

# **Kairiki Energy Limited**

ABN 34 002 527 906

**FINANCIAL REPORT 2008**

**Directors**

Craig Moore Gumley  
Lawrence James Brown  
Paul Damien John Fry  
Christopher Francis John Swarbrick  
Rae Jefferies

**Company Secretary**

Neville John Bassett

**Registered and Principal Office**

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331-335 Hay Street  
Subiaco WA 6008

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Website: [www.kairikienergy.com](http://www.kairikienergy.com)

**Share Registry**

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St George's Terrace  
Perth WA 6000  
Investor enquiries:  
Telephone: 1300 557 010  
(08) 9323 2000  
Facsimile: (08) 9323 2033

**Auditor**

Rothsay  
Chartered Accountants  
Level 18, 6 O'Connell St  
Sydney NSW 2000

**Securities Exchange Listing**

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

DIRECTORS' REPORT

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Your Directors present their report on Kairiki Energy Limited (“Kairiki” or “the Company”) and its controlled entities for the year ended 30 June 2008.

**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.

Craig Moore Gumley – appointed 15 January 2008  
Lawrence James Brown  
Paul Damien John Fry  
Christopher Francis John Swarbrick  
Rae Jefferies

**INFORMATION ON DIRECTORS**

**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).

Director since 15 January 2008.

No other directorships in listed companies in the last 3 years.

**Lawrence James Brown** B.Sc (Hons) – (Geology/Geophysics) – Executive Director

Mr Laurie Brown is the Company’s exploration and investor relations 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 JV 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 present)

**Paul Damien John Fry** CA – Non Executive Chairman (post 30 June 2008)

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)

**DIRECTORS' REPORT**

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**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. Chris 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.

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

Director since 12 January 2007.

No other directorships in listed companies in the last 3 years.

**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 Rae 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 Rae 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.

Director since 12 January 2007.

No other directorships in listed companies in the last 3 years.

**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:

**Craig Gumley**

- 2,500,000 options expiring 31 May 2011, exercisable at 20 cents each
- 2,500,000 options expiring 31 May 2011, exercisable at 25 cents each
- 2,500,000 options expiring 31 May 2011, exercisable at 30 cents each

**Lawrence Brown**

- 7,677,372 ordinary fully paid shares
- 6,966,239 options expiring 31 December 2008, exercisable at 5 cents each
- 1,875,000 options expiring 30 June 2009, exercisable at 10 cents each
- 1,875,000 options expiring 30 June 2009, exercisable at 12 cents each
- 1,500,000 options expiring 30 November 2009, exercisable at 30 cents each
- 1,000,000 options expiring 30 November 2009, exercisable at 35 cents each

**Paul Fry**

- 6,942,185 ordinary fully paid shares
- 5,000,000 options expiring 31 December 2008, exercisable at 5 cents each
- 1,875,000 options expiring 30 June 2009, exercisable at 10 cents each
- 1,875,000 options expiring 30 June 2009, exercisable at 12 cents each
- 1,500,000 options expiring 30 November 2009, exercisable at 30 cents each
- 1,000,000 options expiring 30 November 2009, exercisable at 35 cents each

**Christopher Swarbrick**

- 1,250,000 options expiring 3 October 2009, exercisable at 10.5 cents each
- 1,500,000 options expiring 3 October 2010, exercisable at 13.5 cents each

# KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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Rae Jefferies

- 1,250,000 options expiring 3 October 2009, exercisable at 10.5 cents each
- 1,250,000 options expiring 3 October 2010, exercisable at 13.5 cents each

### **MEETINGS OF THE COMPANY'S DIRECTORS**

The number of meetings of the Company's Directors held during the year ended 30 June 2008, and the number of meetings attended by each Director were:

	<b>Number Attended</b>	<b>Maximum Possible</b>
Craig Gumley	5	5
Paul Fry	11	11
Lawrence Brown	11	11
Christopher Swarbrick	11	11
Rae Jefferies	11	11

### **CORPORATE INFORMATION**

On 7 September 2007 the Company changed its name from Yilgarn Gold Limited to Kairiki Energy Limited to better reflect the main focus of the Company being its oil and gas operations.

