KAIRIKI ENERGY LIMITED

ABN 34 002 527 906

Half-Year Report

31 December 2010

Kairiki Energy Limited

ABN 34 002 527 906

Corporate Directory

Directors

Paul Damien John Fry
Mark Walker Fenton
Neville John Bassett

Company Secretary

Neville John Bassett

Registered Office

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Subiaco WA 6008

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Fax: (08) 9388 6744
Website: www.kairikienergy.com

Share Registry

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Perth WA 6000

Investor enquiries:
Tel: 1300 557 010
(08) 9323 2000
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Auditor

Rothsay
Chartered Accountants
96 Parry Street
Perth WA 6008

Stock Exchange Listing

ASX Limited
ASX Code: KIK

Directors' Report

The Directors of Kairiki Energy Limited (“Kairiki” or “the Company”) submit herewith the financial report of the consolidated entity (“the Group”) for the half-year ended 31 December 2010.

Directors

The names of Directors who held office during or since the end of the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Current Directors		
Paul Damien John Fry	Non-Executive Chairman	
Mark Walker Fenton	Managing Director	
Neville John Bassett	Non-Executive Director	Appointed 28 September 2010
Previous Directors		
Jyn Sim Baker	Non-Executive Director	Resigned 25 August 2010
Lawrence James Brown	Non-Executive Director	Resigned 30 August 2010
John Trevor Nicholas Morton	Non-Executive Director	Appointed 25 August 2010, resigned 28 September 2010

Review and Results of Operations

The principal activities of the Company and its subsidiaries during the period were the exploration, evaluation and development of its oil and gas properties. The net loss for the half-year ended 31 December 2010 was $30,474,000 (31 December 2009: $994,000). The net loss included the following items:

- The write-down of the Tindalo project to nil following the Joint Venture Partners’ decision to abandon the well in December 2010 of $27,659,000 (2009: Nil);
- Impairment of receivables in respect of the sale of a 4.9% interest in Service Contract 54A of $1,045,000 (2009: Nil);
- General and administration costs of $1,005,000 (2009: $537,000);
- Cash interest expenses on the convertible notes of $619,000 (2009: $752,000); and
- Non-cash interest and borrowing expenses on the convertible notes of $401,000 (2009: $352,000).

Oil and Gas Interests

Philippines Offshore Oil and Gas (SC 54)

During the half-year, the following activities occurred in respect of the Company’s Philippine oil and gas operations:

SC 54A – 30.1% Participating Interest

Production and Crude Oil Lifting

169,873 barrels of oil gross (51,132 barrels net to Kairiki) were produced from the Tindalo oil field bringing the total produced from the field to 267,756 barrels (80,595 barrels net to Kairiki). A lift of the first crude oil cargo from Tindalo of 194,336 barrels occurred on 20 September 2010, resulting in Kairiki receiving US$4,401,056 (A$4,774,861) for its share of revenues from the 58,495 barrels of oil sold to a buyer in South Korea. As at 31 December, 73,420 barrels of crude inventory were stored aboard the FSO (22,099 barrels net to Kairiki) which were lifted in early February 2011 and sold for proceeds of $2,024,528.

Tindalo Well Testing Confirmed Non-Commercial Production Rates

Well testing at Tindalo continued during the half-year including the drilling of a sidetrack in September 2010. Production and other diagnostic data gathered during the half-year confirmed that the sidetrack and subsequent work-over were unsuccessful in preventing or slowing formation water influx to the extent required for commercial oil production. As a result, the Joint Venture Partners made a decision to abandon the Tindalo Well on 29 December 2010.

Subsequent to the end of the half-year, the Joint Venture Partners decided to demobilise the project equipment (including the Aquamarine Driller and Tove Knutsen) from the Service Contract.

Other Studies

In addition to the activities undertaken at Tindalo, the Joint Venture has been progressing the reprocessing of 3D seismic data covering an area of 140 sq km within the central portion of the contract area which includes the Tindalo, Nido 1X1 and Yakal discoveries, and the Pungapong and Nandino prospects along with numerous smaller leads.

SC 54B – 22% Participating Interest

On 25 October 2010 the Company announced that it had successfully entered into an agreement with Shell Philippines Exploration B.V. (“Shell”), a subsidiary of the Royal Dutch Shell Group, to farm-out an 18% participating interest in SC 54B. This farm down reduces Kairiki interest in SC 54B from 40% to 22%.

