

annual report

09



CORPORATE DIRECTORY

Directors

Lawrence James Brown

Paul Damien John Fry

Jyn Sim Baker

Company Secretary

Neville John Bassett

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Chartered Accountants

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Securities Exchange Listing

ASX Limited

(Home Branch - Perth)

ASX Code: KIK

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CHAIRMAN'S MESSAGE

Dear Shareholder

Kairiki's activities over the past year have been primarily focussed on developing our Philippines asset base and in particular undertaking a successful drilling program.

We commenced the year by completing a number of critical site surveys covering some 17 prospects in SC 54 in preparation for our near term drilling activities. In September and October 2008 we drilled two discoveries in the Philippines, Tindalo and Yakal, both results coming in better than we expected. Both wells were cased and suspended in preparation for completion and future production which is expected during 2010.

These discoveries were an important first step in realising Kairiki's strategy to commercialise the SC 54 inboard area. In addition to these two discoveries there are over 20 additional prospects in the SC 54 inboard area covered by 3D seismic data. Since drilling these discoveries our Joint Venture has been undertaking significant technical work both internally and through ongoing independent third party studies to better understand the scale of the discovered resource, the impact on the remaining exploration portfolio and the possible options for development including early production via a rig-based Extended Well Test. We also commissioned an independent firm to estimate the field size, reservoir quality and volumetrics of Yakal and Tindalo and they confirmed in-place resource volumes in Yakal and Tindalo, and these results were released.

Considerable technical work was also conducted on our outboard drilling prospects in SC 54 during the year resulting in the Gindara Prospect being larger than previously mapped and trap presence has been more robustly defined, increasing the chance of success. The Joint Venture has recently reported an increase in the potential unrisked mean oil-in-place volumes from 470 to 634 million barrels with an upside case of over 1 billion barrels. We are confident based on the technical work that the Gindara Prospect is sourced from the southern extension of the large Malampaya Graben located immediately north of the Gindara. The close proximity of the Gindara structure to the proven Malampaya Graben substantially reduces charge risk in the prospect.

In response to the extremely difficult economic conditions experienced in 2008/2009 we decided to concentrate our financial and other resources on the Philippines and elected to divest our Sicily Channel permits thereby eliminating our financial obligations in 2009 and 2010 of approximately US\$14 million, net to Kairiki. As an extension to this strategy, we also assigned our interest in the Romanian AMI. The costs incurred by Kairiki are subject to recovery based on certain milestones being achieved in the future. We believe that the Joint Venture's plans access to oil production and revenues should place Kairiki in an advantageous position as we move forward.

We thank existing shareholders for their continued support and welcome our new shareholders including those major institutions from Australia, United Kingdom, Singapore and Hong Kong who participated in our share placement in June 2009 which raised \$8.8 million to support the development of the Company's Philippine assets. Their belief in the potential of the Company, its team and its assets, provides us with confidence in moving forward to our next challenge, accelerating production from SC 54.

I would like to extend my particular thanks to Laurie Brown, who assumed the role of Managing Director during the year as we navigated our way through the difficult economic conditions experienced in the past year. To him, and to my other fellow Board members we look forward to the next year with excitement and future success for the Company.



Paul Fry
Chairman



A summary of Kairiki's oil and gas assets is outlined below. For further detail, please see the Operating and Financial Review in the Directors' Report (pages 11 to 12).

Philippines Offshore Exploration Service Contract 54

Kairiki 40% Interest

SC 54

- Yilgarn Petroleum Philippines Pty Ltd (subsidiary of Kairiki Energy Limited),
- Nido Petroleum Limited 60% (Operator),

The highlights of our activities in SC 54 during the year were as follows:

- Kairiki successfully drilled its first ever offshore exploration wells in SC 54 which resulted in two back-to-back oil discoveries at the Yakal-1 and Tindalo-1 prospects proving over 200 metres of collective oil column;
- Independent reservoir geology studies and contingent resource certification has been undertaken on both the Yakal-1 and Tindalo-1 discoveries;
- A range of development options was considered with the Joint Venture selecting a jack-up rig based production facility as the optimum first step. The Joint Venture is progressing towards to a Final Investment Decision for the development of Tindalo with first oil during 2010;
- As a consequence of this drilling activity Kairiki has now fully discharged its farm-in obligations to the Joint Venture earning its 40% equity in SC 54;
- With support from the Philippine Department of Energy (DOE) the SC 54 permit was partitioned into SC 54A (shallow water portfolio) and SC 54B (outboard portfolio); and
- Extensive reprocessing and technical evaluation work has been undertaken on the Gindara Prospect in SC 54B resulting in a more confidently defined, substantially lower risk and larger structure than previously identified; quite unequivocally the standout leading prospect in outboard SC 54 (SC 54B).

SC 54A

Exploration Activity

The past twelve months has been focused on the planning, drilling and evaluation of the Sub-Phase III drilling program in SC 54. Due to limited rig availability, rather than pursue an originally planned drilling of the Gindara-1 Prospect (ex-Coron North) located in approximately 350 metres water depth, the Joint Venture decided to implement its shallow water strategy with a drilling program of two shallow water exploration wells.

A two well back-to-back program was conducted which satisfied both the single well Sub-Phase III drilling obligation required by February 2009, as well as, with the Philippine Department of Energy's (DOE) agreement, that of the subsequent well commitment required by August 2011. The license therefore remains in good standing with drilling obligations fulfilled until this time.

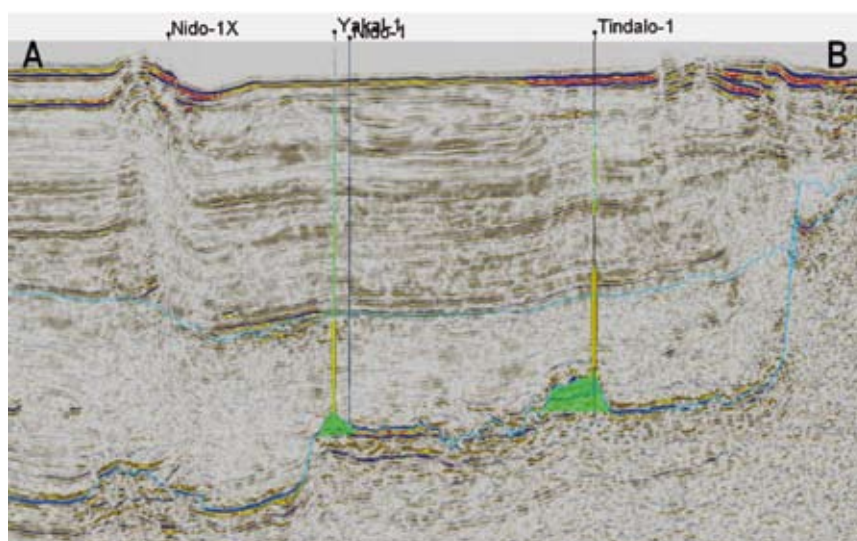
The two wells, Yakal-1 and Tindalo-1, were both selected from an extensive portfolio of multiple 3D-defined shallow water targets on the basis of presenting the most optimal longer term chance (lowest risk) to establish an initial foothold discovery base for subsequent wider scale, longer term, area exploitation involving aggregated development of a collectively larger number of fields.

For this reason, with a longer term vision in place, from over 30 shallow water largely pinnacle play targets, Tindalo and Yakal were therefore selected strategically more for their low risk profile than their size.

In preparation for drilling, but with the greater portfolio in both the shallow and outboard in mind, in July and August 2008, the Joint Venture invested in and completed multiple site surveys, an essential environmental and safety pre-requisite to drilling any offshore targets. As a significant pre-investment in the portfolio, both analogue and digital grids were acquired to identify any potential hazards and shallow gas at future possible drilling locations covering some 17 prospects in both the inboard and outboard. This was further supplemented by a soil coring program over key prospects during August.



'WilBoss' jack-up rig that drilled the Tindalo and Yakal discoveries

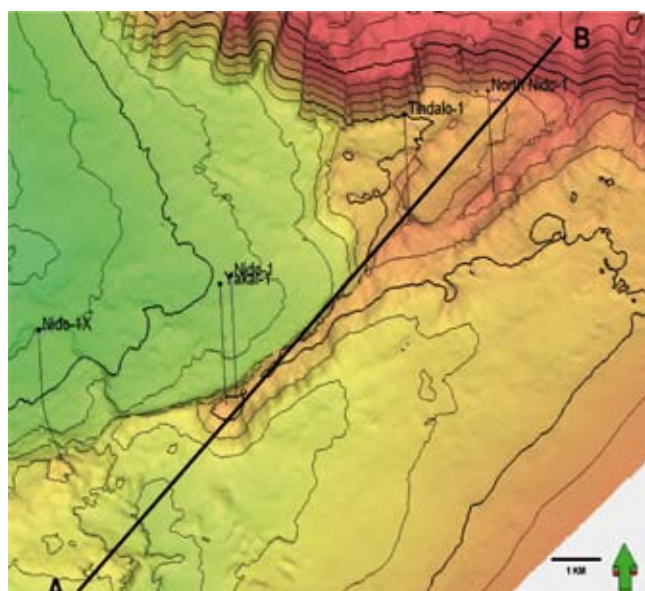


Seismic section through Tindalo and Yakal

In September 2008, Kairiki commenced a two-well exploration drilling program mobilising the 'WilBoss' jack-up rig, to drill the 3D-defined crests of the Yakal and Tindalo prospects. These prospects, consisting of Miocene pinnacle reefs, are some 5.5 kilometres apart, and were the first exploration wells to be drilled in the North West Palawan for some 14 years. As part of the drilling program an extensive suite of modern logs including image logs were run.

The drilling campaign was an outstanding success with both wells resulting in oil discoveries:

- Yakal-1: drilled to a total depth of 1,969.5 mRT (metres below the rotary table) intersecting the target Nido Limestone Formation as prognosed and confirmed a gross oil column in the Nido Limestone of approximately 83 metres which suggests that the structure is filled to spill with oil. Oil samples recovered indicates that the crude is approximately 29 degree API with little or no associated gas;
- Tindalo-1: drilled to a total depth of 1,875 mRT intersecting the target Nido Limestone Formation as expected. A substantial oil column was penetrated, however, heavy drilling losses associated with an oil-filled cavern meant that conventional logs could not be obtained below 1756 mRT. Interpretation of the available mud log data suggests a gross oil column in the Nido Limestone of between 124 and 145 metres, consistent with all local discoveries to be full to spill with oil;
- A total combined gross oil column in the Nido Limestone of over 200 metres was proven; and
- The image logs, the first to be acquired in the area (as all previous drilling done in the late 70's pre-dated this technology), clearly confirmed the presence in each pinnacle of significant zones of vuggy porosity containing oil filled mini-caverns up to 30cm across. In the case of Tindalo, the oil filled cave in which the drilling losses occurred extended for more than 5.5 metres along the well-bore. This is the first time such features had been imaged in any of the past pinnacle discoveries.



Top Nido Limestone perspective map showing Tindalo and Yakal discoveries

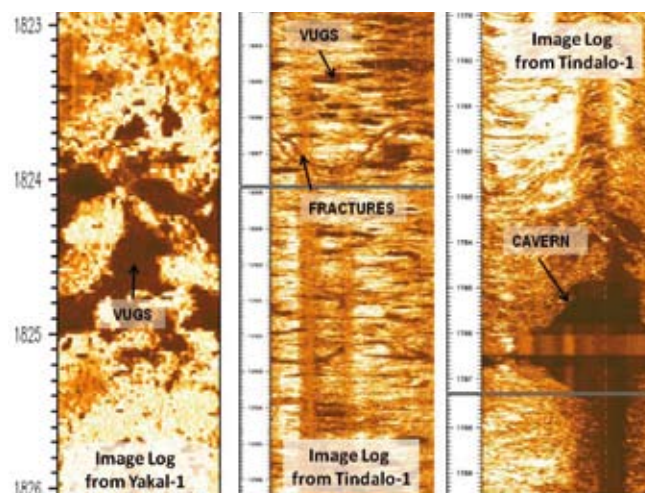


Image logs from Tindalo and Yakal

Resource Certification

In March 2009, the Joint Venture commissioned both Baker Hughes, specialist in assessing the impact of vuggy porosity, and in support, ISIS Petroleum Consultants Pty Ltd. ("ISIS") to independently assess the field size, reservoir quality and contingent resource potential of the Yakal and Tindalo discoveries. ISIS has confirmed that the in-place probabilistic contingent resource volumes (STOIIP) in the Yakal and Tindalo oil pools are as follows:

	Tindalo				Yakal			
	P90	P50	P10	Mean	P90	P50	P10	Mean
Oil in Place (MMbbls)	5.0	11.0	24.5	13.4	2.4	5.1	10.7	6.0

Based on production histories of surrounding analogous oil fields (such as Nido-A, Nido-B and Matinloc, in SC 14), the Company estimates that recovery factors for the Tindalo and Yakal oil pools are expected to be in the range of 35% - 45%.

Tindalo Development

Following the suspension of the two successful exploration wells, pending completion on re-entry, the Joint Venture commenced a detailed in-house technical review of potential development concepts which ranged from fixed platform to floating concepts, and single well development options through to more complex 'cluster' type developments involving Tindalo, Yakal and potentially other nearby targets. The concept chosen for Tindalo utilises a jack-up drill rig that will produce oil from the existing Tindalo-1 well via a skid mounted off-the-shelf oil/water separation unit located on the rig with export via a floating hose to a dynamically floating storage and offtake vessel (FSO). This concept has the advantage of having lower up-front capital costs and relatively low operating costs in the current market.



The Joint Venture is currently in the process of evaluating a Final Investment Decision for the Tindalo development project based on the following:

- Confirmation of key project criteria including reserves uncertainty, oil production rates, capital cost ranges, major contract terms and long lead item requirements;
- Finalisation of a detailed Plan of Development; and
- Securing appropriate Joint Venture and Philippine Government approvals.

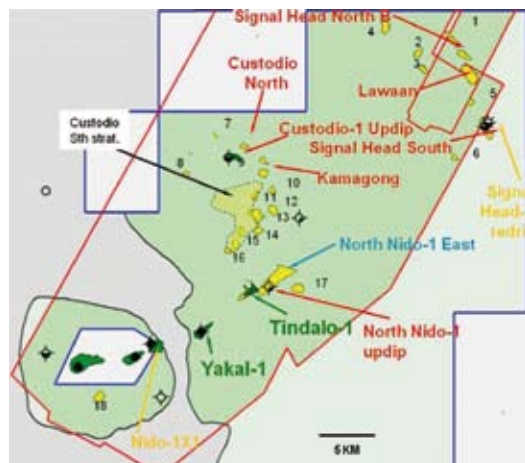
Assuming these criteria are met and the Final Investment Decision is approved, the Company expects that first oil for the Tindalo development will be during 2010.

