QUARTERLY ACTIVITY REPORT
For the period ending 31 December 2010

The Directors wish to report the following activities for the quarter ended 31 December 2010;

Highlights:

- **SC54B farm out to Shell announced**
  - **Shell to contribute 75% of the Gindara-1 exploration well cost up to a maximum well cost of US$24 million**
  - **Gindara drilling window narrowed to mid April - May 2011**
  - **Atwood Falcon' semi-submersible rig to be utilised for Gindara**
  - **Final Philippines Government approval received on 28 January 2010 and transaction now completed**
- **The decision to abandon the Tindalo project was taken in December following confirmation that water influx into the sidetrack would prevent economic oil production.**

  A gross cargo of approximately 74,000 barrels of Tindalo oil will be sold to a Singaporean buyer in the March 2011 quarter including the crude produced in the December quarter.

- **Completion of Placement and Rights Issue in December 2010 raising $8,519,280 (before issue costs).**

- **Announcement of Placement and Rights Issue in January 2011 to raise $12,378,920 (before issue costs).**

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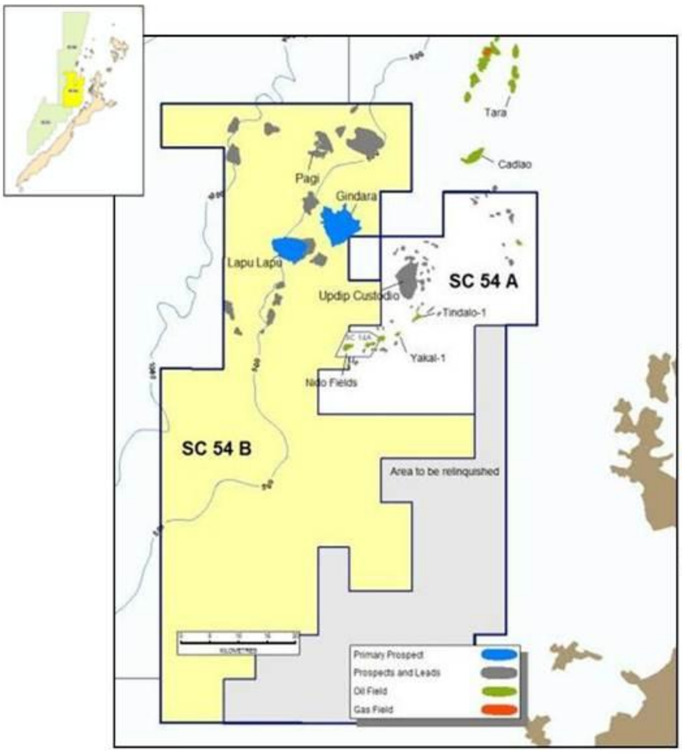
Oil & Gas Activities

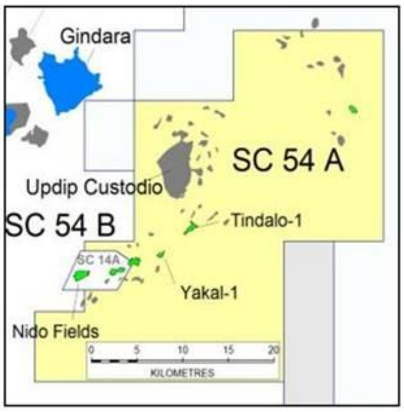
Philippines Offshore Oil and Gas Permit

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

* Kairiki's participating interest is 22% after completion of Shell's farmin – Refer SC54B section



Area A (~896 sq km):
Shallow water containing Yakal discovery and portfolio of prospects (water depth < 120m)
Area B (~3120 sq km)
Contains Gindara prospect, target drilling in March to May 2011 (water depth 200-1000m)