#### **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:

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 (formerly Orion Energy Asia Pty Ltd) -	100% owned controlled entity

Subsequent to year end, an additional two subsidiaries were incorporated:

Kairiki Africa Pty Ltd -	100% owned controlled entity
Kairiki Italy Pty Ltd -	100% owned controlled entity

#### **Nature of Operations and Principal Activities**

The principal activity of the Company and controlled entities during the financial year was petroleum and mineral exploration.

#### **Employees**

The group employed 4 persons as at 30 June 2008 (2007: 1 person).

### **OPERATING AND FINANCIAL REVIEW**

#### **Summary of financial performance:**

Kairiki's consolidated loss for the financial year after tax was \$3,749,000 (2007: \$1,543,000).

The loss for the year was impacted by:

- A loss of \$1,053,000 relating to the write down of the Company's mineral tenements to their recoverable amount
- Exploration costs expensed of \$812,000
- Share based payments expensed of \$574,000 (2007: \$416,000)
- These expenses were partially offset by interest income of \$299,000 (2007: \$183,000)

#### **Earnings per Share**

Basic earnings/(loss) per share was (1.14) cents.

**Financing Activities:**

The Company issued the following securities during the year;

- In June 2008, the Company issued 49,949,730 ordinary fully paid shares at an issue price of 23 cents each, raising gross proceeds of \$11,488,000
- During the year, the Company issued 48,275,499 ordinary fully paid shares through the conversion of options, raising gross proceeds of \$2,564,000.

**Summary of Financial Position:**

At 30 June 2008 the Company's cash position increased to \$15,171,000, compared with \$8,700,000 at 30 June 2007.

The increase in cash was due to the company raising equity proceeds, including the exercise of options, of \$13,440,000 during the year.

**Exploration 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 km<sup>2</sup> in the North West Palawan basin in the Philippines.

Kairiki's interest in the block was acquired through a farm-in with Nido Petroleum Limited ("Nido"). Kairiki will earn a 40% interest in SC 54 upon completion of two stages:

- The first stage required Kairiki to fund a seismic program 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.
- The second stage requires Kairiki to fund 80% of the dry hole cost of drilling a well or wells in SC 54 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. Permit obligations require this stage to be met by February 2009.

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 2008 the following progress occurred in respect of the Company's Philippine oil and gas operations:

**Outboard**

- In May 2008, Nido released its prospects and leads inventory for the outboard portion of SC 54 following completion of its evaluation of a number of seismic surveys that had been conducted over the past two years. Whilst a number of targets have been identified and evaluation continues pending final processing products, two key prospects, Gindara and Lapu Lapu, have emerged as the high-graded drilling candidates for future drilling in the outboard.

- **Gindara Prospect**

In March 2008 the Joint Venture announced that the Gindara prospect, (formerly Coron North), had emerged as the first outboard drilling prospect.

Following a detailed technical review of the Abukay 3D seismic acquired in late 2006, the Gindara Prospect has been matured into a large, robust, four-way dip closed structure with a maximum areal extent of 11 km<sup>2</sup> and a closure height of up to 204 metres sufficient to accommodate in excess of 478 million barrels of oil in place ("OIP").

The Abukay 3D seismic has dramatically enhanced the Joint Ventures understanding of the petroleum systems within and adjacent to SC 54, significantly reducing the geological risk on the prospect, resulting in a drilling opportunity which has the potential to deliver a significant oil discovery.

High quality Nido Limestone carbonate reservoirs are prognosed at the Gindara-1 location based on the equivalent section encountered in the Coron-1 well (drilled 1993) 6 kilometres to the south of the Gindara structure. The well encountered a 150m gross reservoir section with a net to gross of 89% and an average porosity of 23% which is amongst the best quality reservoir observed in the basin. Subsurface analysis has also confirmed the Gindara Prospect is linked to the same hydrocarbon source kitchen as the giant Malampaya field located 25 kilometres to the north east of the Gindara Prospect location.

Importantly, the Abukay 3D interpretation has cast doubt on the validity of the structural closure at the Coron-1 well, which encountered oil shows through the Nido Limestone section. The 3D seismic mapping supported by detailed depth conversion techniques indicates that, at best, a small residual closure exists at the Coron-1 location. Furthermore, the Coron-1 well appears to be shielded from the main source rock kitchen, lying in the shadow of the large Gindara structure which is more optimally located to receive hydrocarbon charge.