The utilisation of a single suspended discovery well completed with a jack-up rig as the preferred initial development option for the area necessitated that Tindalo would be developed first ahead of Yakal as Tindalo has larger oil volumes. The development of Yakal will form part of an area development strategy.

SC 54A Area Prospectivity

The Company has re-evaluated the SC 54A exploration portfolio in light of the excellent reservoir characteristics of the Miocene pinnacle reefs seen in Tindalo and Yakal. Results indicate a significant increase in the oil-in-place volumes in the top 12 prospects out of 31 identified to over 200 mmbbls on an unrisks basis.

Given the nature of the pinnacle reef play, their significant number, their historically observed potential for initial prolific flow capability (now supported by the observed vuggy porosity), their generally high oil column heights and small footprints lending themselves to simple, potentially single-well development solutions, then under an appropriately selected well considered and executed area development plan the Company believes it may have an opportunity to rapidly commercialise a number of these accumulations in the SC 54 shallow water area. The Tindalo development is expected to provide the initial cashflow to support ongoing and continuous development activity in SC 54A potentially via the rig-based production system concept. This would be clearly transformational for Kairiki and remains a corporate priority.



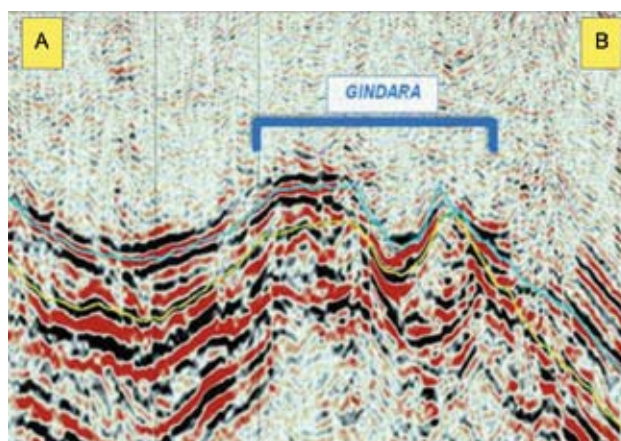
Location map – SC 54A main prospects

SC 54B

In the outboard portion of the block, during the first half of 2009 the Joint Venture completed the interpretation and subsurface integration of the 165 sq km Abukay Part II 3D, supported by 504 line km Kiaw 2D. This work delivered a preliminary SC 54 P&L inventory. Although the outboard P&L inventory highlighted Gindara as an attractively large trap and the leading outboard target, being most beneficially located to receive significant charge from the proven Malampaya Graben, image quality of the Pre-Stack Migrated Time volumes presented some uncertainty in the scale of the trap and technical factors relating to internal reservoir distribution.

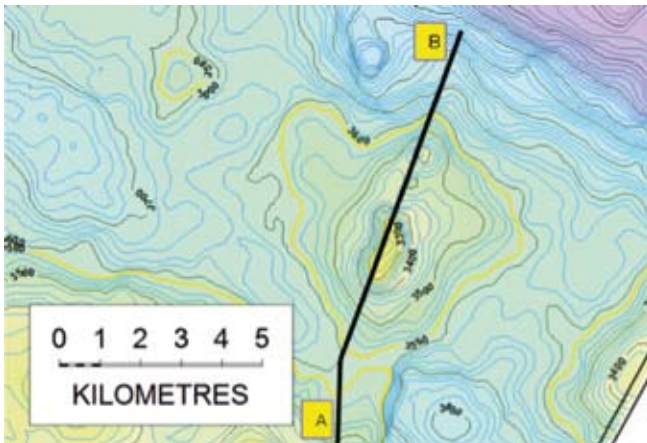
With improved image resolution via state-of-the-art processing to Pre-Stack Depth Migration (PSDM), although a significant investment in both time and cost, the considerable benefits of this undertaking were considered essential to further de-risk Gindara, Lapu Lapu and the remainder of the outboard inventory. After working closely with CGGVeritas to reprocess the entire 851 sq km of the Abukay 3D to PSDM, a project was initiated in December 2008 with final data volumes received February 2009.

Image quality is vastly superior to any previous seismic volumes enabling detailed resolution of internal reservoir heterogeneities, including identification of incorporation of reef bodies within Gindara not previously appreciated. Detailed technical analysis has now been finalised and it is evident that Gindara is a very much lower risk prospect than previously interpreted underpinned by better understood internal reservoir distribution, and ideally positioned overlooking a well established and proven hydrocarbon charge cell – the Malampaya Graben. In addition, Gindara trap presence risk is very much reduced and is now more confidently identified as a substantially larger trap than ever previously mapped.



Seismic line through Gindara Prospect

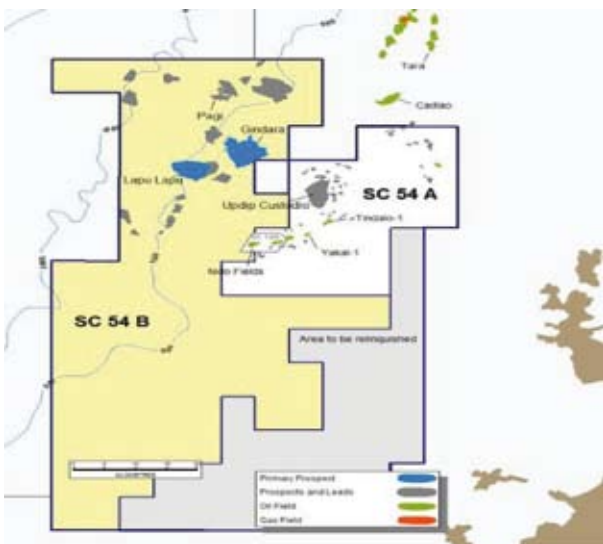
Quite unequivocally, Gindara is the standout outboard target that should be the first well to be drilled in SC 54B. The Joint Venture has recently reported an increase in the potential unrisks mean oil-in-place volumes from 470 to 634 million barrels with an upside case of over 1 billion barrels. As well as completing the evaluation of the Prospect and Lead portfolio at the Nido Limestone objective, the Joint Venture is also performing detailed mapping of the Pagasa turbidite play using the 3D PSDM seismic.



Gindara Prospect – Top Nido Limestone structure map

Relinquishment

Prior to the end of Sub-Phase III (4 February 2009), the Company proposed a 25% relinquishment of the total contract area which was a mandatory relinquishment required under the terms of SC 54. Based on subsurface studies conducted during the year, the Joint Venture agreed to relinquish the eastern sector of the block, considered non-prospective, where the productive Nido Limestone Formation is largely absent due to erosion. This was subsequently approved by the DOE on 8 January 2009. The revised remaining total contract area comprises 404,585 hectares.



Location map – Blocks SC 54A and SC 54B

Partitioning

In July 2009, the Joint Venture received government approval to partition SC 54 into two separate areas; SC 54A and SC 54B. The rationale for partitioning of the block is to separate the shallow water development area (SC 54A) containing the Yakal and Tindalo discoveries plus a large number of smaller potential accumulations, from the deeper water exploration area containing the large Gindara Prospect (SC 54B) and deeper water exploration portfolio. Subsequent to the year end, the DOE approved the partitioning of the SC 54 block.

The Company also entered Sub-Phase IV of the exploration period under SC 54 on 5 February 2009. The commitment to drill a well in the permit during this sub-phase has already been satisfied with the drilling of the Tindalo-1 well in 2008.

Farm-Out

On 30 April 2009, Kairiki Energy announced that it had entered into a Farm-Out Agreement with Focus Oil and Gas Pte Ltd (Focus), a private oil and gas investment company, to farm-out a 17% interest in the inboard portion of Service Contract 54 ("SC 54") in the Philippines. In June 2009, Focus advised Kairiki that it was unable to meet the required condition precedent of concluding its investor contracts to fund their obligations under the Farm-Out Agreement and consequently the agreement lapsed on 30 June 2009.

Tunisia, Italy and Romania

Tunisia - Kerkouane Offshore

Tunisia - Chorbane Onshore

Italy - Pantelleria Offshore

Romania and Tunisian- AMI's

In 2009, Kairiki disposed of its interests in each of the Sicily Channel exploration permits, Pantelleria and Kerkouane, to AuDAX Resources Limited (AuDAX), the operator of those permits. Furthermore, Kairiki elected to assign its 33.33% interest in its Romanian AMI to New Zealand Oil and Gas (NZOG) and withdraw from its Tunisian AMI.

The financial obligations in respect of maturing the Sicily Channel exploration ventures with a total estimated cost, net to Kairiki, of approximately US\$14 million and also fund these other exploration endeavours required significant funding in the near term and given the global economic conditions experienced during the past year, Kairiki elected to focus its funds and resources on developing its lower risk Philippines asset base in order to provide a much greater certainty of generating shareholder value.

As consideration for the sale of its interests in the Sicily Channel Permits, and in the Romanian AMI, Kairiki will recover up to \$968,053 of past costs subject certain milestones being achieved in the future.

Resource Estimates

All potential hydrocarbon resource estimates in this Annual Report have been compiled by Mr L Brown, the Company's Managing 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.

DIRECTORS' REPORT

Your Directors present their report on Kairiki Energy Limited ("Kairiki" or "the Company") and its controlled entities for the year ended 30 June 2009.

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.

Current Directors:	Appointed / Resigned
Lawrence James Brown	
Paul Damien John Fry	
Jyn Sim Baker	appointed 10 October 2008
Previous Directors:	Appointed / Resigned
Craig Moore Gumley	resigned 18 November 2008
Christopher Francis John Swarbrick	resigned 13 January 2009
Rae Jefferies	resigned 18 August 2009

Information on Directors

Lawrence James Brown

B.Sc (Hons) – (Geology/Geophysics) – Managing Director

Mr Brown has over 25 years international petroleum exploration industry experience as an exploration geoscientist. He joined BP in 1982 and after 17 years, working predominantly on international assignments covering the Middle East, Asia, Africa, UK and Australia, he settled in Australia in 1999 where he took up a lead role in Woodside's International Team. He was appointed as a Shell Global Consultant and led Woodside's technical exploration effort in deepwater Mauritania, culminating in the landmark Chinguetti discovery.

In 2001 Mr Brown joined Fusion Oil & Gas, a Mauritania Joint Venture participant, helping to grow its asset portfolio into a diverse range of largely operated exploration assets in Gabon, Cameroon, Senegal, Guinea-Bissau, Western Sahara as well as Mauritania. He was then appointed Exploration Director of Sterling Oil & Gas following its takeover of Fusion Oil & Gas in December 2003 and resigned in January 2006 following the relocation of Sterling's exploration group to the UK.

Director since 4 April 2006.

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

- Rialto Energy Limited (16 February 2006 to 15 May 2009)

Paul Damien John Fry

CA – Executive Chairman

Mr Paul Fry has over 20 years experience working in the oil and gas industry in Australia, UK and North America. He was formerly an oil and gas specialist partner with Ernst & Young and PriceWaterhouse Coopers in Australia and Canada.

Director since 4 April 2006.

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

- Segue Resource Limited (2 April 2008 to present)

Jyn Sim Baker

B.Law – Non-Executive Director

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

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

Director since 10 October 2008.

During the past three years Ms Baker has held the following other listed company directorships:

- Horizon Oil Limited;
- LinQ Capital Limited;
- Midwest Corporation Limited; and
- View Resources Limited.

Craig Moore Gumley

B.Sc (Hons) – (Geology/Geophysics) – Managing Director

Mr Craig Gumley is a highly qualified petroleum geoscientist with 24 years of technical and management experience. During his 17 year career at Santos he developed extensive operational expertise through projects in a variety of basins throughout Australia and the United States with focus on regional basin and prospect evaluation delivering exploration success. Mr Gumley has a Bachelor of Science in Geology and also a Bachelor of Science (Honours) in Geophysics from the University of Adelaide. He is also a member of the American Association of Petroleum Geologists (AAPG), the Petroleum Exploration Society of Australia (PESA), the Society of Exploration Geophysicists (SEG) and the Australian Society of Exploration Geophysicists (ASEG).

Resigned 18 November 2008.

Christopher Francis John Swarbrick

B.Sc (Hons), M.Sc, GAICD – Non-Executive Director

Mr Chris Swarbrick is a petroleum geologist with over 38 years international oil and gas industry experience. He recently retired from Chevron after more than 30 years with ChevronTexaco and Texaco. He has held senior exploration management positions and directorships with ChevronTexaco and Texaco in several parts of the world, most recently as Exploration Manager in Kazakhstan and Senior Exploration Advisor/Acting Exploration Manager in Perth. Mr Swarbrick has been involved in the discovery of several significant oil and gas fields including Jansz and other major gas fields in the Greater Gorgon area of NW Australia.

Mr Swarbrick is a member of the American Association of Petroleum Geologists (AAPG) and the Petroleum Exploration Society of Australia (PESA).

Resigned 13 January 2009.

Rae Jefferies

B.Sc (Hons), GAICD – Non-Executive Director

Ms Rae Jefferies is a Reservoir Engineer with over 25 years international oil and gas experience.

From 1981 to 1991 Ms Jefferies worked in the UK for Mobil and Conoco on major North Sea oil and gas fields in operational and development roles. In 1991 she settled in Australia as an independent reservoir engineering consultant. Since then Ms Jefferies has worked for numerous clients including Shell, Woodside, Chevron and Mobil advising on reservoir management, field development and optimisation projects in the UK, USA, Australasia and Africa. Oil and gas projects, Ms Jefferies has worked on range from small onshore to major offshore deepwater developments.

Ms Jefferies is a member of the Society of Petroleum Engineers (SPE) and has also lectured in Reservoir Engineering for the University of Western Australia.

Resigned 18 August 2009.

