

QUARTERLY ACTIVITY REPORT

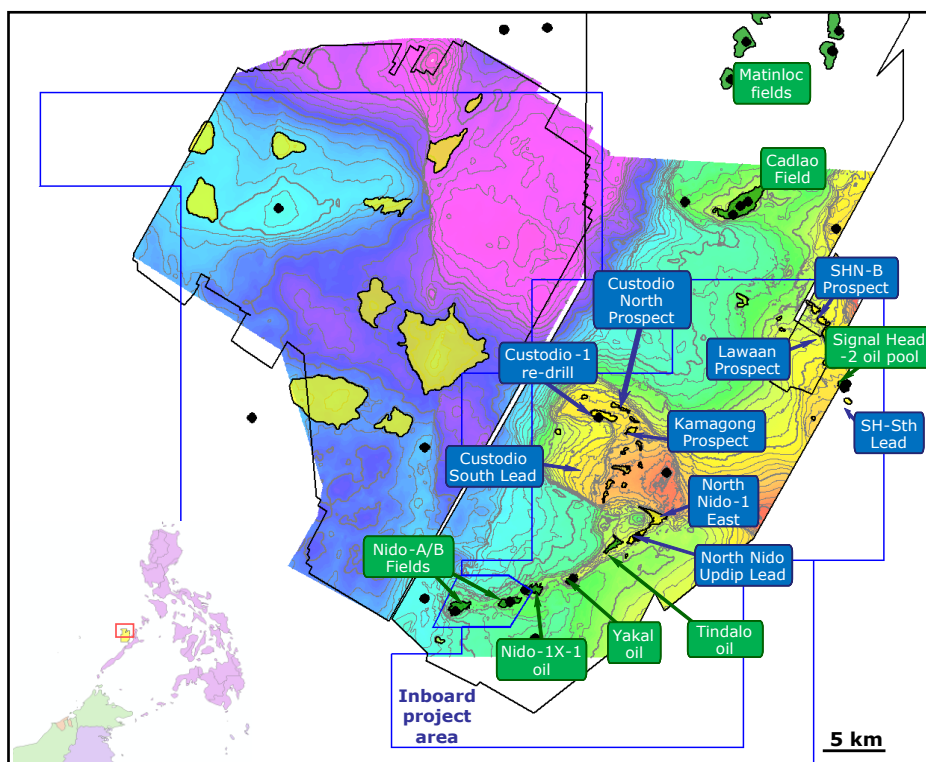
For the period ending 31 December 2008

The Directors wish to report the following activities for the quarter ended 31 December 2008;

- The company spud its second well, Tindalo-1, in its 2 well exploration drilling program on October 2, 2008
- Tindalo-1 was confirmed as the second successive oil discovery with an oil column of between 119m and 134+m, as announced to the market on 23 October 2008
- Ongoing evaluation of SC 54 Inboard inventory to determine resource range and development options to commercialise the project
- Kairiki raises approximately A\$1m through the exercise of options
- New managing director appointed – Mr Lawrence Brown and new non executive director appointed – Ms Jyn Sim Baker

Oil & Gas Activities

Philippines Offshore Oil and Gas Permit (SC 54) - 40% Participating Interest



Northern portion of Service Contract 54 showing key prospects and leads and seismic coverage of both the inboard and outboard.

During the quarter, the following progress occurred in respect of the company's Philippine oil and gas operations:

- **Outboard**

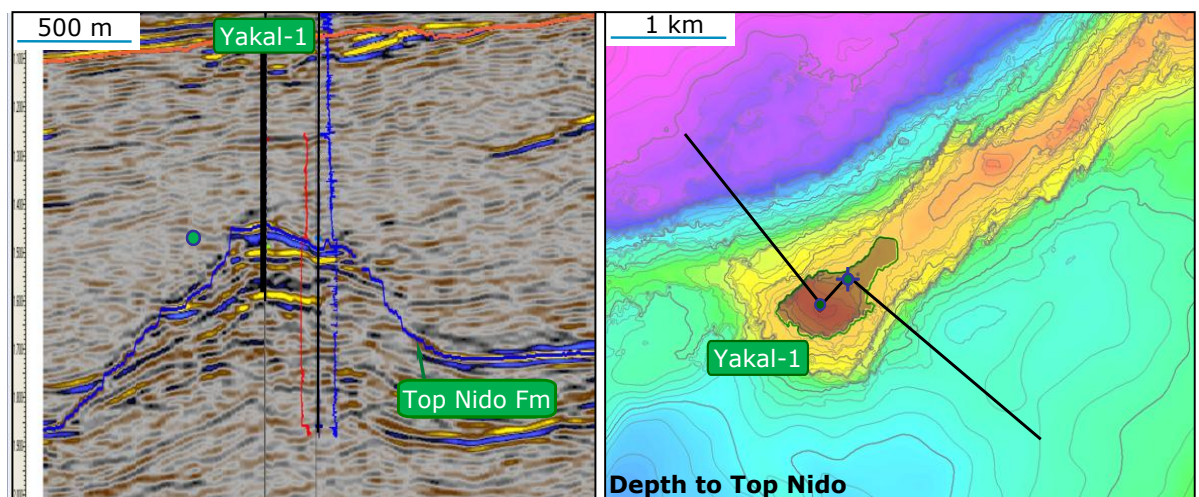
During the quarter the Joint Venture commissioned CGG Veritas to undertake prestack depth migration (PSDM) processing over the entire Abukay 3D volume. PSDM is widely recognised as a high-end processing product which requires many iterations and significant manpower effort but which delivers substantial image clarity and reduced uncertainty in depth imaging, critical to further de-risk the leading targets including the Gindara and Lapu Lapu prospects.

Preliminary products were received from CGG Veritas early January 2009 with final products expected during February 2009. Final interpretation and results are expected in the March 09 quarter.

- **Shallow water area**

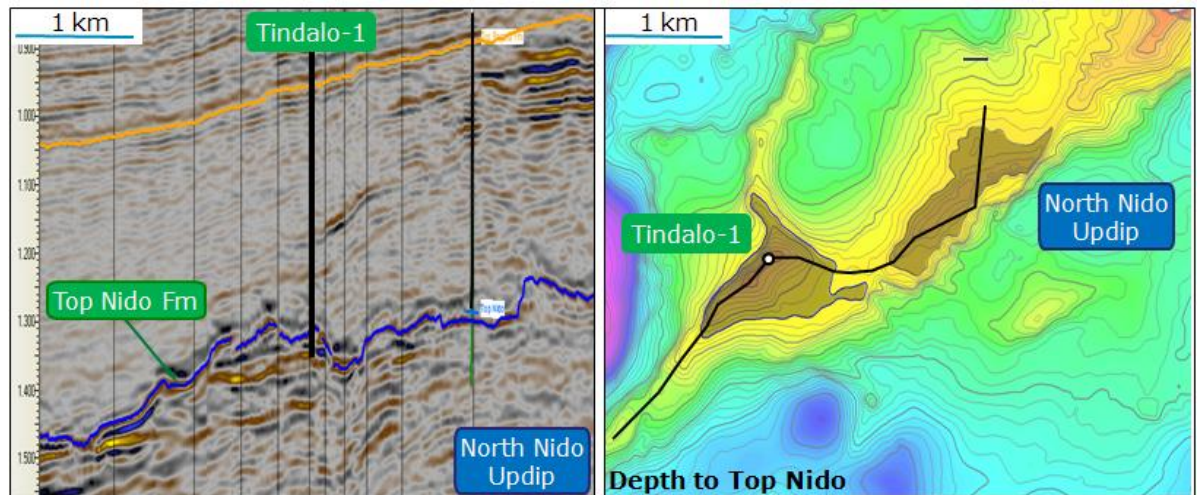
In September and October 2008, the Joint Venture drilled two wells as part of its SC 54 inboard exploration program - Yakal and Tindalo.

The Yakal-1 well was a discovery, encountering an oil column ranging from 78 metres to a maximum of 93 metres. This column was confirmed with wireline logging, pressure data and samples. The well was cased and suspended and is prepared for future completion and production at a later date.



Seismic line and top reservoir map over the Yakal-1 discovery

The Tindalo-1 well was a discovery encountering a minimum oil column of 119 metres, as confirmed by wireline logs, and with indications that the column extends at least a further 15 metres (134 metres in total). The Tindalo-1 well was cased and suspended and is prepared for future completion and production at a later date.



Seismic line and top reservoir map over the Tindalo-1 discovery

These discoveries are an important first step in realising the Joint Venture's strategy to rapidly commercialise the SC 54 inboard area. In addition to these two discoveries there are 20+ additional prospects in the SC 54 inboard area covered by 3D seismic data.

