

## QUARTERLY ACTIVITY REPORT For the period ending 30 June 2010

The Directors wish to report the following activities for the quarter ended 30 June 2010;

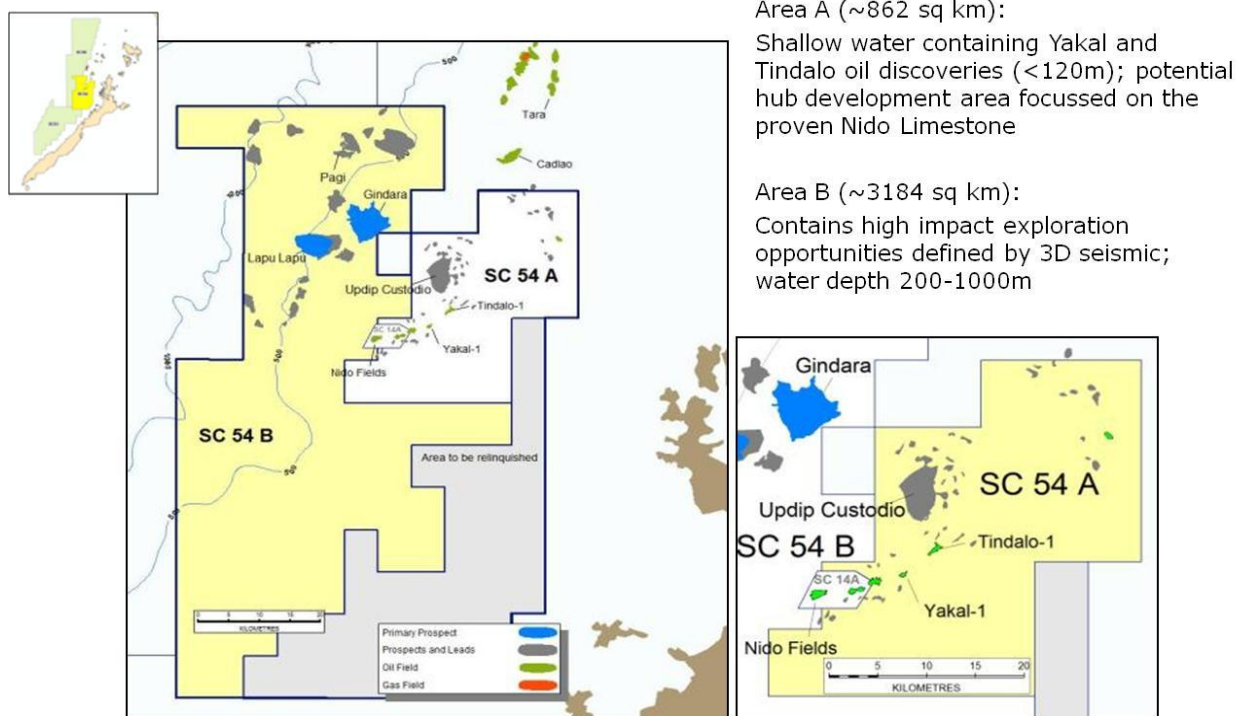
### Highlights:

- ❖ Tindalo EWT commenced on 6 June 2010
- ❖ Tindalo cumulative production to 30 June 2010 was 97,883 bbls (Kairiki net 29,462 bbls) with first sale expected in mid August 2010
- ❖ Tindalo workover scheduled for August 2010

## Oil & Gas Activities

### Philippines Offshore Oil and Gas Permit

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



## SC 54A – Tindalo Development

### First Oil from Tindalo

During the quarter, the Joint Venture commenced an extensive drill-stem testing programme (DST) of the Tindalo oil field. First oil from the Tindalo-1 well flowed to surface at 11.08 hours (Manila time) on 30 May 2010. Highlights of the initial stage of the DST as advised by the Operator, Nido Petroleum, were as follows:

- Approximately 44 metres of the Nido limestone reservoir was perforated and stimulated with acid;
- A maximum oil flow rate of 18,689 barrels of oil per day was achieved with a 136/64th inch choke and a flow tubing head pressure of 59 psig during a multi-rate production test. This flow was achieved on natural flow without use of the down-hole pump (ESP) that was installed;
- A preliminary analysis of oil quality indicated that the oil was approximately 27 degree API with no wax. Only minor associated gas of approximately 13 scf/bbl was recorded;
- An Extended Well Test (EWT) commenced on 6 June 2010 which is designed to evaluate well performance and the long-term reservoir management plan for optimisation of Tindalo's resources and value during the normal production phase beyond the EWT term. The EWT is for a period of 100 days of actual crude flow/production time or one million barrels of crude production, whichever occurs first;
- In the initial stages of the test, some water was produced to surface, the origin of which was uncertain. The well was initially produced at various flow rates during the early phase of the well test to determine the longer term optimal reservoir management strategy; and
- A 10 month option on the Aquamarine Driller was exercised.

### Extended Well Test

The current status of the EWT based on information provided by the Operator is as follows:

- The pre-production oil-in-place estimates (most likely 11 million barrels), including confirmation of a 135m-140m oil column, are supported by testing and build-up pressure data;
- The production processing equipment including the water treatment facilities are now considered functional after experiencing significant commissioning delays due to an equipment fault relating to the treatment of the produced water;
- The produced water samples confirmed that the source of the water was from the formation. The formation water production is being produced from either:
  - a flow path to the aquifer behind the production casing and within the wellbore, or
  - a high permeability, high angle fracture(s) with direct access to the aquifer associated particularly with this well location.
- A work-over program is planned to take place in August 2010 which is anticipated to increase the amount of oil produced by a significant reduction or elimination of the watercut.

## Work-over

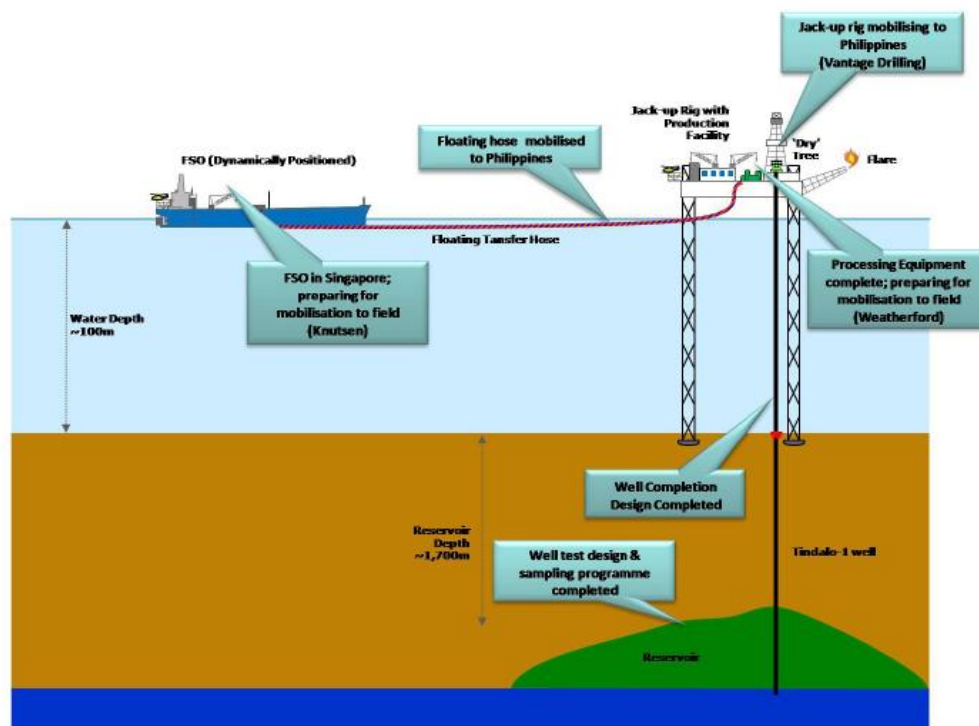
A work-over of Tindalo-1 is being planned as the next step in the EWT program with execution in mid to late-August. The work-over design for Tindalo-1 is to enter the well and diagnose the water source using wireline logging techniques prior to either re-cementing or re-perforating and is expected to take approximately 2 weeks. This proposed work-over will utilise the jack up rig “Aquamarine Driller” already on site and with access to the well. Hardware for this purpose has been purchased and is currently being mobilised to site.