Company Secretary

Neville John Bassett

B.Bus, CA

Mr Bassett, is a chartered accountant with over 25 years experience and 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:

	Number	options expiring	exercisable at
Lawrence Brown	12,427,372	ordinary fully paid shares	
	1,500,000	30 November 2009	30 cents each
	1,000,000	30 November 2009	35 cents each
Paul Fry	9,692,185	ordinary fully paid shares	
	1,500,000	30 November 2009	30 cents each
	1,000,000	30 November 2009	35 cents each
Jyn Sim Baker	70,000	ordinary fully paid shares	
IMC Resources Investments Pty Ltd	22,870,000	ordinary fully paid shares	

In addition, Ms Baker is also the Chief Executive Officer of IMC Resources Ltd group, which has a 100% interest in two subsidiaries IMC Oil and Gas Investments Ltd and IMC Resources Investments Pty Ltd which hold the following securities of the Company;

IMC Oil and Gas Investments Ltd

9,529,981 Convertible Notes convertible into ordinary fully paid shares at an issue price determined as the lesser of:

- a. A\$0.185; and
- b. the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16;

resulting in a maximum of 70,073,390 shares being issuable on conversion.

Meetings of the Company's Directors

The number of meetings of the Company's Directors held during the year ended 30 June 2009, and the number of meetings attended by each Director were:

	Number Attended	Maximum Possible
Lawrence Brown	10	10
Paul Fry	10	10
Jyn Sim Baker	6	6
Craig Gumley	5	5
Christopher Swarbrick	6	6
Rae Jefferies	10	10

Corporate Structure

Kairiki Energy Limited is a limited liability company that is incorporated and domiciled in Australia. Kairiki Energy Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year as follows:

	% Owned Controlled Entity
Kairiki Energy Limited	parent entity
Great Southern Mines NL	100% owned controlled entity
Resource Assets Pty Ltd	100% owned controlled entity
Yilgarn Petroleum Philippines Pty Ltd	100% owned controlled entity
Kairiki Energy Asia Pty Ltd	100% owned controlled entity
Kairiki Africa Pty Ltd	100% owned controlled entity
Kairiki Italy Pty Ltd	100% owned controlled entity

Nature of Operations and Principal Activities

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

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

There were no significant changes in the nature of the principal activities during the year.

Operating and Financial Review

Summary of Financial Performance:

Kairiki's consolidated loss for the financial year after tax was \$4,259,000 (2008: \$3,749,000).

The loss for the year was impacted by:

- A loss of \$1,090,000 (2008: \$1,052,000) relating to the write down of the Company's oil and gas exploration assets to their recoverable amount. Of these costs, an amount of \$968,053 is subject to recovery in the future based on certain milestones being achieved (refer Note 15);
- Exploration costs expensed of \$295,000 (2008: \$787,000);
- Share based payments expensed of \$175,000 (2008: \$574,000);
- These expenses were partially offset by interest income of \$244,000 (2008: \$299,000); and
- Finance costs relate primarily to the costs of funding the Convertible Note of \$1,976,000 (2008: \$nil), which consists of interest paid of \$1,517,000 and accretion costs of \$459,000 relating to the fair value of the Convertible Note. Refer Note 2(b).

DIRECTORS' REPORT *cont...*

Earnings per Share

Basic earnings / (loss) per share was (0.99) cents.

Financing Activities:

The Company issued the following securities during the year:

- In May 2009, the Company issued 8,000,000 ordinary fully paid shares at an issue price of 14 cents each, raising gross proceeds of \$1,120,000;
- In June 2009, the Company issued 57,800,000 ordinary fully paid shares at an issue price of 14 cents each, raising gross proceeds of \$8,092,000; and
- During the year, the Company issued 34,964,401 ordinary fully paid shares through the conversion of options, raising gross proceeds of \$2,311,000.

On 21 October 2008, Kairiki executed an agreement to issue Convertible Notes to raise US\$10,000,000 from IMC Oil and Gas Investments Ltd ('IMC'). IMC is part of the IMC Group. The principle terms and conditions of the Convertible Notes are as follows:

- i. Repayment Date: 8 September 2011 (US\$8.5 million) 21 October 2011 (US\$1.5 million);
- ii. Convertible into ordinary fully paid shares at an issue price determined as the lesser of:
 - a. A\$0.185; and
 - b. the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16;using an exchange rate of 0.85;
- iii. Shares issued upon conversion of the Convertible Notes, or part thereof, will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;
- iv. A Noteholder may convert at any time prior to the Repayment Date, subject to a limit of 3 conversions with each conversion being in respect of a number of Convertible Notes which are convertible into at least 10 million shares;
- v. Repayment Rights: A relevant Noteholder shall have the right, during the period 1 January to 15 January each year, to require the Company to use all or a specified part of any cash balance held in a special repayment account, established for receipt of future net revenues and option conversion monies, to repay a portion of the outstanding amount in respect of the Convertible Notes;
- vi. Interest Rate: 12% per annum;

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

The Convertible Note Agreement was executed on 8 September 2008 and US\$8.5 million was drawn down immediately and a further US\$1.5 million which was subject to shareholder approval was drawn down on 21 October 2008.

The interest payable on the Convertible Notes for the period from draw down to 31 December 2008 of US\$369,833 was capitalised to the Convertible Notes resulting in a balance at 30 June 2009 of US\$10,369,833.

On 31 July 2009, Kairiki received notice from IMC that that they would seek repayment of the funds held in an escrow account of \$1,022,000 relating to the conversion of options at 31 December 2008 in accordance with the Convertible Note Agreement. The repayment reduced the amount owing on the Convertible Note at maturity by US\$839,852 to US\$9,529,981.

Summary of Financial Position:

At 30 June 2009 the Group's unrestricted cash reserves were \$10,087,000 (2008: \$15,171,000). The decrease in cash was due to net cash used in operating activities of \$2,438,000, net cash used in investing activities of \$26,934,000 comprised primarily of expenditures on exploration and evaluation of \$25,155,000, (SC 54 drilling campaign of two exploration wells), offset by proceeds from financing activities during the year of \$23,709,000 consisting of the issue of 65,800,000 shares to investors for proceeds of \$9,212,000, exercise of 34,964,401 options for proceeds of \$2,311,000 and proceeds from the issue of Convertible Notes of \$12,364,000 (US\$10,000,000).

Oil & Gas Activities

Philippines

Service Contract 54 North West Palawan Basin – 40% Participating Interest

Service Contract 54 ("SC 54") is a large exploration permit covering an offshore area of 5,376 km² in the North West Palawan basin in the Philippines.

Several play types exist within the block, including numerous low-risk reef prospects, similar to the oil-productive Nido and Matinloc reefs. The Gindara Prospect is a large carbonate feature, along trend from the giant Malampaya gas/condensate field operated by Shell. In addition, there is an untested turbidite-sand play that has large potential and similar characteristics to oil discoveries in a corresponding setting in nearby Malaysia, and giant fields in Brazil. Our exploration effort is aimed at evaluating all these features with state-of-the-art 3D seismic.

During the year, the following progress occurred in respect of SC 54:

SC 54 Farm-In

Kairiki's interest in SC 54 was acquired through a farm-in with Nido Petroleum Limited ("Nido"). During the year, Kairiki earned its 40% interest in SC 54 by funding the following:

- A seismic program in SC 54B on a 4:3 promoted basis (i.e. paying 53.33% to earn 40%) to a cap of US\$3.2 million (Kairiki's share). This commitment was fulfilled during 2007.
- 80% of the dry hole cost of drilling a well or wells in SC 54A up to a gross cap of US\$15 million. Costs in excess of US\$15 million are to be borne by the parties based on their respective interests, i.e. Kairiki pays at its equity level of 40% (ground floor) for well costs beyond US\$15 million. This commitment was fulfilled in late 2008.

Permit Management

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

Partitioning

In July 2009, the Joint Venture received government approval to partition SC 54 into two separate areas; SC 54A and SC 54B. The rationale for partitioning of the block is to separate the shallow water development area (SC 54A) containing the Yakal and Tindalo discoveries from the deeper water exploration area containing the large Gindara Prospect (SC 54B) and deeper water exploration portfolio. Subsequent to the year end, the DOE approved the partitioning of the SC 54 block.

SC 54A

During the year, the following progress occurred in respect of SC 54A:

Site Surveys

In July and August 2008 the Joint Venture completed multiple site surveys, including both analogue and digital grids, covering 17 prospects in both the inboard and outboard to identify any potential hazards and shallow gas at future possible drilling locations. A soil coring program was also completed over key prospects during August.

Drilling Activity

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

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

The Tindalo-1 well was a discovery encountering an oil column of 124 – 145 metres. Due to severe drilling losses associated with cavernous oil-bearing reservoir, conventional logs were unable to be obtained in the lowermost 25 metres of the oil column. The Tindalo-1 well was cased and suspended and is prepared for future completion and production at a later date.

These discoveries were an important first step in realising the Joint Venture's strategy to rapidly commercialise the SC 54 inboard area. In addition to these two discoveries there are 20+ additional prospects in the SC 54 inboard area covered by 3D seismic data. Since drilling these discoveries the Joint Venture has been undertaking significant technical work both internally and through ongoing independent third party studies to better understand the scale of the discovered resource, the impact on the remaining exploration portfolio and the possible options for development including full-field development and early production via a rig-based Extended Well Test.

Resource Certification

In March 2009, the Joint Venture commissioned ISIS Petroleum Consultants Pty Ltd. ("ISIS") who have independently estimated the field size, reservoir quality and volumetrics of Yakal and Tindalo. ISIS has confirmed that the in-place probabilistic resource volumes (STOIIP) in the Yakal and Tindalo oil pools are as follows:

	Tindalo				Yakal			
	P90	P50	P10	Mean	P90	P50	P10	Mean
Oil in Place (MMbbls)	5.0	11.0	24.5	13.4	2.4	5.1	10.7	6.0

Project Development

The Joint Venture's intention is to pursue the development of the Tindalo oil discovery as a matter of priority. This decision followed a screening study conducted by the Joint Venture on the potential of a stand-alone development at the Tindalo and/or Yakal discoveries.

The Joint Venture is currently in the process of evaluating a Final Investment Decision based on the following:

- Confirmation of key project criteria including production and capital cost ranges and availability of project services and hardware;
- Finalisation of a detailed Plan of Development; and
- Securing appropriate Joint Venture and Philippine Government approvals.

The objective of the Tindalo development is to utilise a jack-up drill rig to complete the already drilled and suspended Tindalo-1 well and produce oil into a floating storage and offtake vessel (FSO).

Farm-Out

On 30 April 2009, Kairiki Energy announced that it had entered into a Farm-Out Agreement with Focus Oil and Gas Pte Ltd (Focus), a private oil and gas investment company, to farm-out a 17% interest in the inboard portion of Service Contract 54 ("SC 54") in the Philippines.

In June 2009, Focus advised Kairiki that it was unable to meet the required condition precedent of concluding its investor contracts to fund their obligations under the Farm-Out Agreement and consequently the agreement lapsed on 30 June 2009.

SC 54B

During the year, the following progress occurred in respect of SC 54B:

Site Surveys

In July and August 2008 the Joint Venture conducted a site survey over the Gindara Prospect in preparation for future drilling as part of a larger site survey acquisition program over SC 54A.

Evaluation

The Joint Venture completed its preliminary interpretation of the 851 km² Abukay 3D seismic survey data and agreed to undertake pre-stack depth migration processing (PSDM) over the entire 3D volume to help further de-risk the Gindara and Lapu Lapu prospects and improve delineation of the remaining outboard prospectivity.

A final version of the PSDM was received in February 2009 by the Joint Venture and a preliminary interpretation of the Abukay 3D PSDM seismic volume was completed. The exceptionally good image quality and depth control provided by the 3D PSDM data set has further de-risked the Gindara Prospect with respect to trap definition resulting in the closure at the top Nido Limestone objective level to be larger than previously mapped and trap presence has been more robustly defined.

We are currently in the process of updating our Prospects and Leads inventory within the Abukay 3D area. Once completed, this work will be integrated into our overall portfolio, the best prospect being Gindara, which has increased from 470 to 634 million barrels with an upside case of over 1 billion barrels.

In addition to the Nido reservoir studies, the SC 54B hydrocarbon charge model was also revised during the quarter following integration of regional maps based on the 3D PSDM seismic data. The revised modelling demonstrates the Gindara Prospect will be sourced from the southern extension of the large Malampaya Graben located immediately north of the structure. The close proximity of the Gindara structure to the proven Malampaya Graben substantially reduces charge risk into the prospect.

As well as completing the evaluation of the Prospect and Lead portfolio at the Nido Limestone objective, the Joint Venture is also performing detailed mapping of the Pagasa turbidite play using the 3D PSDM seismic.

Commitments

The drilling of Yakal and Tindalo in 2008 results in there being no drilling commitments until Sub-Phase V of the work program, which commences in August 2010 and ends in August 2011.

Sicily Channel

[Tunisia - Kerkouane Offshore Oil and Gas](#)
[Italy - Pantelleria Offshore Oil and Gas](#)

In April 2008 Kairiki acquired a 30% in the Pantelleria Permit and in July 2008 Kairiki acquired a 30% interest in the Kerkouane Permit, both located in the Sicily Channel in Italian and Tunisian waters.

In March 2009, Kairiki disposed of its interests in each of the Sicily Channel exploration permits, Pantelleria and Kerkouane, to AuDAX Resources Limited (AuDAX), the operator of those permits. The financial obligations in respect of maturing the Sicily Channel exploration ventures required significant funding in the near term and given the global economic conditions experienced during 2009 Kairiki elected to focus its funds and resources on developing its lower risk Philippines asset base in order to provide a much greater certainty of generating shareholder value.

The divestment of the Sicily Channel permits eliminated Kairiki's financial obligations in 2009 and 2010 to a 2D seismic program on Kerkouane and a well commitment on each permit with a total estimated cost, net to Kairiki, of approximately US\$14 million (US\$47 million gross).

As consideration for the sale of its interests in the Sicily Channel Permits, AuDAX will pay Kairiki US\$280,000 cash for each permit approximately equating to our acquisition cost. The consideration will be payable by AuDAX when it disposes of an interest in these permits to a third party. In April 2009, AuDAX announced that it had farmed out its interests in these permits to a third party and therefore Kairiki would anticipate receiving its sale proceeds in the 2010 fiscal year.

Tunisia

Chorbane (Kairiki 30% interest)

In 2008 Kairiki signed an agreement to acquire a 50% interest in the Chorbane Permit located onshore south east Tunisia. The transaction was required to be completed by 31 October 2008 and Kairiki elected not to extend the closing date for the acquisition past that date and consequently the proposed transaction did not complete.

AMI's

Tunisia and Romania AMI's (Kairiki 33.33% interest)

During the year, Kairiki elected to withdraw from the Tunisian AMI and in respect of the Romanian AMI Kairiki assigned its 33.33% interest in its Romanian AMI to New Zealand Oil and Gas (NZOG) for a cash consideration to Kairiki of 235,047 Euros (A\$407,986) payable on certain milestones being achieved in the future.