Since drilling these discoveries the Joint Venture has been undertaking significant technical work both internally and through ongoing independent third party studies to better understand the scale of the discovered resource, the impact on the remaining exploration portfolio and the possible options for development including full-field development and early production via an Extended Well Test. These independent studies are expected to conclude in the first quarter of 2009 at which time a statement concerning the principal results will be issued to market.

The directors are very excited about the progress the JV is making in relation to the initial results and look forward to appraising the market as the project develops.

- **Permit Management**

By way of preparing to enter the next phase of the permit, sub-phase IV of SC 54, (5th February 2009 to 4th February 2010) a mandatory relinquishment of 25% of the original permit area is required. SC54 is a large block covering in excess of five thousand square kilometres. A single area in the south-east corner of block considered to be non-prospective largely due to the absence of the primary Nido Limestone target and regarded as having no impact on either the inboard or outboard portfolios has been selected, submitted to the DOE and subsequently approved on January 8th 2009.



The fourth sub-phase, which requires the Joint Venture to drill a well in the permit, has already been satisfied with the drilling of the Tindalo-1 well in 2008.

Sicily Channel – Italy/Tunisia

- **Kerkouane (30% Participating Interest)**

The Operator has now completed its drilling tender documentation with a drilling design consultant and has continued its discussions with other operators in the area with regard to a shared drilled program to reduce costs.

A consortium with two other operators was also established by AuDAX to form a joint tendering group for the acquisition of seismic data. The tendering process to acquire a 2D seismic program has commenced.

- **Offshore Italy (30% Participating Interest)**

The Operator has now completed its drilling tender documentation with a drilling design consultant and has continued its discussions with other operators in the area with regard to a shared drilled program to reduce costs.

Currently the license is under suspension until the start of drilling operations. A suspension was granted on the 2nd July 2008.

Both Audax and Kairiki have been working aggressively to farm out their interests in the Sicily Channel permits during the quarter in preparation for the drilling campaign and will continue to do so through 2009.

Romanian AMI

Kairiki has a 33.33% interest in the AMI which was formed to investigate and acquire oil and gas projects in Romania. The AMI is focused on participating in the 10th round exploration license program and further enhance its database and understanding of the prospectivity of the country in preparation for the bid round.

Tunisian AMI

In November 2008, Kairiki elected to withdraw from its AMI in Tunisia to focus its efforts on its other oil and gas interests.

Mineral Projects

No further exploration work was carried out during the quarter. The company is continuing its efforts to farm-out its mineral properties.

Corporate Summary

During the quarter, the following occurred:

- **Issue of Convertible Note**

Kairiki executed an agreement to issue Convertible Notes to raise US\$10,000,000 from the IMC Group ("IMC"). The principle terms and conditions of the Notes are as follows:

- i) Repayment Date: 8 September 2011 (US\$8.5m) 21 October 2011 (US\$1.5m);
- ii) Convertible into ordinary fully paid shares at an issue price determined as the lesser of:
 - a. A\$0.185; and
 - b. the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16;
- iii) Shares issued upon conversion of the Notes, or part thereof, will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;
- iv) A Noteholder may convert at any time prior to the Repayment Date, subject to a limit of 3 conversions with each conversion being in respect of a number of Notes which are convertible into at least 10 million shares;
- v) Repayment Rights: The parties will have rights of repayment as follows:
 - a. Kairiki shall have the right up to 31 January 2009 to give notice to repay up to 50% of the outstanding amount in respect of the Notes;
 - b. A relevant Noteholder shall have the right, during the period 1 January to 15 January each year, to require the Company to use all or a specified part of any cash balance held in a special repayment account, established for receipt of future net revenues and option conversion monies, to repay a portion of the outstanding amount in respect of the Notes; and
 - c. A relevant Noteholder has the right to full repayment of the outstanding amount in respect of the Notes on the occurrence or non-fulfilment of specified events or conditions before 31 January 2009. In the event that Kairiki and IMC fail to enter into the KIK/IMC Alliance Agreement by 1 December 2008 or the non-fulfilment of other specified conditions by 31 January 2009 through wilful breach, Kairiki will be liable to pay a break fee of US\$1 million;
- vi) Interest Rate: 12% per annum;
- vii) Security: Fixed and floating charges over all of the assets of the Company and its subsidiary, Yilgarn Petroleum Philippines Pty Ltd, but excluding certain property;