SC 54A – Tindalo Development

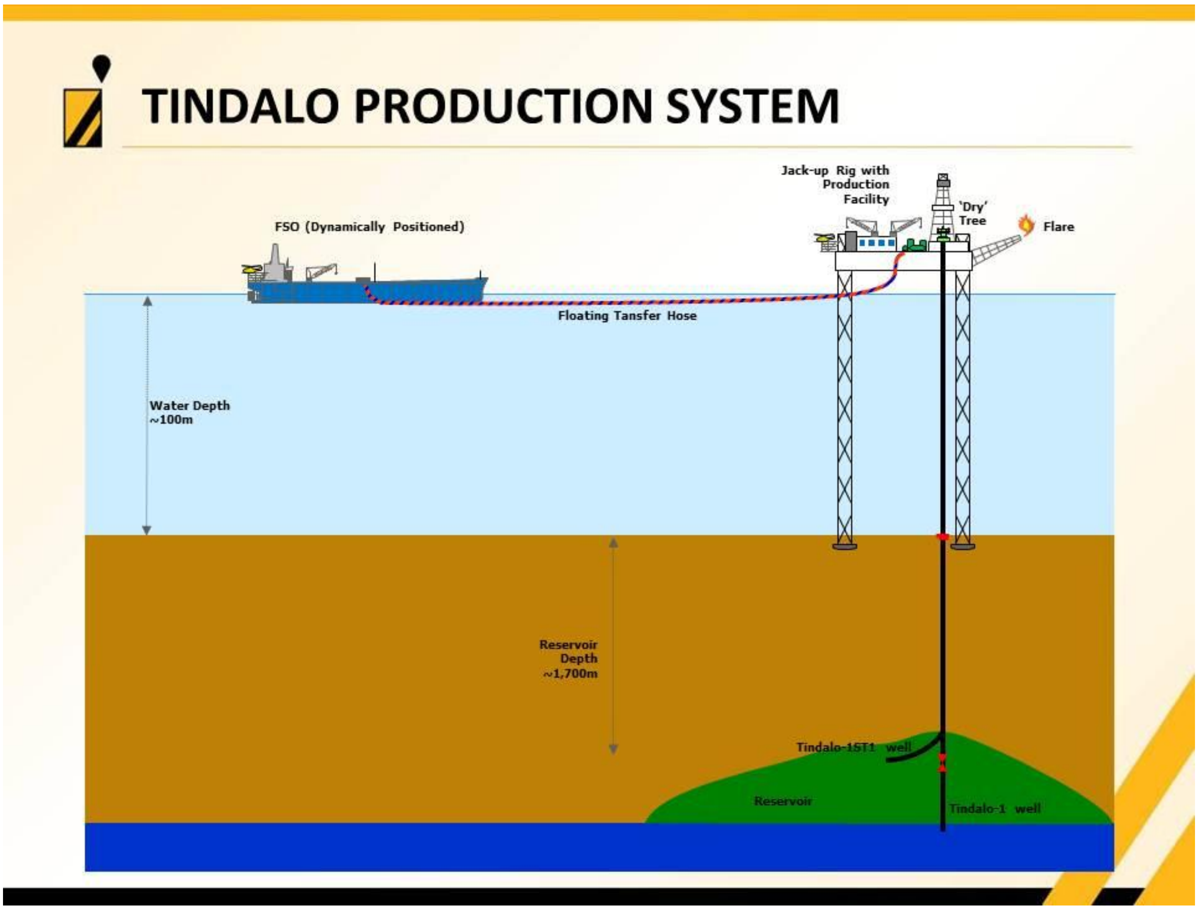
Production and Crude Oil Lifting

	Quarterly Result		Project to Date	
	Joint venture	Kairiki's Share 30.1%	Joint venture	Kairiki's Share 30.1%
Inventory balance at beginning of quarter/project	16,091	4,843	-	-
Production for the period	58,424	17,586	268,851	80,924
Lifting during the period	-	-	(194,336)	(58,495)
Inventory balance at the end of the quarter	74,515	22,429	74,515	22,429

During the quarter 58,424 barrels of oil gross were produced from the Tindalo oil field (17,586 barrels net to Kairiki). As at 31 December, 74,515 barrels of crude inventory were stored aboard the FSO (22,429 barrels net to Kairiki).

Having made the decision to abandon Tindalo at the end of December and demobilise all of the production equipment in early January the Joint Venture's crude marketer has arranged a direct sale and delivery of the remaining oil inventory to a Singapore Buyer to take place in early February 2011. The Extended Well Test (EWT) period expired on the 2 November 2010 with all production post this date subject to normal production sharing contract terms applicable in the Philippines.

