Kairiki Energy Limited

ABN 34 002 527 906

ANNUAL REPORT 2014

Corporate Directory

Directors
Joseph Lacson
Peter Cockcroft
Robert Downey
Stephen Harrison

Company Secretary
Neville Bassett

Registered and Principal Office
C/- Westar Capital Limited
Level 45
108 St Georges Terrace
Perth WA 6000

Telephone: (08) 9486 7066
Facsimile: (08) 9486 8066

Website: www.kairikienergy.com

Share Registry
Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

Investor enquiries:
Telephone: 1300 557 010
(08) 9323 2000
Facsimile: (08) 9323 2033

Auditor
Rothsay Chartered Accountants
Level 1, Lincoln House
4 Ventnor Avenue
West Perth WA 6005

Securities Exchange Listing
ASX Limited
(Home Branch - Perth)
ASX Code: KIK

Table of Contents

Oil & Gas Activities

Philippines Offshore Oil and Gas Permit

- **SC 54A - 30.1% Participating Interest**
- **SC 54B - 40% Participating Interest**

SC 54A

The Joint Venture received approval from the Philippines Department of Energy for an extension of Sub-phase 6 for a further 12 months with Sub-phase 6 now expiring on 4 August 2014. The well commitment associated with Sub-phase 6 has been met by the drilling of Gindara-1.

The next sub-phase, commencing on 5 August 2014, carries a one well commitment.

SC 54A WORKING INTERESTS

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

SC 54B

No further technical work was carried out by the Joint Venture during the year.

There is no firm commitment related to Block B of this Service Contract in either the current Sub-phase 6 or in Sub-phase 7 if the Company elects to enter the next Sub-phase.

SC 54B WORKING INTERESTS

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

Subsequent to the end of the financial year, the Philippines Department of Energy approved a request for a moratorium on Service Contract 54 from 5 August 2014 to 5 August 2017 to give the joint venture sufficient time to study the development of the discovered marginal resources in the block. At the end of the moratorium period, the joint venture should elect to enter sub-phase 7 with a commitment to drill one well. If the Joint Venture elects to continue into the production period, the 3 year moratorium period will be automatically deducted to the initial production period.

Corporate Summary

Convertible Note Conversion

On 12 November 2013 shareholders approved the issue of 174,454,400 fully paid ordinary shares to IMC Oil & Gas Investments Limited (“IMC”), thereby extinguishing US$8,089,250 in secured convertible note debt.

Financing Activities

The Company entered into a drawdown facility with IMC with a limit of $488,000. As at 30 June 2014, $340,000 had been drawn down under the facility.

New Ventures

During the year the Company reviewed a number of project opportunities, however, none were considered appropriate for the Company. The Company continues to pursue new projects in an effort to recapitalise and reinvigorate the asset portfolio of the Group.

Directors' Report

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 2014.

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.

Joseph Lacson	(appointed 10 September 2013)
Peter Cockcroft	
Robert Downey	
Stephen Harrison	
Steven Wood	(resigned 10 September 2013)

INFORMATION ON DIRECTORS

Joseph Lacson
BSC, MBA
Non-Executive Chairman

Joseph Lacson is the Group Chief Financial Officer of the IMC Group, a leading privately-owned conglomerate with a diverse group of business interests worldwide. The Group's key business interests include Industrial (shipping, logistics, industrial supply chain), Lifestyle/Real Estate, and Investments. In this role, Mr Lacson leads the financial management, treasury, controllership, planning and IT strategies of the Group. Prior to joining IMC, Mr Lacson was Chief Investment Officer of Frontier Investments and Development Partners. His previous leadership roles include CFO and Commercial Director positions at both publicly-listed and privately-held enterprises. He has over 20 years of experience in finance, strategy, and business development roles and has lived and worked in the United States, Europe, and Asia. He has an MBA with Highest Distinction from the Harvard Business School where he was a Baker Scholar.

Mr Lacson was appointed Non-Executive Chairman on 24 February 2014.

During the past three years, Mr Lacson has held no other listed company directorships.

Peter Cockcroft
BA (Geology & Geophysics), FRGS (Life), FAARM, Cert Bus Admin (EBS), GAICD
Non-Executive Director

Peter 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.

Mr Cockcroft served as Executive Chairman until 24 February 2014.

During the past three years Mr Cockcroft has held the following other listed company directorships:
- NuEnergy Gas Limited (12 April 2011 to 21 August 2014)
- Blue Energy Limited (21 August 2008 to 31 December 2012)

Robert Downey
B.Ed, LL.B (Hons)
Non-Executive Director

Robert Downey is a qualified solicitor who has practised mainly in the areas of international oil and gas law, corporate law and initial public offerings as well as mergers and acquisitions. He has extensive experience as an adviser, founder and director of various ASX, TSX and AIM companies including Grove Energy Limited, Segue Resources Limited, Rialto Energy Limited, North River Resources plc and Alchemy Resources Limited. Mr Downey is currently a director of unlisted Instinct Energy Limited.

During the past three years Mr Downey has held the following other listed company directorships:
- AXG Mining Limited (8 September 2014 to present)
- Minrex Resources NL (8 September 2014 to present)

Stephen Harrison
B.Ec, CPA
Non-Executive Director

Stephen Harrison is an accountant by background who has extensive experience in equity raisings for resource and oil and gas companies. He has held various directorships in funds management, including Sanford C Bernstein and Co and Investec. Mr Harrison has held a number of directorships in listed public companies in Australia and overseas. He was previously a director of Blue Energy Ltd and is currently a non-executive director of Exoma Energy Limited.

During the past three years Mr Harrison has held the following other listed company directorships:
- Exoma Energy Limited (26 October 2009 to present)

Steven Wood
B. S. (Geophysical Engineering), MBA
Non-Executive Director

Resigned 10 September 2013.

COMPANY SECRETARY
Neville Bassett

Mr Bassett is a chartered accountant with over 30 years of experience. He has been involved with a diverse range of Australian public listed companies in directorial, company secretarial and financial roles.

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
- 3,000 ordinary fully paid shares

MEETINGS OF THE COMPANY'S DIRECTORS
The number of meetings of the Company's Directors held during the year ended 30 June 2014, and the number of meetings attended by each Director were:

	Number Attended	Maximum Possible
Joseph Lacson	7	7
Peter Cockcroft	7	7
Robert Downey	7	7
Stephen Harrison	7	7
Steven Wood	1	1

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 and the evaluation of oil and gas properties
- Evaluation of new business ventures.

OPERATING AND FINANCIAL REVIEW

Operating Activities

A review of the operations of the Group is contained in the Operations Review.

Summary of Comprehensive Income

The Group's consolidated loss after tax for the financial year was $4,467,055 (2013: $13,662,348).