The Joint Venture is currently working to contract a semi submersible rig to drill the Gindara Prospect in 2009. However, with the exceptionally tight global rig market, final timing of drilling will be dictated by rig availability.

- **Lapu Lapu Prospect**

The dual-target Lapu Lapu prospect, lying 8 kilometres west of Gindara in 380m water, is a standout follow-on target, particularly, on the back of exploration success in Gindara proving effectiveness of hydrocarbon charge from the east. In addition to the Nido Limestone primary reservoir potential in a large, but simple, look-alike target to Gindara, Lapu Lapu also includes a shallower stacked secondary objective comprising a turbidite sand play draped over the prospect in dip closure above the Limestone target. Lapu Lapu is therefore a key target to test the capability of turbidite sands in the outboard portion of the block and has the capacity to accommodate an upside resource potential of in excess of 500 million barrels of oil in place in the two combined targets on the basis both are filled to spill.

- **Seismic Activities**

Kairiki received the final processed products from the initial 640km<sup>2</sup> Abukay 3D survey (acquired in 2006) in early October 2007. These processed seismic volumes were key to advancing the Joint Venture's prospects and leads inventory, particularly in assessing the reservoir architecture of Gindara, Lapu Lapu and the range of deepwater fan and channel targets in the inventory.

Following the preliminary interpretation of the Abukay 3D data, the Joint Venture extended the 640km<sup>2</sup> Abukay 3D seismic survey westwards by a further 165km<sup>2</sup> to ensure full coverage of the large scale Princesa fan targets and the Pagasa turbidite play fairway in SC 54. This data set is currently being evaluated.

More recently, the Joint Venture elected to process the entire Abukay 3D through to pre-stack depth. Delivery is anticipated at the end of 2008 for evaluation in the first quarter 2009.

In November 2007 the Joint Venture acquired a further 454 km of 2D data over the less explored southern part of the block. To date the evaluation of SC 54 has been largely focussed in the northern third of the block, driven by the 3D coverage of the Abukay survey, whilst the southern portion of the block remains largely unexplored. This survey provided the Joint Venture with an initial analysis of the prospectivity of this part of the block. This data set is currently being evaluated.

## **Inboard**

- In December 2007 the Joint Venture extended the north-east area of the Permit by 12,000 hectares and relinquished an equivalent area from the less prospective south-eastern area. The new acreage includes the Signal Head oil discovery (93m possible oil column) and additional exploration potential. The Joint Venture immediately acquired 3D seismic data over this area using the Pacific Titan seismic vessel. Interpretation of this dataset has revealed an additional four potential pinnacle reef targets in a single cluster. The key prospect, Lawaan, offers potentially up to 15 million barrels OIP and is an attractive target for consideration of drilling in future phases.
- In April 2008 the Joint Venture announced the acceleration of its shallow water exploitation strategy by planning to drill at least 2 wells with a jackup rig during the 4<sup>th</sup> quarter of 2008. The shallow water area of SC 54 boasts more than 20 pinnacle reef prospects and discoveries offering potential original oil in place ranging from 1-20 million barrels each. While each individual drilling target is of moderate size the sheer number of targets associated with their low risk, and the very real potential for aggregation of a number of such targets in development, represents a material opportunity with near-term cash flow potential, should the evaluation prove successful. These targets lend themselves to simple single well development solutions, aggregated in a number of clusters, thereby enabling potentially rapid exploitation,
- In May 2008 the Joint Venture entered into agreements to utilise the services of the "WilBoss" jack-up drilling rig for a two well drilling program. The WilBoss is a new-build rig and left the shipyard in March 2008. It can drill in water depths to 400 ft providing the JV both the capability and flexibility to reach all identified drilling targets in our SC 54 shallow water portfolio.

DIRECTORS' REPORT

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- Having secured the rig, the Joint Venture initiated a site survey program in July 2008 to survey the surface and subsurface integrity of a total of 16 potential prospective target drilling locations.
- The WilBoss rig commenced drilling the Yakal-1 well on 8 September 2008. Yakal-1 is expected to take approximately 3 weeks to drill and, if justified, will be suspended pending extended well testing. The rig will then be released to the Tindalo-1 location also located in SC 54.

