

# **KAIRIKI ENERGY LIMITED**

**ABN 34 002 527 906**

## **Half-Year Report**

**31 December 2012**

# Kairiki Energy Limited

ABN 34 002 527 906

## Corporate Directory

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### Directors

Peter Cockcroft  
Robert Downey  
Stephen Harrison  
Steven Wood

### Company Secretary

Neville Bassett

### Registered Office

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

Tel: (08) 9388 6711  
Fax: (08) 9388 6744  
Website: [www.kairikienergy.com](http://www.kairikienergy.com)

### Share Registry

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St George's Terrace  
Perth WA 6000

Investor enquiries:  
Tel: 1300 557 010  
(08) 9323 2000  
Fax: (08) 9323 2033

### Auditor

Rothsay  
Chartered Accountants  
Level 18, Central Park Building  
152 - 158 St Georges Terrace  
Perth WA 6000

### Stock Exchange Listing

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

# Kairiki Energy Limited

## Directors' Report

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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 2012.

### 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.

|                       |   |
|-----------------------|---|
| Peter John Cockcroft  | Non-Executive Chairman                              |
| Mark Walker Fenton    | Managing Director (resigned 15 February 2013)       |
| Duncan Wilson Maclean | Non-Executive Director (resigned 15 February 2013)  |
| Steven Wood           | Non-Executive Director (appointed 24 January 2013)  |
| Robert Downey         | Non-Executive Director (appointed 15 February 2013) |
| Stephen Harrison      | Non-Executive Director (appointed 15 February 2013) |

### Review and Results of Operations

The principal activities of the Company and its subsidiaries during the period were negotiating a farmdown of its oil and gas assets, evaluating new project opportunities, and evaluation of its oil and gas assets. The net loss for the half-year ended 31 December 2012 was \$1,016,000 (31 December 2011: \$1,369,000). The net loss included the following items:

- General and administration costs of \$633,000 (2011: \$628,000);
- Cash interest expenses on the convertible notes of \$158,000 (2011: \$154,000);
- Non-cash interest and borrowing expenses on the convertible notes of \$462,000 (2011: \$565,000); and
- Fair value movements on the embedded derivative component of the convertible note of \$49,000 (2011: expense of \$43,000).

### Oil and Gas Interests

#### Philippines Offshore Oil and Gas (SC 54)

The following activities occurred in respect of the Company's Philippine oil and gas operations:

#### SC 54A – 30.1% Participating Interest

##### Agreement with Viking Energy

On 1 June 2012 Kairiki announced that Yilgarn Petroleum Philippines Pty Ltd (Kairiki Energy), in conjunction with the SC 54A Joint Venture partners, had signed a Memorandum of Agreement ("MoA") with Viking Energy Holdings 2 Ltd ("Viking") to develop oil fields in SC 54A. The MoA is subject to negotiation and execution of a formal agreement between the parties.

Viking indicated that it needed to complete a reserves certification prior to concluding a potential farm-in arrangement. The SC 54A Joint Venture partners advised Viking that it had until 28 February 2013 to complete a reserves certification and decide if it wished to continue with the farm-in proposal.

On 5 March 2013 Kairiki announced that the SC 54A Joint Venture partners had ceased negotiations with Viking.

# Kairiki Energy Limited

## Directors' Report

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### Potential Nido 1X1 Development with SC 14A

The Joint Venture has held discussions with the Operator of SC 14A in relation to the development of Nido 1X1 using the existing SC 14A infrastructure. Nido 1X1 straddles the SC 54A and SC 14A permits. These discussions are ongoing.

### Prospects and Leads Inventory

Interpretation of the Lawaan-Libas exploration prospects was finalised during the half-year.

### SC 54B – 40% Participating Interest

#### Pawikan Lead 2D Seismic Survey

The Pawikan Lead is a large inversion structure in water depth of approximately 350 metres. It lies 30 km to the south of the non-commercial Gindara-1 gas and oil discovery well, which was drilled by the SC 54B Joint Venture in 2011, and 10 kilometres south-west of the Service Contract 14 Nido A/B oilfields.

Subsurface work over the half-year focused on mapping the internal Nido Limestone reservoir facies over the greater Pawikan area in order to better understand the Pawikan reservoir model as well as estimating resource potential volumetrics and risks.