The loss for the year ended 30 June 2014 included the following expenses:

- Impairment of SC 54 deferred exploration and evaluation expenditure of $3,840,722 (2013: $11,291,579);
- Exploration expenses of $26,147 (2013: $24,332);
- General administration expenses of $571,773 (2013: $1,406,525);
- Cash interest expenses of $16,123 (2013: $185,328);
- Non-cash accretion, capitalised interest and borrowing costs on the Convertible Note of $259,897 (2013: $1,043,231); and
- Impairment of the Group's shares in Stratum Metals Limited of $31,512 (2013: $30,251).

Earnings per Share

The basic and diluted loss per share was 2.81 cents (2013: loss of 0.50 cents).

Financing Activities

The Company entered into a drawdown facility with IMC with a limit of $488,000. As at 30 June 2014, $340,000 had been drawn down under the facility.

Convertible Note Conversion

On 12 November 2013 shareholders approved the issue of 174,454,400 fully paid ordinary shares to IMC Oil & Gas Investments Limited ("IMC"), thereby extinguishing US$8,089,250 in secured convertible note debt.

Summary of Financial Position

At 30 June 2014 the Group's cash reserves were $91,575 (2013: $306,822). The decrease in cash was primarily due to:

- net cash used in operating activities of $667,920, and
- payment of costs of converting the Convertible Note of $17,135

partially offset by

- proceeds from the sale of SC 54A inventory of $125,241, and
- proceeds from borrowings of $340,000.

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 THE END OF THE REPORTING PERIOD

Other than as noted below, no 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.

Subsequent to the end of the financial year, the Philippines Department of Energy approved a request for a moratorium on Service Contract 54 from 5 August 2014 to 5 August 2017 to give the joint venture sufficient time to study the development of the discovered marginal resources in the block. At the end of the moratorium period, the joint venture should elect to enter sub-phase 7 with a commitment to drill one well. If the joint venture elects to continue into the production period, the 3 year moratorium period will be automatically deducted to the initial production period.

FUTURE DEVELOPMENTS

Kairiki intends to continue its program of reviewing new business opportunities in an effort to recapitalise and reinvigorate the asset portfolio of the Group. Future work on Service Contract 54 will be dependent on joint venture discussion.

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.

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.

C. Service agreements

There are no formal service agreements with the Non-Executive Chairman or Non-Executive Directors. On appointment to the Board, all Directors receive a letter of appointment that summarises Board policies and terms, which mirror those set out within the Corporations Act 2001 relevant to the office of Director.

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.

	2014	2013	2012	2011	2010
Loss after tax (A$'000)	4,467	13,662	3,160	43,006	2,945
Closing share price (A$) (i)	0.008	0.05	0.1	0.175	3.18

(i) The closing share price for 2010 - 2013 has been adjusted for the share consolidation on 28 November 2013.

E. Use of remuneration consultants

To ensure the Board is fully informed when making remuneration decisions, it may seek external remuneration advice. Remuneration consultants are engaged by, and report directly to, the Board. In selecting remuneration consultants, the Board considers potential conflicts of interest and requires independence from key management personnel and other executives as part of their terms of engagement.

No remuneration consultants were engaged during the year ended 30 June 2014.

F. Details of remuneration for year

Details of Key Management Personnel are set out below.

Directors

Joseph Lacson	Non-Executive Director	(appointed 10 September 2013)
Peter Cockcroft	Non-Executive Director	
Robert Downey	Non-Executive Director	
Stephen Harrison	Non-Executive Director	
Steven Wood	Non-Executive Director	(resigned 10 September 2013)

Executives

Neville Bassett	Company Secretary

Remuneration
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	Termination payments		
	Year	Salary and consulting fees $	Director fees $	Superannuation $	Options $	$	Total $	Remuneration consisting of options %
Directors								
J Lacson	**2014**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Appointed 10/9/2013	2013	-	-	-	-	-	-	-
P Cockcroft	**2014**	**39,000**	**45,000**	**-**	**-**	**-**	**84,000**	**-**
	2013	65,000	77,000	-	-	-	142,000	-
R Downey	**2014**	**-**	**39,000**	**-**	**-**	**-**	**39,000**	**-**
Appointed 15/2/2013	2013	-	18,000	-	-	-	18,000	-
S Harrison	**2014**	**-**	**40,000**	**-**	**-**	**-**	**40,000**	**-**
Appointed 15/2/2013	2013	-	18,000	-	-	-	18,000	-
S Wood	**2014**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Appointed 24/1/2013 Resigned 10/9/2013	2013	-	-	-	-	-	-	-
M Fenton	**2014**	**-**	**-**	**-**	**-**	-	**-**	**-**
Resigned 15/2/2013	2013	223,340	-	2,835	-	59,950	286,125	-
D Maclean	**2014**	**-**	**-**	**-**	**-**	-	-	**-**
Resigned 15/2/2013	2013	-	30,000	-	-	12,000	42,000	-
Executives								
N Bassett	**2014**	**60,000**	-	**-**	**-**	**-**	**60,000**	**-**
	2013	60,000	-	-	-	-	60,000	-

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 Issued to Key Management Personnel

No options were granted as equity compensation benefits to Key Management Personnel during the year ended 30 June 2014 or 30 June 2013.

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

No key management personnel exercised options during the years ended 30 June 2014 or 30 June 2013.

I. Option holdings of Key Management Personnel

2013	Balance at 1 July 2013 (ii)	Granted as remuneration	Expired or change due to resignation	Balance at 30 June 2014	Number not vested	Number vested and exercisable	Number vested and not exercisable
Directors							
P Cockcroft	-	-	-	-	-	-	-
R Downey	-	-	-	-	-	-	-
S Harrison	-	-	-	-	-	-	-
S Wood (i)	-	-	-	-	-	-	-
Executives							
N Bassett	150,000	-	(150,000)	-	-	-	-
	150,000	-	(150,000)	-	-	-	-

(i) Resigned 10 September 2013.
(ii) Option holdings are stated on a post-consolidation basis.

J. Share holdings of Key Management Personnel

	Balance at 1 July 2013 (ii)	Options exercised	Change due to appointment / (resignation)	Net change other	Balance at 30 June 2014
2014					
Directors					
P Cockcroft	3,000	-	-	-	3,000
R Downey	-	-	-	-	-
S Harrison	-	-	-	-	-
S Wood (i)	-	-	-	-	-
Executives					
N Bassett	12,000	-	-	-	12,000
	15,000	-	-	-	15,000

(i) Resigned 10 September 2013.
(ii) Share holdings are stated on a post-consolidation basis.

K. Other transactions and balances with Key Management Personnel

There were no other transactions or balances with Key Management Personnel.

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*	*Expiry Date*
Unlisted Options	3,000,000	10 cents	30 June 2015

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 2014 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.

NON-AUDIT SERVICES

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

AUDITOR INDEPENDENCE

The auditor's independence declaration for the year ended 30 June 2014, as required under section 307C of the Corporations Act 2001, has been received and can be found on page 16 of the Annual Report.

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

For and on behalf of the Board.