Mineral Properties

During the year, the Company entered into Term Sheet Agreements to farm-out a majority of its minerals tenements to third parties. The third parties will earn a 90% interest in the mineral tenements by funding 100% of the cost of all the exploration work required to maintain the tenements in good standing with the Department of Mines and Petroleum. Kairiki will receive as consideration the following:

- 10% of the net proceeds on certain tenements up to a sum of A\$250,000 and a 1% net smelter royalty thereafter; and
- for the remaining tenements, 10% of the net revenue after 5,000 ounces of gold has been produced.

These transactions, which are subject to executing Farm-Out Agreements, will provide Kairiki with a 10% free carry interest on its mineral tenements.

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. The Directors do not recommend the payment of a dividend.

Significant Events After Balance Date

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, other than following:

i. Convertible Notes

On 31 July 2009, Kairiki received notice from IMC that that they would seek repayment of the funds held in an escrow account of \$1,022,000 relating to the conversion of options at 31 December 2008 in accordance with the Convertible Note Agreement. The repayment reduced the amount owing on the Convertible Note at maturity by US\$839,852 to US\$9,529, 981.

ii. SC 54B Prospectivity

On 22 September 2009, the SC 54B Joint Venture released an update of the oil in place volumes of the Gindara, which is the leading prospect in the SC 54B permit. An upgraded probabilistic assessment has resulted in unrisks mean oil-in-place (OIIP) for the Nido Limestone reservoir of 634 million barrels (unrisks). The unrisks upside potential (P10) is approximately 1 billion barrels.

Gindara				
	P90	P50	P10	Mean
Oil in Place (MMbbls)	292	581	1022	634

Future Developments

- The Company intends to develop its shallow water acreage in SC 54 following the discoveries of Tindalo and Yakal during the year. Any development will consider the oil price forecasts over the next 18 months and economic factors.
- The Company will continue to seek farm-in partners in both its SC 54A and SC 54B acreage.
- The Company intends to finalise the farm-down of its interest in mineral properties during the 2010 year.

Remuneration Report (Audited)

This report details the nature and amount of remuneration for each Director and Executive 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, and includes five executives in the parent group receiving the highest remuneration.

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 considers 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 optionholder, as optionholders 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 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 agreements 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 (LTI's) 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 LTI's are made to Executives who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

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

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

C. Service agreements

The terms of contract with Directors Paul Fry, Laurie Brown and Jyn Sim Baker are not formalised in contracts.

The following Key Management Personnel were employed under contract:

	Expired	Duration of Contract	Notice Period
Directors			
Craig Gumley	18/11/08	Rolling contract	3 Months
Rae Jefferies	18/8/2009	Rolling contract	Nil
Christopher Swarbrick	13/1/2009	Rolling contract	Nil
Executives			
Ciaran Lavin	24/12/2008	Rolling contract	1 Month

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

D. Details of remuneration for year

Directors

The following persons were Directors of Kairiki Energy Limited during the financial year:

Name	Position
Lawrence Brown	Managing Director (from 18 November, previously Executive Director)
Paul Fry	Chairman (Executive)
Jyn Sim Baker	Director (Non-Executive) – appointed 10 October 2008
Craig Gumley	Managing Director – resigned 18 November 2008
Christopher Swarbrick	Director (Non-Executive) – resigned 13 January 2009
Rae Jefferies	Director (Non-Executive) – resigned 18 August 2009

Executives

The following persons were Executives of Kairiki Energy Limited during the financial year:

Name	Position
Neville Bassett	Company Secretary
Ciaran Lavin	Senior Explorationist - resigned 24 December 2008

There were no other persons that fulfilled the role of a key management person.

Remuneration

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

		Short Term Benefits		Post Employment	Share Based Payments		
	Year	Salary and consulting fees \$	Director fees \$	Superannuation \$	Options \$	Total \$	Remuneration consisting of options during the year %
Directors							
L Brown	2009	174,000	36,000	-	52,917	262,917	20.1%
	2008	174,000	36,000	-	74,083	284,083	26.1%
P Fry	2009	158,958	-	48,959	52,917	260,834	20.3%
	2008	157,912	-	49,997	74,083	281,992	26.3%
J Sim Baker	2009	-	-	-	-	-	-
	2008	-	-	-	-	-	-
C Gumley Appointed 15/1/2008 Resigned 18/11/2008	2009	130,300	-	11,250	-	141,550	-
	2008	137,500	-	12,375	-	149,875	-
C Swarbrick Resigned 13/1/2009	2009	-	18,000	-	-	18,000	-
	2008	41,775	36,000	-	196,875	274,650	71.7%
R Jefferies Resigned 18/8/2009	2009	31,500	36,000	-	122,500	190,000	64.5%
	2008	48,000	36,000	-	184,688	268,688	68.7%
Executives							
N Bassett	2009	38,400	-	-	8,500	46,900	18.1%
	2008	61,606	-	-	11,900	73,506	16.2%
C Lavin Appointed 7/1/2008 Resigned 24/12/2008	2009	117,440	-	9,839	-	127,279	-
	2008	81,160	-	35,383	32,500	149,043	21.8%

There were no performance related payments 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.

DIRECTORS' REPORT *cont...*

E. Compensation Options to Key Management Personnel

The following options were granted as equity compensation benefits to Directors and Executives. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at various exercise prices with various expiry dates.

		Terms and Conditions of Each Grant					
2009	Number Vested During Year	Granted Number	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date
Directors							
C Gumley	-	2,500,000	14/08/08	0.086	0.20	31/5/09	31/5/11
C Gumley	-	2,500,000	14/08/08	0.078	0.25	31/5/10	31/5/11
C Gumley	-	2,500,000	14/08/08	0.069	0.30	31/5/10	31/5/11
	-	7,500,000					
Executives							
	-	-					

The options above were forfeited on 18 November 2008 upon Mr Gumley's resignation and consequently the net effect of share based payments for these options was nil.

2008							
Directors							
P Fry	-	1,500,000	30/11/07	0.054	0.30	30/11/08	30/11/09
P Fry	-	1,000,000	30/11/07	0.046	0.35	30/11/08	30/11/09
L Brown	-	1,500,000	30/11/07	0.054	0.30	30/11/08	30/11/09
L Brown	-	1,000,000	30/11/07	0.046	0.35	30/11/08	30/11/09
C Swarbrick	-	1,250,000	3/10/07	0.132	0.105	3/10/08	3/10/09
C Swarbrick	-	1,500,000	3/10/07	0.13	0.135	3/10/09	3/10/10
R Jefferies	-	1,250,000	3/10/07	0.132	0.105	3/10/08	3/10/09
R Jefferies	-	1,250,000	3/10/07	0.13	0.135	3/10/09	3/10/10
TOTAL	-	10,250,000					
Executives							
N Bassett	-	300,000	30/11/07	0.044	0.30	30/11/08	30/11/09
N Bassett	-	200,000	30/11/07	0.036	0.35	30/11/08	30/11/09
C Lavin	-	1,250,000	14/05/08	0.108	0.20	14/05/09	31/05/11
C Lavin	-	1,250,000	14/05/08	0.096	0.25	14/05/10	31/05/11
TOTAL	-	3,000,000					

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

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

	Shares Issued Number	Paid per Share \$	Intrinsic Value per Exercised Option \$
2009			
P Fry	1,875,000	0.10	0.075
P Fry	1,875,000	0.12	0.055
L Brown	1,875,000	0.10	0.075
L Brown	1,875,000	0.12	0.055
	7,500,000		

	Shares Issued Number	Paid per Share \$	Intrinsic Value per Exercised Option \$
2008			
P Fry	3,750,000	0.07	0.135
L Brown	3,750,000	0.07	0.135
L Brown	2,500,000	0.015	0.215
	10,000,000		

Shares Under Option

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

	Number	Exercise Price	Exercise Date
Unlisted Options	1,250,000	10.5 cents	Between 3/10/2008 and 3/10/2009
Unlisted Options	500,000	30 cents	Between 31/5/2010 and 31/5/2011
Unlisted Options	3,300,000	30 cents	Between 30/11/2008 and 30/11/2009
Unlisted Options	2,200,000	35 cents	Between 30/11/2008 and 30/11/2009
	7,250,000		

In addition, under the Convertible Notes the note holder, IMC, has the option to convert the note into ordinary fully paid shares of the company at an issue price determined as the lesser of:

- a. A\$0.185; and
- b. the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16.

The maximum number of ordinary fully paid shares that IMC may receive on converting the note as at the date of this report is 70,073,390 shares.

Environmental Regulations

The Group's environmental obligations are regulated under both State and Federal law. All environmental performance obligations are monitored by the Board and subjected from time to time to Government agency audits and site inspections. The Company has a policy of at least complying with, but in most cases exceeding, its statutory environmental performance obligations. No environmental breaches have occurred or have been notified by any Government agencies during the year ended 30 June 2009 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 the Company or 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 has not been disclosed. This is permitted under Section 300(9) of the Corporations Act 2001.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Audit Independence and Non-Audit Services

The Company is satisfied that non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Auditors' independence – Section 307C

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

Dear Sirs

As lead auditor for the audit of Kairiki Energy Ltd for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



Frank Vrachas

(Lead auditor)

Rothsay Chartered Accountants

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

For and on behalf of the Board.



Laurie Brown

Managing Director

Perth Western Australia

28 September 2009





CORPORATE GOVERNANCE

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.

1.0 Compliance With Best Practice Recommendations

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

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

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 1	Lay solid foundations for management and oversight		
1.1	Establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions.	2(a)	Yes
1.2	Disclose the process for evaluating the performance of Senior Executives.	2(h), 3(b), Remuneration Report	Yes
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	2(a), 2(h), 3(b), Remuneration Report	Yes
Principle 2	Structure the board to add value		
2.1	A majority of the Board should be independent Directors.	2(b), 2(e)	No
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		
	Establish a code of conduct and disclose the code or a summary as to: <ul style="list-style-type: none"> the practices necessary to maintain confidence in the company's integrity; 		
3.1	<ul style="list-style-type: none"> 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. 	4(a)	Yes
3.2	Establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.	4(b)	Yes
3.3	Provide the information indicated in the Guide to reporting on Principle 3.	4(a), 4(b)	Yes

Principle #	ASX Corporate Governance Council Recommendations	Reference	Comply
Principle 4	Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee.	3(a)	Yes
	The audit committee should be structured so that it: <ul style="list-style-type: none"> consists only of Non-Executive Directors; 		
4.2	<ul style="list-style-type: none"> 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. 	3(a)	No
4.3	The audit committee should have a formal charter.	3(a)	Yes
4.4	Provide the information indicated in the Guide to reporting on Principle 4.	3(a)	Yes
Principle 5	Make timely and balanced disclosure		
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	5(a), 5(b)	Yes
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	5(a), 5(b)	Yes
Principle 6	Respect the rights of shareholders		
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	5(a), 5(b)	Yes
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	5(a), 5(b)	Yes
Principle 7	Recognise and manage risk		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	6(a)	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	6(a), 6(b), 6(d)	Yes
7.3	The Board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	6(c)	Yes
7.4	Provide the information indicated in the Guide to reporting on Principle 7.	6(a), 6(b), 6(c), 6(d)	Yes
Principle 8	Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee.	3(b)	No
8.2	Clearly distinguish the structure on Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.	3(b), Remuneration Report	Yes
8.3	Provide the information indicated in the Guide to reporting on Principle 8.	3(b)	Yes

2.0 The Board Of Directors

2 (a) Roles and Responsibilities of the Board

The Board is accountable to the shareholders and investors for the overall performance of the Company and takes responsibility for monitoring the Company's business and affairs and setting its strategic direction, establishing and overseeing the Company's financial position.

The Board is responsible for:

- ensuring the Company's conduct and activities are ethical and carried out for the benefit of all its stakeholders;
- development of corporate strategy, implementation of business plans and performance objectives;
- reviewing, ratifying and monitoring systems of risk management, codes of conduct and legal and regulatory compliance;
- the appointment of the Company's Managing Director, Chief Executive Officer (or equivalent), Chief Financial Officer, Company Secretary and other Senior Executives;
- monitoring Senior Executives' performance and implementation of strategy;
- determining appropriate remuneration policies;
- allocating resources and ensuring appropriate resources are available to management;
- approving and monitoring the annual budget, progress of major capital expenditure, capital management, and acquisitions and divestitures; and
- approving and monitoring financial and other reporting.

Other than as specifically reserved to the Board, responsibility for the day-to-day management of the Company's business activities is delegated to the Managing Director and Executive Management.

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 Managing Director should be exercised by different individuals;
- the majority of the Board should comprise Directors who are Non-Executive;
- the Board should represent a broad range of qualifications, experience and expertise considered of benefit to the Company; and

- the Board must be structured in such a way that it has a proper understanding of, and competency in, the current and emerging issues facing the Company, and can effectively review management's decisions.

The Board is currently comprised of one Non-Executive Director and two 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 Board does not currently comprise a majority of Non-Executive Directors. As noted in 2(e) below, the composition of the Board changed during the year. Given the size and scale of the Company's current operations, the Board does not consider it essential to appoint further independent directors at this time. The Board will continue to monitor the need to appoint additional Non-Executive Directors, as considered appropriate.

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) Chairman and Managing Director

The Chairman is responsible for:

- leadership of the Board;
- the efficient organisation and conduct of the Board's functions;
- the promotion of constructive and respectful relations between Board members and between the Board and management;
- contributing to the briefing of Directors in relation to issues arising at Board meetings;
- facilitating the effective contribution of all Board members; and
- committing the time necessary to effectively discharge the role of the Chairman.

The Managing Director is responsible for:

- implementing the Company's strategies and policies; and
- the day-to-day management of the Company's business activities

The Board specifies that the roles of the Chairman and the Managing Director are separate roles to be undertaken by separate people.

2 (d) Nomination Committee

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

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

2 (e) Independent Directors

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

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

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

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

- is a material supplier or customer of the Company or other Company member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or another Company member other than as a Director.

The Board currently comprises one independent Non-Executive Director.

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
Jyn Sim Baker	Non-Executive Director
<i>The following persons were directors of Kairiki Energy Limited during the financial year:</i>	
Lawrence Brown	Managing Director (from 18 November, previously Executive Director)
Paul Fry	Chairman (Executive)
Jyn Sim Baker	Director (Non-Executive) <i>appointed 10 October 2008</i>
Craig Gumley	Managing Director <i>resigned 18 November 2008</i>
Christopher Swarbrick	Director (Non-Executive) <i>resigned 13 January 2009</i>
Rae Jefferies	Director (Non-Executive) <i>resigned 18 August 2009</i>

The Board does not currently comprise a majority of independent Non-Executive Directors. As outlined above, the composition of the Board changed during the year. Given the size and scale of the Company's current operations, the Board does not consider it essential to appoint further independent directors at this time. The Board will continue to monitor the need to appoint additional Non-Executive Directors, as considered appropriate.