Further work is planned to better constrain depth conversion sensitivities at Top Nido stratigraphic level across the greater Pawikan area. This work will be finalised during Q1 2013.

### Corporate

#### New Ventures

During the half-year the Company has been actively engaged in looking at corporate and project opportunities worldwide as part of an effort to recapitalise and reinvigorate the asset portfolio of the Group. In particular, the Company has been targeting an on-shore US Gulf Coast oilfields rejuvenation project as well as a shallow-water Gulf of Mexico oil development project. The Company has decided not to pursue these two projects.

#### Changes in State of Affairs

During the half-year ended 31 December 2012 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

On 24 January 2013 Mr Steven Wood, a director of IMC Pan Asia Alliance, was appointed to the Board as a non-executive director.

In February 2013 the Company received \$93,509 plus 252,094 shares in Stratum Metals Limited pursuant to the on-sale of tenements sold by the Company and its controlled entities in 2009. The shares in Stratum Metals Limited are escrowed for 12 months and had a market value of \$40,335 as at 31 December 2012.

On 15 February 2013 the Company announced that IMC Oil & Gas Investments Limited ("IMC") has entered into discussions to convert its debt into equity and support a capital raising process to recapitalise the Company.

# Kairiki Energy Limited

## Directors' Report

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As part of this arrangement, managing director Dr Mark Fenton and non-executive director Mr Duncan Maclean resigned from the Board. Mr Robert Downey and Mr Stephen Harrison joined the Board as independent non-executive directors. Mr Peter Cockcroft assumed the role of executive chairman.

IMC has agreed to the deferral of interest payments pursuant to the convertible note agreement, with all interest due and future interest payable to be capitalised until the date the convertible note is fully repaid and/or converted. The Company and IMC have commenced discussion on the terms of the proposed capital raising, including the terms for repayment or conversion of the convertible note.

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### **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.



Peter Cockcroft  
Chairman

14 March 2013

# Kairiki Energy Limited

## Directors' Report

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Level 18, Central Park Building, 152-158 St Georges Terrace, Perth WA 6000  
P.O. Box 8716, Perth Business Centre WA 6849  
Phone (08) 6364 5076 www.rothsay.com.au

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 2012 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 14<sup>th</sup> March 2013



Chartered Accountants

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

# Kairiki Energy Limited

## Directors' Report

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Level 18, Central Park Building, 152-158 St Georges Terrace, Perth WA 6000  
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Phone (08) 6364 5076 www.rothsay.com.au

### 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 2012.

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 2012 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 2012 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*.



Chartered Accountants

Liability limited by the Accountants Scheme, approved  
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# Kairiki Energy Limited

## Directors' Report

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### Emphasis of Matter regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates the basis for preparing the accounts on a going concern basis. We note the consolidated entity had net current liabilities of \$7.196 million as at 31 December 2012.

As stated in Note 1 in the event the consolidated entity is unable to raise additional funds there is significant uncertainty as to whether the consolidated entity could continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and for the amounts stated in the financial report.

Rothsay

Graham R Swan  
Partner

Dated 14<sup>th</sup> March 2013

# Kairiki Energy Limited

## Directors' Declaration

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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 2012 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



Peter Cockcroft  
Chairman

14 March 2013

# Kairiki Energy Limited

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half-Year Ended 31 December 2012

|  |      | Consolidated<br>Half-Year<br>ended<br>31 Dec 2012<br>\$'000 | Consolidated<br>Half-Year<br>ended<br>31 Dec 2011<br>\$'000 |
|--|------|---|---|
|  | Note |   |   |
| Interest revenue   |      | 17  | 38  |
| Other income – deferred proceeds from sale of mineral tenements                                  | 2    | 250   | -   |
| Other income – foreign exchange gains  |      | 19  | 20  |
| <b>Expenses</b>  |      |   |   |
| Finance costs  |      | (620)   | (757)   |
| Depreciation   |      | (1)   | (4)   |
| Employee benefits expense  |      | (325)   | (344)   |
| Fair value loss on embedded derivative   |      | (49)  | (43)  |
| Other costs  |      | (307)   | (279)   |
| <b>Loss before income tax expense</b>  |      | (1,016)   | (1,369)   |
| Income tax expense   |      | -   | -   |
| <b>Loss after tax for the period</b>   |      | (1,016)   | (1,369)   |
| <b>Other comprehensive income/(loss)</b>   |      |   |   |
| <i>Items that will not be reclassified subsequently to profit or loss</i>                        |      |   |   |
| Foreign currency translation   |      | (200)   | 352   |
| <b>Total comprehensive loss for the period attributable to members of Kairiki Energy Limited</b> |      | (1,216)   | (1,017)   |
|  |      | <b>Cents</b>  | <b>Cents</b>  |
| Loss per share attributable to ordinary equity holders of the parent                             | 3    | (0.04)  | (0.06)  |