Robert Downey
Director
26 September 2014

ROTHSAY
Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9486 7094 www.rothsayresources.com.au

The Directors
Kairiki Energy Limited
Level 45 108 St Georges Terrace
Perth WA 6000

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 2014 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 26 September 2014

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 Company recognises the publication of the third edition of the principles and recommendations and intends to comply with the prescribed changes when these take effect commencing with the financial year ending 30 June 2015.

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)	No
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

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
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.		
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 #	ASX Corporate Governance Council Recommendations	Reference	Comply
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: • consists of a majority of independent directors • is chaired by an independent director; and • has at least three members.	3(b)	No
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 four Non-Executive Directors. 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. Due to the nature of the company's current activities it does not currently have a Chief Executive Officer.

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 three 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:

Name	Position
Robert Downey	Non-Executive Director
Stephen Harrison	Non-Executive Director
Peter Cockcroft	Non-Executive Director

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

Name	Term in Office
Peter Cockcroft	Since 26 April 2012
Robert Downey	Since 15 February 2013
Stephen Harrison	Since 15 February 2013
Joseph Lacson	Since 10 September 2013

The Board recognises the importance of independent views and, in the Board's role in supervising the activities of management, the Chairman should be an independent Non-Executive Director. The Board considers that, at this stage of the Company's development, it is in the best interests of the Company that the Chairman's role be filled by Mr Lacson as representative of the Company's major shareholder.

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, recognizes 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 no executive female employees. The Company 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Consolidated 2014 $	2013 $
Revenue	2(a)	**3,459**	24,598
Other income	2(a)	**275,660**	422,961
		279,119	447,559
Administrative expenses	2(b)	**571,773**	1,406,525
Impairment of deferred exploration and evaluation expenditure		**3,840,722**	11,291,579
Impairment of non-current financial assets classified as available for sale		**31,512**	30,251
Exploration expenses		**26,147**	24,332
Foreign exchange losses		**-**	18,634
Fair value loss on convertible note embedded derivative		**-**	110,027
Finance costs	2(b)	**276,020**	1,228,559
		4,746,174	14,109,907
Loss before income tax expense		**(4,467,055)**	(13,662,348)
Income tax expense	3	-	-
Loss after tax for the period		**(4,467,055)**	(13,662,348)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		**(366,936)**	807,843
Total comprehensive loss attributable to members of Kairiki Energy Limited		**(4,833,991)**	(12,854,505)
Basic and diluted loss per share (cents per share)	4	**(2.81) cents**	(0.50) cents

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	Consolidated 2014 $	2013 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	**91,575**	306,822
Trade and other receivables	6	**4,556**	49,330
Total Current Assets		**96,131**	356,152
Non-Current Assets			
Financial assets classified as available for sale	7	**1,260**	32,772
Plant and equipment	8	**-**	503
Deferred exploration and evaluation expenditure	9	**2,193,000**	6,341,570
Total Non-Current Assets		**2,194,260**	6,374,845
Total Assets		**2,290,391**	6,730,997
LIABILITIES			
Current Liabilities			
Trade and other payables	10	**77,454**	184,877
Interest-bearing loans	11	**340,000**	-
Convertible notes	12	**-**	9,511,234
Provisions	13	**-**	1,452
Total Current Liabilities		**417,454**	9,697,563
Total Liabilities		**417,454**	9,697,563
Net Assets / (Deficit)		**1,872,937**	(2,966,566)
EQUITY			
Issued capital	14	**85,660,548**	75,992,714
Reserves	15	**(2,505,929)**	(2,144,653)
Accumulated losses		**(81,281,682)**	(76,814,627)
Total Equity / Shareholders' Deficit		**1,872,937**	(2,966,566)

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 2014

	Issued Capital $	Share-based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
Balance at 30 June 2012	75,700,097	3,588,520	(6,541,016)	(63,152,279)	9,595,322
Loss for the period	-	-	-	(13,662,348)	(13,662,348)
Other comprehensive income	-	-	807,843	-	807,843
Total comprehensive loss for the period	-	-	807,843	(13,662,348)	(12,854,505)
Shares issued	295,000	-	-	-	295,000
Share issue transaction costs	(2,383)	-	-	-	(2,383)
Balance at 30 June 2013	**75,992,714**	**3,588,520**	**(5,733,173)**	**(76,814,627)**	**(2,966,566)**
Loss for the period	-	-	-	**(4,467,055)**	**(4,467,055)**
Other comprehensive income	-	-	**(366,936)**	-	**(366,936)**
Total comprehensive loss for the period	-	-	**(366,936)**	**(4,467,055)**	**(4,833,991)**
Conversion of convertible notes	**9,684,969**	-	-	-	**9,684,969**
Options issued	-	**5,660**	-	-	**5,660**
Share issue transaction costs	**(17,135)**	-	-	-	**(17,135)**
Balance at 30 June 2014	**85,660,548**	**3,594,180**	**(6,100,109)**	**(81,281,682)**	**1,872,937**

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 2014

	Note	Consolidated 2014 $	2013 $
Cash flows from operating activities			
Receipts		**-**	1,985
Payments to suppliers and employees		**(645,000)**	(1,285,196)
Exploration costs expensed		**(15,072)**	(519)
Interest received		**7,992**	20,065
Interest and other costs of finance paid		**(15,840)**	(194,468)
Net cash used in operating activities	5(i)	**(667,920)**	(1,458,133)
Cash flows from investing activities			
Proceeds from sale of joint operation inventory		**125,241**	**-**
Expenditure on exploration and evaluation		-	(224,417)
Deferred proceeds from sale of mineral tenements		-	343,509
Payments for plant and equipment		-	(1,111)
Proceeds from the sale of plant and equipment		-	14,683
Net cash used in investing activities		**125,241**	132,664
Cash flows from financing activities			
Proceeds from borrowings		**340,000**	**-**
Proceeds from issues of shares		**-**	295,000
Payments for share issue transaction costs		**(17,135)**	(2,383)
Net cash provided by financing activities		**322,865**	292,617
Net decrease in cash held		**(219,814)**	(1,032,852)
Cash at the beginning of the financial year		**306,822**	1,340,357
Effect of exchange rate changes		**4,567**	(683)
Cash and cash equivalents at end of year	5	**91,575**	306,822

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

1. Summary of Significant Accounting Policies

(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 2014 was authorised for issue in accordance with a resolution of the Directors on 26 September 2014.

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.

(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.

Going concern

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;
- Continued financial support by the Company's parent entity IMC Oil & Gas Investments Limited; and / or
- Raising additional capital to fund the Group's ongoing exploration and development program and working capital requirements, as and when required.

The Directors believe it is appropriate to prepare the financial statements on a going concern basis.

(c) Statement of compliance

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

1. *Summary of Significant Accounting Policies (continued)*

(d) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2013:

- AASB 10 *Consolidated Financial Statements*

  AASB 10 establishes a new control model that applies to all entities. The new control model broadens the situations in which 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 of voting rights may give control.