The current design of the Tindalo development offers the flexibility required to undertake the work-over. A successful work-over is anticipated to increase oil production by a significant reduction or elimination of the water-cut which is approximately 80% of total fluid production whilst maintaining a sustainable high fluid production rate.

## Oil Produced and Marketing of Oil

During the quarter 97,883 barrels of oil gross (29,462 barrels net to Kairiki) were produced and stored aboard the FSO from 1 June to 30 June. The Joint Venture’s plan is to maintain production ahead of the first crude oil sale scheduled for mid-August. The final assay results of the Tindalo oil were received which indicates an oil quality of 26.4 degree API.

## Tindalo Production System



## Other

The SC 54A Joint Venture has also progressed the reprocessing of 3D seismic data covering an area of 140 sq. km within the central portion of the contract area which includes the Tindalo, Nido 1X1 and Yakal discoveries. The reprocessed seismic is scheduled for delivery in 3Q 2010 and will enhance the Joint Ventures ability to mature an area development strategy.

## SC 54A Working Interests

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) <i>Operator</i>	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

The SC 54B Joint Venture has continued to engage companies during the period with a view to farming-out the acreage and obtaining a partner to assist in funding the drilling of the Gindara prospect.

The Gindara prospect is now considered substantially de-risked following completion of significant technical work over the past six months. The prospect represents an outstanding high potential/low risk drilling candidate for the first well in SC 54B. Accordingly, the Operator has commenced tendering for long lead items (casing and wellhead) for the Gindara well.

Subsurface work during the period has focussed on preparing a database of available 2D seismic covering the southern portion of SC 54B.

## SC 54B Working Interests

Company	Working Interest
Nido Petroleum Philippines Pty Ltd (Nido) – <i>Operator</i>	60%
Yilgarn Petroleum Philippines Pty Ltd (Kairiki)	40%



## **SC 54 Permitting**

The SC 54A and SC 54B Joint Ventures have elected to enter Sub-Phase 6 of the SC 54 Production Sharing Contract period which carries a one well commitment to be drilled before 4 August 2011.

## **Corporate Summary**

### **Cash Position**

At 30 June 2010, Kairiki had a cash balance of \$9,028,000. The movement in cash during the quarter of \$1,832,000 was attributable to the following:

- Tindalo Developments Costs of \$3.87 million;
- Payment of Interest on Convertible Note of \$0.36 million; and
- General and administrative costs, net of exchange differences, of \$0.40 million.

Offset by:

- Net proceeds raised from equity financing of \$6.1 million; and
- Receipt of 50% of deferred consideration on sale of Sicily Channel Permits in 2009 of \$0.3 million to ADX Energy Ltd

### **Issue of Shares**

On the 21 June 2010, the Company raised gross proceeds of \$6.538 million through the issue of 46.7 million shares at 14 cents each. The shares were issued under the company's 15% placement capacity and placed to key international and national investors.

Yours faithfully

Dr Mark Fenton  
Managing Director



For more information on the Company visit [www.kairikienergy.com](http://www.kairikienergy.com)

**Competent Persons Statement:**

The information in this report relating to potential hydrocarbon resource estimates have been compiled by Mr L Brown, the Company's Executive Director, in consultation with the operator of the respective Joint Venture, where appropriate. Mr Brown is qualified with a joint degree with Bachelor of Science (Honours) in Geology and Geophysics from Durham University in the United Kingdom and more than 25 years of relevant experience.