The Board recognises the importance of independent views and, in the Board's role in supervising the activities of management, the Chairman should be a Non-Executive Director. The Board considers that, at this stage of the Company's development, the Executive role carried out by the Chairman is in the best interests of the Company.

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 is reviewed regularly 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 Board member assessment measures are the responsibility of the Chairman. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Kairiki Energy Limited. Primarily, the review will be carried out through consultation by the Chairman and with individual Directors. Directors whose performance is consistently unsatisfactory may be asked to retire.

3.0 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 and the Audit Committee does not comprise only Non-Executive Directors. 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 Rothsays 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 CEO, if any, 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 key management personnel performance.

The Company has structured the remuneration of its senior executive, 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 8.2 Box 8.2 'Non-Executive Directors should not receive options or bonus payments'. The Company may, in the future, granted 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 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 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.

4.0 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) Policy concerning trading in Company securities

The Company's "Policy for Trading in Company Securities" applies to all Directors, officers and employees. This policy sets out the restrictions on dealing in securities by people who work for, or are associated with the Company and is intended to assist in maintaining market confidence in the integrity of dealings in the Company's securities. The policy stipulates that the only appropriate time for a Director, officer or employee to deal in the Company's securities is when they are not in possession of price sensitive information that is not generally available to the market.

As a matter of practice, Company shares may only be dealt with by Directors and officers of the Company under the following guidelines:

- No trading is permitted in the period of 14 days preceding release of each quarterly report, half-yearly report and annual financial report of the Company or for a period of 2 trading days after the release of such report;
- Guidelines are to be considered complementary to and not replace the various sections of the Corporations Act 2001 dealing with insider trading; and
- Prior approval of the Chairman, or in his absence, the approval of two directors is required prior to any trading being undertaken.

Within 24 hours of a director being appointed to the Board, resigning or being removed from the Board, or trading in the Company's securities, full details of the Director's notifiable interests in the Company's securities and changes in such interest must be advised to the Company Secretary so that a record is kept within the Company and so that necessary ASX notifications will occur.

All Directors must notify the Company Secretary of any margin loan or similar funding arrangement entered into in relation to the Company's securities and any variations to such arrangements, including the number of securities involved, the circumstances in which the lender can make margin calls, and the right of the lender to dispose of securities.

5.0 Timely and Balanced Disclosure

5 (a) Shareholder communication

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's "ASX Disclosure Policy" encourages effective communication with its shareholders by requiring that Company announcements:

- be factual and subject to internal vetting and authorisation before issue;
- be made in a timely manner;
- not omit material information;
- be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions;
- be in compliance with ASX Listing Rules continuous disclosure requirements; and
- be placed on the Company's website promptly following release.

Shareholders are encouraged to participate in general meetings. Copies of addresses by the Chairman or Managing Director 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.

6.0 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 ("Audit and Risk Management Charter"). 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 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:

- at least quarterly 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 and 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.



Kairiki Energy Limited

ABN 34 002 527 906

Financial Report 2009

INCOME STATEMENT

For the year ended 30 June 2009

	Note	Consolidated		Parent Entity	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	2(a)	244	299	242	265
Other income	2(a)	436	5	446	5
		680	304	688	270
Administrative expenses, net of recoveries	2(b)	1,551	2,214	1,548	2,330
Exploration expenses	2(b)	1,385	1,839	1,342	1,702
Finance costs	2(b)	2,003	-	2,003	-
Other expenses	2(b)	-	-	58	998
		4,939	4,053	4,951	5,030
Loss before income tax expense		(4,259)	(3,749)	(4,263)	(4,760)
Income tax expense	3	-	-	-	-
Net loss attributable to members of Kairiki Energy Limited		(4,259)	(3,749)	(4,263)	(4,760)
Basic loss per share (cents per share)	4	(0.99) cents	(1.14) cents		

BALANCE SHEET

As at 30 June 2009

		Consolidated		Parent Entity	
	Note	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
ASSETS					
<i>Current Assets</i>					
Cash and cash equivalents	5	10,087	15,171	10,030	14,550
Trade and other receivables	6	1,199	226	1,079	226
Total Current Assets		11,286	15,397	11,109	14,776
<i>Non-Current Assets</i>					
Trade and other receivables	6	-	-	34,986	8,852
Other financial assets	7	-	-	1	1
Plant and equipment	8	26	35	26	35
Deferred exploration and evaluation expenditure	9	35,926	8,701	-	280
Total Non-Current Assets		35,952	8,736	35,013	9,168
Total Assets		47,238	24,133	46,122	23,944
LIABILITIES					
<i>Current Liabilities</i>					
Trade and other payables	10	552	473	537	284
Provisions	11	3	20	3	20
Convertible notes	12	1,022	-	1,022	-
Total Current Liabilities		1,577	493	1,562	304
<i>Non-Current Liabilities</i>					
Convertible notes	12	10,159	-	10,159	-
Total Non-Current Liabilities		10,159	-	10,159	-
Total Liabilities		11,736	493	11,721	304
Net Assets		35,502	23,640	34,401	23,640
EQUITY					
Issued capital	13	44,844	31,718	44,844	31,718
Reserves	14	4,699	1,704	4,611	2,713
Accumulated losses		(14,041)	(9,782)	(15,054)	(10,791)
Total Equity		35,502	23,640	34,401	23,640

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2009

Consolidated	Issued Capital \$'000	Accumulated Losses \$'000	Options Reserve \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
Balance at 1 July 2007	18,278	(6,033)	2,139	(95)	14,289
Shares issued during the period	14,052	-	-	-	14,052
Share issue expenses	(612)	-	-	-	(612)
Cost of share based payment	-	-	574	-	574
Currency translation differences	-	-	-	(914)	(914)
Loss attributable to members of the parent entity	-	(3,749)	-	-	(3,749)
Balance at 30 June 2008	31,718	(9,782)	2,713	(1,009)	23,640
Shares issued during the period	11,523	-	-	-	11,523
Share issue expenses	(461)	-	-	-	(461)
Cost of share based payment	-	-	175	-	175
Currency translation differences	-	-	-	2,820	2,820
Equity portion of convertible notes	2,064	-	-	-	2,064
Loss attributable to members of the parent entity	-	(4,259)	-	-	(4,259)
Balance at 30 June 2009	44,844	(14,041)	2,888	1,811	35,502
Parent	Issued Capital \$'000	Accumulated Losses \$'000	Options Reserve \$'000	Foreign Currency Translation Reserve \$'000	Total \$'000
Balance at 1 July 2007	18,278	(6,031)	2,139	-	14,386
Shares issued during the period	14,052	-	-	-	14,052
Share issue expenses	(612)	-	-	-	(612)
Cost of share based payment	-	-	574	-	574
Currency translation differences	-	-	-	-	-
Loss attributable to members of the parent entity	-	(4,760)	-	-	(4,760)
Balance at 30 June 2008	31,718	(10,791)	2,713	-	23,640
Shares issued during the period	11,523	-	-	-	11,523
Share issue expenses	(461)	-	-	-	(461)
Cost of share based payment	-	-	175	-	175
Currency translation differences	-	-	-	1,723	1,723
Equity portion of convertible notes	2,064	-	-	-	2,064
Loss attributable to members of the parent entity	-	(4,263)	-	-	(4,263)
Balance at 30 June 2009	44,844	(15,054)	2,888	1,723	34,401

STATEMENT OF CASH FLOWS

For the year ended 30 June 2009

		Consolidated		Parent Entity	
	Note	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash flows from operating activities					
Payments to suppliers and employees		(1,525)	(1,568)	(1,522)	(1,530)
Exploration costs expensed		(295)	(786)	(284)	(766)
Interest received		244	299	242	265
Other receipts		70	133	70	133
Interest and other costs of finance paid		(969)	-	(969)	-
Income tax refunds		37	-	37	-
Net cash used in operating activities	5(i)	(2,438)	(1,922)	(2,426)	(1,898)
Cash flows from investing activities					
Payments for exploration expenditure capitalised		(25,155)	(2,754)	-	(212)
Payments for exploration expenditure capitalised and subsequently expensed		(830)	(16)	(830)	(16)
Payments for exploration bonds		-	(1,664)	-	-
Payments for plant and equipment		(7)	(17)	(7)	(17)
Bonds paid		-	(80)	-	(80)
Bonds released		80	-	80	-
Restricted cash		(1,022)	-	(1,022)	-
Loans to controlled entities		-	-	(29,847)	(4,637)
Loans from controlled entity		-	-	5,244	891
Net cash used in investing activities		(26,934)	(4,531)	(26,382)	(4,071)
Cash flows from financing activities					
Proceeds from issues of shares		11,523	14,052	11,523	14,052
Expenses of share issues		(56)	-	(56)	(981)
Proceeds from convertible notes		12,364	(981)	12,364	-
Expenses of convertible note		(122)	-	(122)	-
Net cash provided by financing activities		23,709	13,071	23,709	13,071
Net increase / (decrease) in cash held		(5,663)	6,618	(5,099)	7,102
Cash at the beginning of the financial year		15,171	8,700	14,550	7,448
Effect of exchange rate changes		579	(147)	579	-
Cash and cash equivalents at end of year	5	10,087	15,171	10,030	14,550

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

1. Summary of Significant Accounting Policies

a. Basis of Preparation

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 also been prepared on a historical cost basis, with the exception of derivative financial instruments which have been measured at fair value.

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

b. Statement of Compliance

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

c. Adoption of new and revised standards

The Group has reviewed all of the Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2009. These include the following:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the amendments may have an impact on the Group's segment disclosures as segment information included in internal management reports is more detailed than is currently reported under AASB 114 Segment Reporting.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised, where previously there was a discretionary choice between capitalising and expensing.	1 January 2009	The revised version of AASB 123 will have no direct impact on the amounts included in the Group's financial statements.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and optional changes to the titles of the financial statements.	1 January 2009	The amendments are expected to only affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current AASB 101. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single or two statements.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

c. Adoption of new and revised standards cont...

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share Based Payments – Vesting Conditions and cancellations	The amendments clarify the definition of ‘non-vesting’ conditions’ for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	To date Kairiki has not issued any options with non-vesting conditions and as such there will be no significant impact.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Refer to AASB 2008-5 above.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

1. Summary of Significant Accounting Policies *cont...*

c. Adoption of new and revised standards *cont...*

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to AASB 127 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>	1 January 2009	<p>Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments.</p> <p>In addition, if the Group undertakes any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions prescribed to effectively be accounted for on a 'carry-over basis' rather than at fair value.</p>	1 July 2009

d. Basis of consolidation

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

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 have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

e. Foreign currency translation

The financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). Changes in the funding structure of the parent, following the issue of the Convertible Notes in September 2008 has given rise to the change in the functional currency of Kairiki Energy Limited from Australian Dollars to US Dollars, effective 1 September 2008. As the company is listed on the Australian Stock Exchange, it has maintained its presentation currency as Australian Dollars.

The functional currency of subsidiary Yilgarn Petroleum Philippines Pty Ltd is also United States 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 balance sheet date.

As at the reporting date the assets and liabilities of the subsidiaries with functional currency are translated into the presentation currency of Kairiki Energy Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the spot rate of the transactions or average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

f. Significant Accounting Estimates and Judgments

Significant accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most 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 estimates and assumptions as to future events and circumstances. Any such estimates and 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 will be written off to the income statement.

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 the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

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.

iii. Commitments - Exploration

The Group has certain minimum exploration commitments to maintain its right of tenure to exploration permits. These commitments require estimates of the cost to perform exploration work required under these permits.

iv. 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(o).

v. Valuation of Convertible Notes

The Group issued Convertible Notes in September and October 2008, which contains 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.

1. Summary of Significant Accounting Policies cont...

g. 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 Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

h. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Current receivables for GST are due for settlement within 30 days and other current receivables within 12 months. Restricted cash is not due for settlement until rights of tenure are forfeited or performance obligations are met.

i. Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment

and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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 profit or loss 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 income statement in the period in which the decision to abandon the area is made.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

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 will be transferred to oil and gas properties.

i. 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.

m. 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. 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. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

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, as well as through the amortisation process.

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet 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.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

1. Summary of Significant Accounting Policies *cont...*

n. Trade and other payables

Trade payables and other payables are carried at amortised costs 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.

o. 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 income statement net of any reimbursement.

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 borrowing 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.

p. Interests in Joint Ventures

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

q. Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave and 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.

r. 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.

s. 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.

t. 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 income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

u. 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 balance sheet date.

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

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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.

1. Summary of Significant Accounting Policies *cont...*

u. Income Tax *cont...*

Unrecognised deferred income tax assets are reassessed at each balance sheet 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 balance sheet 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.

v. 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 balance sheet.

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.

w. Segment reporting

A business segment is a distinguishable component that the entity undertakes. Management has determined that the Kairiki group has two industry segments being petroleum exploration and mineral exploration. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. Geographically, the group currently operates in the Philippines and Australia.

x. Financial instruments issued by the Company

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

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

Convertible Note

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

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

Borrowing costs

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

y. 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.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

2. Revenue and Expenses

a. Revenue and Income

Interest revenue – non related entities	244	299	242	265
Foreign exchange gains	436	-	446	-
Other income	-	5	-	5
	680	304	668	270

b. Expenses

Administrative expenses include:

Employee benefits expense:

Wages and salaries	544	592	544	592
Share based payments expense	175	574	175	574
Net expense from movement in provision for employee entitlements	(17)	20	(17)	20
Other employee benefits	42	59	42	59
Recoveries from joint venture	(50)	(206)	(50)	(206)
	694	1,039	694	1,039
Depreciation	18	17	18	17
Operating lease rental expense	-	96	-	96

Exploration expenses include:

Impairment of exploration assets	1,090	1,052	1,090	1,052
Exploration expenses	295	787	252	650
	1,385	1,839	1,342	1,702

Finance costs include:

Borrowing costs expensed	27	-	27	-
Interest paid	1,517	-	1,517	-
Accretion expense	459	-	459	-
	2,003	-	2,003	-

Other expenses include:

Impairment of intercompany loans	-	-	58	997
Impairment of intercompany investments	-	-	-	1

c. Losses / (Gains)

Loss on disposal of non-current assets	2	-	2	-
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NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

3. Income Tax

a. Income Tax Expense

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	(4,259)	(3,749)	(4,263)	(4,760)
Income tax (benefit) @ 30%	(1,278)	(1,125)	(1,279)	(1,428)
Tax effect of non-deductible items	1,076	488	1,078	788
Deferred tax assets not brought to account	202	637	201	640
Total income tax expense	-	-	-	-

There is no income tax expense in relation to items charged or credited directly to equity.

b. Unrecognised Deferred Tax Assets

Tax losses	3,784	3,581	3,478	3,277
Other temporary differences	1	7	1	7
	3,785	3,588	3,479	3,284

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.