Highlights of the transaction include:

- Shell to acquire a 45% participating interest in SC 54B (Kairiki contributing 18% and SC 54B partner Nido Petroleum Limited (“Nido”) contributing 27%);
- Gindara drilling window narrowed to mid April - May 2011;
- ‘Atwood Falcon’ semi-submersible rig to be utilised for Gindara; and
- Nido will remain operator of the block through to the completion of drilling activities on the Gindara-1 well after which Shell has the option to assume operatorship from Nido.

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

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

The transaction was subject to certain conditions. The last of these conditions, Philippines Government approval, was granted on 28 January 2011 and therefore the transaction is now complete.

Planning for the Gindara-1 exploration has commenced and various Joint Venture meetings have been held to review the progress of the Gindara-1 drilling project. The majority of the geological subsurface work, including HAZID assessments for shallow gas, have been completed and reviewed with SC 54B partners. A preliminary Drilling Program has been completed and long lead items (casing/wellhead materials) are expected to be delivered to the Operator’s Philippine supply base in the next few weeks. The Manila-based drilling team is now fully resourced and operational.

As of 16 March 2011, the SC 54B Joint Venture is working towards finalising a rig contract for the Atwood Falcon deepwater semi-submersible rig which is expected to commence drilling the Gindara-1 well in May 2011.

Mineral Tenements

The Company retains a 10% free carry interest on its mineral tenements.

Capital Raisings

On 25 October 2010, the Company announced a two part capital raising, involving a placement and rights issue. The placement was completed on 27 October 2010 for 84,000,000 shares at a price of 4 cents per share to raise $3,360,000 (Placement). The Placement was made to selected institutional and sophisticated investors

The Company also undertook a rights issue, completed in December 2010, for one (1) new share for every five (5) shares held with a total of 128,982,000 shares being issued at 4 cents per share, raising $5,159,280 (Rights Issue). Of the 128,982,000 shares to be issued under the Rights Issue, eligible shareholders applied for 104,027,670 with the shortfall of 24,954,330, representing 19%, taken up by the underwriters.

The funds raised were applied towards the ongoing participation of the Company's interest in the Philippines Offshore Exploration Service Contracts SC 54A and SC 54B, costs of the Offer and for additional working capital.

Changes in State of Affairs

During the half-year ended 31 December 2010 there was no significant change in the entity's state of affairs other than those referred to in this Directors' report, the half-year financial statements or notes thereto.

Events Subsequent to Reporting Date

i) Following the Joint Venture Partners' decision to abandon the Tindalo Well on 29 December 2010, the Joint Venture Partners made the decision to call off the Vantage Rig and demobilise in early January 2011. The financial implications in relation to these decisions including the impairment of capitalised Tindalo well costs and recognition of costs associated with demobilisation have been recognised in the half-year results to 31 December 2010.

ii) On 25 January 2011 the Company announced that it had reached agreement on a two part capital raising, involving a placement (Placement) and a rights issue (Rights Issue) to raise up to $12,378,920 (before issue costs).

- The Placement for 116,000,000 shares at a price of 3 cents per share to raise $3,480,000 was completed on 31 January 2011 and utilised the Company's full 15% placement capacity; and

- An underwritten Rights Issue for 296,630,666 shares (on a one new share for every three shares held basis) at a price of 3 cents per share to raise $8,898,920.

  For every two shares subscribed for in the Rights Issue, the applicant received one "piggy back" option. The primary option is exercisable at 4¢ and will expire on 31 August 2011. The primary option is exercisable into one share and a secondary option which is exercisable at 5¢ and expires on 31 August 2013.

  The Rights Issue closed on 11 March 2011 and on 15 March 2011, the Company announced that $8,081,723 had been received under the Rights Issue, a take up of over 90%, leaving a shortfall of $817,197 which will be placed to the underwriters of the Rights Issue. As a result, an amount of $8,898,920 is expected to be received by 21 March 2011.

In addition, the Company received shareholder approval on 10 March 2011 to issue 156.9 million options on the same terms and conditions as the Rights Issue piggy back options to investors participating in the Placement and to the Underwriters of the Rights Issue.

iii) On the 28 January 2011, the Company received notification from the Philippine Department of Energy (DOE) that it had approved the farm-in by Shell to the SC 54B permit. This was the final pre-condition of the contract to be satisfied and the farm-in transaction was finalised.

iv) As of 16 March 2011, the SC 54B Joint Venture is working towards finalising a rig contract for the Atwood Falcon deepwater semi-submersible rig which is expected to commence drilling the Gindara-1 well in May 2011.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Auditor’s Independence Declaration

An independence declaration from our auditors is attached to the Auditor’s Independent Review Report and forms part of this Directors’ Report.

