kairiki energy

ABN 34 002 527 906

ANNUAL REPORT 2012

CORPORATE DIRECTORY

Directors

Peter John Cockcroft
Mark Walker Fenton
Duncan Wilson Maclean

Company Secretary

Neville John Bassett

Registered and Principal Office

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Investor Enquiries:

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Auditor

Rothsay Chartered Accountants
Level 18, Central Park Building
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Securities Exchange Listing

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

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COMPANY HIGHLIGHTS

SC 54

- SC 54A and SC 54B seismic surveys completed during the year. Processing of the data is complete and interpretation is currently in progress by the Operator.

SC 54A

- Memorandum of Agreement signed with Viking Energy to develop oil field discoveries in SC 54A.

SC 54B

- Kairiki's interest in SC 54B increased to 40% following Shell's decision to withdraw from the block.

PERMITTING

- A 12 month extension to the current SC 54A and SC 54B Service Contracts was approved by the Philippines Department of Energy in June 2012. The current work programme phase now expires 4 August 2013.

CORPORATE

- Completion of Rights Issue in July 2011 raising $6,000,000 before issue costs.

CHAIRMAN'S LETTER

Dear Shareholder,

Kairiki's strategy over the past few years has been to commercialise the SC 54A portfolio to generate revenue as well as to realise the exploration upside potential of SC 54B, as quickly as possible.

Following the drilling of the Gindara-1 well in SC 54B in 2011 that discovered a 187m non-commercial hydrocarbon column, Kairiki has been focussed in 2012 on securing a farminee to carry Kairiki in exploration and/or development activities in SC 54A and to delineate further exploration potential in SC 54B.

In SC 54A, in seeking to get a carry for further activity in the Block, potential farminees have been seeking to obtain equity from other parties within the JV so as to drive their investment. Consequently, these farmouts, involving a number of companies, are usually more challenging to negotiate and secure. In the past year, Kairiki has been involved in discussions with a number of potential farminees. More recently, Kairiki, together with its JV partners in SC 54A, announced that it had signed an MoA with Viking Energy to collectively assign a 60% participating interest in the Block in return for a fully carried development programme in the Block of up to three oilfileds.

Since signing the MoA, Kairiki has been negotiating the associated Farmin and Charter Agreements. This type of deal, involving five companies, the funding of multiple oilfield developments and the provision of offshore oilfield facilities, is necessarily more complicated than a simple exploration well farmin agreement and hence has taken some time. This notwithstanding, progress in finalising the various agreements has been made and I am confident that the farmout will be finalised and secured in the short term.

In parallel with these negotiations, a 2D seismic survey over the prospective Lawaan/Libas prospects in SC 54A, which was acquired in December 2011, was processed and the results of the survey are being finalised.

In SC 54B, having confirmed hydrocarbon charge in the Block with the Gindara-1 results, the JV focussed on the central and southern parts of the Block along trend from Gindara. The large Pawikan prospect was identified on existing 2D seismic in late 2011 and a 2D seismic programme was acquired over the prospect before the end of the year. Delays in processing the data were experienced with the processing contractor, however, mapping is now being finalised by the Operator that has confirmed the existence of the prospect and the expectation is that Kairiki will be seeking a farminee to drill a well on the prospect in 2013.

On the corporate side, the founding Director of Kairiki Energy Limited, Mr Paul Fry, retired in April 2012 at which time I assumed the role of Chairman. My focus has been to facilitate and assist our Managing Director, Dr Mark Fenton, in his efforts to secure a farminee for the SC 54A project, but more importantly to help position the company to re-invigorate its asset portfolio and re-establish an active investment and activity pipeline. Such growth is to be achieved on the back of a fully funded SC 54A farmout, and to that end, the Company has identified a number of opportunities that could provide growth in 2013.

I would like to thank the efforts of our Board and staff who have worked tirelessly to secure a farminee for SC 54A in the last 12 months in what has been a difficult market environment.

We look forward to the next 12 to 18 months with excitement as we recommence development activities in SC 54A, drill Pawikan in SC 54B and embark upon a new portfolio of assets and acquisitions.

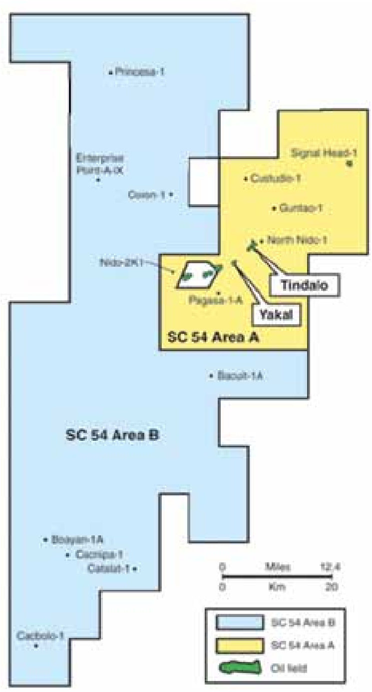
Peter Cockcroft

Chairman

01. OPERATIONS REVIEW

Combined SC 54A and SC 54B Seismic Surveys

Combined SC 54A Lawaan/Libas and SC 54B Pawikan 2D seismic surveys were successfully completed over the period 29 November to 10 December 2011 using the seismic vessel MV 'Nordic Energy' operated by seismic contractor Nordic Maritime Pte Ltd. Pre-survey operations commenced on 30 October 2011 with the deployment into the survey area of the MV 'Eagle V' to acquire a high resolution bathymetry survey ahead of the main seismic acquisition phase.



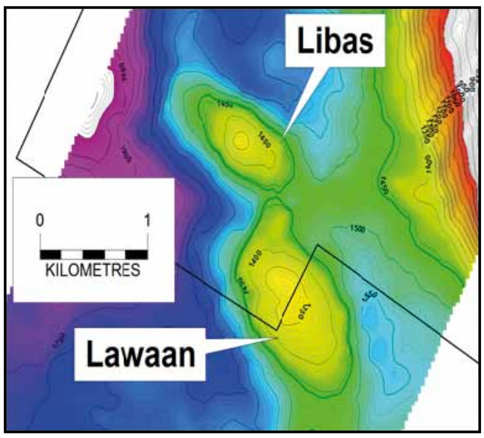
SC 54A

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%

Seismic Survey

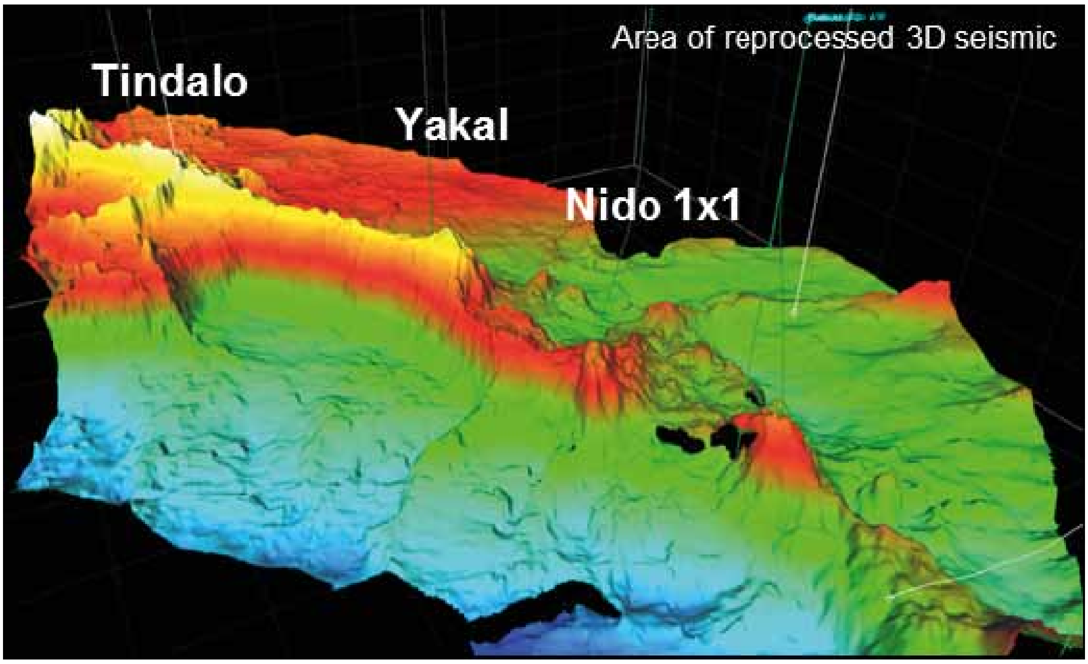
A total of 73 kilometres of full-fold new 2D seismic was acquired over the greater Lawaan and Libas Prospects. The objective of the survey was to determine if the two prospects are connected structurally. Confirmation that the two prospects are structurally connected would further upgrade the potential of the larger Lawaan Prospect, which is currently the leading drilling candidate in SC 54A. Delays were encountered in the processing of the data by the processing contractor, however, processing is now complete and interpretation is currently in progress by the Operator.



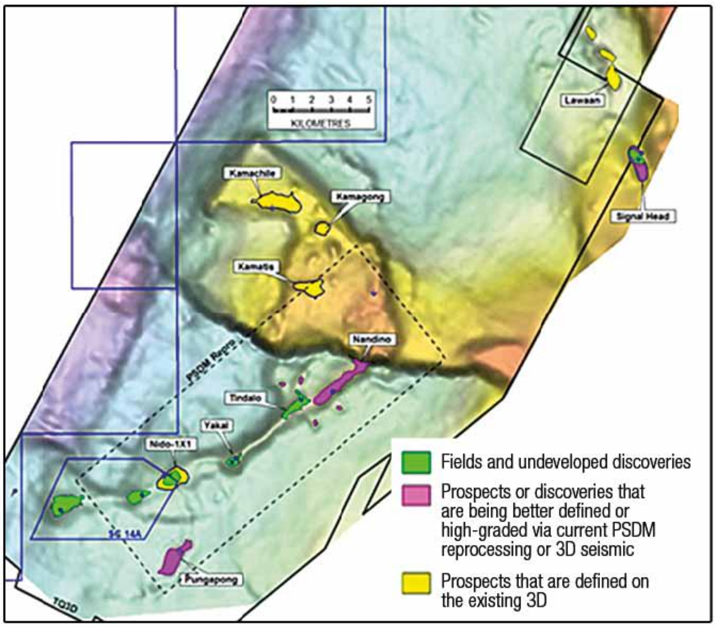
OPERATIONS REVIEW

Prospects and Leads Inventory

A block-wide portfolio review incorporating reprocessing of 3D seismic over the Nido 1x1, Yakal and Tindalo oilfield has been undertaken by the Operator.



A substantial portfolio of potentially economic prospects and discoveries was reaffirmed during the year by the Operator.



Location Map and Portfolio Inventory – SC 54A

Farm-in Agreement with Viking Energy

On 1 June 2012 Kairiki announced that Kairiki's 100%-owned subsidiary Yilgarn Petroleum Philippines Pty Ltd, in conjunction with the SC 54A Joint Venture partners (collectively the "Participants"), had signed a Memorandum of Agreement ("MoA") with Viking Energy ("Viking") to develop oil fields in SC 54A. The MoA is subject to negotiation and execution of a formal agreement between the parties.

The MoA outlines key commercial terms upon which a Farm-in Agreement will be negotiated. Broadly, these terms are as follows:

- The Participants will collectively assign 60% equity in SC 54A in return for Viking assuming Operatorship and carrying the Participants into the development of a number of oilfield discoveries in SC 54A;
- Viking will finance all required capital expenditure associated with the developments;
- The final investment amount will be agreed between Viking and the Participants on selection of the most appropriate technical and commercial solution; and
- Viking will receive a preferential proportion of the net cash flow generated from SC 54A until such time as it has recovered in full its capital expenditure in the project.

Viking plans to utilise cost-effective offshore production and storage facilities consisting of a mobile offshore production unit ("MOPU") and a FSO/Storage Tanker moored to a CALM Buoy to commercialise up to three oil fields. The Participants and Viking will work in collaboration with Offshore Production Solutions ("OPS") and Thome Oil & Gas ("TOG") on the project, whereby OPS will provide offshore production facilities under bareboat charter arrangements on competitive market terms to be agreed, and TOG will provide operation and maintenance services for the offshore production facilities under an operation and maintenance agreement on competitive market terms to be agreed.

It is anticipated that the first field will be brought into production in 2013, subject to relevant approvals from third parties and the Philippine Department of Energy, and the availability of rig and production facilities.

Participating interests in SC 54A relating to the MoA are as follows:

Company	Present	Post Farm-in
Nido Petroleum Philippines Pty Ltd (Nido)	42.4% (Operator)	16.96%
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	30.1%	12.04%
Trafigura Ventures III BV (Trafigura)	15.0%	6.00%
TG World (BVI) Corporation (TG World)	12.5%	5.00%
Viking Energy Holdings 2 (Viking Energy)	0.00%	60.00% (Operator)

SC 54B

SC 54B Working Interests

The participating interests in SC 54B changed effective from 30 December 2011 following the decision by Shell Philippines Exploration B.V. to withdraw from the block. Shell had farmed into the block in October 2010 for the drilling of the Gindara-1 exploration well.