There is no income tax expense in relation to items charged or credited directly to equity.

Franking Credits

The franking account balance at year end was \$nil (2008: \$nil).

Tax Consolidation Legislation

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

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated	
	2009	2008

4. Earnings per Share

	Cents	Cents
Basic earnings per share	(0.99)	(1.14)
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
	\$'000	\$'000
Earnings – Net loss for year	(4,259)	(3,749)
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	430,649,317	328,488,179

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

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

5. Cash and Cash Equivalents

Cash at bank and on hand	10,087	15,171	10,030	14,550
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i. Reconciliation of loss for the year to net cash flows used in operating activities

Loss for the year	(4,259)	(3,749)	(4,263)	(4,760)
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Add back non-cash items:

Depreciation	18	17	18	17
Loss on sale of non-current assets	2	-	2	-
Exploration expenditure written off	1,090	1,053	1,090	1,053
Interest expense capitalised	535	-	535	-
Accretion expense	459	-	459	-
Amortisation of borrowing costs	27	-	27	-
Equity settled share based payment	175	574	175	574
Impairment of investments and loans	-	-	57	998
Foreign exchange gains	(436)	-	(446)	-

Change in operating assets and liabilities:

Decrease / (increase) in receivables	73	48	89	48
Increase / (decrease) in payables	(105)	115	(152)	152
Increase / (decrease) in provisions	(17)	20	(17)	20
Net cash flows used in operating activities	(2,438)	(1,922)	(2,426)	(1,898)

ii. Non-Cash Financing and Investing Activities

There were no non-cash financing or investing activities.

6. Trade and Other Receivables

Current

Restricted cash	1,022	-	1,022	-
Sundry debtors	140	70	20	70
GST refunds due	37	76	37	76
Cash secured against bond	-	80	-	80
	1,199	226	1,079	226

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

6. Trade and Other Receivables *cont...*

Fair Value and Risk Exposures

- i. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.
- ii. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.
- iii. Details regarding foreign exchange risk exposure are disclosed in Note 23.
- iv. Other receivables generally have repayments between 30 and 90 days.

Receivables do not contain past due or impaired assets as at 30 June 2009 (2008: none).

Included in restricted cash is cash of \$1,022,000 (June 2008: \$Nil) relating to the conversion of options monies held in a trust account for the benefit of IMC in respect of their Convertible Notes. IMC elected in July 2009 to seek repayment of the funds held in trust and the amount was paid on 31 July 2009 (refer Note 12).

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Non-Current				
Loans to controlled entities - unsecured	-	-	36,880	10,622
Less allowance for impairment	-	-	(1,894)	(1,770)
	-	-	34,986	8,852

Transactions between Kairiki and its subsidiaries consist of inter-company loans, upon which no interest is charged and no repayment schedule exists. The inter-company loans are payable on demand and the fair value approximates the carrying value of the receivable. An allowance for impairment loss was recognised as there was objective evidence that the inter-company loans receivable were impaired.

Movement in allowance for impairment

As at beginning of the year	-	-	1,770	773
Less allowance for impairment	-	-	58	997
Translation differences	-	-	66	-
	-	-	1,894	1,770

7. Other Financial Assets

Non-Current

Investment in unlisted controlled entities - at cost	-	-	12,231	14,251
Less allowance for impairment	-	-	(12,230)	(14,250)
	-	-	1	1

Movement in allowance for impairment

As at beginning of the year	-	-	14,250	14,249
Less allowance for impairment	-	-	-	1
Translation differences	-	-	(2,020)	-
	-	-	12,230	14,250

An allowance for impairment loss was recognised on prior years as there was objective evidence that the inter-company investments were impaired. No further impairments have been recognised.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

Name of Controlled Entity	Class of Share	Place of Incorporation	% Held by Parent Entity	
			2009	2008
Great Southern Mines NL	Ordinary	Australia	100%	100%
Resource Assets Pty Ltd	Ordinary	Australia	100%	100%
Yilgarn Petroleum Philippines Pty Ltd	Ordinary	Australia	100%	100%
Kairiki Energy Asia Pty Ltd	Ordinary	Australia	100%	100%
Kairiki Energy Africa Pty Ltd	Ordinary	Australia	100%	-
Kairiki Energy Italy Pty Ltd	Ordinary	Australia	100%	-

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

8. Plant and Equipment

Plant and equipment - at cost or fair value	59	53	59	53
Accumulated depreciation and impairment	(33)	(18)	(33)	(18)
	26	35	26	35

Reconciliation of plant and equipment

Carrying amount at beginning of the year	35	35	35	35
Additions	7	17	7	17
Disposals	(2)	-	(2)	-
Translation differences	4	-	4	-
Depreciation charge for year	(18)	(17)	(18)	(17)
Carrying amount at end of the year	26	35	26	35

9. Deferred Exploration and Evaluation Expenditure

Deferred oil and gas expenditure	35,926	6,954	-	197
Deferred oil and gas expenditure – bonds	-	1,664	-	-
Deferred mineral expenditure	-	83	-	83
	35,926	8,701	-	280
Expenditure bought forward	8,701	6,039	280	1,120
Capitalised expenditure incurred during the year	24,379	3,715	810	213
Translation differences	3,936	-	-	-
Expenditure written off during the year	(1,090)	(1,053)	(1,090)	(1,053)
	35,926	8,701	-	280

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

9. Deferred Exploration and Evaluation Expenditure *cont...*

Deferred oil and gas expenditure is represented by expenditures relating to Kairiki's Philippine SC 54 permit. 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.

Impairment

Exploration and evaluation expenditure written-off during the year relates to the oil and gas assets in the Sicily Channel and mineral tenements in Australia. These write-offs were due to Kairiki divesting its interests in the Sicily Channel and write-offs on the mineral tenements due to the low level of current and planned activity to assess the existence of economically recoverable reserves of these tenements.

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

10. Trade and Other Payables

Current

Trade payables and accruals

- Other corporations	540	387	525	198
- Director related entities	12	86	12	86
	552	473	537	284

Fair Value and Risk Exposures

- Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.
- Details regarding foreign exchange and liquidity risk are disclosed in Note 23.
- Trade and other payables are unsecured and usually paid within 60 days of recognition.

11. Provisions

Current

Employee benefits	3	20	3	20
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Non Current

Restoration	-	-	-	-
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During the year, Kairiki drilled two wells drilled in SC 54, Tindalo and Yakal, and they were suspended for future development and all required abandonment obligations have currently been met. Future abandonment costs for these wells will be required in the event that the wells are completed and move into production.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Financial liability measured at amortised cost	11,181	-	11,181	-
<i>Reconciliation of Convertible Notes</i>				
Debt Portion on issue of Convertible Notes (US\$8,328,576)	10,300	-	10,300	-
Issuance costs	(122)	-	(122)	-
Amortisation of issuance costs	27	-	27	-
Accrued interest to 31 December 2008 – capitalised to debt	535	-	535	-
Accretion of debt to 30 June 2009	459	-	459	-
Translation differences	(18)	-	(18)	-
Convertible Notes balance at end of the year	11,181	-	11,181	-
Amount classified as current	1,022	-	1,022	-
Amount classified as non-current	10,159	-	10,159	-
Face Value of Convertible Notes (US\$10,000,000)				
- Debt portion (US\$8,328,576)	11,181	-	11,181	-
- Equity portion (US\$1,671,424) – refer Note 13	2,064	-	2,064	-
	13,245	-	13,245	-

On 1 September 2008, Kairiki announced the issue of a Convertible Note ("Note") to IMC Oil and Gas Investments Ltd ("IMC") for proceeds of US\$10 million. The Convertible Note was executed on 8 September 2008 and US\$8.5 million was drawn down immediately and a further US\$1.5 million which was subject to shareholder approval was drawn down on 22 October 2008.

The principal terms and conditions of the Convertible Note are as follows:

- i. Bond Holder – IMC
- ii. Maturity date – 8 September 2011 and 22 October 2011 (3 years from issue).
- iii. Interest payable at 12% per annum with interest accruing and capitalised to the loan through to 31 December 2008 and thereafter payable monthly.
- iv. Conversion price is as the lesser of:
 - a. A\$0.185; and
 - b. the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16;
- v. IMC may convert at any time prior to the Repayment Date, subject to a limit of 3 conversions with each conversion being in respect of a number of Convertible Notes which are convertible into at least 10 million shares;
- vi. Repayment Rights: IMC shall have the right, during the period 1 January to 15 January each year, to require the Company to use all or a specified part of any cash balance held in a special repayment account, established for receipt of future net revenues and option conversion monies, to repay a portion of the outstanding amount in respect of the Convertible Notes;

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

12. Convertible Notes cont...

- vii. Other redemption provisions for such things as failure to participate in a commercial SC 54 shallow water development, change of control, event of default, delisting from stock exchange, etc; and
- viii. 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.

The Convertible Note has been classified into two components: a debt component (a contractual arrangement to deliver cash) and an embedded derivative call option component (a call option granting the holder the right, for a specified period of time, to convert it into a number of ordinary shares of Kairiki, based on the outstanding balance at date of conversion).

The debt component of the Convertible Note is measured at its amortised cost of US\$ and increases to the amount owing at maturity of US\$10,369,833 with a corresponding charge over this period to the income statement as a finance cost (accretion expense).

On 31 July 2009, Kairiki received notice from IMC that that they would seek repayment of the funds held in an escrow account of \$1,022,000 relating to the conversion of options at 31 December 2008 in accordance with the Convertible Note Agreement. The repayment reduced the amount owing on the Convertible Note at maturity by US\$839,852 to US\$9,529, 981.

Equity Portion

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.

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

13. Issued Capital

a. Share capital

Ordinary shares fully paid	42,780	31,718	42,780	31,718
Equity portion of Convertible Notes – refer Note 12	2,064	-	2,064	-
	44,844	31,718	44,844	31,718

b. Movement in ordinary shares on issue

	Number	\$'000
At 1 July 2007	313,970,368	18,278
Exercise of options during the year	48,275,499	2,564
Placement on 24 June 2008 (23 cents per share)	49,949,730	11,488
Share issue expenses	-	(612)
At 30 June 2008	412,195,597	31,718
Exercise of options during the year	34,964,401	2,311
Placement of shares for cash (14 cents per share)	65,800,000	9,212
Share issue expenses	-	(461)
At 30 June 2009	512,959,998	42,780

13. Issued Capital *cont...*

c. Options at 30 June 2009

	Number	Exercise Price	Exercise Date
Unlisted Options	2,500,000	10.5 cents	Between 3/10/2008 and 3/10/2009
Unlisted Options	1,250,000	13.5 cents	Between 3/10/2009 and 3/10/2010
Unlisted Options	500,000	30 cents	Between 31/5/2010 and 31/5/2011
Unlisted Options	3,300,000	30 cents	Between 30/11/2008 and 30/11/2009
Unlisted Options	2,200,000	35 cents	Between 30/11/2008 and 30/11/2009
	9,750,000		

During the year:

- i. 25,714,401 listed options were exercised during the year and 116,610,100 listed options expired.
- ii. 9,250,000 unlisted options were exercised during the year.
- iii. 8,000,000 options were granted as share-based payments.
- iv. 500,000 unlisted options were forfeited.

d. Terms and conditions of contributed equity

Ordinary Shares

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

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

Capital Management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

14. Reserves

Option reserve	2,888	2,713	2,888	2,713
Foreign currency translation reserve	1,811	(1,009)	1,723	-
	4,699	1,704	4,611	2,713

Option Reserve

Opening balance 1 July	2,713	2,139	2,713	2,139
Share-based payments	175	574	175	574
Closing balance 30 June	2,888	2,713	2,888	2,713

Nature and purpose of the Option Reserve

The option reserve is used to accumulate proceeds received from the issuing of options and records items recognised as expenses on valuation of employee share options.

Foreign Currency Translation Reserve

Opening balance 1 July	(1,009)	(95)	-	-
Currency translation differences	2,820	(914)	1,723	-
Closing balance 30 June	1,811	(1,009)	1,723	-

Nature and purpose of the Foreign Currency Translation Reserve

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

15. Contingent Liabilities and Assets

It is possible that native title, as defined in the Native Title Act 1993, might exist over land in which the Company has an interest in Australia. It is impossible at this stage to quantify the impact (if any) that the existence of native title may have on the operations of the Company.

Contingent Assets

In March 2009, Kairiki entered 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 will pay US\$280,000 cash (A\$343,887) for each permit if and when AOG disposes of an interest in those permits.

In March 2009, Kairiki assigned its one-third interest in its Romanian venture to New Zealand Oil and Gas Limited (NZOG) for a cash consideration of 235,047 Euros (A\$407,986), payable on certain milestone being achieved such as NZOG being a party to a successful application for a permit in Romania.

Contingent Liabilities

Restoration

Kairiki, through its subsidiary, is party to Service Contract 54 located in the Republic of the Philippines. It should be noted that there are risks inherent in conducting business in the Republic of the Philippines which include, but are not limited to, uncertainties over the development of laws relevant to restoration governing the oil and gas industry as well as difficulties associated with the consistent application of current laws and regulations.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

16. Commitments

Operating leases (non-cancellable)

- Within one year	57	106	57	106
- More than one year but not later than five years	1	35	1	35
	58	141	58	141

These non-cancellable operating leases are primarily for office premises.

Exploration Commitments

In order to maintain current rights of tenure to exploration permits, 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:

- Within one year	73	5,469	-	310
- More than one year but not later than five years	-	-	-	-
	73	5,469	-	310

Joint Venture Capital Commitments

The consolidated entity's share of capital expenditures contracted for at the balance date for which no amounts have been provided for in the financial statements are payable:

- Within one year	-	8,158	-	330
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Tenement Commitments

The Company and the Group are required to maintain current rights of tenure to tenements which requires outlays of expenditure in 2009/2010. Estimated expenditure commitments and rents on mining, exploration and prospecting leases for 2009/2010 by the Group is Nil. (2008/2009: \$449,000). Other commitments relating to tenement lease rentals and the minimum expenditure requirements of the Western Australian Department of Industry and Resources attaching to tenements have been undertaken by non related Joint Venture participants. Due to the nature of the Group's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishment of tenure or by new Joint Venture arrangements. Expenditure may be increased when new tenements are granted or Joint Venture agreements amended.