This report is made in accordance with a resolution of the directors.

Mark Fenton
Managing Director

PERTH, 16th day of March 2011

Resource Estimates

All potential hydrocarbon resource estimates in this half-year report 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 in Geology and a Bachelor of Science (Honours) in Geology from the University of Melbourne and has 25 years of relevant experience.

ROTHSAY

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The Directors
Kairiki Energy Ltd
Suite 3, Churchill Court
331 – 335 Hay St
Subiaco WA 6008

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit review of the 31 December 2010 interim financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the review.

Graham R Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 16th March 2011

ROTHSAY

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Independent Review Report to the Members of Kairiki Energy Ltd

The financial report and directors' responsibility
The interim consolidated financial report comprises the statement of financial position, statement of comprehensive income, statement of changes in equity, cashflow statement, accompanying notes to the financial statements, and the directors' declaration for Kairiki Energy Ltd for the half-year ended 31 December 2010.

The Company's directors are responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach
We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim consolidated financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated financial position as at 31 December 2010 and the performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Kairiki Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Independence
In conducting our review we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim consolidated financial report of Kairiki Energy Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the consolidated financial position as at 31 December 2010 and of the performance for the half-year ended on that date; and
- complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial statements wherein the Director's state that there is a material uncertainty that the consolidated entity has the ability to continue as a going concern and the ability therefore to realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the financial statements.

Rothsay

Rothsay

Graham R Swan
Partner

Dated 16th March 2011

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

Directors' Declaration

In accordance with a resolution of the Directors of Kairiki Energy Limited, I state that:

In the opinion of the Directors:

1) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

   (a) complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001;

   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year then ended; and

2) Subject to the achievement of matter set out in Note 1 of the financial report, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts when they become due and payable.

On behalf of the Board

Mark Fenton
Managing Director

PERTH, 16th day of March 2011

Kairiki Energy Limited

Consolidated Statement of Comprehensive Income

For The Half-Year Ended 31 December 2010

	Note	Consolidated Half-Year ended 31 Dec 2010 $'000	 Half-Year ended 31 Dec 2009 $'000
Interest revenue		40	61
Other income – foreign exchange gains		216	614
Expenses			
Finance costs		(1,020)	(1,104)
Depreciation and amortisation		(4)	(4)
Salaries and employee benefits expense		(165)	(136)
Share-based payments		-	134
Consulting and directors' fees		(420)	(223)
Exploration costs expensed		(1)	(28)
Impairment of oil and gas properties		(27,659)	-
Impairment of receivables for sale of interest in oil and gas properties		(1,045)	-
Other costs		(416)	(308)
Loss before income tax expense		(30,474)	(994)
Income tax expense		-	-
Loss after tax for the period		**(30,474)**	**(994)**
Other comprehensive income/(loss)			
Foreign currency translation		(5,686)	(3,593)
Total comprehensive loss for the period attributable to members of Kairiki Energy Limited		**(36,160)**	**(4,587)**
		Cents	**Cents**
Loss per share attributable to ordinary equity holders of the parent	2	(4.98)	(0.19)

Kairiki Energy Limited

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	Consolidated As at 31 Dec 2010 $'000	As at 30 June 2010 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		2,880	9,028
Trade and other receivables	3	1,101	2,786
Inventories		1,875	2,407
Total Current Assets		5,856	14,221
Non-Current Assets			
Plant and equipment		13	13
Oil and gas properties	4	-	13,787
Deferred exploration and evaluation expenditure	5	20,837	24,254
Total Non-Current Assets		20,850	38,054
Total Assets		**26,706**	**52,275**
LIABILITIES			
Current Liabilities			
Trade and other payables		9,654	4,312
Convertible notes	6	8,928	-
Provisions	7	6	1,291
Total Current Liabilities		18,588	5,603
Non-Current Liabilities			
Convertible notes	6	-	10,271
Total Non-Current Liabilities		-	10,271
Total Liabilities		**18,588**	**15,874**
Net Assets		**8,118**	**36,401**
EQUITY			
Issued capital	8	58,803	50,926
Reserves		(3,225)	2,461
Accumulated losses		(47,460)	(16,986)
Total Equity		**8,118**	**36,401**