SC 54B participating interest holders prior to 30 December 2011:

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%

Current SC 54B participating interest holders:

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) – Operator	**60%**
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	40%

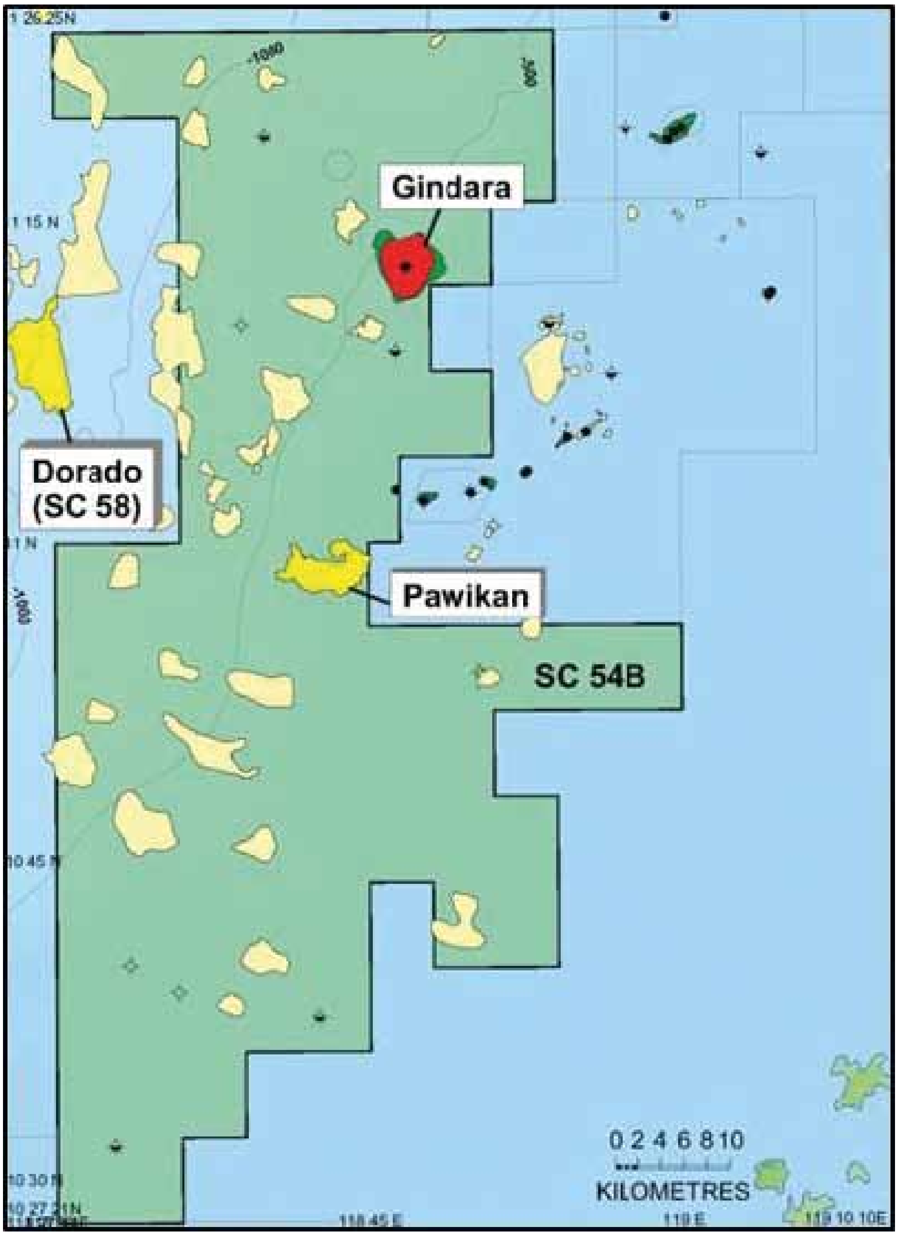
OPERATIONS REVIEW

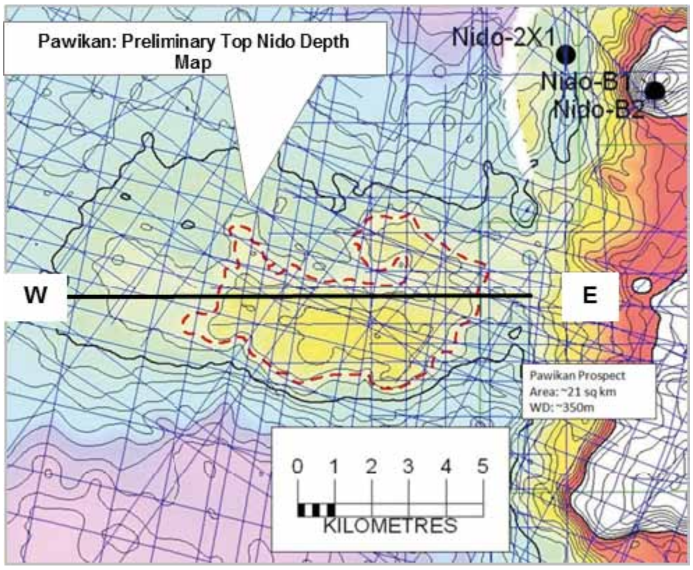
Pawikan Lead 2D Seismic Survey

A total of 430 kilometres of full-fold line new 2D seismic data was acquired over the Pawikan Lead. The objective of the new seismic is to mature the Pawikan Lead to Prospect status by addressing remaining risks relating to reservoir and charge into the Pawikan structure. The processing of the seismic data was completed during the year and it is currently being interpreted by the Operator.

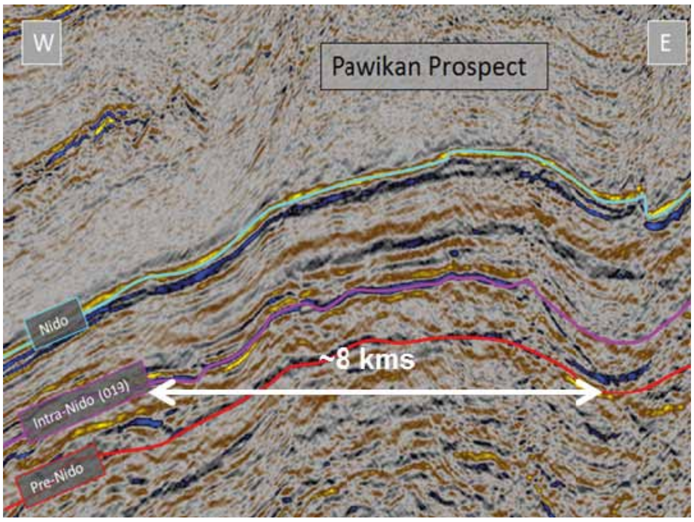
The Pawikan Lead is a large inversion structure about 56 sq km in size. It lies 30 km to the south of the non-commercial Gindara-1 gas and oil discovery well, which was drilled by the SC 54B Joint Venture in 2011, and 10 kilometres south-west of the Service Contract 14 Nido A/B oilfields. The prospective resource oil-in-place estimate for Pawikan is approximately 2 billion barrels (gross, unrisked mean volume as quoted by Operator).

Seismic reprocessing of some 2D seismic lines within the southern portion of SC 54B has provided some preliminary evidence for the possible existence of the southern extension of the Malampaya Trough adjacent to the Pawikan lead. This could have implications for the prospectivity of the southern part of SC 54B as the Malampaya Trough is considered to have generated the hydrocarbons encountered in Gindara-1.





Pawikan – Top Nido Depth Map



Pawikan – Seismic Section

SC 54 Permitting

In June 2012, a 12 month extension to the current work period (Sub Phase 6) for Service Contract 54, which was to end on 4 August 2012, was granted by the Philippine Department of Energy (DOE). This extension of Sub Phase 6 until 4 August 2013 applies to both SC 54A and SC 54B blocks.

The extension was granted to enable the Joint Venture to complete the ongoing 2D seismic processing projects over the Lawaan/Libas prospects in SC 54A and the Pawikan Lead in SC 54B, and to fully integrate the results and implications of the new seismic data into the subsurface geological models and prospect maturation.

The well commitment associated with Sub Phase 6 has been met by the drilling of Gindara-1.

Resource Estimates

All potential hydrocarbon resource estimates in this annual report have been compiled by Dr M Fenton, the Company's Managing Director, in consultation with the respective Joint Venture Operator, where appropriate. Dr Fenton has a PhD in Geology and a Bachelor of Science (Honours) in Geology from the University of Melbourne and more than 25 years of relevant experience.

02. DIRECTORS' REPORT

DIRECTORS' REPORT

02

Your Directors present their report on Kairiki Energy Limited ("Kairiki" or "the Company") and its controlled entities ("the Group") for the year ended 30 June 2012.

DIRECTORS

The names of the Directors of the Company in office during the financial year and up to the date of this report were as follows. Directors were in office for the entire year unless otherwise stated.

Peter John Cockcroft – appointed 26 April 2012

Mark Walker Fenton

Duncan Wilson Maclean

Paul Damien John Fry – resigned 26 April 2012

INFORMATION ON DIRECTORS

Peter John Cockcroft

BA (Geology & Geophysics), FRGS (Life), FAARM, Cert Bus Admin (EBS), GAICD

Chairman

Mr Cockcroft has over 35 years of experience in the international oil and gas industry. He is a member of a number of industry associations including the Institute of Directors (UK), American Association of Petroleum Geologists, Society of Petroleum Engineers (SPE), Association of International Petroleum Negotiators, International Association of Energy Economists. He is currently Chairman of the SPE (Singapore chapter) and is Life Fellow, Royal Geographical Society (SEAPEX). He was a previous Distinguished Lecturer for the SPE on Risk, and was elected to the Stanford Who's Who Registry for 2011-12.

His knowledge of the Philippines is considerable, having been President of Fletcher Challenge Philippines Pty Ltd and having led Premier Oil into the Philippines in 2004.

During the past three years Mr Cockcroft has held the following other listed company directorships:

- Blue Energy Limited (21 August 2008 to present, Chairman)
- NuEnergy Gas Limited (12 April 2011 to present)
- European Gas Limited (15 July 2010 to 6 April 2011)

Appointed 26 April 2012.

Mark Walker Fenton

PhD (Geology)

Managing Director

Dr Fenton has over 25 years of experience in operating oil and gas companies and has extensive experience in both offshore and onshore oil field developments, particularly in SE Asia and the Middle East. He has held a range of technical, management and executive positions with international and Australian oil and gas majors as well as smaller ASX-listed oil companies during his career.

Dr Fenton has a PhD in Geology from the University of Melbourne and is a member of the Society of Petroleum Engineers (SPE). He has significant international technical and operating skills in project development, exploration and project acquisition.

Dr Fenton has not held any other listed company directorships during the past three years.

Director since 1 December 2009.

Duncan Wilson Maclean

LLM (Comm Law), LLB

Non-Executive Director

Mr Maclean, a partner at Squire Sanders, is a corporate lawyer with over 19 years of corporate experience. He specialises in resources and energy related matters and advises on major acquisitions, divestments, Joint Venture arrangements and project structuring. Mr Maclean has a Masters of Commercial Law (Energy & Resources) and a Bachelor of Laws. He is a member of the Australian Institute of Company Directors (AICD), the Australian Mineral and Petroleum Lawyers Association (AMPLA) and the Association of International Petroleum Negotiators (AIPN).

Mr Maclean has held no other listed company directorships within the past three years.

Director since 31 March 2011.

Paul Damien John Fry

CA

Non-Executive Chairman

Mr Fry is a chartered accountant with over 20 years of experience in the oil and gas industry in Australia, UK and North America. He was formerly an oil and gas specialist partner with Ernst & Young and Pricewaterhouse Coopers in Australia and Canada.

During the past three years Mr Fry has held the following other listed company directorships:

- Segue Resource Limited (2 April 2008 to 15 June 2011)

Resigned 26 April 2012.

COMPANY SECRETARY

Neville John Bassett

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The relevant interest of each Director in the shares and options of the Company at the date of this Report is as follows:

Peter Cockcroft

- 150,000 ordinary fully paid shares

Mark Fenton

- 107,000 ordinary fully paid shares
- 53,500 listed options exercisable at 0.4 cents between 1 June 2013 and 30 June 2013
- 20,000,000 unlisted options exercisable at 6.5 cents between 16 May 2012 and 16 May 2014

Duncan Maclean

- 7,995,000 ordinary fully paid shares
- 5,196,750 listed options exercisable at 0.4 cents between 1 June 2013 and 30 June 2013
- 7,500,000 unlisted options exercisable at 6.5 cents between 16 May 2012 and 16 May 2014

MEETINGS OF THE COMPANY'S DIRECTORS

The number of meetings of the Company's Directors held during the year ended 30 June 2012, and the number of meetings attended by each Director were:

	Number Attended	Maximum Possible
Peter Cockcroft	2	2
Mark Fenton	15	15
Duncan Maclean	15	15
Paul Fry	13	13

CORPORATE STRUCTURE

Kairiki Energy Limited is a limited liability company that is incorporated and domiciled in Australia.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Company and its controlled entities during the financial year were:

- Exploration for oil and gas
- Evaluation of oil and gas properties.

OPERATING AND FINANCIAL REVIEW

Operating Activities

A detailed review of the operations of the Group is contained in the Operations Review on page 4 to 9.

Summary of Comprehensive Income

The Group's consolidated loss after tax for the financial year was $3,161,000 (2011: $43,006,000). The loss for the 30 June 2011 comparative year included write-downs for the Tindalo project and exploration and evaluation costs associated with the Gindara-1 well.