- viii) The Notes shall not provide for any voting rights at shareholder meetings of Kairiki;
- ix) Unless converted or redeemed during the term, the Notes will be redeemed at the Repayment Date at the face value of the Notes;
- x) Drawdown under the Convertible Note Deed will be conditional on, inter alia, IMC having the right to:
 - a. appoint a representative to the Board of Kairiki;
 - b. an option to participate at up to 20% in the shallow water SC 54 project by reimbursing the Company on a proportionate basis for its past costs at the time the option is exercised. This option must be exercised by 31 March 2009; and
 - c. an option after 1 January 2009 to farm-in at up to 20% to the outboard portion of SC 54 under commercial terms yet to be agreed. This option must be exercised no later than 30 March 2009 or 6 months before spud of an outboard well.

The Notes will be accessed in two tranches by the Company. The first tranche of US\$8.5 million has been placed under the Company's 15% capacity under ASX Listing Rule 7.1. The remaining US\$1.5 million was subject to shareholder approval, which was received on 21 October 2008.

The maximum number of shares convertible under the first tranche is 62.5 million shares. In the event that the Company elects to redeem at least US\$2.5 million of Notes by 31 January 2009, the remaining Notes (tranches 1 & 2) will be converted based on a floating exchange rate set on the day of conversion rather than a fixed exchange rate Australian dollar to US dollar of 0.85.

In January 2009, IMC and Kairiki agreed to the following amendments to the convertible note;

- i) To extend the ability for IMC to use all or part of any cash balance held in a special repayment account established for the option conversion monies from 15 January 2009 to 30 April 2009; and
- ii) Extend Kairiki's right from 31 January 2009 to 30 April 2009 to repay up to 50% of the outstanding amount in respect of the Notes;

- **Shareholder General Meeting – 21 October 2008**

At a general meeting held the shareholders approved the following resolutions:

- i. The ratification of the issue of a US\$8.5m convertible note to IMC; and
- ii. Approval to issue a US\$1.5m convertible note to IMC.



- **Shareholder General Meeting – 27 November 2008**

At a general meeting held the shareholders approved the following resolutions:

- i. the re-election of directors; and
- ii. adoption of the 2008 remuneration Report.

Appointment of New Director

On 10 October 2008 Ms Jyn Sim Baker of IMC Resources Group ("IMC") was appointed to the Board of Kairiki. Ms Baker brings corporate and commercial skills to the Board having held the role of Chief Executive Officer for IMC Resources Group, which spans Australia, China and Indonesia, since June 2006. She is responsible for investments in mining resources, oil and gas resources and the vertical integration process for the IMC's core businesses in shipping and logistics.

Ms Baker has over 20 years of management and legal advisory experience. Prior to joining IMC, Ms Baker was the Chief Executive Officer of Midwest Corporation Limited, a company listed on the Australian Stock Exchange. Formerly a practicing corporate lawyer, Ms Baker's expertise extends across energy industry projects, minerals exploration and mining, and infrastructure development.

Ms Baker holds a Bachelor of Law and an ICSA (Institute of Chartered Secretary and Administration) qualification from the University of London and a Certificate in Legal Practice from the University of Malaysia. She is a member of the AICD (Australian Institute of Company Directors), Australia.

- **Appointment of New Managing Director**

On 18 November 2008 the company announced the appointment of Laurie Brown as its new Managing Director. Laurie was previously an executive director of the company and was instrumental in establishing and building Kairiki's oil and gas asset base from 2006 to its current international portfolio.

Cash Position

At 31 December 2008, Kairiki had approximately A\$4.04 million in cash, including A\$1,015,356 held in a trust account relating to the options exercised for the period through to 31 December 2008. Under the convertible note agreement with IMC, these funds were restricted at 31 December 2008 pending notification from IMC whether to use those proceeds to redeem a portion of their note. The expiry date for IMC to decide whether to sweep those funds has been deferred until 30 April 2009. In the interim the funds will be held in the trust account for the benefit of IMC.



During the December 2008 quarter, the company made its final payments in respect of its 2008 SC 54 two well drilling program obligations. The drilling program undertaken in 2008 now satisfies its work permit obligations under the PSC through to 5 August 2010.

The company has proactively reduced its overhead cost requirements in the latter part of 2008 and will apply a diligent approach to fund any ongoing work programs during 2009.

Equity proceeds

During the quarter, the company issued 19,698,767 shares through the conversion of options raising proceeds of \$984,938.

Yours faithfully

Lawrence Brown
Managing Director