Kairiki Energy Limited

Consolidated Statement of Changes in Equity

For The Half-Year Ended 31 December 2010

Consolidated	Issued Capital $'000	Share-based Payments Reserve $'000	Translation Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 1 July 2009	31,718	2,713	(1,009)	(9,782)	23,640
Loss for the period	-	-	-	(994)	(994)
Other comprehensive loss	-	-	(3,593)	-	(3,593)
Total comprehensive loss for the half-year	-	-	(3,593)	(994)	(4,587)
Shares issued	131	-	-	-	131
Transaction costs on share issues	(72)	-	-	-	(72)
Repayment of convertible notes	(113)	-	-	-	(113)
Share based payments	-	(134)	-	-	(134)
Balance at 31 December 2009	**44,790**	**2,754**	**(1,782)**	**(15,035)**	**30,727**
Balance at 1 July 2010	50,926	2,837	(376)	(16,986)	36,401
Loss for the period	-	-	-	(30,474)	(30,474)
Other comprehensive loss	-	-	(5,686)	-	(5,686)
Total comprehensive loss for the half-year	-	-	(5,686)	(30,474)	(36,160)
Shares issued	8,519	-	-	-	8,519
Transaction costs on share issues	(642)	-	-	-	(642)
Balance at 31 December 2010	**58,803**	**2,837**	**(6,062)**	**(47,460)**	**8,118**

Kairiki Energy Limited

Consolidated Statement of Cash Flows

For The Half-Year Ended 31 December 2010

	Consolidated	
	Half-Year ended 31 Dec 2010 $'000	**Half-Year ended 31 Dec 2009 $'000**
Cash Flows from Operating Activities		
Payments to suppliers and employees	(1,085)	(602)
Payments for exploration costs expensed	(1)	(28)
Interest received	40	61
Interest and other costs of finance paid	(585)	(752)
Net cash flows from operating activities	**(1,631)**	**(1,321)**
Cash Flows from Investing Activities		
Purchase of plant and equipment	(6)	(5)
Expenditure on oil and gas properties, net of proceeds from sale of crude oil	(12,959)	-
Expenditure on exploration and evaluation	(123)	(574)
Proceeds from sale of interests in oil and gas permits	1,164	3,900
Net cash flows from investing activities	**(11,924)**	**3,321**
Cash Flows from Financing Activities		
Proceeds from issue of shares and options	8,519	131
Payment of equity issue costs	(590)	(477)
Repayment of convertible notes	-	(1,023)
Restricted cash released	-	1,023
Net cash flows from financing activities	**7,929**	**(346)**
Net change in cash and cash equivalents	(5,626)	1,654
Cash and cash equivalents at beginning of half-year	9,028	10,087
Effect of exchange rate changes	(522)	(290)
Cash and cash equivalents at end of half-year	**2,880**	**11,451**

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 “Interim Financial Reporting”.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as the annual financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Kairiki Energy Limited as at 30 June 2010. It is also recommended that the half-year financial report be considered together with any public announcements made by Kairiki Energy Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

The half-year financial report has been prepared in accordance with the historical cost basis. All values are rounded to the nearest thousand dollars ($’000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

The half-year consolidated financial statements comprise the financial statements of Kairiki Energy Limited and its subsidiaries (“Group”) as at 31 December 2010.

Going Concern

As at 31 December 2010, the Group had net current liabilities of $12.732 million, including the carrying amount of the Convertible Note of $8.928 million, and various exploration and joint venture commitments as detailed in Note 10.

Subsequent to 31 December 2010 the Company completed a Placement and Rights Issue to raise $12,378,920 (before issue costs) (US$12,255,130) as detailed in Note 11 and below. The amounts raised will be utilised for the following purposes:

- approximately US$3.3 million will be used to fund the Company’s share of the Gindara-1 well drilling obligations in SC 54B expected to be drilled in May 2011;

- US$2 million will be used to repay a portion of the Convertible Note, resulting in a balance owing of US$7.5 million:

- approximately US$3.5 million will be used to fund costs relating to the abandonment of the Tindalo project; and

- the balance of US$3.6 million will be used to fund the costs of the issues and for working capital purposes.