Tindalo Sidetrack

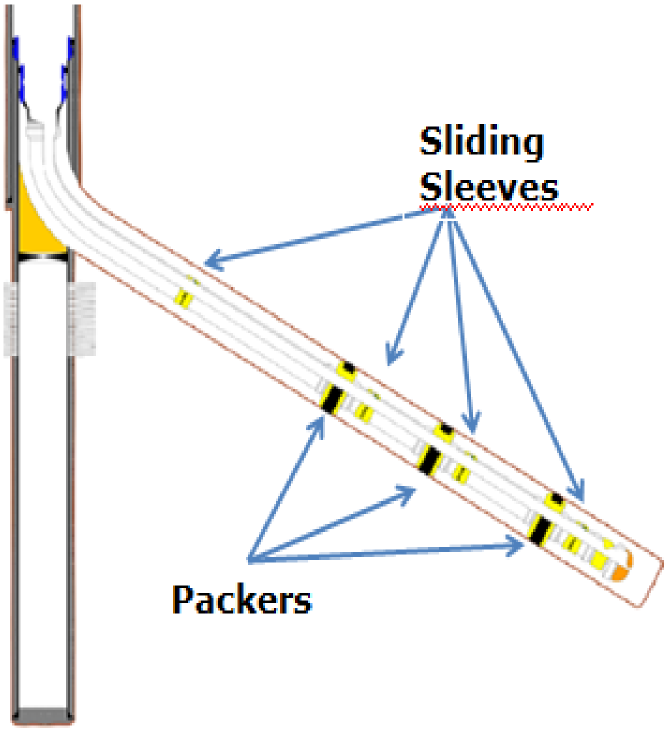


Following the successful cementing of the vertical wellbore, a 180 metre, near horizontal, sidetrack was drilled to the south-south west of Tindalo-1 and completed just before the start of the December quarter. The new well was drilled close to the top of the reservoir, giving some 120 metres of near horizontal producing section.

Stimulation of the new sidetrack well was undertaken using a coiled tubing unit to deploy acid within the well. Following two acid soaks the well productivity had improved considerably with production rates of approximately 5,000 barrels of oil per day (bopd), natural flow, with less than 1% water cut. A third acid soak was completed at the end of September 2010 and following this stimulation well productivity increased further with maximum flow rates of 9,000bopd, natural flow, with an average water cut of 50-60%. Shortly after, the downhole pump was engaged to increase flow rates from the well and the water cut increased quickly to approximately 75%.

At the beginning of this quarter, detailed diagnostics using coiled tubing deployed production logging tool (CT-MPLT) were run to determine the origin of the water ingress. The acquired diagnostic data indicated that mechanical failure of the installed swell packer may have been the cause of early water influx in the sidetrack.

Following an assessment and review of available alternatives, the Joint Venture agreed that the most appropriate remediation option was to work-over the well and install a selective completion. The revised liner design incorporated external packers to eliminate water production from behind the liner and sliding sleeves to allow for selective future production from the open borehole section. Work-over activities were undertaken in November.



The completion equipment that had been installed allowed for the separate testing of four potentially productive sections of the near-horizontal well bore via the use of sliding sleeves. All sliding sleeves were initially installed in the "closed" position and were sequentially opened with the use of coiled tubing to individually test each of the four sections.

In December 2010 encouraging oil test results under natural flow were obtained for the deepest zone and all zones produced oil and water on test. Water samples taken during testing of the individual zones indicated that no formation water was produced from any zone and completion fluid was recovered. There was approximately 46,000 barrels of completion fluid (seawater) pumped into the sidetrack during the workover operation, and by 23 December 2010, 14% of this completion fluid had been recovered during the testing of individual zones.

Following the testing of the individual zones, the Joint Venture took the decision to comingle the deepest three zones while pumping the well. Whilst encouraging gross fluid rates were initially observed, produced water dominated the production. During this testing period, water analyses indicated that production of formation water had commenced and this was associated with anincreasing water cut thereby suggesting that further production from Tindalo would be uneconomic. The decision was therefore taken by the Joint Venture to abandon the well on 29 December 2010.

Abandonment and Demobilisation

Having made the decision to abandon Tindalo in December 2010 the Joint Venture partners considered whether to demobilise the production equipment and hardware from SC 54A, or to retain the equipment for further work within the permit. A decision was made in early January not to pursue the Yakal development at this time. A review of the Tindalo Project results that incorporate the sub-surface, technical and operational aspects of the project is considered essential prior to any further development activities in the shallow water.