The loss for the year ended 30 June 2012 included:

- General administration expenses of $1,859,000 (2011: $1,974,000) including share-based payments expense of $608,000 (2011: $143,000). The share-based payments expense related to options which vested during the year but which had no market value at vesting date;
- Cash interest expenses on the Convertible Note of $431,000 (2011: $1,219,000);
- Non-cash accretion and borrowing costs on the Convertible Note of $940,000 (2011: $647,000); and
- Income tax expense of $14,000 (2011: nil).

These expenses were partially offset by:

- Interest income of $62,000 (2011: $63,000); and
- Foreign exchange gains of $23,000 (2011: $227,000).

Earnings per Share

The basic and diluted loss per share was 0.13 cents (2011: loss of 5.22 cents).

Financing Activities

The Company raised $6,014,000 before issue costs via the issue of securities during the year. Refer to Note 13 in the financial statements for details.

US$1,000,000 of the Convertible Note owing to IMC was repaid and the terms of the Convertible Note were amended. Refer to Note 12 in the financial statements for details. At 30 June 2012, the amount owing on the Convertible Note at maturity was US$7,160,762.

Summary of Financial Position

At 30 June 2012 the Group's unrestricted cash reserves were $1,340,000 (2011: $1,802,000). The decrease in cash was primarily due to:

- net cash used in operating activities of $1,665,000;
- expenditures on capitalised exploration and evaluation of $3,307,000;
- repayment of $951,000 of the Convertible Note; and
- proceeds from capital raisings of $5,466,000, net of costs.

Dividends

No dividend was paid or declared by the Company in the period since the end of the previous financial year and up to the date of this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

$250,000 (net of GST) was received for the sale of Australian mineral tenements under an option agreement (refer to Note 15).

No other matters or circumstances have arisen since the end of the financial year 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.

FUTURE DEVELOPMENTS

Kairiki intends to continue to explore its acreage in SC 54A and SC 54B. Any Final Investment Decision of future projects will consider the oil price forecasts and other economic and technical factors affecting the developments.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements for Directors and Executives of Kairiki Energy Limited. The information provided in the remuneration report includes remuneration disclosures that are audited as required by section 308(3C) of the Corporations Act 2001.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company.

For the purposes of this report the term "Executive" includes those key management personnel who are not Directors of the parent company.

Remuneration Committee

The full Board carries out the role and responsibilities of the Remuneration Committee and is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the Managing Director and any Executives.

Executive remuneration is reviewed annually having regard to individual and business performance, relevant comparative remuneration and internal and independent external advice.

A. Remuneration Policy

The board policy is to remunerate Directors at market rates for time, commitment and responsibilities. The board determines payments to the Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of Directors' fees that can be paid is subject to approval by shareholders in general meeting, from time to time. Fees for Non-Executive Directors are not linked to the performance of the consolidated entity. However, to align Directors' interests with shareholders' interests, the Directors are encouraged to hold shares in the Company.

The Company's aim is to remunerate at a level that will attract and retain high-calibre Directors and employees. Company officers and Directors are remunerated to a level consistent with the size of the company.

The Executive Directors and full time executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed.

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

The Company did not pay any performance-based component of remuneration during the year.

B. Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive compensation is separate and distinct.

Non-Executive Director Compensation

Objective

The Board seeks to set aggregate compensation at a level that provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held in October 1996 when shareholders approved an aggregate compensation of $150,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board may consider advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process. Non-Executive Directors' remuneration may include an incentive portion consisting of options, as considered appropriate by the Board, which may be subject to Shareholder approval in accordance with ASX listing rules. The Board is of the view that options are a cost effective benefit for small companies such as Kairiki that seek to conserve cash reserves. They also provide an incentive that ultimately benefits both shareholders and the option holder, as option holders will only benefit if the market value of the underlying shares exceeds the option strike price. Ultimately, shareholders will make that determination.

Separate from their duties as Directors, the Non-Executive Directors may undertake work for the Company directly related to the evaluation and implementation of various business opportunities, including oil and gas exploration and new business ventures, for which they receive a daily rate. These payments are made pursuant to consultancy arrangements entered into by the Non-Executive Directors with the Company and are not taken into account when determining their aggregate remuneration levels.

Executive Compensation

Objective

The entity aims to reward Executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward Executives for company and individual performance against targets set by appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link rewards with the strategic goals and performance of the Company; and
- ensure total compensation is competitive by market standards.

Structure

In determining the level and make-up of Executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable Executive roles.

Remuneration consists of a fixed remuneration and a long term incentive portion as considered appropriate.

Compensation may consist of the following key elements:

- Fixed Compensation;
- Variable Compensation;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board having regard to the Company and individual performance, relevant comparable remuneration in the oil and gas industry and external advice.

The fixed remuneration is a base salary or monthly consulting fee.

Variable Pay — Long Term Incentives

The objective of long term incentives is to reward Directors/Executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. The incentive portion is payable based upon attainment of objectives related to the Director's/Executive's job responsibilities. The objectives vary, but all are targeted to relate directly to the Company's business and financial performance and thus to shareholder value.

Long term incentives (LTIs) granted to Directors/Executives are delivered in the form of options.

LTI grants to Executives are delivered in the form of share options. These options are issued at an exercise price and with vesting conditions determined by the Board at the time of issue.

The objective of the granting options is to reward Executives in a manner which aligns the element of remuneration with the creation of shareholder wealth. As such LTIs are made to Executives who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

The level of LTI granted is, in turn, dependent on the Company's recent share price performance, the seniority of the Executive and the responsibilities the Executive assumes in the Company.

Typically, the grant of LTIs occurs at the commencement of employment or in the event that the individual receives a promotion and, as such, is not subsequently affected by the individual's performance over time.

C. Service Agreements

Mark Fenton is employed under a rolling contract with a three month notice period. The terms of service with Peter Cockcroft and Duncan Maclean are not formalised in a contract.

On resignation, any LTI options that have vested or that will vest during the notice period will be released. LTI options that have not yet vested will be forfeited.

D. Company Performance

The option component of Key Management Personnel remuneration is designed to align remuneration and shareholder wealth. In determining Key Management Personnel remuneration, the Board takes note of the following measures of company performance in respect of the current and previous four financial years.

	2012	2011	2010	2009	2008
Loss after tax (A$'000)	3,161	43,006	2,945	4,259	3,749
Closing share price (A$)	0.002	0.004	0.064	0.115	0.172

E. Use of Remuneration Consultants

The Company did not use remuneration consultants during the year.

F. Details of Remuneration for Year

Details of Key Management Personnel are set out below.

Directors

Peter Cockcroft	Chairman (Non-Executive) – appointed 26 April 2012
Mark Fenton	Managing Director
Duncan Maclean	Director (Non-Executive)
Paul Fry	Chairman (Non-Executive) – resigned 26 April 2012

Executives

Neville Bassett	Company Secretary

No other persons fulfilled the role of key management personnel.

Remuneration

Details of the remuneration of each Director and named executive officer of the Company, including their related entities, during the year was as follows:

		Short Term Benefits		Post Employment	Share-based Payments		
	Year	Salary and Consulting Fees $	Director Fees $	Superannuation $	Options $	Total $	Remuneration Consisting of Options During the Year %
Directors							
P Cockcroft	**2012**	**-**	**15,867**	**-**	**-**	**15,867**	**-**
Appointed 26/4/2012	2011	-	-	-	-	-	-
M Fenton (i)	**2012**	**323,760**	**-**	**3,240**	**407,750**	**734,750**	**55.5%**
	2011	323,760	-	3,240	58,250	385,250	15.1%
D Maclean (i)	**2012**	**-**	**48,000**	**-**	**152,906**	**200,906**	**76.1%**
Appointed 31/3/2011	2011	-	12,000	-	21,844	33,844	64.5%
P Fry (ii)	**2012**	**-**	**83,180**	**7,486**	**(36,406)**	**54,260**	**-**
Resigned 26/4/2012	2011	146,789	-	13,211	36,406	196,406	18.5%
J Morton							
Appointed 25/8/2010	**2012**	**-**	**-**	**-**	**-**	**-**	**-**
Resigned 28/9/2010	2011	-	-	-	-	-	-
L Brown	**2012**	**-**	**-**	**-**	**-**	**-**	**-**
Resigned 30/8/2010	2011	22,309	-	2,008	-	24,317	-
J Baker (iii)	**2012**	**-**	**-**	**-**	**-**	**-**	**-**
Resigned 25/8/2010	2011	-	8,332	-	(87,696)	(79,364)	-
Executives							
N Bassett (i), (iv)	**2012**	**60,000**	**-**	**-**	**152,906**	**212,906**	**71.8%**
	2011	42,028	-	2,972	21,844	66,844	32.7%

i. Mr Fenton, Mr Maclean and Mr Bassett's options had zero market value at vesting date.

ii. Mr Fry's options lapsed upon his resignation.

iii. Ms Baker's Director's fees were paid to IMC Australia Pty Ltd. Her options lapsed upon her resignation.

iv. Mr Bassett was appointed as a Director on 28 September 2010 and resigned as a Director on 31 March 2011. He continued as Company Secretary during this period.

No performance-related payments were made during the year. Performance hurdles are not attached to remuneration options, however, the Board determines appropriate vesting periods to provide rewards over a period of time to key management personnel.

G. Compensation Options to Key Management Personnel

No options were granted as equity compensation benefits to Key Management Personnel during the year ended 30 June 2012.

During the year ended 30 June 2011, the following options were granted as compensation. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the Company.

	Terms and Conditions of Each Grant					
2011	Granted Number	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Directors						
P. Fry	12,500,000	16/5/2011	0.023	0.065	16/5/2012	16/5/2014
M. Fenton	20,000,000	16/5/2011	0.023	0.065	16/5/2012	16/5/2014
D. Maclean	7,500,000	16/5/2011	0.023	0.065	16/5/2012	16/5/2014
Executives						
N. Bassett	7,500,000	16/5/2011	0.023	0.065	16/5/2012	16/5/2014
	47,500,000					

These options vested during the year ended 30 June 2012. The options issued to Paul Fry lapsed because he resigned prior to the vesting date.

The Binomial Option Pricing Model was used to value the options issued as share-based payments. Refer to Note 19 'Share-based payments' in the notes to the financial statements for variables used in the models.

H. Shares Issued to Key Management Personnel on Exercise of Compensation Options

No key management personnel exercised options during the years ended 30 June 2012 or 30 June 2011.

This concludes the Remuneration Report.

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are as follows:

	Number	Exercise Price	Exercise Date
Listed Options	2,045,923,471	0.4 cents	Between 1/6/2013 and 30/6/2013
Unlisted Options	36,000,000	6.5 cents	Between 16/5/2012 and 16/5/2014

In addition, under the Convertible Notes the note holder, IMC, has the option to convert the Notes into ordinary fully paid shares of the Company at a conversion price based on a 10% discount to the 20 day volume weighted average price with a minimum conversion price of 0.4 cents. The Convertible Notes mature in September and October 2013.

The maximum number of ordinary fully paid shares that IMC may receive on converting the Notes as at the date of this report is 1,719,848,802 shares.

ENVIRONMENTAL REGULATIONS

The Group's environmental obligations are regulated under both State and Federal law. All environmental performance obligations are monitored by the Board and subjected from time to time to Government agency audits and site inspections. The Company has a policy of at least complying with, but in most cases exceeding, its statutory environmental performance obligations. No environmental breaches have occurred or have been notified by any Government agencies during the year ended 30 June 2012 or subsequent to year end.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Kairiki Energy Limited support and have adhered to the principles of corporate governance and have established a set of policies and manuals for the purpose of managing corporate governance. The Company's detailed corporate governance policy statement is contained in the section headed 'Corporate Governance Statement' of the annual report.

INSURANCE OF OFFICERS

The Company has in place an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against its Directors and Officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to the insurers or the limit of liability covered by the policy has not been disclosed. This is permitted under Section 300(9) of the Corporations Act 2001.

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.

NON-AUDIT SERVICES

No non-audit services were provided by the Company's auditors.

DIRECTORS' REPORT

AUDITOR INDEPENDENCE

The following is a copy of a letter received from the Company's auditors:

ROTHSAY

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 Limited
331-335 Hay Street
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 of the 30 June 2012 financial statements; and

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

Graham Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 28th September 2012

Chartered Accountants

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

This report is made in accordance with a resolution of the Directors.
For and on behalf of the Board.

DR MARK FENTON

Managing Director
Perth Western Australia
28 September 2012

03. CORPORATE GOVERNANCE STATEMENT

03

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Kairiki Energy Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Kairiki Energy Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement reports on Kairiki Energy Limited's key governance principles and practices.

1. COMPLIANCE WITH BEST PRACTICE RECOMMENDATIONS

The Company, as a listed entity, must comply with the Corporations Act 2001 and the ASX Limited (ASX) Listing Rules. The ASX Listing Rules require the Company to report on the extent to which it has followed the Corporate Governance Recommendations published by the ASX Corporate Governance Council (ASXCGC). Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure.