**Tunisia**

**Kerkouane Offshore Oil and Gas– 30% Participating Interest**

In July 2008 Kairiki acquired a 30% interest in the Kerkouane Permit located offshore north east Tunisia. In addition to the extension of the Sambuca structure the Kerkouane Permit contains the Dougga gas/condensate discovery drilled by Shell in the early 1980's lying immediately north of the Tazerka oilfield, also discovered by Shell in the early 1980's. Previous geological and geophysical work has identified several additional exploration leads and prospects and a commitment 2D seismic survey will mature the most promising of these. The Joint Venture plans to complete 400 km of 2D seismic acquisition and drill one well prior to Permit expiry in February 2010.

Since receiving the data in November 2007, the Operator AuDAX Resources Ltd ("AuDAX") has identified a large number of prospects and leads in the Permit and confirmed a gas condensate field appraisal project. AuDAX has recently engaged a drilling management consultant to prepare for a high impact exploration and appraisal drilling campaign in 2009 and continues to evaluate the remaining prospects and lead inventory.

**Chorbane Onshore Oil and Gas– 50% Participating Interest**

During the year Kairiki signed an agreement to acquire a 50% interest in the Chorbane Permit located onshore southeast Tunisia. Chorbane has six currently identified prospects and leads and the 2007 acquisition of 219 kilometres of prospect-specific 2D seismic will mature these for drilling. The Joint Venture will complete evaluation of this new coverage integrated with the reprocessing of the widespread existing legacy seismic coverage and well database ahead of electing which of the prospects to drill. The license requires 1 well to be drilled before July 2010. Typical of the area, all prospects are structurally complex with a number of potential reservoirs. The area offers both oil and gas potential, with ready markets and existing nearby infrastructure for both.

This transaction is expected to close before 31 October 2008.

**Tunisian AMI – 33.33% Participating Interest**

Kairiki has an Area of Mutual Interest ("AMI") agreement with AuDAX and Nexus Energy Limited ("Nexus"), both Australian listed companies, to explore for opportunities in Tunisia.

AuDAX's management have significant in-country experience in this high profile emerging province. Kairiki's participation strategically exposes the Company to this leverage and being part of a larger international Joint Venture provides significant advantages and synergies. Most notably, through these AMIs the Joint Venture will establish on-the-ground operating capabilities in both countries and develop its Government relationships which are critical pre-requisites to successful exploration in any foreign new venture operation.

**Italy**

**Pantelleria Offshore Oil and Gas – 30% Participating Interest**

During the year Kairiki signed an agreement to acquire a 30% in the Pantelleria Permit located in the Sicily Channel. Previous exploration work has identified a number of prospective targets, the standout being the drill-ready Sambuca prospect with a large resource potential. Though largely lying within Pantelleria, the Sambuca structure extends into the contiguous Kerkouane Permit across the Italian-Tunisian maritime border. The Joint Venture plans to mature the remaining inventory over the coming few months. The forward work program requires completing the tendering process for an offshore rig and receiving environmental approvals for offshore drilling.

This transaction is expected to close before 31 October 2008.

## Romania

### Romanian AMI – 33.33% Participating Interest

Kairiki has an Area of Mutual Interest (AMI) agreement with AuDAX Resources Limited and Nexus Energy Limited, both Australian listed companies, to explore for opportunities in Romania.

AuDAX's management have significant in-country experience in this high profile emerging province. Kairiki's participation exposes the Company to this leverage being strategically well positioned for opportunities in SE Europe's biggest producer as the country opens up following its entry into the European Union. Being part of a larger international Joint Venture provides Kairiki with significant advantages and synergies, providing access to opportunities but with a low resource requirement.

## New Ventures

Over the last 12 months the Company has continued its search for high impact, quality, New Ventures. Primarily focussed in South East and Eastern Asia, in its initial stages, the search has focussed on developing strategic relationships – appointing well connected in-country agents and linking to key decision-makers within host-governments to explore opportunities for mutual participation both in-country and internationally. Flowing from these relationships, the screening of potential exploration, brown-fields and corporate opportunities is ongoing.

## Mineral properties

The Company undertook minimal exploration activity on its mineral properties during the course of the year. The Company is currently in discussions with a party to farm-out its mineral assets.

## 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:

#### **(a) Issue of Convertible Note**

On 29 August 2008, Kairiki executed a Convertible Note Agreement ('Notes') with IMC Oil & Gas Investments Ltd, part of the IMC Group, to raise up to US\$10 million.