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

- Repaying the Convertible Note in the amount of US$7.5 million (after payment of US$ 2 million referred to above) by 22 October 2011 in accordance with the relevant agreements as outlined in note 6, through the following:
  - funds received, if any, from the exercise of 305,192,222 options which expire on 31 August 2011 up to a maximum of $12,207,689, or
  - by issuing further ordinary shares to fund the repayment of the Convertible Note if the exercise of options to the amount required to repay the Convertible Notes as outlined above is unsuccessful;, or
  - by renegotiating the terms of the Convertible Note, if required.
- The successful commercial exploitation of the Group’s oil and gas resources or alternatively by the sale of the Company’s oil and gas properties.

These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Company's history of being successful in raising capital to date, the Directors are confident of the Company's ability to raise additional funds as and when they are required. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business

Should the consolidated entity be unable to raise the funding referred to above, there is a material uncertainty whether the consolidated entity will be able to continue as a going concern and, therefore, whether it will be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the consolidated entity be unable to continue as a going concern.

Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's annual financial report for the year ended 30 June 2010, except for the adoption of new standards and interpretations.

Since 1 July 2010 the Group has adopted all Australian Accounting Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2010, including:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (IAS Annual Improvements Project) [AASB 5, 8,101, 107,117, 118, 136 & 139]
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (IAS Annual Improvements Project) [AASB 3, 7, 121, 128, 131, 132 & 139]
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

The Group has not elected to early adopt any new standards or amendments.

2. EARNINGS PER SHARE

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

3. TRADE AND OTHER RECEIVABLES

	Consolidated	
	31 Dec 2010 $'000	30 June 2010 $'000
Receivable for sale of interest in oil and gas permits	79	2,704
Security deposit refundable	889	-
Sundry debtors and GST refunds receivable	83	82
Prepayments	50	-
	1,101	2,786

4. OIL AND GAS PROPERTIES

	Consolidated	
	31 Dec 2010 $'000	**30 June 2010 $'000**
Opening balance	13,787	-
Transfers from exploration and evaluation	-	6,668
Additions	21,658	13,390
Sale of interests in oil and gas permits	-	(5,692)
Sale of oil produced during the reporting period, net of costs	(2,200)	-
Transfer to inventory of oil on hand at end of reporting period	(1,875)	(2,407)
Change in restoration asset	(1,092)	1,286
Impairment	(27,659)	-
Foreign currency translation movements	(2,619)	542
Total oil and gas properties	-	13,787

Oil and Gas Properties represent Kairiki's interest in the Tindalo oil field, which forms part of the SC 54A permit. Expenditure in relation to this oil field was transferred from Deferred Exploration and Evaluation Expenditure upon approval for the commercial development of the area of interest. The carrying value was fully impaired on 29 December 2010 following the Joint Venture Partners' decision to abandon the Tindalo Well.

5. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	31 Dec 2010 $'000	**30 June 2010 $'000**
Opening balance	24,254	35,926
Additions	402	804
Transfers to oil and gas properties	-	(6,668)
Sale of interests in oil and gas permits	-	(2,971)
Foreign currency translation movements	(3,819)	(2,837)
Total deferred exploration and evaluation expenditure	20,837	24,254
Represented as follows:		
SC 54A	14,857	17,616
SC 54B	5,980	6,638
	20,837	24,254

Deferred exploration and evaluation expenditure is represented by expenditure relating to the SC 54A permit which includes Yakal and various other prospects and the SC 54B permit. Expenditure relating to the Tindalo oil field in the SC 54A permit was transferred to Oil and Gas Properties upon approval for the commercial development of the area of interest.

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

6. CONVERTIBLE NOTES

	Consolidated	
	31 Dec 2010 $'000	**30 June 2010 $'000**
Financial liability measured at amortised cost		
- Current	8,928	-
- Non-current	-	10,271
	8,928	10,271

The principal terms and conditions of the Convertible Note are as follows:

i) Bond Holder: IMC Oil and Gas Investments Limited ("IMC").
ii) Maturity date: 8 September 2011 (US$8.0 million) and 22 October 2011 (US$1.5 million).
iii) Interest payable at 12% per annum payable monthly.
iv) Conversion price is 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.
v) IMC may convert at any time prior to the Repayment Date, subject to a limit of 3 conversions with each conversion being in respect of a number of Notes which are convertible into at least 10 million shares.
vi) Repayment Rights: IMC shall have the right each month to require the Company to use all or a specified part of any cash balance held in a special repayment account for the receipt of future net revenues, to repay a portion of the outstanding amount in respect of the Notes.
vii) IMC has the right to appoint a representative to the Board of Kairiki Energy Limited.
viii) IMC had an option to farm-in at up to 20% of SC 54B, subject to certain conditions. As a result of the Shell farm-in into SC 54B that occurred subsequent to 31 December 2010 (refer note 11), IMC relinquished their option to farm-in to SC 54B.
ix) Redemption provisions for such things as failure to participate in a commercial SC 54 shallow water development, change of control, event of default, etc.
x) Security: fixed and floating charge over all the assets of Kairiki Energy Limited and its subsidiary Yilgarn Petroleum Philippines Pty Ltd, but excluding certain property.