The table below summaries the Company's compliance with the Corporate Governance Council's Recommendations:

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 1	**Lay Solid Foundations for Management and Oversight**		
1.1	Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	2(a)	Yes
1.2	Disclose the process for evaluating the performance of senior executives.	2(h), 3(b), Remuneration Report	Yes
1.3	Provide the information indicated in the Guide to reporting on principle 1.	2(a), 2(h), 3(b), Remuneration Report	Yes
Principle 2	**Structure the Board to Add Value**		
2.1	A majority of the board should be independent Directors.	2(b), 2(e)	Yes
2.2	The chair should be an independent Director.	2(c), 2(e)	Yes
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	2(b), 2(c)	Yes
2.4	The Board should establish a nomination committee.	2(d)	No
2.5	Disclose the process for evaluating the performance of the board, its committees and individual Directors.	2(h)	Yes
2.6	Provide the information indicated in the Guide to reporting on principle 2.	2(b), 2(c), 2(d), 2(e), 2(h)	Yes
Principle 3	**Promote Ethical and Responsible Decision-Making**		
3.1	Establish a code of conduct and disclose the code or a summary as to:	4(a)	Yes
	◆ the practices necessary to maintain confidence in the company's integrity;		
	◆ the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and		
	◆ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy.	4(b)	Yes
3.3	Disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	4(b)	No
3.4	Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	4(b)	Yes
3.5	Provide the information indicated in the Guide to reporting on principle 3.	4(a), 4(b)	Yes
Principle 4	**Safeguard Integrity in Financial Reporting**		
4.1	The Board should establish an audit committee.	3(a)	Yes
4.2	The audit committee should be structured so that it:	3(a)	No
	◆ consists only of Non-Executive Directors;		
	◆ consists of a majority of independent Directors;		
	◆ is chaired by an independent chair, who is not chair of the Board; and		
	◆ has at least three members.		

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
4.3	The audit committee should have a formal charter.	3(a)	Yes
4.4	Provide the information indicated in the Guide to reporting on principle 4.	3(a)	Yes
Principle 5	**Make Timely and Balanced Disclosure**		
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	5(a), 5(b)	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	5(a), 5(b)	Yes
Principle 6	**Respect the Rights of Shareholders**		
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	5(a), 5(b)	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	5(a), 5(b)	Yes
Principle 7	**Recognise and Manage Risk**		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	6(a)	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	6(a), 6(b), 6(d)	Yes
7.3	The Board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	6(c)	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	6(a), 6(b), 6(c), 6(d)	Yes
Principle 8	**Remunerate Fairly and Responsibly**		
8.1	The Board should establish a remuneration committee.	3(b)	No
8.2	Remuneration Committee should be structured so that it:	3(b)	No
	◆ consists of a majority of independent Directors;		
	◆ is chaired by an independent Director; and		
	◆ has at least three members.		
8.3	Clearly distinguish the structure on Non-Executive Directors' remuneration from that of executive Directors and senior executives.	3(b), Remuneration Report	Yes
8.4	Provide the information indicated in the Guide to reporting on principle 8.	3(b)	Yes

2. THE BOARD OF DIRECTORS

2 (a) Roles and Responsibilities of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for oversight of the management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The Board operates within the broad principles and responsibilities described in the following:

- Setting the strategic aims of the Company and overseeing management's performance within that framework;
- Making sure that the necessary resources (financial and human) are available to the Company and its senior executives to meet its objectives;
- Overseeing management's performance and the progress and development of the Company's strategic plan;
- Selecting and appointing suitable Executive Directors with the appropriate skills to help the Company in the pursuit of its objectives;
- Determining the remuneration policy for the Board members, Company Secretary and Senior Management;
- Controlling and approving financial reporting, capital structures and material contracts;
- Ensuring that a sound system of risk management and internal controls are in place;
- Setting the Company's values and standards;
- Undertaking a formal and rigorous review of the Corporate Governance policies to ensure adherence to the ASX Corporate Governance Council;
- Ensuring that the Company's obligations to shareholders are understood and met;
- Ensuring the health, safety and well-being of employees in conjunction with the senior management team, including developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to assure the well-being of all employees;
- Ensuring an adequate system is in place for the proper delegation of duties for the effective operative day to day running of the Company without the Board losing sight of the direction that the Company is taking; and
- Any other matter considered desirable and in the interest of the Company.

2 (b) Board Composition

The Directors determine the composition of the Board employing the following principles:

- the Board, in accordance with the Company's constitution must comprise a minimum of three Directors;
- the roles of the Chairman of the Board and of the Chief Executive Officer should be exercised by different individuals;
- the majority of the Board should comprise Directors who are Non-Executive; and
- Directors should bring characteristics which allow a mix of qualifications, skills, experience, expertise and diversity to the Board.

The Board is currently comprised of two Non-Executive Directors and one Executive Director. At all times during the year the Board comprised a majority of Non-Executive Directors. The skills, experience, expertise, qualifications and terms of office of each Director in office at the date of the annual report is included in the Directors' Report.

The Company's constitution requires one-third of the Directors (or the next lowest whole number) to retire by rotation at each Annual General Meeting (AGM). The Directors to retire at each AGM are those who have been longest in office since their last election. Where Directors have served for equal periods, they may agree amongst themselves or determine by lot who will retire. A Director must retire in any event at the third AGM since he or she was last elected or re-elected. Retiring Directors may offer themselves for re-election.

A Director appointed as an additional or casual Director by the Board will hold office until the next AGM when they may be re-elected.

The Managing Director is not subject to retirement by rotation and, along with any Director appointed as an additional or casual Director, is not to be taken into account in determining the number of Directors required to retire by rotation.

2 (c) Roles of the Chairman and Executive Director

The Chairman is responsible for:

- providing the necessary direction required for an effective Board;
- ensuring that all the Directors receive timely and accurate information so that they can make informed decisions on matters of the Company;
- ensuring that the Board collectively and individual Directors' performance is assessed annually; and
- encouraging active engagement from all members of the Board.

The Managing Director is responsible for:

- the executive management of the company's operations;
- policy direction of the operations of the Company;
- the efficient and effective operation of the Company; and
- ensuring all material matters affecting the Company are brought to the Board's attention.

Board policy specifies that the roles of the Chairman and the Chief Executive Officer should be separate roles to be undertaken by separate people.

2 (d) Nomination Committee

The Company does not comply with ASX Recommendation 2.4. The Company is not of a relevant size to consider formation of a nomination committee to deal with the selection and appointment of new Directors and as such a nomination committee has not been formed.

Nominations of new Directors are considered by the full Board. If any vacancies arise on the Board, all Directors are involved in the search and recruitment of a replacement. The Board has taken a view that the full Board will hold special meetings or sessions as required. The Board are confident that this process for selection and review is stringent and full details of all Directors are provided to shareholders in the annual report and on the Company's website.

2 (e) Independent Directors

The Company recognises that independent Directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the Directors against specific criteria to decide whether they are in a position to exercise independent judgment.

Directors of Kairiki Energy Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In making this assessment, the Board considers all relevant facts and circumstances. Relationships that the Board will take into consideration when assessing independence are whether a Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company or another Company member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Company member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other Company member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or another Company member other than as a Director.

The Board currently comprises two independent Non-Executive Directors.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Kairiki Energy Limited are considered to be independent:

Peter Cockcroft	Non-Executive Director
Duncan Maclean	Non-Executive Director

The following persons hold office as Directors of Kairiki Energy Limited at the date of this report:

Peter Cockcroft	Since 26 April 2012
Duncan Maclean	Since 31 March 2011
Mark Fenton	Since 1 December 2009

2 (f) Avoidance of Conflicts of Interest by a Director

In order to ensure that any interests of a Director in a particular matter to be considered by the Board are known by each Director, each Director is required by the Company to disclose any relationships, duties or interests held that may give rise to a potential conflict. Directors are required to adhere strictly to constraints on their participation and voting in relation to any matters in which they may have an interest.

2 (g) Board Access to Information and Independent Advice

Directors are able to access members of the management team at any time to request relevant information.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

2 (h) Review of Board Performance

The performance of the Board, collectively and individually, is reviewed annually by the Chairman. The Chairman conducts performance evaluations which involve an assessment of each Board member's performance against specific and measurable qualitative and quantitative performance criteria. The evaluation process is focussed on objective and tangible criteria such as:

- Performance of the Company
- Accomplishment of long term strategic objectives
- Development of management
- Growth in shareholder value

3. BOARD COMMITTEES

3 (a) Audit Committee

Given the size and scale of the Company's operations the full Board undertakes the role of the Audit Committee. The Audit Committee does not comply with ASX Recommendation 4.2 as the Chair of the Board is Chair of the Audit Committee. The role and responsibilities of the Audit Committee are summarised below.

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors. The Board sets aside time to deal with issues and responsibilities usually delegated to the Audit Committee to ensure the integrity of the financial statements of the Company and the independence of the auditor.

The Board reviews the audited annual and half-year financial statements and any reports which accompany published financial statements and recommends their approval to the members. The Board also reviews annually the appointment of the external auditor, their independence and their fees.

The Board is also responsible for establishing policies on risk oversight and management. The Company has not formed a separate Risk Management Committee due to the size and scale of its operations.

External Auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is Rothsay's policy to rotate engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the notes to the financial statements in the Annual Report.

There is no indemnity provided by the company to the auditor in respect of any potential liability to third parties.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation and content of the audit report.

There were no non-audit services provided by the auditors during the year.

3 (b) Remuneration Committee

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

The Board has not established a separate Remuneration Committee due to the size and scale of its operations. This does not comply with Recommendation 8.1 however the Board as a whole takes responsibility for such issues.

The responsibilities include setting policies for senior officers remuneration, setting the terms and conditions for the Managing Director, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both executive and Non-Executive Directors and undertaking reviews of the Managing Director's performance.

The Company has structured the remuneration of its senior executives, where applicable, such that it comprises a fixed salary, statutory superannuation and, where applicable, participation in the Company's employee share option plan. The Company believes that by remunerating senior executives in this manner it rewards them for performance and aligns their interests with those of shareholders and increases the Company's performance.

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for Non-Executive Director remuneration. The Company does not adhere to Recommendation 8.3 Box 8.2 'Non-Executive Directors should not receive options or bonus payments'. The Company has and may, in the future, grant options to Non-Executive Directors. The Board is of the view that options (for both executive and Non-Executive Directors) are a cost effective benefit for small companies such as Kairiki Energy Limited that seek to conserve cash reserves. They also provide an incentive that ultimately benefits both shareholders and the optionholders, as optionholders will only benefit if the market value of the underlying shares exceeds the option strike price. Ultimately, shareholders will make that determination.

The board policy is to remunerate Directors at market rates for time, commitment and responsibilities. The Board determines payments to the Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. Fees for Non-Executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholders interests, the Directors are encouraged to hold shares in the Company.

The Company's aim is to remunerate at a level that will attract and retain high-calibre Directors and employees. Company officers and Directors are remunerated to a level consistent with the size of the Company.

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive compensation is separate and distinct.

In determining remuneration, the Board has taken a view that the full Board will hold special meetings or sessions as required. No Director participated in any deliberation regarding his or her own remuneration or related issues. The Board are confident that this process for determining remuneration is stringent and full details of remuneration policies and remuneration received by Directors and executives in the current period is contained in the "Remuneration Report" within the Directors' Report of the Annual Report.

4. ETHICAL AND RESPONSIBLE DECISION MAKING

4 (a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of the Company act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. The "Code of Conduct" sets out the principles, practices, and standards of personal behaviour the Company expects people to adopt in their daily business activities.

All Directors, officers and employees are required to comply with the Code of Conduct. Senior managers are expected to ensure that employees, contractors, consultants, agents and partners under their supervision are aware of the Company's expectations as set out in the Code of Conduct.

All Directors, officers and employees are expected to:

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of potential conflicts.

4 (b) Workplace Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. Accordingly, the company has established a diversity policy which is available on the company's website.

The Board has a commitment to promoting a corporate culture that is supportive of diversity and encourages the transparency of Board processes, review and appointment of Directors. The Board is responsible for developing policies in relation to the achievement of measurable diversity objectives and the extent to which they will be linked to the Key Performance Indicators for the Board, Managing Director and senior executives.

The Company's strategies may include:

- recruiting from a diverse range of candidates for all positions, including senior executive roles and Board positions;
- reviewing pre-existing succession plans to ensure that there is a focus on diversity;
- encourage female participation across a range of roles across the Company;
- review and report on the relative proportion of women and men in the workforce at all levels of the Company;
- articulate a corporate culture which supports workplace diversity and in particular, recognises that employees at all levels of the Company may have domestic responsibilities;
- develop programs to encourage a broader pool of skilled and experienced senior management and Board candidates, including, workplace development programs, mentoring programs and targeted training and development; and
- any other strategies that the Board or the Nomination Committee develops from time to time.

At the date of this report the Company has one executive and one other female full-time employee. The company also utilises the services of a number of female consultants, in varying roles. No women are currently represented on the Board.

Due to the current size, nature and scale of the Company's activities the Board has not yet developed objectives regarding gender diversity. As the size and scale of the company grows the Board will set and aim to achieve gender diversity objectives as Director and senior executive positions become vacant and appropriately qualified candidates become available.

5. TIMELY AND BALANCED DISCLOSURE

5 (a) Shareholder Communication

The Company is committed to:

- Ensuring that shareholders and the market are provided with full and timely information about its activities;
- Complying with the continuous disclosure obligations contained in the ASX Listing Rules and the applicable sections of the Corporations Act 2001; and
- Providing equal opportunity for all stakeholders to receive externally available information issued by the Company in a timely manner.

The Company's Disclosure Policy covers financial markets communication, media contact and continuous disclosure issues.

All information released to the ASX, after clearance from the ASX will be promptly placed on the Company's website.