- AASB 11 *Joint Arrangements*

  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. It removes the option to account for jointly controlled entities using proportionate consolidation. Joint operations, which give the parties rights to the underlying assets and obligations for the liabilities, are accounted for by recognising their share of those assets and liabilities. Joint ventures, which give the parties rights to the net assets of the joint venture and are always structured through a separate vehicle, are accounted for using the equity method.

  The Group has reviewed its joint arrangements in relation to the Philippines offshore oil and gas permits SC 54A and SC 54B and determined that they are classified as joint operations. Refer to note 21.

- AASB 12 *Disclosure of Interests in Other Entities*

  New disclosures have been introduced regarding the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries.

- AASB 13 *Fair Value Measurement*

  AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. It 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. AASB 13 also expands the disclosure requirements for all assets and liabilities carried at fair value.

- AASB 19 *Employee Benefits*

  This standard changes the definition of short-term employee benefits. The distinction between short-term and long-term employee benefits is now based on whether the benefits are expected to be wholly settled within 12 months of the reporting date.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* [AASB 124]

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

- AASB 2012-5 *Annual Improvements to the IFRS 2009-2011 Cycle*

- Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

Except as noted, the adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

1. Summary of Significant Accounting Policies (continued)

(d) New and amended standards adopted by the Group (continued)

New accounting standards and interpretations issued but not yet effective

New 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 reporting period ending 30 June 2014 are outlined in the following table.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: • Amortised cost • Fair value through profit or loss • Fair value through other comprehensive income. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9: • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. Adoption of AASB 9 is only mandatory for the year ending 30 June 2018. The entity has not yet made an assessment of the impact of these amendments.	1 January 2017	1 July 2017
AASB 2013-9 (issued December 2013)	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Makes three amendments to AASB 9: • Adding the new hedge accounting requirements into AASB 9 • Deferring the effective date of AASB 9 from 1 January 2015 to 1 January 2017, and • Making available for early adoption the presentation of changes in 'own credit' in other comprehensive income (OCI) for financial liabilities under the fair value option without early applying the other AASB 9 requirements.	1 January 2015	Application of AASB 9: 1 July 2017

1. Summary of Significant Accounting Policies (continued)

(d) New and amended standards adopted by the Group (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2013-9 (issued December 2013) (continued)	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	Under the new hedge accounting requirements: • The 80-125% highly effective threshold has been removed • Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable • An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure • When entities designate the intrinsic value of options, the initial time value is deferred in OCI and subsequent changes in time value are recognised in OCI • When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI • Net foreign exchange cash flow positions can qualify for hedge accounting. Adoption of AASB 9 is only mandatory for the year ending 30 June 2018. The entity has not yet made an assessment of the impact of these amendments.	1 January 2015	Application of AASB 9: 1 July 2017
Interpretation 21 (issued June 2013)	Levies	Clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. The entity has not yet made an assessment of the impact of these amendments.	1 January 2014	1 July 2014
AASB 2013-3 (issued June 2013)	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	Clarifies the disclosure requirements for cash-generating units (CGUs) with significant amounts of goodwill and intangibles with indefinite useful lives and also adds additional disclosures when recoverable amount is determined based on fair value less costs to sell. As this standard amends disclosure requirements only, there will be no impact on amounts recognised in the financial statements.	1 January 2014	1 July 2014

1. Summary of Significant Accounting Policies (continued)

(d) New and amended standards adopted by the Group (continued)

<table>
<tr><th>Reference</th><th>Title</th><th>Summary</th><th>Application date of standard</th><th>Application date for Group</th></tr>
<tr><td>Improvements to IFRSs (issued December 2013)</td><td>Annual Improvements 2010-2012 Cycle</td><td>The changes include:

IFRS 2 Share-based Payment:
The amendment clarifies the definition of vesting conditions and market conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition without themselves being specifically defined. The change applies prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014.

IAS 24 Related Party Disclosures:
The amendment clarifies that an entity that provides key management personnel services (‘management entity’) to a reporting entity (or to the parent of the reporting entity), is a related party of the reporting entity. Separate disclosure of amounts recognised as an expense for key management personnel services provided by a separate management entity is also required.</td><td>1 July 2014</td><td>1 July 2014</td></tr>
<tr><td>N/A</td><td>Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued May 2014)</td><td>When an entity acquires an interest in a joint operation whose activities meet the definition of a ‘business’ in IFRS 3 Business Combinations, to the extent of its share of assets, liabilities, revenues and expenses as specified in the contractual arrangement, the entity must apply all of the principles for business combination accounting in IFRS 3, and other IFRSs, to the extent that they do not conflict with IFRS 11 Joint Arrangements.

This means that it will expense all acquisition-related costs and recognise its share, according to the contractual arrangements, of:
• Fair value of identifiable assets and liabilities, unless fair value exceptions included in IFRS 3 or other IFRSs, and
• Deferred tax assets and liabilities that arise from the initial recognition of an asset or liability as required by IFRS 3 and IAS 12 Income Taxes.

Goodwill will then be recognised as the excess consideration over the fair value of net identifiable assets acquired.

There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to acquisitions of interests in joint operations.</td><td>1 January 2016</td><td>1 July 2016</td></tr>
<tr><td>IFRS 15 (issued June 2014)</td><td>Revenue from Contracts with Customers</td><td>An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.

Due to the recent release of this standard, the entity has not yet made a detailed assessment of the impact.</td><td>1 January 2017</td><td>1 July 2017</td></tr>
</table>

1. Summary of Significant Accounting Policies (continued)

(d) New and amended standards adopted by the Group (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2014-3 (issued August 2014)	Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations	When an entity acquires an interest in a joint operation whose activities meet the definition of a 'business' in AASB 3 Business Combinations, to the extent of its share of assets, liabilities, revenues and expenses as specified in the contractual arrangement, the entity must apply all of the principles for business combination accounting in AASB 3, and other IFRSs, to the extent that they do not conflict with AASB 11 Joint Arrangements. This means that it will expense all acquisition-related costs and recognise its share, according to the contractual arrangements, of: • Fair value of identifiable assets and liabilities, unless fair value exceptions included in AASB 3 or other IFRSs, and • Deferred tax assets and liabilities that arise from the initial recognition of an asset or liability as required by AASB 3 and AASB 1142 Income Taxes. Goodwill will then be recognised as the excess consideration over the fair value of net identifiable assets acquired. There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to acquisitions of interests in joint operations.	1 January 2016	1 July 2016

1. Summary of Significant Accounting Policies (continued)

(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 all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date the Group obtains control until such time as control ceases.

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.

(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 profit or loss and other comprehensive income.

(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(k). 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 profit or loss and other comprehensive income.

1. Summary of Significant Accounting Policies (continued)

(g) Significant Accounting Estimates and Judgements (continued)

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.

(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 contained 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.

(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.

(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. Summary of Significant Accounting Policies (continued)

(j) 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 profit or loss and other comprehensive income in the year the asset is derecognised.

(k) 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 profit or loss and other 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.

(l) 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. Summary of Significant Accounting Policies (continued)

(m) 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.