# Kairiki Energy Limited

## Consolidated Statement of Financial Position

As at 31 December 2012

|   | Note | Consolidated<br>31 Dec 2012<br>\$'000 | 30 June 2012<br>\$'000 |
|---|------|---------------------------------------|------------------------|
| <b>ASSETS</b>                                   |      |                                       |                        |
| <b>Current Assets</b>                           |      |                                       |                        |
| Cash and cash equivalents                       |      | 706                                   | 1,340                  |
| Trade and other receivables                     |      | 74                                    | 59                     |
| <b>Total Current Assets</b>                     |      | <b>780</b>                            | <b>1,399</b>           |
| <b>Non-Current Assets</b>                       |      |                                       |                        |
| Plant and equipment                             |      | -                                     | 1                      |
| Deferred exploration and evaluation expenditure | 4    | 15,575                                | 15,746                 |
| <b>Total Non-Current Assets</b>                 |      | <b>15,575</b>                         | <b>15,747</b>          |
| <b>Total Assets</b>                             |      | <b>16,355</b>                         | <b>17,146</b>          |
| <b>LIABILITIES</b>                              |      |                                       |                        |
| <b>Current Liabilities</b>                      |      |                                       |                        |
| Trade and other payables                        |      | 223                                   | 164                    |
| Convertible notes                               | 5    | 7,749                                 | 752                    |
| Provisions                                      |      | 4                                     | 4                      |
| <b>Total Current Liabilities</b>                |      | <b>7,976</b>                          | <b>920</b>             |
| <b>Non-Current Liabilities</b>                  |      |                                       |                        |
| Convertible notes                               | 5    | -                                     | 6,631                  |
| <b>Total Non-Current Liabilities</b>            |      | <b>-</b>                              | <b>6,631</b>           |
| <b>Total Liabilities</b>                        |      | <b>7,976</b>                          | <b>7,551</b>           |
| <b>Net Assets</b>                               |      | <b>8,379</b>                          | <b>9,595</b>           |
| <b>EQUITY</b>                                   |      |                                       |                        |
| Issued capital                                  |      | 75,700                                | 75,700                 |
| Reserves  |      | (3,152)                               | (2,952)                |
| Accumulated losses                              |      | (64,169)                              | (63,153)               |
| <b>Total Equity</b>                             |      | <b>8,379</b>                          | <b>9,595</b>           |

# Kairiki Energy Limited

## Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2012

| Consolidated                                      | Issued<br>Capital<br>\$'000 | Share-<br>based<br>Payments<br>Reserve<br>\$'000 | Translation<br>Reserve<br>\$'000 | Accumulated<br>Losses<br>\$'000 | Total<br>\$'000 |
|---|-----------------------------|--|----------------------------------|---------------------------------|-----------------|
| <b>Balance at 1 July 2011</b>                     | 70,234                      | 2,980  | (6,885)                          | (59,992)                        | 6,337           |
| Loss for the period                               | -                           | -  | -                                | (1,369)                         | (1,369)         |
| Other comprehensive income                        | -                           | -  | 352                              | -                               | 352             |
| <b>Total comprehensive loss for the half-year</b> | -                           | -  | 352                              | (1,369)                         | (1,017)         |
| Shares issued                                     | 6,002                       | -  | -                                | -                               | 6,002           |
| Exercise of options                               | 12                          | -  | -                                | -                               | 12              |
| Transaction costs on share issues                 | (529)                       | -  | -                                | -                               | (529)           |
| <b>Balance at 31 December 2011</b>                | <b>75,719</b>               | <b>2,980</b>                                     | <b>(6,533)</b>                   | <b>(61,361)</b>                 | <b>10,805</b>   |
| <b>Balance at 1 July 2012</b>                     | 75,700                      | 3,589  | (6,541)                          | (63,153)                        | 9,595           |
| Loss for the period                               | -                           | -  | -                                | (1,016)                         | (1,016)         |
| Other comprehensive income                        | -                           | -  | (200)                            | -                               | (200)           |
| <b>Total comprehensive loss for the half-year</b> | -                           | -  | (200)                            | (1,016)                         | (1,216)         |
| <b>Balance at 31 December 2012</b>                | <b>75,700</b>               | <b>3,589</b>                                     | <b>(6,741)</b>                   | <b>(64,169)</b>                 | <b>8,379</b>    |