As a result of these decisions the Joint Venture decided to demobilise the project equipment (including the Aquamarine Driller and Tove Knutsen) from the Service Contract. All contracts associated with the Tindalo Project are expected to be completed within the March 2011 quarter. The Tove Knutsen will demobilise to Singapore where it will deliver the final cargo of Tindalo crude to buyers in Singapore.

As a result of the abandonment of the Tindalo well, the net costs associated with Kairiki's share of the project from inception of approximately US$30 million will be written off at 31 December 2010.

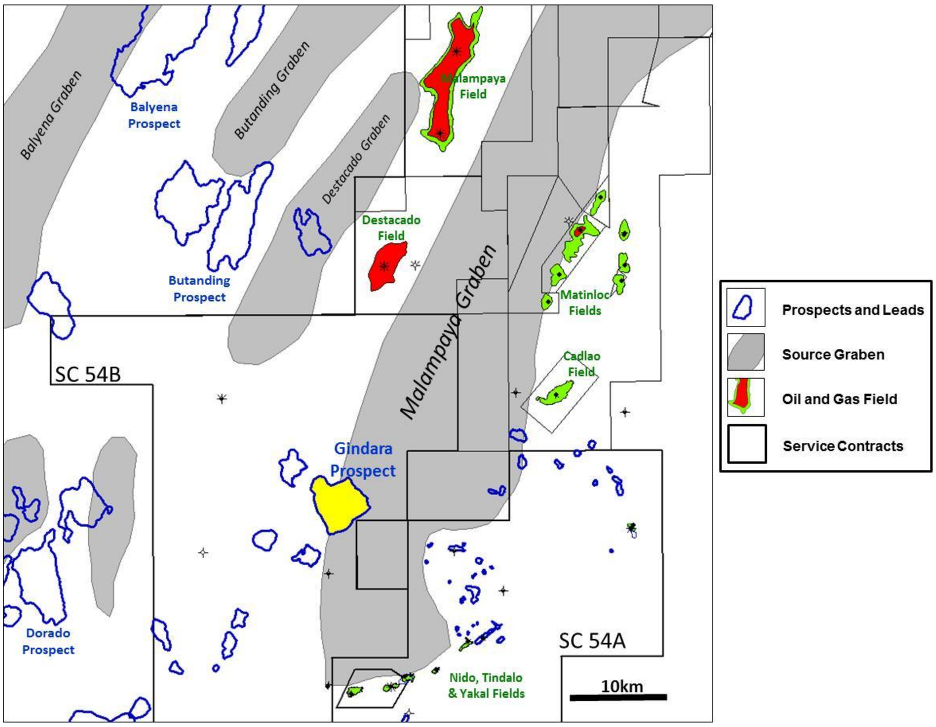
Other

In addition to the activities being undertaken on 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 54A Working Interests

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) ***Operator***	42.4%
Yilgarn Petroleum Philippines Pty Ltd, (Kairiki)	30.1%
Trafigura Ventures III BV (Trafigura)	15.0%
TG World (BVI) Corporation (TG World)	12.5%

SC 54B



On 25 October 2010 the Company announced that it successfully entered into an agreement with Shell Philippines Exploration B.V. ("Shell"), a subsidiary of the Royal Dutch Shell Group, to farm-out 18% out of its current 40% participating interest in SC54B.

Highlights of the transaction include:

- Shell acquires a 45% participating interest in SC 54B (Kairiki contributing 18% and SC 54B partner Nido Petroleum Limited ("Nido") contributing 27%);
- Gindara drilling window narrowed to mid April - May 2011;
- Drill-ship 'Frontier Phoenix' was initially identified for potential use on Gindara-1; 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, including joint venture approvals, release of security held by convertible note holder (IMC) and the finalisation of associated priority arrangements, the approval by the Philippine Department of Energy (DOE) of certain amendments to the Service Contract and the assignment of the relevant participating interest to Shell. Final Philippines Government approval was received on 28th January 2011 and the transaction has now completed.

This arrangement enables Kairiki and the SC54B Joint Venture to drill Gindara, our leading prospect in SC 54B in the first half of 2011. Gindara lies approximately 50km immediately south of the Shell operated Malampaya gas field in SC38, the largest discovery made in the Philippines to date and currently on production.