SC 54 Farm-In Commitment

Kairiki's interest in SC 54 was acquired through a farm-in with Nido Petroleum Limited ("Nido"). During the year, Kairiki earned its 40% interest in SC 54 by funding the following:

- A seismic program in SC 54B on a 4:3 promoted basis (i.e. paying 53.33% to earn 40%) to a cap of US\$3.2 million (Kairiki's share). This commitment was fulfilled during 2007.
- 80% of the dry hole cost of drilling a well or wells in SC 54A up to a gross cap of US\$15 million. Costs in excess of US\$15 million are to be borne by the parties based on their respective interests, i.e. Kairiki pays at its equity level of 40% (ground floor) for well costs beyond US\$15 million. This commitment was fulfilled in late 2008.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

17. Key Management Personnel Disclosures

a. Compensation of Key Management Personnel

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employment benefits	740,598	809,953	740,598	809,953
Post-employment benefits	70,048	97,755	70,048	97,755
Share based payment	236,834	574,129	236,834	574,129
	1,047,480	1,481,837	1,047,480	1,481,837

b. Option holdings of Key Management Personnel

2009	Balance at 1 July 2008	Granted as remuneration	Options exercised	Acquired/ (disposed) on market	Expired or Change due to Resignation	Balance at 30 June 2009	Non vested	Number vested and exercisable
Directors								
P Fry	11,250,000	-	(3,750,000)	-	(5,000,000)	2,500,000	-	2,500,000
L Brown	13,216,239	-	(3,750,000)	-	(6,966,239)	2,500,000	-	2,500,000
R Jefferies	2,500,000	-	-	-	-	2,500,000	1,250,000	1,250,000
J Sim Baker	-	-	-	-	-	-	-	-
C Gumley	-	7,500,000	-	-	(7,500,000)	-	-	-
C Swarbrick	2,750,000	-	-	-	(2,750,000)	-	-	-
Executives								
N Bassett	3,600,000	-	-	-	(3,100,000)	500,000	500,000	-
C Lavin	2,500,000	-	-	-	(2,500,000)	-	-	-
	35,816,239	7,500,000	(7,500,000)	-	(27,816,239)	8,000,000	1,750,000	6,250,000
2008	Balance at 1 July 2007	Granted as remuneration	Options exercised	Acquired/ (disposed) on market	Change due to appointment / (resignation)	Balance at 30 June 2008	Non vested	Number vested and exercisable
Directors								
C Gumley	-	-	-	-	-	-	-	-
P Fry	12,500,000	2,500,000	(3,750,000)	-	-	11,250,000	2,500,000	8,750,000
L Brown	15,700,000	2,500,000	(6,250,000)	1,266,239	-	13,216,239	2,500,000	10,716,239
C Swarbrick	-	2,750,000	-	-	-	2,750,000	2,750,000	-
R Jefferies	-	2,500,000	-	-	-	2,500,000	2,500,000	-
Executives								
N Bassett	-	500,000	-	(750,000)	3,850,000	3,600,000	500,000	3,100,000
C Lavin	-	2,500,000	-	-	-	2,500,000	2,500,000	-
	28,200,000	13,250,000	(10,000,000)	516,239	3,850,000	35,816,239	13,250,000	22,566,239

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

17. Key Management Personnel Disclosures *cont...*

c. Shareholdings of Key Management Personnel

2009	Balance at beginning of the year	Options exercised	Net Change Other	Change due to appointment / (resignation)	Balance at end of the year
Directors					
P Fry	6,942,185	3,750,000	(1,000,000)	-	9,692,185
L Brown	7,677,372	3,750,000	1,000,000	-	12,427,372
R Jefferies	-	-	-	-	-
J Sim Baker	-	-	-	70,000	70,000
C Gumley	-	-	-	-	-
C Swarbrick	-	-	-	-	-
Executives					
N Bassett	500,000	-	(200,000)	-	300,000
C Lavin	-	-	-	-	-
	15,119,557	7,500,000	(200,000)	70,000	22,489,557
2008					
Directors					
C Gumley	-	-	-	-	-
P Fry	3,192,185	3,750,000	-	-	6,942,185
L Brown	1,427,372	6,250,000	-	-	7,677,372
C Swarbrick	-	-	-	-	-
R Jefferies	-	-	-	-	-
Executives					
N Bassett	-	-	(200,000)	700,000	500,000
C Lavin	-	-	-	-	-
	4,619,557	10,000,000	(200,000)	700,000	15,119,557

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

d. Other transactions and balances with Key Management Personnel

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

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

18. Other Related Party Transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in Note 7.

Key management personnel

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

Transactions with related parties

The only transaction between the parent entity and its subsidiaries was the provision of loan funds during the financial year. Further information is disclosed in Note 6.

19. Share Based Payments

a. Value of share based payments in the financial statements

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Share based payments expensed	175	574	175	574

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

19. Share Based Payments *cont...*

b. Summary of share based payments

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

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired or Change due to Resignation Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated and parent entity – 2009								
Employees								
10/11/08	31/5/11	30c	-	500,000	-	-	500,000	-
<i>Key Management Personnel – unlisted options</i>								
1/08/06	30/6/09	10c	3,750,000	-	(3,750,000)	-	-	-
1/08/06	30/6/09	12c	3,750,000	-	(3,750,000)	-	-	-
3/10/07	3/10/09	10.5c	2,500,000	-	-	(1,250,000)	1,250,000	1,250,000
3/10/07	3/10/10	13.5c	2,750,000	-	-	(1,500,000)	1,250,000	-
30/11/07	30/11/09	30c	3,300,000	-	-	-	3,300,000	3,300,000
30/11/07	30/11/09	35c	2,200,000	-	-	-	2,200,000	2,200,000
14/5/08	31/5/11	20c	1,250,000	-	-	(1,250,000)	-	-
14/5/08	31/5/11	25c	1,250,000	-	-	(1,250,000)	-	-
14/8/08	31/5/11	20c	-	2,500,000	-	(2,500,000)	-	-
14/8/08	31/5/11	25c	-	2,500,000	-	(2,500,000)	-	-
14/8/08	31/5/11	30c	-	2,500,000	-	(2,500,000)	-	-
Others								
1/08/06	30/6/09	10c	500,000	-	(500,000)	-	-	-
3/10/06	30/6/09	12c	1,250,000	-	(1,250,000)	-	-	-
			22,500,000	8,000,000	(9,250,000)	(12,750,000)	8,500,000	6,750,000
Weighted average exercise price			0.18	0.25	0.11	0.22	0.26	0.28

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

19. Share Based Payments *cont...*

b. Summary of share based payments *cont...*

Consolidated and parent entity – 2008								
Employees								
None								
Key Management Personnel – unlisted options								
1/08/06	30/9/07	1.5c	2,500,000	-	(2,500,000)	-	-	-
1/08/06	30/6/08	7c	7,500,000	-	(7,500,000)	-	-	-
1/08/06	30/6/09	10c	3,750,000	-	-	-	3,750,000	-
1/08/06	30/6/09	12c	3,750,000	-	-	-	3,750,000	-
3/10/07	3/10/09	10.5c	-	2,500,000	-	-	2,500,000	-
3/10/07	3/10/10	13.5c	-	2,750,000	-	-	2,750,000	-
30/11/07	30/11/09	30c	-	3,300,000	-	-	3,300,000	-
30/11/07	30/11/09	35c	-	2,200,000	-	-	2,200,000	-
14/5/08	31/5/11	20c	-	1,250,000	-	-	1,250,000	-
14/5/08	31/5/11	25c	-	1,250,000	-	-	1,250,000	-
Others								
1/08/06	30/6/08	7c	2,500,000	-	(2,500,000)	-	-	-
1/08/06	30/6/09	10c	500,000	-	-	-	500,000	-
3/10/06	30/6/09	12c	1,250,000	-	-	-	1,250,000	-
			21,750,000	13,250,000	(12,500,000)	-	22,500,000	-
Weighted average exercise price			0.08	0.22	0.06	-	0.18	-

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2009 was 17.5cents (2008: 21cents).

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

2009

Grant date	10/11/08
Dividend yield (%)	-
Expected volatility (%)	77.79
Risk-free interest rate (%)	6.75
Expected life of options (years)	2.553
Underlying share price (\$)	0.071
Option exercise price (\$)	0.30
Value of option (\$)	0.012

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

19. Share Based Payments *cont...*

b. Summary of share based payments *cont...*

On 14 August 2008, a Director, Craig Gumley, was granted 7,500,000 options. These options were forfeited on 18 November 2008 upon Mr Gumley's resignation and consequently the net effect of share based payments for these options was nil.

2008

Grant date	3/10/2007	3/10/2007	30/11/2007	30/11/2007	14/5/2008	14/5/2008
Dividend yield (%)	-	-	-	-	-	-
Expected volatility (%)	76.16	73.46	76.54	76.54	79.31	77.79
Risk-free interest rate (%)	6.34	6.34	6.49	6.49	6.78	6.75
Expected life of options (years)	1.751	2.751	1.751	1.751	3	3
Underlying share price (\$)	0.21	0.21	0.19	0.19	0.195	0.195
Option exercise price (\$)	0.105	0.135	0.30	0.35	0.20	0.25
Value of Option (\$)	0.132	0.130	0.054	0.046	0.108	0.096

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 payment options granted during the year was \$0.012 (2008: \$0.0918).

d. Weighted average remaining contractual life

The weighted average remaining contractual life of share based payment options that were outstanding as at 30 June 2009 was 0.6 years (2008: 1.4 years).

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$

20. Auditors' Remuneration

Amount received or due and receivable by the auditor for:

Auditing the financial statements, including audit review - current year audits	33,500	20,500	33,500	20,500
Other services - taxation services	-	12,000	-	12,000
Total remuneration of auditors	33,500	32,500	33,500	32,500

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

21. Joint Venture

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

Joint Venture	Principal Activities	Percentage Interest	
		2009	2008
SC 54 Joint Venture (Note 15)	Oil and gas exploration	40%	40%

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

Assets utilised in the Joint Venture

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

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
ASSETS				
<i>Current Assets</i>				
Trade and other receivables	120	-	-	-
Total Current Assets	120	-	-	-
<i>Non-Current Assets</i>				
Deferred exploration expenditure	35,926	8,421	-	-
Total Non-Current Assets	35,926	8,421	-	-
Total Assets	36,046	8,421	-	-
LIABILITIES				
<i>Current Liabilities</i>				
Trade and other payables	-	188	-	-
Total Current Liabilities	-	188	-	-
Total Liabilities	-	188	-	-
Net Assets	36,046	8,233	-	-

Commitments Relating to Joint Venture

Capital expenditure commitments and contingent liabilities in respect of Joint Ventures are disclosed in Notes 16 and 15, respectively.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

22. Financial Reporting by Segments

During the financial year the consolidated entity operated in two industry segments, being petroleum exploration and mineral exploration. Geographically, the consolidated entity operates in the Philippines, Africa/Europe (Romania, Italy and Tunisia, considered as one area due to their relative close proximity) and Australia. The Africa/Europe operations ceased in March 2009.

Geographic Segments	2009				2008			
	Philippines \$'000	Africa/Europe \$'000	Australia \$'000	Total \$'000	Philippines \$'000	Africa/Europe \$'000	Australia \$'000	Total \$'000
Revenue								
Interest revenue	2	-	242	244	34	-	265	299
Unallocated income				436				5
Total consolidated revenue and income				680				304
Result								
Profit/(loss) before income tax	(54)	(1,130)	(1,072)	(2,256)	12	(547)	(3,214)	(3,749)
Unallocated loss				(2,003)				-
Income tax expense				-				-
Net loss for year				(4,259)				(3,749)
Assets and Liabilities								
Segment assets	36,104	-	10,112	46,216	9,041	213	14,879	24,133
Unallocated assets				1,022				-
Total assets				47,238				24,133
Segment liabilities	16	-	539	555	188	-	305	493
Unallocated liabilities				11,181				-
Total liabilities				11,736				493
Other segment information								
Plant and equipment capitalised	-	-	7	7	-	-	17	17
Exploration and evaluation expenditure capitalised	23,569	771	39	24,379	3,502	197	16	3,715
Share based payments expensed	-	-	175	175	-	-	574	574
Depreciation	-	-	18	18	-	-	17	17
Impairment of exploration deferred	-	968	122	1,090	-	-	1,053	1,053

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

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 is not exposed to cash flow volatility from interest rate changes on borrowings as the convertible note carries a fixed rate of interest of 12% per annum.

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

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Financial Assets				
Cash and cash equivalents (interest-bearing accounts)	10,006	14,956	10,006	14,547
Trade and other receivables	1,022	80	1,022	80
Net exposure	11,028	15,036	11,028	14,627

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. The 0.5% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical LIBOR movements over the last 3 years.

At 30 June 2009, 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		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Judgements of reasonably possible movements				
<i>Post tax profit - higher / (lower)</i>				
+ 0.5%	55	75	55	73
- 0.5%	(55)	(75)	(55)	(73)
<i>Equity - higher / (lower)</i>				
+ 0.5%	55	75	55	73
- 0.5%	(55)	(75)	(55)	(73)

The sensitivity in 2009 is lower than in 2008, due to a lower average cash balance during the year.

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

23. Financial Risk Management Objectives and Policies *cont...*

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 and receivables for settlement, repayment and interest resulting from recognised financial assets and liabilities as of year-end. These amounts represent contractual undiscounted cash flows.

The remaining contractual maturities of the Group's and parent entities financial liabilities are:

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
6 months or less	2,233	473	2,218	284
6-12 months	659	-	659	-
1-5 years	13,815	-	13,815	-
	16,707	473	16,692	284

Maturity analysis of financial asset and liability based on management's expectation.

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 (Moody's) rated 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 a result of the Group's functional currency being denominated in US\$ and the presentation currency being AUD, and transactions in both currencies, the Group's balance sheet and result can be affected by movements in the US\$/A\$ exchange rates.

The Group manages its foreign exchange risk by constantly reviewing its exposure to commitments payable in foreign currency and ensuring appropriate cash balances are maintained in United States Dollars, to meet current operational commitments.