# Kairiki Energy Limited

## Consolidated Statement of Cash Flows

For the Half-Year Ended 31 December 2012

|  | Consolidated                                |   |
|--|---|---|
|  | Half-Year<br>ended<br>31 Dec 2012<br>\$'000 | Half-Year<br>ended<br>31 Dec 2011<br>\$'000 |
| <b>Cash Flows from Operating Activities</b>                |   |   |
| Payments to suppliers and employees                        | (622)                                       | (772)                                       |
| Interest received  | 17  | 38  |
| Interest and other costs of finance paid                   | (165)                                       | (268)                                       |
| <b>Net cash used in operating activities</b>               | <b>(770)</b>                                | <b>(1,002)</b>                              |
| <b>Cash Flows from Investing Activities</b>                |   |   |
| Expenditure on exploration and evaluation                  | (109)                                       | (2,714)                                     |
| Additional proceeds from 2009 sale of mineral tenements    | 250   | -   |
| <b>Net cash provided by/(used in) investing activities</b> | <b>141</b>                                  | <b>(2,714)</b>                              |
| <b>Cash Flows from Financing Activities</b>                |   |   |
| Proceeds from issue of shares                              | -   | 6,002                                       |
| Proceeds from exercise of options                          | -   | 12  |
| Payment of equity issue costs                              | -   | (519)                                       |
| Repayment of convertible notes                             | -   | (951)                                       |
| <b>Net cash provided by financing activities</b>           | <b>-</b>                                    | <b>4,544</b>                                |
| <b>Net change in cash and cash equivalents</b>             | <b>(629)</b>                                | <b>828</b>                                  |
| Cash and cash equivalents at beginning of half-year        | 1,340                                       | 1,802                                       |
| Effect of exchange rate changes                            | (5)   | 1   |
| <b>Cash and cash equivalents at end of half-year</b>       | <b>706</b>                                  | <b>2,631</b>                                |

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

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### 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 2012. 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 2012 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 2012.

#### Going Concern

As at 31 December 2012, the Group had net current liabilities of \$7.196 million, including the carrying amount of the Convertible Note of \$7.749 million, and various exploration and joint venture commitments as detailed in Note 7.

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

- The successful commercial exploitation of the Group's oil and gas resources;
- A farm-down or sale of its interest in SC 54A and SC 54B;
- Raising additional capital to fund the Group's ongoing exploration and development program and working capital requirements, as and when required; and
- Meeting the terms of its convertible note agreement as outlined in note 5.

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

Subsequent to 31 December the following events occurred (refer to Note 8):

- The Company has announced its intention to undertake a capital raising. The convertible note holder, IMC Oil & Gas Investments Limited ("IMC"), has offered to support a capital raising on terms and conditions acceptable to all parties and subject to their internal approval process;
- IMC has agreed to the deferral of interest payments pursuant to the convertible note agreement, with all interest due and future interest payable to be capitalised until the date the convertible note is fully repaid and/or converted; and
- The Company and IMC have commenced discussion on the terms of the proposed capital raising, including the terms for repayment or conversion of the convertible note.

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

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### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

#### Going Concern (continued)

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 2012, except as stated below.

#### *New Accounting Standards and Interpretations*

Since 1 July 2012 the Group has adopted all Australian Accounting Standards and Interpretations mandatory for reporting periods beginning on or after 1 July 2012, including:

- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 12]
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]

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

### 2. OTHER INCOME

Deferred proceeds of \$250,000 were received pursuant to conditions of an option agreement for the sale of Australian mineral tenements in 2009.