(n) 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. Increases in their fair value after impairment are recognised in other comprehensive income.

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. Summary of Significant Accounting Policies (continued)

(o) 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.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

(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 profit or loss and other 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.

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.

(r) Interests in joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to that arrangement.

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

1. Summary of Significant Accounting Policies (continued)

(s) Employee benefits

Liabilities for employee benefits 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.

(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 profit or loss and other comprehensive income on a straight-line basis over the lease term.

(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.

(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.

(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.

(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).

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 profit or loss and other comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

1. Summary of Significant Accounting Policies (continued)

(x) Share-based payment transactions (continued)

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.

(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 arrangements, 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 arrangements, 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. Summary of Significant Accounting Policies (continued)

(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.

Cash flows are included in the Cash Flow Statement 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.

(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.

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

The debt component of the Convertible Note was measured at amortised cost and therefore increased as the present value of the redemption amount increased, 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 was valued at fair value, which was determined by calculating the maximum potential value of the call option and discounting that amount to its present value. The maximum value was limited because the conversion price is based upon a 10% discount to the market price. The movement in the fair value was recorded in profit or loss each reporting period.

The transactions costs of the Convertible Note were offset against the debt instruments and were amortised over the life of the debt instruments.

1. *Summary of Significant Accounting Policies (continued)*

(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.

	Consolidated	
	2014	2013
	$	$
2. Revenue and Expenses		
(a) Revenue and Other Income		
Interest revenue	**3,459**	24,598
Deferred proceeds from sale of mineral tenements	**-**	406,533
Gain on disposal of plant and equipment	**-**	14,443
Rent income	**-**	1,985
Foreign exchange gains	**275,660**	-
	279,119	447,559
(b) Expenses		
Administrative expenses include:		
Employee benefits expense:		
Salaries, wages and directors' fees	**244,952**	669,455
Defined contribution superannuation expense	**7,118**	17,160
Net benefit from movement in provision for employee entitlements	**(1,452)**	(2,808)
Other employee benefits expense	**-**	3,189
Depreciation	**450**	1,423
Operating lease rental expense	**-**	102,652
Finance costs include:		
Cash interest expense, including withholding tax	**16,123**	185,328
Accretion expense including capitalised interest	**253,194**	1,008,282
Borrowing costs expensed	**6,703**	34,949
	276,020	1,228,559

	Consolidated	
	2014	2013
	$	$
3. Income Tax		
(a) The major components of income tax are:		
Statement of profit or loss and other comprehensive income		
Current income tax	-	-
Deferred income tax	-	-
Income tax expense reported in the statement of profit or loss and other comprehensive income	-	-
(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:		
Loss before income tax	**(4,467,055)**	(13,662,348)
Income tax benefit at 30% (2013: 30%)	**(1,340,117)**	(4,098,705)
Non-deductible finance costs	**80,284**	349,847
Non-deductible impairment of deferred exploration and evaluation expenditure	**1,152,217**	3,387,624
Fair value movement of derivative financial instrument	-	33,008
Share-based payments	**1,698**	-
Foreign exchange	**(82,698)**	5,590
Other	**17,182**	60,403
Unrecognised tax losses	**171,434**	262,233
Income tax expense reported in the statement of profit or loss and other comprehensive income	-	-
(c) Deferred Income Tax		
Unrecognised Deferred Tax Assets		
Share issue costs	**51,609**	99,951
Financial asset classified as available for sale	**18,529**	9,075
Accruals	**1,800**	2,700
Leave entitlements	**-**	1,278
Revenue tax losses	**6,163,799**	6,082,711
Deferred tax asset netted off against deferred tax liability	**-**	(18,928)
Unrecognised deferred tax assets	**(6,235,737)**	(6,176,787)
	-	-
Unrecognised Deferred Tax Liabilities		
Convertible notes	-	(18,928)
Deferred tax asset netted off against deferred tax liability	-	18,928
	-	-

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.

Tax Consolidation Legislation

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

	Consolidated	
	2014	2013
4. Earnings per Share		
	Cents	Cents
Basic earnings per share	**(2.81)**	(0.50)

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	$	$
Earnings – net loss after tax for the year	**(4,467,055)**	(13,662,348)
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**159,083,190**	2,713,418,632

The Company's potential ordinary shares, being its options granted, 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	**91,575**	306,822

(i) Reconciliation of loss for the year to net cash flows used in operating activities

Loss for the year	**(4,467,055)**	(13,662,348)
Adjustments:		
Deferred proceeds from sale of mineral tenements	**-**	(406,533)
Depreciation	**450**	1,423
Impairment of deferred exploration and evaluation expenditure	**3,840,722**	11,291,579
Impairment of financial assets classified as available for sale	**31,512**	30,251
Accretion expense	**253,194**	1,008,282
Fair value loss on embedded derivative	**-**	110,027
Amortisation of borrowing costs	**6,703**	34,949
Share-based payments	**5,660**	-
Unrealised foreign exchange (gains) / losses	**(275,660)**	18,632
Loss / (profit) on sale of assets	**655**	(14,443)
Change in operating assets and liabilities:		
Decrease in receivables	**44,774**	9,385
(Decrease) / increase in payables	**(107,423)**	123,471
Decrease in provisions	**(1,452)**	(2,808)
Net cash flows used in operating activities	**(667,920)**	(1,458,133)

5. *Cash and Cash Equivalents (continued)*

(ii) Non-Cash Financing and Investing Activities

On 31 January 2013 the Company received 252,094 shares in Stratum Metals Limited as part consideration pursuant to the on-sale of tenements sold by the Company and its controlled entities in 2009. The fair value of the shares on 31 January 2013 was $63,024. The shares were escrowed for 12 months. Refer to Note 7.

	Consolidated **2014** $	2013 $
6. Trade and Other Receivables		
Current		
Sundry debtors	**-**	24,727
GST refunds due	**4,225**	20,777
Prepayments	**331**	3,826
	4,556	49,330

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.
(v) Receivables do not contain past due or impaired assets as at 30 June 2014 (2013: none).

	2014	2013
7. Financial Assets classified as Available for Sale		
Listed shares – Stratum Metals Ltd	**1,260**	32,772
Reconciliation of Movement		
Carrying amount at beginning of period	**32,772**	-
Additions	-	63,023
Impairment	**(31,512)**	(30,251)
Carrying amount at end of period	**1,260**	32,772

The fair value of listed shares has been determined directly by reference to published price quotations in an active market for identical securities. They are deemed to be Level 1 securities in accordance with the AASB 7 fair value measurement hierarchy and hence there is no subjectivity in relation to their value.