Shareholders are encouraged to participate in general meetings. Copies of addresses by the Chairman or Chief Executive Officer are disclosed to the market and posted on the Company's website. The Company's external auditor attends the Company's annual general meeting to answer shareholder questions about the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

5 (b) Continuous Disclosure Policy

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal opportunities to receive externally available information issued by the Company. The Company's "ASX Disclosure Policy" described in 5(a) reinforces the Company's commitment to continuous disclosure and outline management's accountabilities and the processes to be followed for ensuring compliance.

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX.

6. RECOGNISING AND MANAGING RISK

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives. A written policy in relation to risk oversight and management has been established. Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn responsibilities.

6 (a) Board Oversight of the Risk Management System

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The principle aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company's specific needs and the risks to which it is exposed.

Annually, the Board is responsible for identifying the risks facing the Company, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

6 (b) Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

The Board is responsible for satisfying itself that management has developed and implemented a sound system of risk management and internal control.

6 (c) Chief Executive Officer and Chief Financial Officer Certification

The Chief Executive Officer and Chief Financial Officer, or equivalent, provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management an internal compliance and control system is operating efficiently and effectively in all material respects.

6 (d) Internal Review and Risk Evaluation

Assurance is provided to the Board by executive management on the adequacy and effectiveness of management controls for risk on a regular basis.

7. TRADING IN COMPANY SECURITIES BY DIRECTORS AND EMPLOYEES

The Board has adopted a Securities Trading Policy which complies with the requirements of Listing Rule 12.12 which regulates dealings by Directors, officers and employees in securities issued by the Company.

The policy, which is available on the Company's website, includes the Company's closed periods, restrictions on trading that apply to the Company's key management personal, trading that is not subject to the policy, exceptional circumstances in which key management personnel may be permitted to trade during a prohibited period with prior written clearance and the procedure for obtaining written clearance. The policy provides that employees, Directors and officers must not enter into transactions or arrangements which operate to limit the economic risk of their security holding in the Company without first seeking and obtaining written acknowledgement from the Board.

04. FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	
	Note	2012 $'000	2011 $'000
Revenue	2(a)	**62**	63
Other income	2(a)	**23**	227
		85	290
Administrative expenses	2(b)	**1,859**	1,974
Exploration expenses		**2**	1
Impairment of oil and gas properties		**-**	28,198
Impairment of deferred exploration and evaluation expenditure		**-**	10,212
Impairment of receivables for deferred consideration for the sale of interest in oil and gas permits		**-**	1,045
Finance costs	2(b)	**1,371**	1,866
		3,232	43,296
Loss Before Income Tax Expense		**(3,147)**	(43,006)
Income tax expense	3	**14**	-
Loss After Tax for the Period		**(3,161)**	(43,006)
Other Comprehensive Income/(Loss)			
Foreign currency translation		**344**	(6,509)
Total Comprehensive Loss Attributable to Members of Kairiki Energy Limited		**(2,817)**	(49,515)
Basic and diluted loss per share (cents per share)	4	**(0.13) cents**	(5.22) cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	**1,340**	1,802
Trade and other receivables	6	**59**	54
Total Current Assets		**1,399**	1,856
Non-Current Assets			
Plant and equipment	7	**1**	7
Oil and gas properties	8	**-**	-
Deferred exploration and evaluation expenditure	9	**15,746**	14,343
Total Non-Current Assets		**15,747**	14,350
Total Assets		**17,146**	16,206
LIABILITIES			
Current Liabilities			
Trade and other payables	10	**164**	2,897
Provisions	11	**4**	5
Convertible notes	12	**752**	6,967
Total Current Liabilities		**920**	9,869
Non-Current Liabilities			
Convertible notes	12	**6,631**	-
Total Non-Current Liabilities		**6,631**	-
Total Liabilities		**7,551**	9,869
Net Assets		**9,595**	6,337
EQUITY			
Issued capital	13	**75,700**	70,234
Reserves	14	**(2,952)**	(3,905)
Accumulated losses		**(63,153)**	(59,992)
Total Equity		**9,595**	6,337

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital $'000	Share-based Payments Reserve $'000	Foreign Currency Translation Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 30 June 2010	50,926	2,837	(376)	(16,986)	36,401
Loss for the period	-	-	-	(43,006)	(43,006)
Other comprehensive loss	-	-	(6,509)	-	(6,509)
Total comprehensive loss for the period	-	-	(6,509)	(43,006)	(49,515)
Shares issued	20,928	-	-	-	20,928
Share issue transaction costs	(1,559)	-	-	-	(1,559)
Share-based payments	-	143	-	-	143
Repayment of convertible notes	(61)	-	-	-	(61)
Balance at 30 June 2011	**70,234**	**2,980**	**(6,885)**	**(59,992)**	**6,337**
Loss for the period	**-**	**-**	**-**	**(3,161)**	**(3,161)**
Other comprehensive income	**-**	**-**	**344**	**-**	**344**
Total comprehensive loss for the period	**-**	**-**	**344**	**(3,161)**	**(2,817)**
Shares issued	**6,014**	**-**	**-**	**-**	**6,014**
Share issue transaction costs	**(548)**	**-**	**-**	**-**	**(548)**
Share-based payments	**-**	**609**	**-**	**-**	**609**
Balance at 30 June 2012	**75,700**	**3,589**	**(6,541)**	**(63,153)**	**9,595**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Cash Flows from Operating Activities			
Payments to suppliers and employees		**(1,293)**	(1,930)
Exploration costs expensed		**(2)**	(1)
Interest received		**62**	63
Interest and other costs of finance paid		**(418)**	(1,153)
Income taxes paid		**(14)**	-
Net Cash Used in Operating Activities	5(i)	**(1,665)**	(3,021)
Cash Flows from Investing Activities			
Expenditure on oil and gas properties		**-**	(26,090)
Receipts from sales of oil produced during extended well test		**-**	6,486
Expenditure on exploration and evaluation		**(3,307)**	(2,529)
Proceeds from the sale of interests in oil and gas permits		**-**	1,243
Payments for plant and equipment		**-**	(6)
Net Cash Used in Investing Activities		**(3,307)**	(20,896)
Cash Flows from Financing Activities			
Proceeds from issues of shares		**6,002**	20,928
Proceeds from exercise of options		**12**	-
Payments for share issue transaction costs		**(548)**	(1,572)
Repayment of convertible notes		**(951)**	(1,982)
Net Cash Provided by Financing Activities		**4,515**	17,374
Net Decrease in Cash Held		**(457)**	(6,543)
Cash at the beginning of the financial year		**1,802**	9,028
Effect of exchange rate changes		**(5)**	(683)
Cash and Cash Equivalents at End of Year	5	**1,340**	1,802

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

05. NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 (a) Corporate Information

The financial report of Kairiki Energy Limited ("Kairiki" or "the Company") and its subsidiaries ("the Group") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 28 September 2012.

Kairiki is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

1 (b) Basis of Presentation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, with the exception of derivative financial instruments, which are measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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 12.

As discussed in the Operations Review, a farm-in agreement for SC 54A is currently being negotiated with Viking Energy. The Directors believe it is appropriate to prepare the financial statements on a going concern basis.

1 (c) Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

1 (d) Adoption of New and Revised Standards

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011.

- AASB 124 (Revised) Related Party Disclosures (December 2009)
- AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]
- AASB 1054 Australian Additional Disclosures
- AASB 2010-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 1, 7, 101, 134 and Interpretation 13]
- AASB 2010-5: Amendments to Australian Accounting Standards [AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]
- AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASBs 1 & 7]
- AASB 2011-1: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASBs 1, 5, 101, 107, 108, 121, 128, 132, 134 and Interpretations 2, 112 & 113]

The adoption of the above Standards and Interpretations did not have an impact on the financial statements or performance of the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has reviewed all of the Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2012. These include the following:

Reference	Title	Summary	Application Date of Standard	Application Date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly – controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give ventures a right to the underlying assets and obligations themselves are accounted for by recognising the share of assets and obligations. Joint Ventures that give the venturers a right to the net assets are accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 July 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application Date of Standard	Application Date for Group
AASB 9 Financial Instruments	Amendments to Australian Accounting Standard – Financial Instruments and its associated amending standards	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2012-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets are debt instruments will be classified based on: (1) The objective of the entity's business model for managing the financial assets; (2) The characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect if the changes in credit risk are also presented in profit and loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	1 July 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application Date of Standard	Application Date for Group
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: ◆ Tier 1: Australian Accounting Standards ◆ Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local Governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.	1 July 2013	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and reduces that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 12]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.	1 January 2012	1 July 2012
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]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently.	1 July 2012	1 July 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application Date of Standard	Application Date for Group
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	1 July 2013
Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate. Consequential amendments were also made to other standards via AASB 2011-12.	1 January 2013	1 July 2013
Annual Improvements 2009-2011 Cycle	Annual Improvements to IFRS 2009-2011 Cycle	These amendments to International Financial Reporting Standards have not yet been adopted by the AASB. The items addressed include: IFRS 1 First-Time Adoption of International Financial Reporting Standards ◆ Repeated application of IFRS 1 ◆ Borrowing costs IAS 1 Presentation of Financial Statements: ◆ Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment: classification of servicing equipment. ◆ Classification of servicing equipment IAS 32 Financial Instruments: Presentation: tax effect of distribution to holders of equity instruments ◆ Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting: interim financial reporting and segment information for total assets and liabilities. ◆ Interim financial reporting and segment information for total assets and liabilities	1 January 2013	1 July 2013

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 (e) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Kairiki Energy Limited ("Kairiki", the "Company", or "parent entity") and its subsidiaries ("the Group") as at 30 June each year.

Subsidiaries are fully consolidated from the date the Group obtains control until such time as control ceases. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same period as the parent entity, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated in full.

Investments in subsidiaries held by Kairiki Energy Limited are accounted for at cost in the separate financial statements of the parent entity, less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

1 (f) Foreign Currency Translation

The financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the parent entity Kairiki Energy Limited is United States Dollars, due to the Company's US Dollar convertible note funding. As the Company is listed on the Australian Securities Exchange, its presentation currency is Australian Dollars.

The functional currency of subsidiary Yilgarn Petroleum Philippines Pty Ltd is also US Dollars. The functional currency of the other Australian subsidiaries is Australian Dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the rate of exchange ruling at the reporting date.

As at the reporting date the assets and liabilities of the parent entity and the subsidiary with US dollar functional currency are translated into the presentation currency of Kairiki Energy Limited at the rate of exchange at the reporting date and the statements of comprehensive income are translated at the spot rate of the transactions or average exchange rates for the period.

The exchange differences arising on translation are recognised in the foreign currency translation reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

1 (g) Significant Accounting Estimates and Judgements

Significant Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

Exploration and Evaluation Assets

The Group's accounting policy for exploration and evaluation expenditure is set out at Note 1(l). The application of this policy necessarily requires management to make certain assumptions as to future events and circumstances. Any such assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount is written off to the statement of comprehensive income.

Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

i. *Impairment of Assets*

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset-specific discount rates and a "value in use" discounted cash flow methodology. Additional disclosures are provided about the discount rate and any other significant assumptions. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. *Share-Based Payment Transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model using the assumptions detailed in Note 19.

iii. *Restoration Obligations*

Where a restoration obligation exists, the Group estimates the future removal costs of offshore oil and gas platforms, production facilities, wells and pipelines at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgmental assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of the provision for restoration refer to Note 1(q).

iv. *Valuation of Convertible Notes*

The Group issued convertible notes in September and October 2008, which contain a holder call option embedded derivative. The carrying value of the call option component was based on the residual value of the debt after subtracting the debt value from the face value of the debt. The terms of the convertible note were amended during the year ended 30 June 2012 and the amended call option component valued at fair value. Refer to Note 12 for further information.

1 (h) Cash and Cash Equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

1 (i) Trade and Other Receivables

Trade receivables are recognised initially at fair value (generally the original invoice amount) and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payment or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the effective interest rate.

Restricted cash is not due for settlement until rights of tenure are forfeited or performance obligations are met.

1 (j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined as follows:

i. Materials, which include drilling and maintenance stocks, are valued at cost.

ii. Petroleum products, comprising extracted crude oil stored in FSO tanks, are valued using the full absorption cost method.

Inventories and material stocks are accounted for on a first in, first out (FIFO) basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 (k) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Plant and equipment – 2 to 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

1 (l) Exploration and Evaluation Expenditure

Costs related to the acquisition of properties that contain resources are allocated separately to specific areas of interest. These costs are capitalised until the viability of the area of interest is determined.

Exploration and evaluation expenditure is stated at cost and is accumulated in respect of each identifiable area of interest.

Such costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest (or alternatively by its sale), or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations are continuing. Accumulated costs in relation to an abandoned area are written off to the statement of comprehensive income in the period in which the decision to abandon the area is made.

The Directors review the carrying value of each area of interest as at the balance date and any exploration expenditure which no longer satisfies the above policy is written off.

Once an area of interest enters the development phase, all capitalised acquisition, exploration and evaluation expenditures are transferred to oil and gas properties.

1 (m) Oil and Gas Properties

Assets in Development

When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditures, surface plant and equipment, and any associated land and buildings.

Producing Assets

The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. Depletion charges are calculated using a unit of production method which will amortise the cost of carried forward exploration, evaluation and development expenditure over the life of the estimated Proved plus Probable Reserves (2P), in a cash generating unit.