### 3. 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.

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

### 4. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

|   | Consolidated                           |   |
|---|--|---|
|   | 1 July 2012 –<br>31 Dec 2012<br>\$'000 | 1 July 2011 –<br>30 June 2012<br>\$'000 |
| Opening balance                                       | 15,746                                 | 14,343                                  |
| Additions   | 151                                    | 792                                     |
| Foreign currency translation movements                | (322)                                  | 611                                     |
| Total deferred exploration and evaluation expenditure | 15,575                                 | 15,746                                  |

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.

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

### 5. CONVERTIBLE NOTES

|  | Consolidated          |                        |
|--|-----------------------|------------------------|
|  | 31 Dec 2012<br>\$'000 | 30 June 2012<br>\$'000 |
| <i>Current</i>                                 |                       |                        |
| Financial liability measured at amortised cost | 6,963                 | -                      |
| Derivative financial instrument                | 786                   | 752                    |
|  | 7,749                 | 752                    |
| <i>Non-current</i>                             |                       |                        |
| Financial liability measured at amortised cost | -                     | 6,631                  |
|  | -                     | 6,631                  |

The outstanding principal plus capitalised interest and fees as at 31 December 2012 was US\$7.458 million.

The key terms of the convertible notes are:

- i) Bond Holder: IMC Oil & Gas Investments Limited ("IMC");
- ii) Maturity date: 8 September 2013 (US\$8.5 million note, now partly repaid) and 22 October 2013 (US\$1.5 million note) (5 years from issue);
- iii) Interest payable monthly at 4% per annum. Interest at 8% per annum is capitalised monthly and is payable upon maturity;
- iv) The conversion price is based on a 10% discount to the 20 day volume weighted average price with a minimum conversion price of 0.4 cents;
- v) If the Company undertakes any further capital raisings, it will use not less than 20% of the cash proceeds towards repayment of the outstanding principal of the Notes;
- vi) If the Company sells any part of its interest in the SC 54 Joint Venture, it will use 100% of the cash proceeds towards repayment of the outstanding principal of the Notes;

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

### 5. CONVERTIBLE NOTES (CONTINUED)

- vii) If the Company receives any cash receipts or recoveries arising from the SC 54 Joint Venture, the Company must use 100% of such receipts or recoveries, less the Company's share of expenses associated with the operations from which the receipts or recoveries were derived, Philippines taxes, interest payments and capped administrative and legal costs, towards repayment of the outstanding principal of the Notes;
- viii) If the Company receives any cash proceeds from the exercise of options over shares, it will use 100% of the cash proceeds towards repayment of the outstanding principal of the Notes;
- ix) IMC may convert at any time prior to the Repayment Date, subject to a limit of 12 conversions with each conversion being in respect of a number of Convertible Notes which are convertible into at least 10 million shares;
- x) Any conversion which would result in IMC having a relevant interest in more than 20% of the shares in the Company is subject to approval by the Company's shareholders;
- xi) IMC has the right to appoint a representative to the board of Kairiki Energy Limited;
- xii) Redemption provisions for such events including failure to participate in a commercial SC 54 shallow water development, change of control, event of default; and
- xiii) 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.

|  | <b>Consolidated</b>                             |  |
|--|---|--|
|  | <b>1 July 2012 –<br/>31 Dec 2012<br/>\$'000</b> | <b>1 July 2011 –<br/>30 June 2012<br/>\$'000</b> |
| <i>Movement in debt component</i>                      |   |  |
| Opening balance  | 6,631   | 6,967  |
| Repayment of debt                                      | -   | (951)  |
| Accretion of debt                                      | 444   | 898  |
| Capitalised interest prior to amendments to Note terms | -   | 82   |
| Restructuring fee                                      | -   | (70)   |
| Amortisation of issuance and restructuring costs       | 18  | 42   |
| Effect of amendment to Note terms                      | -   | (630)  |
| Foreign currency translation movements                 | (130)   | 293  |
| Closing balance  | <u>6,963</u>                                    | <u>6,631</u>                                     |
| <i>Movement in embedded derivative component</i>       |   |  |
| Opening balance  | 752   | -  |
| Initial recognition upon amendment to Note terms       | -   | 630  |
| Fair value movements                                   | 49  | 102  |
| Foreign currency translation movements                 | (15)  | 20   |
| Closing balance  | <u>786</u>                                      | <u>752</u>                                       |