	2014	2013
8. Plant and Equipment		
Plant and equipment – at cost	**-**	10,862
Accumulated depreciation and impairment	**-**	(10,359)
	-	503
Reconciliation of Movement		
Carrying amount at beginning of period	**503**	1,471
Additions	**-**	1,111
Disposals	**(38)**	(953)
Depreciation	**(450)**	(1,423)
Foreign currency translation movements	**(15)**	297
Carrying amount at end of period	**-**	503

	Consolidated	
	2014	2013
	$	$
9. Deferred Exploration and Evaluation Expenditure		
Deferred oil and gas expenditure	**6,033,722**	6,341,570
Reconciliation of Movement		
Carrying amount at beginning of period	**6,341,570**	15,746,226
Additions	**-**	122,065
Sale of joint operation inventory	**(125,241)**	-
Expenditure written off during the year	**(3,840,722)**	(11,291,579)
Foreign currency translation movements	**(182,607)**	1,764,858
Carrying amount at end of period	**2,193,000**	6,341,570

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 was written down in June 2013 following a technical assessment of the SC 54 assets by an independent consultant, and in June 2014 following an assessment by the Board.

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

	2014	2013
Current	**77,454**	184,877

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. Interest-bearing Loans

	2014	2013
Current		
Loan from related party – IMC	**340,000**	**-**

The loan is interest-bearing, is secured against the assets of the Company and its subsidiary Yilgarn Petroleum Philippines Pty Ltd, and is due for repayment by 11 November 2014. The drawdown facility limit is $488,000.

	Consolidated 2014 $	2013 $
12. Convertible Notes		
Current		
Financial liability measured at amortised cost	-	8,559,084
Derivative financial instrument	-	952,150
	-	9,511,234

Movement in debt component		
Carrying amount at beginning of period	**8,559,084**	6,631,397
Accretion of debt	**169,085**	881,659
Capitalised interest	**84,109**	126,623
Amortisation of issuance and restructuring costs	**6,703**	34,949
Transfer to equity on conversion	**(8,722,719)**	-
Foreign currency translation movements	**(96,262)**	884,456
Carrying amount at end of period	-	8,559,084

Movement in embedded derivative component		
Opening balance	**952,150**	752,030
Fair value movements	**-**	110,027
Transfer to equity on conversion	**(962,250)**	-
Foreign currency translation movements	**10,100**	90,093
Closing balance	-	952,150

On 12 November 2013 shareholders approved the issue of 174,454,400 fully paid ordinary shares (post-consolidation) to IMC Oil & Gas Investments Limited ("IMC"), thereby extinguishing US$8,089,250 in secured convertible note debt via conversion of the 7,458,592 outstanding Convertible Notes. The conversion price was $0.05 per share (post-consolidation), converted from USD to AUD at US$1 = A$1.07831. IMC released the securities it held over the assets of the Company.

In consideration for IMC paying its own legal costs and other expenses with respect to the rights issue undertaken by the Company in 2013 and the convertible note conversion, the Company agreed to grant to IMC 3,000,000 unlisted options exercisable at $0.10 (post-consolidation) each on or before 30 June 2015. Refer to Note 19.

The Company agreed to grant to IMC the right of first refusal to subscribe for or apply for one third of any offering of any securities for a period of two years. The right of first refusal does not include any offerings pursuant to any rights issues or any share purchase plan offered to all Shareholders. The exercise of the right of first refusal and the issue of any securities to IMC will be subject to the Company procuring all Shareholder approvals required under both the Listing Rules and the Corporations Act.

Prior to conversion, the principal terms and conditions of the Convertible Notes were as follows:

i) Maturity date: 8 September 2013 and 22 October 2013 (5 years from issue);
ii) Interest payable monthly at 4% per annum. Interest at 8% per annum was capitalised monthly and was payable upon maturity. For the period 1 February 2013 to 30 June 2013, IMC agreed that no further interest was payable in cash. 12% interest was capitalised each month. No further interest was payable after 12 September 2013 under the terms of the Implementation Agreement for conversion of the convertible notes;
iii) The conversion price was based on a 10% discount to the 20 day volume weighted average price with a minimum conversion price of 5 cents (post-consolidation);
iv) 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.

12. Convertible Notes (continued)

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. It was transferred to ordinary share capital upon conversion of the Convertible Note. Refer to Note 14(c).

	Consolidated	
	2014	2013
	$	$
13. Provisions		
Current		
Employee benefits	-	1,452

No rehabilitation provision is currently required. All 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.

14. Issued Capital

(a) Share capital

Ordinary shares fully paid	**85,660,548**	74,103,153
Equity portion of convertible note – refer to Note 12	**-**	1,889,561
	85,660,548	75,992,714

(b) Movement in ordinary shares on issue	**Number**	**$**
At 30 June 2012	2,688,363,837	73,810,536
Placement (0.1 cents per share)	295,000,000	295,000
Share issue transaction costs	-	(2,383)
At 30 June 2013	**2,983,363,837**	**74,103,153**
Share consolidation	**(2,923,695,757)**	**-**
Conversion of convertible note	**174,454,400**	**9,684,969**
Transfer of equity component of convertible note to ordinary shares on issue	**-**	**1,889,561**
Share issue transaction costs	**-**	**(17,135)**
At 30 June 2014	**234,122,480**	**85,660,548**

	2014	2013
	$	$
(c) Movement in equity component of convertible note		
Carrying value at beginning of period	**1,889,561**	1,889,561
Transfer of equity component of convertible note to ordinary shares on issue	**(1,889,561)**	-
Carrying value at end of period	**-**	1,889,561

(d) Options at 30 June 2014

	Number	***Exercise Price***	***Expiry Date***
Unlisted Options	3,000,000	10 cents	30 June 2015
	3,000,000		

During the year 720,000 (pre-consolidation: 36,000,000) unlisted options expired.

14. Issued Capital (continued)

(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.

Under the Implementation Agreement for the conversion of the Convertible Notes, the Company agreed to grant to IMC the right of first refusal to subscribe for or apply for one third of any offering of any securities for a period of two years. The right of first refusal does not include any offerings pursuant to any rights issues or any share purchase plan offered to all Shareholders. The exercise of the right of first refusal and the issue of any securities to IMC will be subject to the Company procuring all Shareholder approvals required under both the Listing Rules and the Corporations Act. Refer to Note 12.

15. 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.

16. 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.

Contingent Liabilities
There are no contingent liabilities.

	Consolidated 2014 $	2013 $

17. Commitments

(a) 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:

	2014 $	2013 $
- Within one year	-	-
- More than one year but not later than five years	-	-
	-	-

(b) Joint Operation 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:

	2014 $	2013 $
- Within one year	-	-
- More than one year but not later than five years	-	-
	-	-

The joint operation was granted a moratorium on Service Contract 54 from 5 August 2014 to 5 August 2017 to give the joint operation sufficient time to study the development of the discovered marginal resources in the block. The joint operation has no commitments on the block during this period.

18. Related Party Transactions

(a) Parent entity

As a result of the conversion to equity of the convertible note, IMC Oil & Gas Investments Limited ("IMC") became the ultimate parent entity of the Group. IMC, a private company incorporated in the British Virgin Islands, holds 77.0% of the issued capital of Kairiki Energy Limited. The ultimate parent of IMC is IMC Pan Asia Alliance Corporation, a private company incorporated in the British Virgin Islands.