At 30 June 2009, the Group had the following exposures to US\$ foreign currency that is not designated in cash flow hedges:

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Financial Assets				
Cash and cash equivalents	76	609	20	16
Financial Liabilities				
Trade and other payables	-	188	-	-
Convertible notes	11,181	-	11,181	-
Net exposure	(11,105)	421	(11,161)	16

NOTES TO THE FINANCIAL STATEMENTS *cont...*

For the year ended 30 June 2009

23. Financial Risk Management Objectives and Policies cont...

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date. The 5% sensitivity is based on reasonably possible changes, over a financial year, using an observed range of actual historical rates, for the Australian dollar to the US dollar, for the preceding 5 years.

At 30 June 2009, if the Australian Dollar 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		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Judgements of reasonably possible movements				
<i>Post tax profit - higher / (lower)</i>				
AUD/USD + 5 %	-	(20)	-	(1)
AUD/USD - 5 %	-	22	-	-
<i>Equity - higher / (lower)</i>				
AUD/USD + 5 %	523	(20)	531	(1)
AUD/USD - 5 %	(578)	22	(587)	-

There is no profit and loss effect in 2009 as the movements are recorded in the translation reserve. The movements in 2009 are greater due to the increased exposure of the Convertible Notes translating the US\$ balance into the AUD presentation currency.

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

Commodity Price Risk

The Group's exposure to price risk is minimal given the Group is still in an exploration phase.

Fair Value

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

24. Events Subsequent to Year End

There are no matters or circumstances that have arisen since 30 June 2009 that have or may significantly affect the operations, results, or state of affairs of the Group in future financial years, other than the following:

i. Convertible Note

On 31 July 2009, Kairiki received notice from IMC that they would seek repayment of the funds held in an escrow account of \$1,022,000 relating to the conversion of options at 31 December 2008 in accordance with the Convertible Note Agreement. The repayment reduced the amount owing on the Convertible Note at maturity by US\$839,852 to US\$9,529, 981.

ii. SC 54B Prospectivity

On 22 September 2009, the SC 54B Joint Venture released an update of the oil in place volumes of the Gindara, which is the leading prospect in the SC 54B permit. An upgraded probabilistic assessment has resulted in unrisks mean oil-in-place (OIIP) for the Nido Limestone reservoir of 634 million barrels (unrisks). The unrisks upside potential (P10) is approximately 1 billion barrels.

Gindara				
	P90	P50	P10	Mean
Oil in Place (MMbbls)	292	581	1022	634

DIRECTORS' DECLARATION

1. In the opinion of the Directors:
 - a. The financial statements and notes 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 2009 and of their performance for the year then ended; and*
 - ii. *complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and*
 - b. 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 2009.

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



Lawrence Brown
Managing Director
Perth, Western Australia
28 September 2009

INDEPENDENT AUDIT REPORT

Independent Audit Report To The Members Of Kairiki Energy Limited



Level 18, 6 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KAIRIKI ENERGY LTD

We have audited the accompanying financial report of Kairiki Energy Ltd (the Company) which comprises the balance sheet as at 30 June 2009 and the income statement, statement of changes in equity and cash flow statement 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.

The Company has disclosed information as required by Australian Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures") under the heading "Remuneration Report" in the directors' report as permitted by the Corporations Regulations 2001.

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 and the remuneration disclosures in the Directors' report comply with AASB 124.

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

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

Independence

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



Chartered Accountants

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

INDEPENDENT AUDIT REPORT *cont...*

Independent Audit Report To The Members Of Kairiki Energy Limited



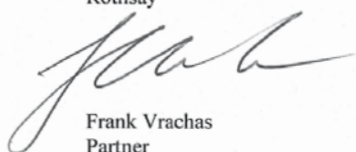
Audit opinion

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

- a) (i) giving a true and fair view of the Company's and the group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) the consolidated financial report also complies with International Financial Reporting Standards.
- c) the remuneration disclosures in the Directors' report comply with AASB 124



Rothsay



Frank Vrachas
Partner

Dated

28th September 2009

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

SUPPLEMENTARY INFORMATION

Additional information included in accordance with Listing Rules of the Australian Securities Exchange

The shareholder information set out below was applicable as at 23 September 2009.

1. Distribution of Holders

	Fully Paid Ordinary Shares
<i>Number of holders in the following distribution categories:</i>	
0 - 1,000	1,114
1,001 - 5,000	303
5,001 - 10,000	193
10,001-100,000	636
100,001 and over	275
Number of holders	2,521
Holders of less than a marketable parcel	1,342

2. Twenty Largest Shareholders

The names of the twenty largest shareholders are as follows:

		Number of Shares	Percentage of Issued Capital
1	Yandal Investments Pty Ltd	50,000,000	9.72
2	Nefco Nominees Pty Ltd	43,980,000	8.55
3	HSBC Custody Nominees (Australia) Limited	24,845,989	4.83
4	Cogent Nominees Pty Ltd (SMP Accounts)	24,709,171	4.81
5	HSBC Custody Nominees (Australia) Limited – A/C 3	23,114,238	4.50
6	IMC Resource Investments Pty Ltd	22,870,000	4.45
7	Lujeta Pty Ltd (The Margaret Account)	21,500,000	4.18
8	Harman Nominees Pty Ltd (Harman Family A/C)	18,000,000	3.50
9	Escot Finance Ltd	12,798,640	2.49
10	Greenslade Holdings Pty Ltd	11,000,000	2.14
11	Mr Lawrence James Brown	10,000,000	1.94
12	Daly Finance Corp	10,000,000	1.94
13	National Nominees Limited	8,955,874	1.74
14	Springtide Capital Pty Ltd (Cockatoo Valley Inv A/C)	8,250,000	1.60
15	Cogent Nominees Pty Limited	7,537,168	1.47
16	Mr Paul Damien John Fry	7,500,000	1.46
17	Walker Group Holdings Pty Limited	7,500,000	1.46
18	JJ Holdings (Vic) Pty Ltd (JJ Holdings A/C)	6,700,000	1.30
19	Colbern Fiduciary Nominees Pty Ltd	5,000,000	0.97
20	Mr Alexander Wylie, Ms Seiko Tanaka (A F Wylie Superannuation A/C)	4,500,000	0.88
		328,761,080	63.93
	Shares on Issue	514,209,998	

SUPPLEMENTARY INFORMATION *cont...*

Additional information included in accordance with Listing Rules of the Australian Securities Exchange

3. Unlisted Options

Details of unlisted option holders are as follows:

	Class of unlisted options	Number of Options	Number of Holders
a)	Options exercisable at 10.5 cents each up to 3 October 2009	1,250,000	1
	Holdings of more than 20% of this class		
	- Rae Jefferies	1,250,000	
b)	Options exercisable at 30 cents each up to 30 November 2009	3,300,000	3
	Holdings of more than 20% of this class		
	- Lawrence James Brown	1,500,000	
	- Paul Damien Fry	1,500,000	
	- Neville Basset	300,000	
c)	Options exercisable at 30 cents each up to 30 November 2009	2,200,000	3
	Holdings of more than 20% of this class		
	- Lawrence James Brown	1,000,000	
	- Paul Damien Fry	1,000,000	
	- Neville Basset	200,000	
e)	Options exercisable at 30 cents each between 31 May 2010 and 31 May 2011	500,000	1
	Holdings of more than 20% of this class		
	- Alice Chaplin	500,000	

4. Convertible Notes

10,000,000 Convertible Notes at US\$1 each, held by IMC Oil & Gas Investments Ltd. Full details are provided in the notes to the financial statements in this financial report.

5. Restricted Securities

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

6. Substantial Shareholders

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

	Number of Shares	Percentage of Issued Capital
Yandal Investments Pty Ltd	41,500,000	8.07
AMP Limited	27,849,703	5.42

7. Voting Rights

Shares

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

Options

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

Convertible Notes

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

8. On-market Buy-back

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

SUPPLEMENTARY INFORMATION *cont...*

Additional information included in accordance with Listing Rules of the Australian Securities Exchange

Philippines Interests

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

Australian Mineral Interests

A. Tenements held by Kairiki Energy Limited and its controlled entities

Project	Manager Operator	Tenement	Interest %
New Bulong JV	Kairiki Energy Limited	P25/1983)
Western Australia		P27/1851	) Great Southern Mines NL (35%)
		P27/1852)
		P27/1853)
		P27/1312)
		P27/1744*)
		P27/1854-1855*	) Great Southern Mines NL (20%)
		M27/326*)
		P25/1935)
		P25/1939	) Great Southern Mines NL (35%)
		P25/1941	) Kairiki Energy Limited (65%)
		P25/1943)
		P25/1982*	) Kairiki Energy Limited (100%)
Browns Lagoon	Kairiki Energy Limited	P24/4239)
Western Australia		P24/4240	) Great Southern Mines NL (100%)
		P24/4241)
		P24/4242)
Clinker Hill	Kairiki Energy Limited	E26/123	) Great Southern Mines NL (100%)
Western Australia)

* Application Pending

SUPPLEMENTARY INFORMATION *cont...*

Additional information included in accordance with Listing Rules of the Australian Securities Exchange

B. Tenements subject to Option Sale Agreement

Project	Manager Operator	Tenement	Interest %
New Bulong JV	Bulong Mining Pty Ltd	P25/1932)
Western Australia		P25/1933)
		P25/1934)
		P25/1936)
		P25/1937	) Great Southern Mines NL (35%)
		P25/1938	) Kairiki Energy Limited (65%)
		P25/1940)
		P25/1942)
		P25/1944)
		E25/345)
		M25/83)
		E25/346*)
		P25/1993*)
		M25/24	) Kairiki Energy Limited (100%)
		M25/129)
		M25/91)

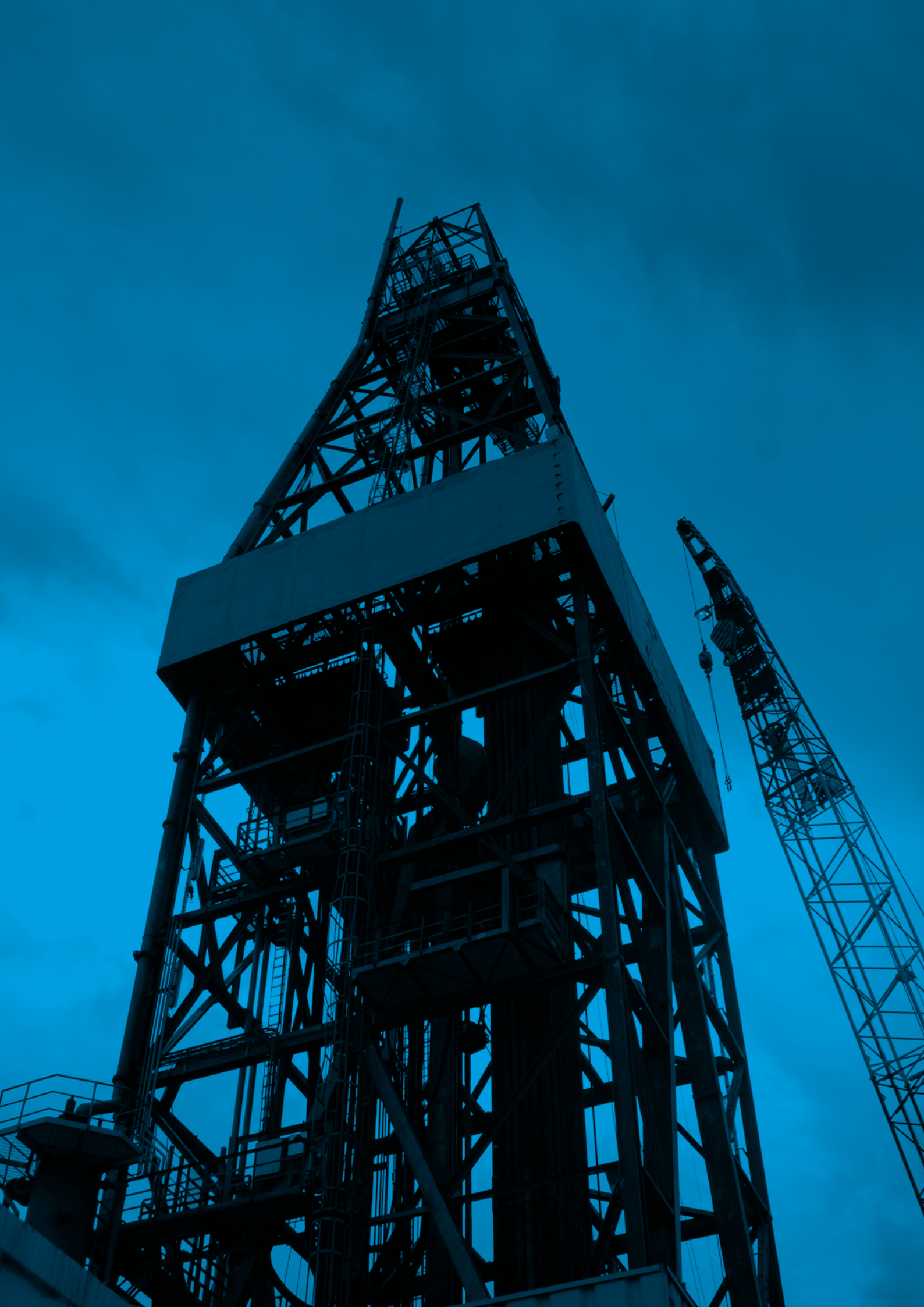
Pursuant to the Option Sale Agreement Kairiki shall receive 10% of net profits of product mined and sold from the tenements to a maximum of \$250,000; and thereafter, a royalty being 1% of the net smelter return of product mined and sold.

C. Tenements subject to Deed of Sale

Project	Manager Operator	Tenement	Interest %
Foley Well JV	Hawthorn Resources Ltd	E31/405	) Great Southern Mines NL (100%)
Western Australia		E31/327-328*)
		E31/377*)
Goodenough	Resource Assets Pty Ltd	M29/141	) Resource Assets Pty Ltd (100%)
Western Australia		P29/1821-23	) Kairiki Energy Limited (80%)
		P29/1928-31*	) Kairiki Energy Limited (100%)
		P29/1817-20)

Pursuant to the Deed of Sale, following production of the first 5,000 ounces of gold, Kairiki shall receive a sum equal to 10% of net profits from operations.

Note: Great Southern Mines NL and Resource Assets Pty Ltd are wholly owned subsidiaries of Kairiki Energy Limited.



Photographs of the 'WilBoss' jack-up rig in Service Contract 54
supplied by the Operator, Nido Petroleum Limited.

Designed by





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