The principle terms and conditions of the Notes are as follows:

- (i) Repayment Date: 8 September 2011;
- (ii) Convertible into ordinary fully paid shares at an issue price determined as the lesser of:
  - (a) A\$0.185; and
  - (b) the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16;
- (iii) Shares issued upon conversion of the Notes, or part thereof, will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;
- (iv) A Noteholder may convert at any time prior to the Repayment Date, subject to a limit of 3 conversions with each conversion being in respect of a number of Notes which are convertible into at least 10 million shares;
- (v) Repayment Rights: The parties will have rights of repayment as follows:
  - (a) Kairiki shall have the right up to 31 January 2009 to give notice to repay up to 50% of the outstanding amount in respect of the Notes;
  - (b) A relevant Noteholder shall have the right, during the period 1 January to 15 January each year, to require the Company to use all or a specified part of any cash balance held in a special repayment account, established for receipt of future net revenues and option conversion monies, to repay a portion of the outstanding amount in respect of the Notes; and

DIRECTORS' REPORT

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- (c) A relevant Noteholder has the right to full repayment of the outstanding amount in respect of the Notes on the occurrence or non-fulfillment of specified events or conditions before 31 January 2009. In the event that Kairiki and IMC fail to enter into the KIK/IMC Alliance Agreement by 1 December 2008 or the non-fulfillment of other specified conditions by 31 January 2009 through wilful breach, Kairiki will be liable to pay a break fee of US\$1 million;
- (vi) Interest Rate: 12% per annum;
- (vii) Security: Fixed and floating charges over all of the assets of the Company and its subsidiary Yilgarn Petroleum Philippines Pty Ltd but excluding certain property;
- (viii) The Notes shall not provide for any voting rights at shareholder meetings of Kairiki;
- (ix) Unless converted or redeemed during the term, the Notes will be redeemed at the Repayment Date at the face value of the Notes;
- (x) Drawdown under the Convertible Note Deed will be conditional on, inter alia, IMC having the right to:
  - (a) appoint a representative to the Board of 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 Notes will be accessed in two tranches by the Company. The first tranche of US\$8.5 million has been placed under the Company's 15% capacity under ASX Listing Rule 7.1. The remaining US\$1.5 million will be subject to shareholder approval, scheduled for October 2008.

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

**(b) Completion of Acquisition of Kerkouane**

On 31 July 2008, the Company announced the completion of the acquisition of a 30% interest in the Kerkouane Permit.

**(c) Shareholder General Meeting**

At a general meeting held on 14 August 2008, the shareholders approved the following resolutions:

- i) The ratification and issue of certain options to employees; and
- ii) Ratification of the prior issue and allotment of 49,949,730 fully paid ordinary shares, at an issue price of 23 cents per share, to institutional and other exempt investors.

***FUTURE DEVELOPMENTS***

The Company intends to continue its exploration programs on its existing oil and gas permits, and to acquire further suitable permits for exploration and development. Additionally, the Company intends to further strengthen its relationship with IMC through an exploration and field development alliance to be agreed by 1 December 2008 on mutually agreed principles.

The Company intends to farm down its interest in mineral properties and secure an industry partner to operate.

**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.

DIRECTORS' REPORT

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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.

**DIRECTORS' REPORT**

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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 following Key Management Personnel are employed under contract:

	<b>Duration of Contract</b>	<b>Notice Period</b>
<b>Directors</b>		
Craig Gumley	Rolling contract	3 Months
<b>Executives</b>		
Ciaran Lavin	Rolling contract	1 Month

The Company may terminate the executive's employment agreement by providing written notice (per the notice period above) or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On termination, 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. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Upon change of control, C Lavin may, within three months of change of control, terminate employment and be paid six months of his total remuneration package.

The terms of employment of director, Paul Fry and the exploration director, Laurie Brown are not formalised in contracts of employment.