The parent entity within the Group is Kairiki Energy Limited.

(b) Subsidiaries

Name of Controlled Entity	Place of Incorporation	% Held by Parent Entity 2014	2013	Principal Activities
Yilgarn Petroleum Philippines Pty Ltd	Australia	100%	100%	Oil and gas exploration
Great Southern Mines NL	Australia	100%	100%	Dormant
Kairiki Energy Asia Pty Ltd	Australia	100%	100%	Dormant
Kairiki Energy Africa Pty Ltd	Australia	100%	100%	Dormant
Kairiki Energy Italy Pty Ltd	Australia	100%	100%	Dormant

18. Related Party Transactions (continued)

(c) Key management personnel compensation

	Consolidated	
	2014	2013
	$	$
Short-term employment benefits	**223,000**	491,340
Post-employment benefits	**-**	2,835
Termination benefits	**-**	71,950
	223,000	566,125

Further disclosures relating to key management personnel are set out in the remuneration report in the Directors' Report.

(d) Transactions with related parties

IMC provided the Group with a drawdown facility with a limit of $488,000. At 30 June 2014 it had been drawn down by $340,000. Interest expenses on the loan during the year were $16,123. Refer to Note 11 for further details.

3,000,000 unlisted options were issued to IMC in consideration for IMC paying its own legal costs and other expenses for the rights issue offer in April 2013 and the convertible note conversion. Refer to Note 19 for further details.

19. Share-based Payments

(a) Value of share-based payments in the financial statements

	Consolidated	
	2014	2013
	$	$
Share-based payments expensed	5,660	**-**

(b) Details of share-based payments

3,000,000 unlisted options with an exercise price of 10 cents and an expiry date of 30 June 2015 were issued to IMC on 5 December 2013 in consideration for IMC paying its own legal costs and other expenses for the rights issue offer in April 2013 and the convertible note conversion. The fair value of the options was calculated as 0.19 cents per option or $5,660 in total using a binomial model and the following assumptions:

Dividend yield (%)	Nil
Expected volatility (%)	100%
Risk-free interest rate (%)	2.63%
Expected life (years)	1.2
Exercise price (cents)	10.0
Share price at grant date (cents)	2.0

19. Share-based Payments (continued)

(b) Summary of share-based payments (continued)

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

2014

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
Related Party – IMC								
5/12/2013	30/6/2015	10 cents	-	3,000,000	-	-	3,000,000	3,000,000
Key Management Personnel – unlisted options								
16/5/2011	16/5/2014	$3.25 (i)	150,000 (i)	-	-	(150,000) (i)	-	-
Employees- unlisted options								
16/5/2011	16/5/2014	$3.25 (i)	20,000 (i)	-	-	(20,000) (i)	-	-
			170,000 (i)	3,000,000	-	(170,000) (i)	3,000,000	3,000,000
Weighted average exercise price ($)			0.065 (i)	0.10	-	0.065 (i)	0.10	0.10

(i) Options are stated on a post-consolidation basis. As a result of the 50:1 share consolidation on 28 November 2013, the number of options outstanding at the start of the year changed from 8,500,000 to 170,000 and the exercise price from 6.5 cents to $3.25. The options expired on 16 May 2014.

2013

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
Key Management Personnel – unlisted options								
16/5/2011	16/5/2014	6.5c	35,000,000	-	-	(27,500,000) (i)	7,500,000	7,500,000
Employees- unlisted options								
16/5/2011	16/5/2014	6.5c	1,000,000	-	-	-	1,000,000	1,000,000
			36,000,000	-	-	(27,500,000)	8,500,000	8,500,000
Weighted average exercise price ($)			0.065	-	-	0.065	0.065	0.065

(i) No longer classed as KMP options due to the resignation of Dr Fenton and Mr Maclean. The options vested prior to resignation and hence were not cancelled.

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.

(c) Weighted average fair value

The weighted average fair value of share-based payments granted during the year ended 30 June 2014 was 0.19 cents. No share-based payment options were granted during the years ended 30 June 2013.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life of share-based payment options outstanding as at 30 June 2014 was 1.0 year (2013: 0.9 years).

	Consolidated	
	2014	2013
	$	$
20. Auditor's Remuneration		
Amount received or due and receivable by the auditor of Kairiki Energy Limited for:		
Auditing and reviewing the financial statements	**15,500**	35,500
Amount received or due and receivable by other audit firms:		
Taxation consulting	**-**	900
	15,500	36,400

21. Joint Arrangements

The Group has the following interests in joint operations:

Permit	**Principal Activities**	**Percentage Interest**	
		2014	2013
SC 54 – Area 'A'	Oil and gas exploration	**30.1%**	30.1%
SC 54 – Area 'B'	Oil and gas exploration	**40%**	40%

The Group has classified these joint arrangements as joint operations under the terms of the agreements. The Group has joint control, by virtue of the Joint Operating Agreement specific to the Service Contract. Joint control is achieved by the affirmative vote of two or more parties owning an aggregate of at least 70% for SC 54A and SC 54B.

The joint arrangements are not conducted via separate legal entities. They are contractual arrangements between the participants for the sharing of costs and outputs. The participants share exploration, evaluation and development costs and output in proportion to their ownership of the joint operation assets. The Group's share of exploration, evaluation and development expenditure is accounted for in accordance with the policy set out in Note 1.

Commitments Relating to Joint Operations
Capital expenditure commitments in respect of the joint operations are disclosed in Note 17.

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. At present, the Group's only operating segment is 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 Exploration $**	**Total $**
30 June 2014		
Segment revenue	-	-
Unallocated items:		
Interest revenue		**3,459**
Foreign exchange gains		**275,660**
Total revenue and other income		**279,119**
Segment result	**(3,866,869)**	**(3,866,869)**
Unallocated items:		
Unallocated revenue and other income		**279,119**
Administrative and other costs		**(603,285)**
Finance costs		**(276,020)**
Loss after tax		**(4,467,055)**
Segment assets	**2,193,000**	**2,193,000**
Unallocated items:		
Cash		**91,575**
Other corporate assets		**5,816**
Total assets		**2,290,391**
Segment capital expenditure	-	-
Unallocated corporate capital expenditure		-
Total capital expenditure		-

22. Segment reporting (continued)

Consolidated	Oil & Gas Exploration $	Total $
30 June 2013		
Segment revenue	-	-
Unallocated items:		
Interest revenue		24,598
Deferred proceeds from sale of mineral tenements		406,533
Gain on disposal of plant and equipment		14,443
Rent income		1,985
Total revenue and other income		447,559
Segment result	(11,317,712)	(11,317,712)
Unallocated items:		
Unallocated revenue and other income		447,559
Administrative and other costs		(1,563,636)
Finance costs		(1,228,559)
Loss after tax		(13,662,348)
Segment assets	6,341,570	6,341,570
Unallocated items:		
Cash		306,822
Other corporate assets		82,605
Total assets		6,730,997
Segment capital expenditure	122,065	122,065
Unallocated corporate capital expenditure		1,111
Total capital expenditure		123,176

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.

