2010	NDO: Tindalo Operations Update
09/12/2010	Change of Director's Interest Notice

Kairiki Energy Limited

Date	ASX Announcement
15/12/2010	Results of Meeting
23/12/2010	NDO: Tindalo Operations Update
23/12/2010	Securities Trading Policy
29/12/2010	NDO: Tindalo Operations Update
06/01/2011	Trading Halt
06/01/2011	NDO: Tindalo Operations Update and SC54A Update
10/01/2010	Suspension from Official Quotation
12/01/2010	NDO: Tindalo Operations and SC54A Update
13/01/2011	Reinstatement to Official Quotation
20/01/2011	Trading Halt
25/01/2011	Suspension from Official Quotation
25/01/2011	Placement and Underwritten Rights Issue
25/01/2011	Reinstatement to Official Quotation
31/01/2011	NDO: Shell`s Farm-in to SC 54B Approved by Philippine DOE
31/01/2011	Appendix 3B
31/01/2011	Quarterly Cashflow Report
31/01/2011	Quarterly Activities Report

Kairiki Energy Limited

SECTION 7 DIRECTORS' CONSENT

This Prospectus is dated 4 February 2011 and is issued by Kairiki Energy Limited.

The Directors have made all reasonable enquires and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive.

This Prospectus is prepared on the basis that certain matters may reasonably be expected to be known to likely investors or their professional advisors.

Each of the Directors of Kairiki Energy Limited has consented to the lodgment of this Prospectus in accordance with Section 720 of the Corporations Act and has not withdrawn that consent.

Signed for and on behalf of Kairiki Energy Limited.



Paul Fry
Chairman

Date: 4 February 2011

Kairiki Energy Limited

SECTION 8 DEFINITIONS

Applicant means a person who applies for Securities pursuant to the Offers.

Application Money means the aggregate amount of money payable for Securities applied for in the Entitlement and Acceptance Forms.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691).

Attaching Options means up to 148,315,333 Options to be issued at no additional cost to all successful Applicants under the Rights Issue Offer on the basis of one Attaching Option for every two New Shares issued, on the terms set out in Section 4.2.

Business Day means any day which is defined to be a Business Day pursuant to Listing Rule 19.12 of the Listing Rules.

CHES means Clearing House Electronic Sub-register System of ASX Settlement Pty Ltd (ACN 008 504 532).

Closing Dates means the closing date of the Offers being 5.00pm (WST) on 11 March 2011 (unless extended).

Company means Kairiki Energy Limited (ACN 002 527 906).

Conditional Offers means the Underwriter Offer and the Placement Offer.

Constitution means the Company's Constitution as at the date of this Prospectus.

Corporations Act means the Corporations Act 2001 (Cth).

Cth means the Commonwealth of Australia.

Directors means directors of the Company.

Dollars or **\$** means dollars in Australian currency.

Eligible Shareholder means a Shareholder as at the Record Date.

Entitlement means the entitlement of a Shareholder who is eligible to participate in the Rights Issue Offer.

Entitlement and Acceptance Forms means the application forms accompanying this Prospectus.

General Meeting means the meeting of Shareholders to be held on 10 March 2011.

Gindara Project means the Gindara oil exploration and production joint venture carried on by Yilgarn and Nido pursuant to Services Contract 54B in the Philippines.

GST means goods and service tax levied in Australia pursuant to A New Tax System (Goods and Services Tax) Act 1999 (Cth).

Kairiki means the Company.

Listing Rules means the Listing Rules of the ASX.

Kairiki Energy Limited

Lodgement Date means 4 February 2011.

Mandate means the corporate mandate dated 19 January 2011 between the Underwriter and the Company described in Section 5.4.1 of this Prospectus.

New Shares means fully paid ordinary Shares offered pursuant to this Prospectus.

Nido means Nido Petroleum Limited (ACN 086 630 373) and its subsidiaries, including Nido Petroleum Philippines Pty Ltd (ACN 008 607 976).

Note Holder means IMC Oil and Gas Investments Limited.

Notes means 10,000,000 convertible notes, further details of which are set out in Section 3.4.

Notice of Meeting means the notice of meeting and explanatory statement convening the General Meeting.

Offers means the Rights Issue Offer, the Underwriter Offer and the Placement Offer under this Prospectus.

Offer Period means the period commencing on the Opening Date and ending on the Closing Date.

Official List means the official list of ASX.

Opening Date means 21 February 2011.

Option means an option to acquire a Share in the capital of the Company.

Optionholder means the holder of an Option.

Placement means the placement of 116,000,000 Shares (**Placement Shares**) completed on 31 January 2011, further details of which are set out in Section 5.4.1.

Placement Offer means the offer of the Placement Options to all allottees under the Placement pursuant to this Prospectus.

Placement Options means 58,000,000 Options to be issued to allottees under the Placement on the basis of one Placement Option for every two Placement Shares.

Prospectus means this prospectus dated 4 February 2011.

Quotation and **Official Quotation** means official quotation on ASX.

Record Date means 5pm WST on 15 February 2011.

Right means a right to subscribe for an Entitlement pursuant to this Prospectus.

Rights Issue and **Rights Issue Offer** means the fully underwritten, renounceable rights issue of 296,630,666 Shares on the basis of one New Share for every three Shares held at an issue price of \$0.03 per Share together with one free Attaching Option for every two New Shares issued in order to raise approximately \$8,898,920, further details of which are included in the "Details of the Offers" Section of this Prospectus.

Secondary Option means an Option, issued on the conversion of an Option offered pursuant to this Prospectus on the terms set out in Section 4.3.

Securities means a Share or Option.

Kairiki Energy Limited

Share means a fully paid ordinary share in the Company.

Shareholder means the holder of a Share as recorded in the register of the Company.

Share Registry means Computershare Investor Services Pty Ltd.

Shortfall or **Shortfall Shares** means those New Shares and Attaching Options under the Rights Issue Offer not applied for by Shareholders under their Entitlement.

Shortfall Offer means the offer for the Shortfall pursuant to this Prospectus.

Tindalo Project means the Tindalo oil exploration and production joint venture carried on by Yilgarn and Nido pursuant to Services Contract 54A in the Philippines.

Underwriter means Patersons Securities Limited (ABN 69 008 896 311).

Underwriter Offer means the offer of the Underwriter Options to the Underwriter (or its nominees) pursuant to this Prospectus.

Underwriter Options means 98,876,889 Options to be issued to the Underwriter (or its nominees) on the basis of one Underwriter Option for every three Shares underwritten.

Underwriting Agreement means the underwriting agreement dated 4 February 2011 between the Underwriter and the Company described in Section 5.4.2 of this Prospectus.

WST means Western Standard Time, Perth, Western Australia.

Yilgarn means Yilgarn Petroleum Philippines Pty Ltd (ACN 119 507 265), a wholly owned subsidiary of the Company.