**D. Details of remuneration for year**

***Directors***

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

Craig Gumley	Managing Director – appointed 15 January 2008
Lawrence Brown	Executive Director
Paul Fry	Chairman (Executive during the year; non-executive from 1 July 2008)
Christopher Swarbrick	Director (non-executive)
Rae Jefferies	Director (non-executive)

***Executives***

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

Neville Bassett	Company Secretary
Ciaran Lavin	Senior Explorationist

There were no other persons that fulfilled the role of a key management person, other than those disclosed as Executive Directors.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**Remuneration**

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

	Year	Short Term Benefits		Post Employment	Share Based Payments	Total	Remuneration consisting of options during the year %
		Salary and consulting fees \$	Director fees \$	Superannuation \$	Options \$		
<b>Directors</b>							
C Gumley Appointed 15/1/2008	2008	137,500	-	12,375	-	149,875	-
	2007	-	-	-	-	-	-
P Fry	2008	157,912	-	49,997	74,083	281,992	26.3%
	2007	148,365	-	42,385	416,074	606,824	68.6%
L Brown	2008	174,000	36,000	-	74,083	284,083	26.1%
	2007	152,625	36,000	-	1,065,894	1,254,519	85.0%
C Swarbrick Appointed 12/1/2007	2008	41,775	36,000	-	196,875	274,650	71.7%
	2007	37,125	18,000	-	-	55,125	-
R Jefferies Appointed 12/1/2007	2008	48,000	36,000	-	184,688	268,688	68.7%
	2007	12,000	18,000	-	-	30,000	-
P Vassileff Resigned 12/1/2007	2008	-	-	-	-	-	-
	2007	-	12,000	-	-	12,000	-
G Clatworthy Resigned 12/1/2007	2008	-	-	-	-	-	-
	2007	-	12,000	-	-	12,000	-
<b>Executives</b>							
N Bassett (considered executive from 1 July 2007)	2008	61,606	-	-	11,900	73,506	16.2%
	2007	-	-	-	-	-	-
C Lavin Appointed 7/1/2008	2008	81,160	-	35,383	32,500	149,043	21.8%
	2007	-	-	-	-	-	-
N Taylor Resigned 31/8/2006	2008	-	-	-	-	-	-
	2007	17,545	-	1,579	-	19,124	-

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.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

**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**

<b>2008</b>	<i>Number Vested During Year</i>	<i>Granted Number</i>	<i>Grant Date</i>	<i>Value per Option at Grant Date \$</i>	<i>Exercise Price \$</i>	<i>First Exercise Date</i>	<i>Last Exercise Date</i>
<b>Directors</b>							
C Gumley	-	-	-	-	-	-	-
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
<b>TOTAL</b>	-	10,250,000					
<b>Executives</b>							
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
<b>TOTAL</b>	-	3,000,000					
<b>2007</b>							
<b>Directors</b>							
P Fry	3,750,000	3,750,000	1/08/06	0.0617	0.07	1/08/06	30/06/08
P Fry	1,875,000	1,875,000	1/08/06	0.0529	0.10	1/08/06	30/06/09
P Fry	1,875,000	1,875,000	1/08/06	0.0456	0.12	1/08/06	30/06/09
L Brown	3,750,000	3,750,000	1/08/06	0.0617	0.07	1/08/06	30/06/08
L Brown	1,875,000	1,875,000	1/08/06	0.0529	0.10	1/08/06	30/06/09
L Brown	1,875,000	1,875,000	1/08/06	0.0456	0.12	1/08/06	30/06/09
L Brown	2,500,000	2,500,000	1/08/06	0.1055	0.015	1/08/06	30/09/07
<b>TOTAL</b>	17,500,000	17,500,000					

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.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' REPORT**

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

	Shares Issued Number	Paid per Share \$	Intrinsic Value per Exercised Option \$
<b>2008</b>			
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:

	<i>Number</i>	<i>Exercise Price</i>	<i>Exercise Date</i>
Listed Options	136,897,608	\$0.05	On or before 31/12/2008
Unlisted Options	4,250,000	\$0.10	On or before 30/06/2009
Unlisted Options	3,750,000	\$0.12	On or before 30/06/2009
Unlisted Options	2,500,000	\$0.105	Between 3/10/2008 and 3/10/2009
Unlisted Options	2,750,000	\$0.135	Between 3/10/2009 and 3/10/2010
Unlisted Options	1,250,000	\$0.20	Between 14/05/2009 and 31/05/2011
Unlisted Options	1,250,000	\$0.25	Between 14/05/2010 and 31/05/2011
Unlisted Options	3,300,000	\$0.30	Between 30/11/2008 and 30/11/2009
Unlisted Options	2,200,000	\$0.35	Between 30/11/2008 and 30/11/2009
Unlisted Options	2,500,000	\$0.20	Between 31/05/2009 and 31/05/2011
Unlisted Options	2,500,000	\$0.25	Between 31/05/2010 and 31/05/2011
Unlisted Options	2,500,000	\$0.30	Between 31/05/2010 and 31/05/2011

**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 2008 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 Ltd 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,

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2008 annual financial statements; 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.