The Note has been classified into two components: a debt component (a contractual arrangement to deliver cash) and an embedded derivative call option component (a call option granting the holder the right, for a specified period of time, to convert it into a number of ordinary shares of Kairiki, based on the outstanding balance at date of conversion).

	31 Dec 2010 $'000	**30 June 2010 $'000**
Face Value of Notes (US$10,000,000)		
- Debt portion	8,928	10,271
- Equity portion – refer note 8	1,951	1,951
	10,879	12,222
Movement in debt component:		
Opening balance	10,271	11,181
Repayment of debt	-	(910)
Accretion of debt	319	642
Amortisation of issuance costs	20	41
Foreign currency translation movements	(1,682)	(683)
Closing balance	8,928	10,271

There was no movement in the equity component during the half-year ended 31 December 2010 or the year ended 30 June 2010.

Subsequent to 31 December 2010, the Company raised equity proceeds of $12,378,920 through a Placement and a Rights Issue (refer note 11). Of the proceeds raised, US$2 million will be used to repay a portion of the Convertible Note reducing the balance due for repayment to US$7,529,981, of which US$6,029,981 will be due 8 September 2011 and US$1,500,000 million will be due 22 October 2011.

7. PROVISIONS

	Consolidated	
	31 Dec 2010 $'000	30 June 2010 $'000
Employee benefits	6	5
Restoration	-	1,286
	6	1,291
Movement in restoration provision:		
Opening balance	1,286	-
Arising during the period	-	1,286
Reversed during the period	(1,092)	-
Foreign currency translation movements	(194)	-
Closing balance	-	1,286

The restoration provision was reversed following the Joint Venture Partners' decision to abandon the Tindalo Well on 29 December 2010. Costs associated with the abandonment of the Tindalo field have been recognised in the half-year results to 31 December 2010.

8. ISSUED CAPITAL

Issued capital is comprised of the following:

Ordinary shares, fully paid (a)	56,852	48,975
Equity portion of convertible note (b)	1,951	1,951
	58,803	50,926

8. ISSUED CAPITAL - continued

(a) Issued and paid up capital – ordinary shares

Number of Shares	Summary of Movements:	$'000
512,959,998	Opening balance 1 July 2009	42,780
1,250,000	Issued on exercise of options	131
-	Costs of share placement	(72)
514,209,998	**Closing balance at 31 December 2009**	42,839
46,700,000	Share placement at 14 cents per share	6,538
-	Costs of share placement	(402)
560,909,998	**Closing balance at 30 June 2010**	48,975
84,000,000	Share placement at 4 cents per share	3,360
128,982,000	Rights issue at 4 cents per share	5,159
-	Costs of share issues	(642)
773,891,998	**Closing balance at 31 December 2010**	56,852

(b) Equity component of convertible note

Summary of Movements:	$'000
Opening balance 1 July 2009	2,064
Equity portion of convertible note repayment (refer Note 6)	(113)
Closing balance at 31 December 2009	1,951
Closing balance at 30 June 2010	1,951
Closing balance at 31 December 2010	1,951

(c) Options

	Number	*Exercise Price*	*Expiry Date*
Unlisted Options	500,000	30 cents	On or before 31 May 2011
Closing Balance at 31 December 2010	500,000		

During the half-year, 2,000,000 options were forfeited upon resignation.

9. SEGMENT REPORTING

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

The operating segments are identified by management based on the phase of operation within the oil and gas industry. For management purposes, the Group has organised its operations into two reportable segments as follows:

- Development assets; and
- Exploration and evaluation assets, which includes assets that are associated with the determination and assessment of the existence of commercial economic reserves.