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

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### 6. 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. At the current time and during the comparative period, the Group's only operating segment has been exploration and evaluation, 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<br>Exploration &<br>Evaluation<br>\$'000 | Total<br>\$'000 |
|---|--|-----------------|
| <b>31 December 2012</b>   |  |                 |
| <b>Segment revenue</b>  | -  | -               |
| Unallocated items:  |  |                 |
| Interest revenue  |  | 17              |
| Deferred proceeds from sale of mineral tenements  |  | 250             |
| Foreign exchange gains  |  | 19              |
| <b>Total revenue and other income</b>   |  | <u>286</u>      |
| <b>Segment result</b>   | (12)   | (12)            |
| Unallocated items:  |  |                 |
| Unallocated revenue and other income  |  | 286             |
| Corporate and other costs   |  | (621)           |
| Finance costs   |  | (620)           |
| Fair value loss on embedded derivative  |  | (49)            |
| <b>Loss after tax as per the statement of profit or loss and other comprehensive income</b> |  | <u>(1,016)</u>  |
| <b>Segment assets</b>   | 15,575   | 15,575          |
| Unallocated items:  |  |                 |
| Cash  |  | 706             |
| Other corporate assets  |  | 74              |
| <b>Total assets</b>   |  | <u>16,355</u>   |

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

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### 6. SEGMENT REPORTING (CONTINUED)

| Consolidated  | Oil & Gas<br>Exploration &<br>Evaluation<br>\$'000 | Total<br>\$'000 |
|---|--|-----------------|
| <b>31 December 2011</b>   |  |                 |
| <b>Segment revenue</b>  | -  | -               |
| Unallocated items:  |  |                 |
| Interest revenue  |  | 38              |
| Foreign exchange gains  |  | 20              |
| <b>Total revenue and other income</b>   |  | <u>58</u>       |
| <b>Segment result</b>   | (12)   | (12)            |
| Unallocated items:  |  |                 |
| Unallocated revenue and other income  |  | 58              |
| Corporate and other costs   |  | (615)           |
| Finance costs   |  | (757)           |
| Fair value loss on embedded derivative  |  | (43)            |
| <b>Loss after tax as per the statement of profit or loss and other comprehensive income</b> |  | <u>(1,369)</u>  |
| <b>Segment assets as at 30 June 2012</b>  | 15,746   | 15,746          |
| Unallocated items:  |  |                 |
| Cash  |  | 1,340           |
| Other corporate assets  |  | 60              |
| <b>Total assets</b>   |  | <u>17,146</u>   |

# Kairiki Energy Limited

## Notes to the Financial Statements

For the Half-Year Ended 31 December 2012

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### 7. 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:

|  | <b>Consolidated</b> |                     |
|--|---------------------|---------------------|
|  | <b>31 Dec 2012</b>  | <b>30 June 2012</b> |
|  | <b>\$'000</b>       | <b>\$'000</b>       |
| Within one year                                  | 110                 | -                   |
| More than one year but not later than five years | -                   | -                   |
|  | 110                 | -                   |
|  | 110                 | -                   |

The Group has no joint venture capital commitments contracted for at balance date for which no amounts have been provided in the financial statements.

### 8. EVENTS SUBSEQUENT TO REPORTING DATE

On 24 January 2013 Mr Steven Wood, a director of IMC Pan Asia Alliance, was appointed to the Board as a non-executive director.

In February 2013 the Company received \$93,509 plus 252,094 shares in Stratum Metals Limited pursuant to the on-sale of tenements sold by the Company and its controlled entities in 2009. The shares in Stratum Metals Limited are escrowed for 12 months and had a market value of \$40,335 as at 31 December 2012.

On 15 February 2013 the Company announced that IMC has entered into discussions to convert its debt into equity and support a capital raising process to recapitalise the Company.

As part of this arrangement, managing director Dr Mark Fenton and non-executive director Mr Duncan Maclean resigned from the Board. Mr Robert Downey and Mr Stephen Harrison joined the Board as independent non-executive directors. Mr Peter Cockcroft assumed the role of executive chairman.

IMC has agreed to the deferral of interest payments pursuant to the convertible note agreement, with all interest due and future interest payable to be capitalised until the date the convertible note is fully repaid and/or converted. The Company and IMC have commenced discussion on the terms of the proposed capital raising, including the terms for repayment or conversion of the convertible note.

No other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.