Provisions for future restoration are made where there is a present obligation as a result of development or production activity, and is capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in full at Note 1(q).

1 (n) Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 (o) Investments and Other Financial Assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

i. *Financial Assets at Fair Value Through Profit or Loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

ii. *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

iii. *Available-For-Sale Investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

1 (p) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

1 (q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restoration Provisions

The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of the long-lived assets to which the obligation relates is increased by the asset retirement obligation costs and amortised over the producing life of the asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of the asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Company has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date. Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded within finance costs. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

1 (r) Interests in Joint Ventures

Interests in jointly controlled assets are reported in the financial statements by including the Group's share of assets employed in the Joint Ventures, the share of liabilities incurred in relation to the Joint Ventures and the share of any expenses and revenues in relation to the Joint Ventures in their respective categories.

1 (s) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave, expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

1 (t) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

1 (u) Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1 (v) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

1 (w) Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred except for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale. In this case, borrowing costs are capitalised as part of the cost of the qualifying asset.

1 (x) Share-Based Payment Transactions

Equity-Settled Transactions:

The Group provides benefits to employees (including Directors) and consultants of the Group in the form of share-based payments, whereby those individuals render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, the cost of these equity-settled transactions with these individuals is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Kairiki Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award (the vesting period).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The amount charged or credited to the statement of comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

1 (y) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in Joint Ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in Joint Ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1 (z) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

1 (aa) Segment Reporting

An operating segment is a component of the entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Operating segments have been identified based on the information provided to the chief operating decision makers, being the executive management team.

1 (ab) Financial Instruments Issued by the Company

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs arising on the issue of equity instruments, net of associated tax, are recognised directly in equity as a reduction of the proceeds of the equity instrument to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Convertible Note

The Convertible Note is split into two components: a debt component and a component representing the embedded derivatives in the Convertible Note. The debt component represents the Group's liability for future interest coupon payments and the redemption amount. The embedded derivatives represent the value of the option that Convertible Note holders have to convert into ordinary shares in the Company.

The debt component of the Convertible Note is measured at amortised cost and therefore increases as the present value of the redemption amount increases, with a corresponding charge to finance cost as accretion expense. The carrying value of the call option component was based on the residual value of the Convertible Note after subtracting the debt value from the face value of the Convertible Note.

During the year ended 30 June 2012, the terms of the Convertible Note were amended. The amended embedded derivative is valued at fair value, which has been determined by calculating the maximum potential value of the call option and discounting that amount to its present value. The maximum value is limited because the conversion price is based upon a 10% discount to the market price. The movement in the fair value is recorded in profit or loss each reporting period.

The transactions costs of the Convertible Note have been offset against the debt instruments. These costs are amortised over the life of the debt instruments.

1 (ac) Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

2. REVENUE AND EXPENSES

	Consolidated 2012 $'000	Consolidated 2011 $'000
2 (a) Revenue and Other Income		
Interest revenue	**62**	63
Foreign exchange gains	**23**	227
	85	290
2 (b) Expenses		
Administrative expenses include:		
Employee benefits expense:		
Salaries, wages and Directors' fees	**612**	736
Defined contribution superannuation expense	**29**	31
Share-based payments expense	**608**	143
Net expense/(benefit) from movement in provision for employee entitlements	**(1)**	-
Other employee benefits expense	**6**	34
	1,254	944
Depreciation	**6**	7
Operating lease rental expense	**114**	98
Finance costs include:		
Interest paid, including withholding tax	**431**	1,219
Accretion expense	**898**	606
Borrowing costs expensed	**42**	41
	1,371	1,866

3. INCOME TAX

	Consolidated 2012 $'000	Consolidated 2011 $'000
3 (a) The Major Components of Income Tax Are:		
Statement of comprehensive income		
Current income tax	**14**	-
Deferred income tax	**-**	-
Income tax expense reported in the statement of comprehensive income	**14**	-
Amounts charged or credited directly to equity		
Share issue costs	**(41)**	(169)
Unrecognised tax losses	**41**	169
Income tax benefit reported in equity	**-**	-

3 (b) Income Tax Reconciliation

The reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Company's applicable income tax rate is as follows:

	2012 $'000	2011 $'000
Loss before income tax	**(3,147)**	(43,006)
Income tax benefit at 30% (2011: 30%)	**(944)**	(12,902)
Non-deductible finance costs	**365**	-
Non-deductible impairment of development expenditure	**-**	8,459
Non-deductible impairment of deferred exploration and evaluation expenditure	**-**	3,064
Non-deductible impairment of receivables	**-**	313
Fair value movement of derivative financial instrument	**31**	-
Share-based payments	**183**	43
Foreign exchange	**76**	(68)
Other	**-**	1
Unrecognised tax losses	**303**	1,089
Income tax expense reported in the statement of comprehensive income	**14**	-

3 (c) Deferred Income Tax

	2012 $'000	2011 $'000
Unrecognised Deferred Tax Assets		
Share issue costs	**150**	166
Accruals	**4**	4
Leave entitlements	**1**	2
Other	**-**	2
Revenue tax losses	**5,760**	5,446
Deferred tax asset netted off against deferred tax liability	**(112)**	(39)
Unrecognised deferred tax assets	**(5,803)**	(5,581)
	-	-
Unrecognised Deferred Tax Liabilities		
Convertible notes	**(112)**	(39)
Deferred tax asset netted off against deferred tax liability	**112**	39
	-	-

3. INCOME TAX (CONTINUED)

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

Franking Credits

The franking account balance at year end was nil (2011: nil).

Tax Consolidation Legislation

Kairiki Energy Limited and its 100% owned subsidiaries have not formed a tax consolidated group.

4. EARNINGS PER SHARE

	Consolidated	
	2012	**2011**
	Cents	Cents
Basic earnings per share	**(0.13)**	(5.22)
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
	$'000	$'000
Earnings – net loss after tax for the year	**(3,161)**	(43,006)
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**2,412,866,120**	823,467,614

The Company's potential ordinary shares, being its options granted and the shares to be issued for the conversion of the Convertible Notes, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share.

5. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	**1,340**	1,802
i. *Reconciliation of loss for the year to net cash flows used in operating activities*		
Loss for the year	**(3,161)**	(43,006)
Adjustments for:		
Depreciation	**6**	7
Impairment of oil and gas properties	**-**	28,198
Impairment of deferred exploration and evaluation expenditure	**-**	10,212
Impairment of receivables for deferred consideration for sale of interest in oil and gas properties	**-**	v1,045
Accretion expense	**898**	606
Fair value loss on embedded derivative	**102**	-
Amortisation of borrowing costs	**42**	41
Share-based payments	**608**	143
Unrealised foreign exchange losses / (gains)	**75**	(227)
Change in operating assets and liabilities:		
(Increase) / decrease in receivables	**(5)**	56
Decrease in payables	**(229)**	(96)
Decrease in provisions	**(1)**	-
Net cash flows used in operating activities	**(1,665)**	(3,021)

5. CASH AND CASH EQUIVALENTS (CONTINUED)

ii. *Non-Cash Financing and Investing Activities*

There were no non-cash financing or investing activities.

6. TRADE AND OTHER RECEIVABLES

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Sundry debtors	**21**	20
GST refunds due	**17**	23
Prepayments	**21**	11
	59	54

Fair Value and Risk Exposures

i. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

ii. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.

iii. Details regarding foreign exchange risk exposure are disclosed in Note 23.

iv. Other receivables generally have repayments between 30 and 90 days.

Receivables do not contain past due or impaired assets as at 30 June 2012 (2011: none).

7. PLANT AND EQUIPMENT

	2012 $'000	2011 $'000
Plant and equipment – at cost	**43**	41
Accumulated depreciation and impairment	**(42)**	(34)
	1	7
Reconciliation of Plant and Equipment		
Carrying amount at beginning of period	**7**	13
Additions	**-**	6
Disposals	**-**	(2)
Depreciation	**(6)**	(7)
Foreign currency translation movements	**-**	(3)
Carrying amount at end of period	**1**	7

8. OIL AND GAS PROPERTIES

	Consolidated 2012 $'000	2011 $'000
Development phase, at cost	**-**	-
Reconciliation of Oil and Gas Properties		
Carrying amount at beginning of period	**-**	13,787
Transfers from exploration and evaluation	**-**	-
Additions	**-**	22,321
Sale of interests in oil and gas permits	**-**	-
Sale of oil produced during the period, net of sales costs	**-**	(4,078)
Transfer of oil produced during extended well test to inventory	**-**	-
Additions to / (reversal of) restoration asset	**-**	(1,092)
Expenditure written off during the year	**-**	(28,198)
Foreign currency translation movements	**-**	(2,740)
Carrying amount at end of period	**-**	-

The carrying value of Kairiki's interest in the Tindalo oil field in the Philippines SC 54 permit, Area 'A', was written off in December 2010 following the Joint Venture Partners' decision to abandon the Tindalo Well.

9. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	2012 $'000	2011 $'000
Deferred oil and gas expenditure	**15,746**	14,343
Reconciliation of Deferred Exploration and Evaluation Expenditure		
Carrying amount at beginning of period	**14,343**	24,254
Additions	**792**	5,018
Expenditure written off during the year	**-**	(10,212)
Foreign currency translation movements	**611**	(4,717)
Carrying amount at end of period	**15,746**	14,343

Deferred oil and gas expenditure represents expenditures relating to the Yakal discovery and residual areas of the SC 54 Area 'A' permit, plus Kairiki's Philippine SC 54 permit, Area 'B'. Deferred expenditure relating to the Gindara-1 well was written off in June 2011 after drilling established that the well was non-commercial.

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

10. TRADE AND OTHER PAYABLES

	Consolidated	
	2012 $'000	**2011 $'000**
Current		
Trade payables and accruals	**164**	2,897

Fair Value and Risk Exposures

i. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

ii. Details regarding foreign exchange and liquidity risk are disclosed in Note 23.

iii. Trade and other payables are unsecured and usually paid within 60 days of recognition.

11. PROVISIONS

Current		
Employee benefits	**4**	5
Restoration	**-**	-
	4	5
Reconciliation of Restoration Provision		
Carrying amount at beginning of period	**-**	1,286
Reversed during the period	**-**	(1,092)
Foreign currency translation movements	**-**	(194)
Carrying amount at end of period	**-**	-

The provision for the estimated cost of restoration work required at the end of the useful life of the Tindalo oil field was reversed in December 2010 following the Joint Venture Partners' decision to abandon the Tindalo Well.

All required abandonment obligations in relation to drilling conducted at Yakal have been met. Future abandonment costs will be required in the event that the well is completed and moves into production.

12. CONVERTIBLE NOTES

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Financial liability measured at amortised cost	**-**	6,967
Derivative financial instrument	**752**	-
	752	6,967
Non-Current		
Financial liability measured at amortised cost	**6,631**	-
	6,631	-
Movement in debt component		
Carrying amount at beginning of period	**6,967**	10,271
Repayment of debt	**(951)**	(1,921)
Accretion of debt	**898**	606
Capitalised interest prior to amendments to Note terms	**82**	-
Restructuring fee	**(70)**	-
Amortisation of issuance and restructuring costs	**42**	41
Effect of amendment to Note terms	**(630)**	-
Foreign currency translation movements	**293**	(2,030)
Carrying amount at end of period	**6,631**	6,967
Movement in embedded derivative component		
Opening balance	**-**	-
Initial recognition upon amendment to Note terms	**630**	-
Fair value movements	**102**	-
Foreign currency translation movements	**20**	-
Closing balance	**752**	-

During the year the Company negotiated the following principal amendments to the Convertible Note agreement:

i. The repayment date of the Convertible Notes was extended by two years from September/October 2011 to September/October 2013;

ii. The interest rate paid on the outstanding balance of the Convertible Notes was reduced from 12% to 4% with the remaining 8% capitalised to the balance of the Convertible Notes and payable on maturity; and

iii. The conversion price of the Convertible Notes is now based on a 10% discount to the 20 day volume weighted average price with a minimum conversion price of 0.4 cents.

These amendments were approved at a shareholders' meeting held on 25 August 2011.

The amended 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).

The embedded derivative is carried at its fair value. The fair value of the embedded derivative has been determined by calculating the maximum potential value of the call option, which is limited because the conversion price is based upon a 10% discount to the market price. At the date the amended terms came into effect, the maximum potential value was A$709,000. This amount was discounted to its present value of A$630,000 at a risk-free rate of 6% assuming that conversion occurs at the end of the Note terms. At 30 June 2012, the maximum potential value was A$783,000 and the corresponding present value A$752,000. Over the term of the Note, the call option will be fair valued at each balance date and the movement in the fair value will be recorded in profit or loss.

12. CONVERTIBLE NOTES (CONTINUED)

The debt component will be accreted to US$7.9 million (the US$6.7 million principal outstanding at the time of the amendment to the Note terms, plus capitalised interest of US$1.2 million) over the term of the Note.

The principal amended 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 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;

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. IMC has an option to farm-in at up to 20% in SC 54B, subject to certain conditions. This option must be exercised no later than 6 months before the spud date of a well in SC 54B;

xiii. Redemption provisions for such events including failure to participate in a commercial SC 54 shallow water development, change of control, event of default; and

xiv. 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.

Equity Component

The carrying value of the original call option component was based on the residual value of the original Convertible Note after subtracting the debt value from the face value of the Convertible Note. This amount remains unchanged despite the amendments to the Note terms. Refer to Note 13(c).