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

Consolidated	**Oil & Gas Development $'000**	**Oil & Gas Exploration $'000**	**Total $'000**
31 December 2010			
Segment revenue	-	-	-
Unallocated items:			
Interest revenue			40
Foreign exchange gains			216
Total revenue and other income			256
Segment result	(28,720)	(14)	(28,734)
Unallocated items:			
Unallocated revenue and other income			256
Corporate and other costs			(976)
Finance costs			(1,020)
Loss after tax as per the statement of comprehensive income			(30,474)
Segment assets	1,875	20,837	22,712
Unallocated items:			
Cash			2,880
Other corporate assets			1,114
Total assets			26,706

9. SEGMENT REPORTING - continued

Consolidated	Oil & Gas Development $'000	Oil & Gas Exploration $'000	Total $'000
31 December 2009			
Segment revenue	-	-	-
Unallocated items:			
Interest revenue			61
Foreign exchange gains			614
Total revenue and other income			675
Segment result	-	(9)	(9)
Unallocated items:			
Unallocated revenue and other income			675
Corporate and other costs			(556)
Finance costs			(1,104)
Loss after tax as per the statement of comprehensive income			(994)
Segment assets as at 30 June 2010	18,898	24,254	43,152
Unallocated items:			
Cash			9,028
Other corporate assets			95
Total assets			52,275

10. COMMITMENTS AND CONTINGENCIES

Material changes to the commitments and contingencies disclosed in the most recent annual financial report are specified below.

Exploration commitments

In order to maintain current rights of tenure to SC 54A and SC 54B permits, the Group has certain obligations to perform minimum exploration work and expend minimum amounts of money. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs, sales or carrying out work in excess of the permit obligations. The following minimum exploration expenditure requirements have not been provided for in the financial report and are payable:

	Consolidated	
	31 Dec 2010 $'000	30 June 2010 $'000
Within one year	1,806	-
More than one year but not later than five years	-	2,108
	1,806	2,108

Joint venture capital commitments

The Group's share of capital expenditures contracted for at the balance date for which no amounts have been provided for in the financial statements are payable:

Within one year	Nil	14,778

Subsequent to December 31, 2010, the SC 54B Joint Venture approved the drilling of the Gindara-1 well in SC 54B which will satisfy both the SC 54A and SC 54B work programme requirements for the permit's current sub phase which ends on 4 August 2011. The Company's share of the Gindara-1 drilling costs based on the approved Joint Venture budget is approximately US$3.3 million.

11. EVENTS SUBSEQUENT TO REPORTING DATE

i) Following the Joint Venture Partners' decision to abandon the Tindalo Well on 29 December 2010, the Joint Venture Partners made the decision to call off the Vantage Rig and demobilise in early January 2011. The financial implications in relation to these decisions including the impairment of capitalised Tindalo well costs and recognition of costs associated with demobilisation have been recognised in the half-year results to 31 December 2010.

ii) On 25 January 2011 the Company announced that it had reached agreement on a two part capital raising, involving a placement (Placement) and a rights issue (Rights Issue) to raise up to $12,378,920 (before issue costs).

- The Placement for 116,000,000 shares at a price of 3 cents per share to raise $3,480,000 was completed on 31 January 2011 and utilised the Company's full 15% placement capacity; and

- An underwritten Rights Issue for 296,630,666 shares (on a one new share for every three shares held basis) at a price of 3 cents per share to raise $8,898,920.

  For every two shares subscribed for in the Rights Issue, the applicant received one "piggy back" option. The primary option is exercisable at 4¢ and will expire on 31 August 2011. The primary option is exercisable into one share and a secondary option which is exercisable at 5¢ and expires on 31 August 2013.

  The Rights Issue closed on 11 March 2011 and on 15 March 2011, the Company announced that $8,081,723 had been received under the Rights Issue, a take up of over 90%, leaving a shortfall of $817,197 which will be placed to the underwriters of the Rights Issue. As a result, an amount of $8,898,920 is expected to be received by 21 March 2011.

In addition, the Company received shareholder approval on 10 March 2011 to issue 156.9 million options on the same terms and conditions as the Rights Issue piggy back options to investors participating in the Placement and to the Underwriters of the Rights Issue.

iii) On 28 January 2011, the Company received notification from the Philippine Department of Energy (DOE) that it had approved the farm-in by Shell to the SC 54B permit. This was the final pre-condition of the contract to be satisfied and the transaction is now complete.

iv) As of 16 March 2011, the SC 54B Joint Venture is working towards finalising a rig contract for the Atwood Falcon deepwater semi-submersible rig which is expected to commence drilling the Gindara-1 well in May 2011.