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 was not exposed to cash flow volatility from interest rate changes on borrowings as the Convertible Note carried a fixed rate of interest of 12% per annum. Until 31 January 2013, 4% was paid in cash and 8% was capitalised. From 1 February 2013 until 12 September 2013, the full 12% was capitalised. After 12 September 2013, no further interest was charged.

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

	Consolidated	
	2014	2013
	$	$
Financial Assets:		
Cash and cash equivalents held in interest-bearing accounts	**91,575**	306,665
Net exposure	**91,575**	306,665

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 bank interest rate movements over the last three years.

At 30 June 2014, 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	
	2014	2013
	$	$
Judgements of reasonably possible movements:		
Post tax profit - higher / (lower)		
+ 0.5%	**458**	1,534
- 0.5%	**(458)**	(1,534)
Equity - higher / (lower)		
+ 0.5%	**458**	1,534
- 0.5%	**(458)**	(1,534)

23. Financial Risk Management Objectives and Policies (continued)

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 2014. These amounts represent contractual undiscounted cash flows.

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

	Consolidated	
	2014	2013
	$	$
6 months or less	**425,130**	8,814,939
7-12 months	**-**	-
1-5 years	**-**	-
	425,130	8,814,939

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 profit or loss and other 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 2014, the Group had the following exposures to USD and AUD currencies that are not designated in cash flow hedges:

	2014		2013	
	USD	**AUD**	USD	AUD
	AUD $	**AUD $**	AUD $	AUD $
Financial Assets:				
Cash and cash equivalents	**21,504**	**70,071**	54,534	252,288
Trade and other receivables	**-**	**4,556**	-	49,330
Listed shares	**-**	**1,260**	-	32,772
Financial Liabilities:				
Trade and other payables	**(21,234)**	**(56,220)**	(4,563)	(180,314)
Borrowings		**(340,000)**	-	-
Convertible notes – debt component	-	-	(8,559,084)	-
Net exposure	**270**	**(320,333)**	(8,509,113)	154,076

23. Financial Risk Management Objectives and Policies (continued)

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	
	2014	2013
	$	$
Judgments of reasonably possible movements:		
Post tax profit - higher / (lower)		
AUD/USD + 5 %	**(15,254)**	5,776
AUD/USD - 5 %	**16,860**	(6,384)
Equity - higher / (lower)		
AUD/USD + 5 %	**(15,254)**	5,776
AUD/USD - 5 %	**16,860**	(6,384)

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

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

24. Parent Entity Information

	Parent	
	2014	2013
	$	$
Current assets	**90,824**	306,337
Total assets	**2,268,726**	6,726,604
Current liabilities	**(396,221)**	(9,693,000)
Total liabilities	**(396,221)**	(9,693,000)
Net assets / (deficiency)	**1,872,505**	(2,966,396)
Issued capital	**85,660,548**	75,992,714
Share-based payments reserve	**3,594,180**	3,588,520
Foreign currency translation reserve	**(7,336,578)**	(6,968,951)
Accumulated losses	**(80,045,645)**	(75,578,679)
Total equity	**1,872,505**	(2,966,396)
Loss of the parent entity after tax	**(4,466,966)**	(13,664,821)
Other comprehensive income / (loss), net of tax	**(367,626)**	811,003
Total comprehensive loss of the parent entity	**(4,834,592)**	(12,853,818)

25. Events Subsequent to the Reporting Period

Other than as noted below, no 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.

Subsequent to the end of the financial year, the Philippines Department of Energy approved a request for a moratorium on Service Contract 54 from 5 August 2014 to 5 August 2017 to give the joint venture sufficient time to study the development of the discovered marginal resources in the block. At the end of the moratorium period, the joint venture should elect to enter sub-phase 7 with a commitment to drill one well. If the joint venture elects to continue into the production period, the 3 year moratorium period will be automatically deducted to the initial production period.

DIRECTORS' DECLARATION

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 2014 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 2014.

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

Robert Downey
Director
26 September 2014

ROTHSAY

Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9486 7094 www.rothsayresources.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 2014 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 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*.

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 2014 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*; and

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 2014 of $667,920 and a net operating loss of $4,467,055. In the event the consolidated entity is unable to achieve the points in Note 1 paragraph (b), there is a material 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 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Rothsay

Graham R Swan
Partner

Dated 26 September 2014

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 15 September 2014.

1. Distribution of Holders

	Fully Paid Ordinary Shares
Number of holders in the following distribution categories:	
0 - 1,000	2,099
1,001 - 5,000	800
5,001 - 10,000	289
10,001-100,000	497
100,001 and over	88
Number of holders	3,773
Holders of less than a marketable parcel	3,527

2. Twenty Largest Shareholders

The names of the twenty largest shareholders are as follows:

		Number of Shares	Percentage of Issued Capital
1	IMC Oil & Gas Investments Limited	180,354,400	77.03
2	Mr Glenn William Twomey & Mrs Karen Lynne Twomey	4,352,075	1.86
3	Mr Shane Victor Hardy	4,075,418	1.74
4	Yandal Investments Pty Ltd	3,768,200	1.61
5	Bonos Pty Ltd	1,020,000	0.44
6	Ironbray Pty Ltd <Sofia Family Super A/C>	1,014,035	0.43
7	HSBC Custody Nominees (Australia) Limited – A/C 2	921,542	0.39
8	Zoric & Co Pty Ltd	700,000	0.30
9	Warbler Investments Limited	609,867	0.26
10	Mr Cameron John Levett & Mrs Susanne Levett	548,712	0.23
11	Mr George Manios	448,017	0.19
12	JP Morgan Nominees Australia Limited	441,689	0.19
13	Citicorp Nominees Pty Limited	380,406	0.16
14	Mr Harry White	373,060	0.16
15	Abdul Fida Pty Ltd <AR&F Dannaoiu Family A/C>	360,000	0.15
16	Talex Investments Pty Ltd	353,640	0.15
17	Mr Matthew Robert Coppens	337,325	0.14
18	Goffacan Pty Ltd <KMM Family A/C>	319,997	0.14
19	Mr Roland Christopher Frizzell	312,500	0.13
20	Clontelle Pty Ltd <Kenneth Roxburgh S/F A/C>	310,700	0.13
		201,001,583	85.85
	Shares on Issue	234,122,480	

3. Unlisted Options

Details of unlisted option holders are as follows:

Class of unlisted options	Number of Options	Number of Holders
Options exercisable at 10 cents each between 5 December 2013 and 30 June 2015	3,000,000	1
Holdings of more than 20% of this class		
- IMC Oil & Gas Investments Limited	3,000,000	

4. Restricted Securities
There are no restricted securities or securities subject to voluntary escrow.

5. 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
IMC Oil & Gas Investments Limited	180,354,400	77.03

6. 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.

7. 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