Planning for the Gindara-1 exploration well continued through the quarter. Various Joint Venture meetings have been held to review the progress of the Gindara-1 drilling project with Shell and Kairiki. By the end of the quarter the majority of the geological subsurface work, including HAZID assessments for shallow gas had been completed and reviewed with SC 54B partners.

A preliminary Drilling Program has been completed and preliminary discussions underway to share SPEX's Malampaya helicopter for the Gindara drilling operation. Long lead items (casing/wellhead materials) are expected to be delivered in to Nido's Batangas shore-base in the next few weeks and the Manila-based drilling team is now fully resourced and operational.

Shell and the SC54B Joint Venture have agreed to substitute the deep water Noble 'Phoenix' drill-ship originally proposed to drill the Gindara-1 well with the 'Atwood Falcon' semi-submersible rig. The 'Falcon' is currently operating for Shell in Malaysia and is expected to mobilize to the Gindara-1 location in a window between mid April and end May 2011, following a short period of planned maintenance in Labuan. This rig drilled two wells for Shell in the Philippines in 2010 and is fully capable to drill the Gindara prospect.

Interpretation of the 2D data in the southern portion of the permit is continuing. The focus of this work is to better delineate its potential ahead of the 25% relinquishment required at the end of the current Sub-Phase.

SC 54B Current Working Interests

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

Corporate Summary

Cash Position

At 31 December 2010, Kairiki had a cash balance of $2,880,000. The decrease in cash during the quarter of $1,866,000 was attributable to the following:

- Tindalo development costs of $8.68 million;
- Exploration costs of $0.11 million;
- Payment of interest on the Convertible Note of $0.23 million;
- Legal costs associated with the SC54B farmdown of $0.09 million;
- General and administrative costs, net of interest received, of $0.57 million; and
- Exchange losses on USD cash held of $0.14 million.

Offset by:

- Net proceeds from capital raising of $7.94 million.

Placement and Rights Issue

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 Contract SC54A and SC54B, costs of the Offer and for additional working capital.

Placement and Underwritten Rights Issue – Announced 25 January 2011

Subsequent to quarter end, on 25 January 2011 the Company announced that it had reached agreement on a two part capital raising, involving a placement and rights issue.

The Placement has been arranged and the Rights Issue is to be underwritten by Lead Manager, Patersons Securities Limited. The Company has executed a mandate letter and is presently finalising an Underwriting Agreement.

The placement for 116,000,000 shares at a price of 3 cents per share, to raise $3,480,000 (**Placement**) was completed on 31 January 2011 and will utilise the Company's full 15% placement capacity. The Placement is to selected institutional and sophisticated investors. Those who participate in the Placement will be eligible to participate in the Rights Issue.

The Company will extend the same price to its shareholders under a rights issue. The rights issue, which is to be underwritten, is for one (1) new share for every three (3) shares held with a total of approximately 296,630,666 shares to be issued, raising $8,898,920 (**Rights Issue**). The Rights Issue is renounceable meaning you may sell your rights through trading on the Australian Securities Exchange.

For every two shares subscribed for in the Rights Issue, the applicant will receive 1 "piggy back" option. The primary option is exercisable at 4¢ during August 2011 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 option terms will require approval by the ASX.

The "piggy back" option is a new class of option and application will be made for them to be listed on the ASX. The "piggy back" option has been designed to provide a capacity for Kairiki to secure sufficient capital to repay the balance of the Convertible Note which is currently due in September/October 2011

In addition, and subject to shareholder approval, the Company has agreed to issue 156.9m options (**Commitment 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.

The total amount to be raised by the Placement and Rights Issue is up to $12,378,920 (before issue costs).

The funds raised will be applied towards the ongoing participation of the Company's interest in the Philippines Offshore Exploration Service Contract SC54A and SC54B, repayment of US$2m of the Convertible Note, costs of the Offer and for additional working capital.

The completion of the Placement and the Rights was subject to the completion of the Shell farm-in into SC54B which has now occurred.

Securities Trading Policy

Kairiki released its Securities Trading Policy in accordance with ASX Listing Rule 12.9 in December 2010.

Yours faithfully

Dr Mark Fenton
Managing Director

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

Competent Persons Statement:

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