13. ISSUED CAPITAL

	Consolidated 2012 $'000	2011 $'000
13 (a) Share Capital		
Ordinary shares fully paid	**73,810**	68,344
Equity portion of Convertible Note – refer to Note 12	**1,890**	1,890
	75,700	70,234

13 (b) Movement in Ordinary Shares on Issue

	Number	$'000
At 30 June 2010	560,909,998	48,975
Placement of shares (4 cents per share)	84,000,000	3,360
Rights issue (4 cents per share)	128,982,000	5,159
Placement of shares (3 cents per share)	116,000,000	3,480
Rights issue (3 cents per share)	296,630,666	8,899
Placement of shares (3 cents per share)	1,000,000	30
Share issue transaction costs	-	(1,559)
At 30 June 2011	**1,187,522,664**	**68,344**
Rights issue (0.4 cents per share)	**1,500,533,150**	**6,002**
Exercise of options	**308,023**	**12**
Share issue transaction costs	**-**	**(548)**
At 30 June 2012	**2,688,363,837**	**73,810**

13 (c) Movement in Equity Component of Convertible Note

	2012 $'000	2011 $'000
Carrying value at beginning of period	1,890	1,951
Equity component of repayment	-	(61)
Carrying value at the end of period	1,890	1,890

13 (d) Options at 30 June 2012

	Number	Exercise Price	Exercise Date
Listed Options *	2,045,923,471	0.4 cents	Between 1/6/2013 and 30/6/2013
Unlisted Options	36,000,000	6.5 cents	Between 16/5/2012 and 16/5/2014
	2,081,923,471		

* If these options are exercised, the option holder is entitled to receive a secondary option which is exercisable at 0.4 cents and expires on 30 June 2015.

During the year:

i. 13,000,000 unlisted options were forfeited on resignation;

ii. 304,884,072 listed options expired;

iii. 308,023 listed options were exercised at an exercise price of 4 cents;

iv. 750,133,177 listed options were issued as part of a rights issue; and

v. 1,295,790,294 listed options were issued pursuant to a bonus issue.

13. ISSUED CAPITAL (CONTINUED)

13 (e) Terms and Conditions of Contributed Equity

Ordinary Shares:

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management may in the future adjust the capital structure to take advantage of favourable costs of capital and issue further shares in the market. Management has no current plans to adjust the capital structure other than as disclosed in the financial statements. There are no plans to distribute dividends in the next year.

The Convertible Note with IMC imposes certain restrictions on the Company in regard to its future debt funding capabilities (refer to Note 12).

14. RESERVES

Nature and Purpose of Reserves:

Share-Based Payments Reserve

This reserve is used to record the value of equity benefits provided to Directors and employees as part of their remuneration.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

15. CONTINGENT ASSETS AND LIABILITIES

Contingent Assets

i. In March 2009, Kairiki entered into agreements with a previous partner, Alpine Oil & Gas Pty Ltd (AOG) to sell Kairiki's 30% interest in each of the Sicily Channel exploration permits, Pantelleria and Kerkouane. As consideration, AOG agreed to pay US$280,000 cash (A$326,836) for each permit if and when AOG disposes of an interest in those permits. US$280,000 was received in June 2010 in relation to the Kerkouane permit.

ii. Kairiki is entitled to receive 10% of net proceeds of certain Australian mineral tenements up to a sum of A$250,000 and a 1% net smelter royalty and for the remaining tenements, 10% of the net revenue after 5,000 ounces of gold has been produced. Subsequent to year end, A$250,000 was received.

Contingent Liabilities

There are no contingent liabilities.

16. COMMITMENTS

	Consolidated 2012 $'000	Consolidated 2011 $'000
16 (a) Operating Lease for Office Premises		
Future minimum rentals payable under non-cancellable operating lease:		
Within one year	**64**	104
More than one year but not later than five years	**-**	61
	64	165

Subsequent to year end, the Company signed a new lease with a term of three years from 1 February 2013.

16 (b) Exploration Commitments

In order to maintain current rights of tenure to its SC 54 permit, the consolidated entity 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 exploration expenditure requirements have not been provided for in the financial report and are payable:

	2012 $'000	2011 $'000
Within one year	**-**	-
More than one year but not later than five years	**-**	-
	-	-

16 (c) Joint Venture Capital Commitments

The consolidated entity'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:

	2012 $'000	2011 $'000
Within one year	**-**	-
More than one year but not later than five years	**-**	-
	-	-

17. KEY MANAGEMENT PERSONNEL DISCLOSURES

17 (a) Compensation of Key Management Personnel

	Consolidated 2012 $	Consolidated 2011 $
Short-term employment benefits	**530,807**	555,218
Post-employment benefits	**10,726**	21,431
Share-based payment	**677,156**	50,648
	1,218,689	627,297

17 (b) Option Holdings of Key Management Personnel

2012	Balance at 1 July 2011	Granted as Remuneration	Rights Issue Entitlement / Bonus Options (iii)	Expired or Change Due to Resignation	Balance at 30 June 2012	Number Not Vested	Number Vested and Exercisable	Number Vested and Not Exercisable
Directors								
P Cockcroft (i)	-	-	-	-	-	-	-	-
M Fenton	20,000,000	-	53,500	-	20,053,500	-	20,000,000	53,500
D. Maclean	7,500,000	-	5,196,750	-	12,696,750	-	7,500,000	5,196,750
P Fry (ii)	13,016,666	-	5,362,758	(18,379,424)	-	-	-	-
Executives								
N Bassett	7,500,000	-	300,000	-	7,800,000	-	7,500,000	300,000
	48,016,666	-	10,913,008	(18,379,424)	40,550,250	-	35,000,000	5,550,250

i. Appointed 26 April 2012.

ii. Resigned 26 April 2012.

iii. Includes Bonus Options issued to eligible shareholders on the basis of one loyalty Bonus Option for every two shares held.

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2011	Balance at 1 July 2010	Granted as Remuneration	Rights Issue Entitlement	Expired or Change Due to Resignation	Balance at 30 June 2011	Number Not Vested	Number Vested and Exercisable	Number Vested and Not Exercisable
Directors								
P Fry	-	12,500,000	516,666	-	13,016,666	12,500,000	516,666	-
M Fenton	-	20,000,000	-	-	20,000,000	20,000,000	-	-
D. Maclean (i)		7,500,000			7,500,000	7,500,000	-	-
L. Brown (ii)	-	-	-	-	-	-	-	-
J Baker (iii)	2,000,000	-	-	(2,000,000)	-	-	-	-
J. Morton (iv)	-	-	-	-	-	-	-	-
Executives								
N Bassett (v)	-	7,500,000	-	-	7,500,000	7,500,000	-	-
	2,000,000	47,500,000	516,666	(2,000,000)	48,016,666	47,500,000	516,666	-

i. Appointed 31 March 2011.

ii. Resigned 30 August 2010.

iii. Resigned 25 August 2010.

iv. Appointed 30 August 2010, resigned 28 September 2010.

v. Appointed as a Director on 28 September 2010, resigned 31 March 2011. Continues as Company Secretary.

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

17 (c) Shareholdings of Key Management Personnel

2012	Balance at Beginning of the Year	Options Exercised	Change Due to Appointment	Change Due to Resignation	Net Change Other	Balance at End of the Year
Directors						
P Cockcroft (i)	-	-	150,000	-	-	150,000
M Fenton	107,000	-	-	-	-	107,000
D Maclean	3,198,000	-	-	-	4,797,000	7,995,000
P Fry (ii)	10,725,518	-	-	(10,725,518)	-	-
Executives						
N Bassett	600,000	-	-	-	-	600,000
	14,630,518	-	150,000	(10,725,518)	4,797,000	8,852,000

i. Appointed 26 April 2012.

ii. Resigned 26 April 2012.

2011	Balance at Beginning of the Year	Options Exercised	Change Due to Appointment	Change Due to Resignation	Net Change Other	Balance at End of the Year
Directors						
P Fry	9,692,185	-	-	-	1,033,333	10,725,518
M Fenton	107,000	-	-	-	-	107,000
D Maclean (i)	-	-	2,198,000	-	1,000,000	3,198,000
L Brown (ii)	12,427,372	-	-	(12,427,372)	-	-
J Baker (iii)	70,000	-	-	(70,000)	-	-
J Morton (iv)	-	-	28,571	(28,571)	-	-
Executives						
N Bassett (v)	500,000	-	-	-	100,000	600,000
	22,796,557	-	2,226,571	(12,525,943)	2,133,333	14,630,518

i. Appointed 31 March 2011.

ii. Resigned 30 August 2010.

iii. Resigned 25 August 2010.

iv. Appointed 30 August 2010, resigned 28 September 2010.

v. Appointed as a Director on 28 September 2010, resigned 31 March 2011. Continues as Company Secretary.

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arms-length.

17 (d) Other Transactions and Balances with Key Management Personnel

IMC Oil & Gas Investments Limited, an entity with which former Directors Ms Jyn Sim Baker and Mr John Morton were related, is the holder of the Convertible Notes which Kairiki has issued. Full details of the Convertible Notes are disclosed in Note 12, and finance costs are disclosed in Note 2(b).

18. OTHER RELATED PARTY TRANSACTIONS

18 (a) Parent Entity

The ultimate parent entity within the Group is Kairiki Energy Limited.

18 (b) Subsidiaries

			% Held by Parent Entity	
Name of Controlled Entity	**Class of Share**	**Place of Incorporation**	**2012**	**2011**
Great Southern Mines NL	Ordinary	Australia	100%	100%
Yilgarn Petroleum Philippines Pty Ltd	Ordinary	Australia	100%	100%
Kairiki Energy Asia Pty Ltd	Ordinary	Australia	100%	100%
Kairiki Energy Africa Pty Ltd	Ordinary	Australia	100%	100%
Kairiki Energy Italy Pty Ltd	Ordinary	Australia	100%	100%

18 (c) Key Management Personnel

Disclosures relating to key management personnel are set out in Note 17.

18 (d) Transactions with Related Parties

The parent entity loans funds to its subsidiaries to fund exploration and development activities. No interest is charged and no repayment schedule exists for the inter-company loans. They are payable upon demand and the fair value approximates the carrying value. An allowance for impairment is recognised when there is objective evidence that the loans receivable are impaired.

19. SHARE-BASED PAYMENTS

19 (a) Value of Share-Based Payments in the Financial Statements

	Consolidated	
	2012 $'000	**2011 $'000**
Share-based payments expensed	608	143

19. SHARE-BASED PAYMENTS (CONTINUED)

19 (b) Summary of Share-Based Payments

Set out below are the summaries of options granted as share-based payments:

Grant Date	Expiry Date	Exercise Price	Balance at Start of the Year Number	Granted During the Year Number	Exercised During the Year Number	Expired or Change Due to Resignation Number	Balance at End of the Year Number	Vested and Exercisable at End of the Year Number
Consolidated and parent entity – 2012								
Key Management Personnel – unlisted options								
16/5/2011	16/5/2014	6.5c	47,500,000	-	-	(12,500,000)	35,000,000	35,000,000
Employees- unlisted options								
16/5/2011	16/5/2014	6.5c	1,500,000	-	-	(500,000)	1,000,000	1,000,000
			49,000,000	-	-	(13,000,000)	36,000,000	36,000,000
Weighted average exercise price ($)			0.065	-	-	0.065	0.065	0.065

Grant Date	Expiry Date	Exercise Price	Balance at Start of the Year Number	Granted During the Year Number	Exercised During the Year Number	Expired or Change Due to Resignation Number	Balance at End of the Year Number	Vested and Exercisable at End of the Year Number
Consolidated and parent entity – 2011								
Key Management Personnel – unlisted options								
14/12/2009	14/12/2012	15c	2,000,000	-	-	(2,000,000)	-	-
16/5/2011	16/5/2014	6.5c	-	47,500,000	-	-	47,500,000	-
Employees- unlisted options								
10/11/2008	31/5/2011	30c	500,000	-	-	(500,000)	-	-
16/5/2011	16/5/2014	6.5c	-	1,500,000	-	-	1,500,000	-
			2,500,000	49,000,000	-	(8,000,000)	2,500,000	-
Weighted average exercise price ($)			0.18	0.065	-	0.18	0.065	-

19. SHARE-BASED PAYMENTS (CONTINUED)

The assessed fair values of the options were determined using a binomial option pricing model, taking into account the exercise price, term of option, the share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the option. The inputs to the model used were:

2011

Grant Date	16 May 2011
Dividend yield (%)	-
Expected volatility (%)	100.00
Risk-free interest rate (%)	4.82%
Expected life of options (years)	2.50
Underlying share price ($)	0.045
Option exercise price ($)	0.065
Value of option ($)	0.023

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

19 (c) Weighted Average Fair Value

No share-based payment options were granted during the year ended 30 June 2012. The weighted average fair value of share-based payment options granted during the year ended 30 June 2011 was $0.023.

19 (d) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life of share-based payment options outstanding as at 30 June 2012 was 1.9 years (2011: 2.9 years).

20. AUDITORS' REMUNERATION

	Consolidated 2012 $	Consolidated 2011 $
Amount received or due and receivable by the auditor of Kairiki Energy Limited for:		
Auditing and reviewing the financial statements	**28,500**	22,000
Amount received or due and receivable by other audit firms:		
Audit of foreign subsidiary financial statements	**-**	24,212
Taxation consulting	**16,225**	20,235
	44,725	66,447

21. JOINT VENTURE

The consolidated entity had the following interests in a Joint Venture operation:

		Percentage Interest	
Joint Venture	Principal Activities	2012	2011
SC 54 Joint Venture – Area 'A'	Oil and gas exploration and development	30.1%	30.1%
SC 54 Joint Venture – Area 'B'	Oil and gas exploration	40%	22%

The Joint Venture is not a separate legal entity. It is a contractual arrangement between participants for the sharing of costs and outputs and does not in itself generate revenue or profit. The Joint Venture parties share development, exploration and evaluation costs and output in proportion to their ownership of Joint Venture assets and accordingly the Group's share of exploration evaluation and development expenditure is accounted for in accordance with the policy set out in Note 1.

Assets Utilised in the Joint Venture

The following amounts represent the Group's interest in the assets employed in Joint Ventures. These amounts are included in the consolidated financial statements under their respective categories as follows:

	Consolidated	
	2012 $'000	2011 $'000
ASSETS		
Non-Current Assets		
Deferred exploration and evaluation expenditure	**15,746**	14,343
Total Non-Current Assets	**15,746**	14,343
Total Assets	**15,746**	14,343
LIABILITIES		
Current Liabilities		
Trade and other payables	**113**	2,612
Total Current Liabilities	**113**	2,612
Total Liabilities	**113**	2,612
Net Assets	**15,633**	11,731

Commitments Relating to Joint Venture

Capital expenditure commitments in respect of Joint Ventures are disclosed in Note 16.

22. SEGMENT REPORTING

The Group has identified its operating segments based on the internal reports that are used by the executive management team (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 on the basis of stage of development as follows:

- Development assets
- 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**
30 June 2012			
Segment revenue	-	-	-
Unallocated items:			
Interest revenue			62
Foreign exchange gains			23
Total revenue and other income			85
Segment result	-	(29)	(29)
Unallocated items:			
Unallocated revenue and other income			85
Administrative and other costs			(1,832)
Finance costs			(1,371)
Income tax expense			(14)
Loss after tax as per the statement of comprehensive income			(3,161)
Segment assets	-	15,746	15,746
Unallocated items:			
Cash			1,340
Other corporate assets			60
Total assets			17,146
Segment capital expenditure	-	792	792
Unallocated corporate capital expenditure			-
Total capital expenditure			792

22. SEGMENT REPORTING (CONTINUED)

Consolidated	Oil & Gas - Development $'000	Oil & Gas - Exploration $'000	Total $'000
30 June 2011			
Segment revenue	-	-	-
Unallocated items:			
Interest revenue			63
Foreign exchange gains			227
Total revenue and other income			290
Segment result	(29,263)	(10,232)	(39,495)
Unallocated items:			
Unallocated revenue and other income			290
Administrative and other costs			(1,935)
Finance costs			(1,866)
Loss after tax as per the statement of comprehensive income			(43,006)
Segment assets	-	14,343	14,343
Unallocated items:			
Cash			1,802
Other corporate assets			61
Total assets			16,206
Segment capital expenditure	22,321	5,018	27,339
Unallocated corporate capital expenditure			6
Total capital expenditure			27,345

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash, short-term deposits and convertible notes. The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk, foreign currency risk and commodity risk. The Board reviews and agrees on policies for managing each of these risks and they are summarised below.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest Rate Risk

At balance date the Group's exposure to market risk for changes in interest rates relates primarily to the Company's short-term cash deposits. The Group constantly analyses its exposure to interest rates, with consideration given to potential renewal of existing positions, the mix of fixed and variable interest rates and the period to which deposits may be fixed. The Group is not exposed to cash flow volatility from interest rate changes on borrowings as the Convertible Note carries a fixed rate of interest of 12% per annum, of which 4% is paid in cash and 8% is capitalised.

At balance date, the Group had the following financial assets exposed to variable interest rates that are not designated in cash flow hedges:

	Consolidated	
	2012 $'000	**2011 $'000**
Financial Assets:		
Cash and cash equivalents held in interest-bearing accounts	**1,340**	1,799
Net exposure	**1,340**	1,799

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 0.5% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical LIBOR movements over the last three years.

At 30 June 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity relating to financial assets of the Group would have been affected as follows:

	Consolidated	
	2012 $'000	**2011 $'000**
Judgements of reasonably possible movements:		
Post tax profit - higher / (lower)		
+ 0.5%	**7**	9
- 0.5%	**(7)**	(9)
Equity - higher / (lower)		
+ 0.5%	**7**	9
- 0.5%	**(7)**	(9)

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its cash and funding requirements.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2012. These amounts represent contractual undiscounted cash flows.

The contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2012 $'000	**2011 $'000**
6 months or less	**312**	10,290
7-12 months	**148**	182
1-5 years	**7,846**	-
	8,306	10,472

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis.

Cash is primarily deposited only with AA-rated (Moody's) financial institutions. The Company does not have any other significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

Foreign Currency Risk

As the functional currency of the parent entity Kairiki Energy Limited and the subsidiary Yilgarn Petroleum Philippines Pty Ltd is USD and the presentation currency of the Group is AUD, and transactions occur in both currencies, the Group's statement of financial position and result can be affected by movements in the AUD/USD exchange rates. Foreign currency gains or losses in the statement of comprehensive income result from the settlement of transactions in currencies other than the functional currency and the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency (primarily AUD).

The Group manages its foreign exchange risk by constantly reviewing its exposure to commitments payable and ensuring cash balances are maintained in appropriate currencies to meet operational commitments.

At 30 June 2012, the Group had the following exposures to USD and AUD currencies that are not designated in cash flow hedges:

	2012		2011	
	USD AUD $'000	AUD AUD $'000	USD AUD $'000	AUD AUD $'000
Financial Assets:				
Cash and cash equivalents	**275**	**1,065**	957	845
Trade and other receivables	**-**	**59**	-	54
Financial Liabilities:				
Trade and other payables	**(96)**	**(68)**	(2,611)	(285)
Convertible notes – debt component	**(6,631)**	**-**	(6,967)	-
Net exposure	**(6,452)**	**1,056**	(8,621)	614

Because the functional currency of the parent entity and major subsidiary is USD, foreign currency risk arises on AUD balances.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date. The 5% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of actual historical rates, for the AUD/USD exchange rate, for the preceding five years.

At 30 June, if the AUD/USD exchange rate had moved as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Consolidated	
	2012 $'000	2011 $'000
Judgments of reasonably possible movements:		
Post tax profit - higher / (lower)		
AUD/USD + 5 %	**50**	29
AUD/USD - 5 %	**(55)**	(32)
Equity - higher / (lower)		
AUD/USD + 5 %	**50**	29
AUD/USD - 5 %	**(55)**	(32)

Management believes the balance date risk exposures are representative of the risk exposure inherent in financial instruments.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Commodity Price Risk

At 30 June 2012, the Group had no open oil price swap and option contracts (2011: nil).

Fair Value

The methods of estimating fair value are outlined in the relevant notes to the financial statements.

24. PARENT ENTITY INFORMATION

	Parent	
	2012 $'000	2011 $'000
Current assets	**1,354**	1,813
Total assets	**17,033**	13,595
Current liabilities	**(807)**	(7,258)
Total liabilities	**(7,438)**	(7,258)
Net assets	**9,595**	6,337
Issued capital	**75,700**	70,234
Share-based payments reserve	**3,589**	2,980
Foreign currency translation reserve	**(7,780)**	(8,126)
Accumulated losses	**(61,914)**	(58,751)
Total equity	**9,595**	6,337
Loss of the parent entity after tax	**(3,163)**	(41,540)
Other comprehensive income / (loss), net of tax	**346**	(7,729)
Total comprehensive loss of the parent entity	**(2,817)**	(49,269)

25. EVENTS SUBSEQUENT TO YEAR END

$250,000 (net of GST) was received for the sale of Australian mineral tenements under an option agreement (refer to Note 15).

No other matters or circumstances have arisen since the end of the financial year 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.

06. DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

06

1. In the opinion of the Directors:

   a) The financial statements and notes and additional disclosures included in the Directors' Report designated as audited, are in accordance with the Corporations Act 2001, including:

      i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year then ended; and

      ii) complying with Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as disclosed in note 1(c); and

   c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.

DR MARK FENTON

Managing Director

Perth, Western Australia

28 September 2012

07. INDEPENDENT AUDIT REPORT

ROTHSAY

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

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KAIRIKI ENERGY LIMITED

Report on the financial report

We have audited the accompanying financial report of Kairiki Energy Limited (the Company") which comprises the balance sheet as at 30 June 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) 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. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the *Corporations Act 2001*.

Chartered Accountants

Audit opinion

In our opinion the financial report of Kairiki Energy Limited is in accordance with the *Corporations Act 2001*, including:

a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 paragraph (b) in the financial report which indicates the ability of the consolidated entity to continue as a going concern is dependent on a number of factors. We note the consolidated entity had net cash outflows from operating activities for the year ending 30 June 2012 of $1,665,000 and a net operating loss of $3,161,000. In the event the consolidated entity is unable to complete the points in Note 1 paragraph (b), 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.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Audit opinion

In our opinion the remuneration report of Kairiki Energy Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Rothsay

Graham R Swan
Partner

Dated 28th September 2012

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

08. SUPPLEMENTARY INFORMATION

08 SUPPLEMENTARY INFORMATION

ADDITIONAL INFORMATION INCLUDED IN ACCORDANCE WITH LISTING RULES OF THE AUSTRALIAN STOCK EXCHANGE LIMITED

The shareholder information set out below was applicable as at 25 September 2012.

1. DISTRIBUTION OF HOLDERS

	Fully Paid Ordinary Shares
Number of holders in the following distribution categories:	
0 - 1,000	1,088
1,001 - 5,000	257
5,001 - 10,000	153
10,001-100,000	1,025
100,001 and over	1,522
Number of holders	4,045
Holders of less than a marketable parcel	3,315

2. TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders are as follows:

		Number of Shares	Percentage of Issued Capital
1	Yandal Investments Pty Ltd	188,410,000	7.01
2	HSBC Custody Nominees (Australia) Limited	155,668,734	5.79
3	Mr Paul Lay	51,572,500	1.92
4	Wales Australian Resources Pty Ltd	50,000,000	1.86
5	Nutsville Pty Ltd <Indust Electric Co S/F A/C>	41,217,335	1.53
6	Warbler Investments Limited	30,493,333	1.13
7	JP Morgan Nominees Australia Limited <Cash Income A/C>	30,189,856	1.12
8	Dr Paul Mark Halley	29,470,000	1.10
9	Mr Chris Retzos & Mrs Susie Retzos <Retzos Family S/Fund A/C>	29,470,000	1.10
10	Mr Cameron John Levett & Mrs Susanne Levett	27,435,576	1.02
11	Ironbray Pty Ltd <Sofia Family Super A/C>	25,600,000	0.95
12	Floteck Consultants Limited	25,000,000	0.93
13	Lujeta Pty Ltd <The Margaret Account>	24,050,698	0.89
14	NEFCO Nominees Pty Ltd	23,350,409	0.87
15	HSBC Custody Nominees (Australia) Limited – A/C 3	23,306,666	0.87
16	Mr Glenn William Twomey & Mrs Karen Lynne Twomey	20,993,419	0.78
17	Mr Giobanni Spagnolo <Marcus Deluca A/C>	20,000,000	0.74
18	Mr Paul Lay	18,901,988	0.70
19	Citicorp Nominees Pty Ltd	18,318,372	0.68
20	Talex Investments Pty Ltd	17,682,000	0.66
		851,130,886	31.65
	Shares on Issue	2,688,363,837	

3. UNLISTED OPTIONS

Details of unlisted option holders are as follows:

Class of unlisted options	Number of Options	Number of Holders
Options exercisable at 6.5 cents each between 16 May 2012 and 16 May 2014	36,000,000	5
Holdings of more than 20% of this class		
◆ Mark Fenton	20,000,000	
◆ Duncan Maclean	7,500,000	
◆ Neville Bassett	7,500,000	

4. CONVERTIBLE NOTES

10,000,000 Convertible Notes at US$0.726 each, held by IMC Oil & Gas Investments Ltd. Full details are provided in the notes to the financial statements in this financial report.

5. RESTRICTED SECURITIES

There are no restricted securities or securities subject to voluntary escrow.

6. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the Company as disclosed in the substantial shareholder notices given to the Company:

	Number of Shares	Percentage of Issued Capital
Yandal Investments Pty Ltd	188,410,000	7.01
HSBC Custody Nominees (Australia) Limited	155,668,734	5.79

7. VOTING RIGHTS

Shares

On a show of hands every member present in person or by proxy or attorney or being a corporation by its authorised representative who is present in person or by proxy, shall have one vote for every fully paid ordinary share of which he is a holder.

Options

Options have no voting rights until such options are exercised as fully paid ordinary shares.

Convertible Notes

Convertible Notes have no voting rights until such Convertible Notes are converted to fully paid ordinary shares.

8. ON-MARKET BUY-BACK

Currently there is no on-market buy-back of the Company's securities.

PHILIPPINES INTERESTS

Philippines Offshore Oil and Gas Permit (SC 54 Area 'A') – 30.1% Participating Interest

Philippines Offshore Oil and Gas Permit (SC 54 Area 'B') – 40.0% Participating Interest

NOTES

kairiki energy

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AUSTRALIA