**Craig M. Gumley**  
Managing Director  
Perth Western Australia  
18 September 2008

# KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

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The Board of Directors of Kairiki Energy Limited is responsible for the corporate governance of the consolidated entity. 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.

Kairiki Energy Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1.** Lay solid foundations for management and oversight
- Principle 2.** Structure the board to add value
- Principle 3.** Promote ethical and responsible decision making
- Principle 4.** Safeguard integrity in financial reporting
- Principle 5.** Make timely and balanced disclosure
- Principle 6.** Respect the rights of shareholders
- Principle 7.** Recognise and manage risk
- Principle 8.** Encourage enhanced performance
- Principle 9.** Remunerate fairly and responsibly
- Principle 10.** Recognise the legitimate interests of stakeholders

Kairiki Energy Limited's corporate governance practices were in place throughout the year ended 30 June 2008 and were fully compliant with the Council's best practice recommendations, unless otherwise stated.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board continues to review its current practices in light of the ASX Principles of Good Corporate Governance and Best Practice Guidelines with a view to making amendments where applicable after considering the Company's size and resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

During the financial year the Company has complied with each of the 10 Essential Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below:

<b>Principle Ref</b>	<b>Recommendation Ref</b>	<b>Notification of Departure</b>	<b>Explanation for Departure</b>
2	2.4	The Company does not have a Nomination Committee	The role of the Nomination Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee. 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 web.
4	4.2, 4.3 & 4.4	The Company does not have an Audit Committee	<p>The role of the Audit Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee. In addition to management's accountability, the Board assures integrity of the financial statements by:</p> <ul style="list-style-type: none"><li>(a) reviewing the Company's statutory financial statements to ensure the reliability of the financial information presented and compliance with current laws, relevant regulations and accounting standards; and</li><li>(b) monitoring compliance of the accounting records and procedures, in conjunction with the Company's auditor, on matters overseen by the Australian Securities and Investments Commission, Australian Stock Exchange Limited ("ASX") and Australian Taxation Office;</li></ul>

# KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES

## CORPORATE GOVERNANCE STATEMENT

Principle Ref	Recommendation Ref	Notification of Departure	Explanation for Departure
4 (cont.)	4.2, 4.3 & 4.4 (cont.)	The Company does not have an Audit Committee (cont.)	<p>(c) ensuring that management reporting procedures, and the system of internal control, are of a sufficient standard to provide timely, accurate and relevant information as a sound basis for management of the Group's business;</p> <p>(d) reviewing audit reports and management letters to ensure prompt action is taken by the Company's management; and</p> <p>(e) When required, nominating the external auditor and at least annually reviewing the external auditor in terms of their independence and performance in relation to the adequacy of the scope and quality of the annual statutory audit and half-year review and the fees charged.</p>
6	6.1	Formalisation of a communications strategy with shareholders	In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Report, Half-Year Report, Quarterly Reports and the distribution of specific releases covering major transactions or events. The Company's auditor attends the annual general meeting.
7	7.1	The Board or appropriate board committee should establish policies of risk oversight and management	While the Company does not have formalised policies on risk management the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings.
9	9.2	The Company does not have a Remuneration Committee	The role of the Remuneration Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee. 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 own remuneration or related issues. The Board are confident that this process for determining remuneration is stringent and full details of remuneration policies and payments are provided to shareholders in the remuneration report in the Directors Report.
9	9.3	Guidelines for non-executive director remuneration	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 9.3 Box 9.3 guideline 'Non-executive directors should not receive options or bonus payments'. The Company has granted options to non-executive directors and, potentially, will do so in the future. 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 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.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**  
**CORPORATE GOVERNANCE STATEMENT**

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### **Structure of the Board**

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. 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 judgment.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Company's loyalty.

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:

<b>Name</b>	<b>Position</b>
Christopher Swarbrick	Non-Executive Director
Rae Jefferies	Non-Executive Director

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

### **Appointments to other Boards**

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other Boards.

### **Ethical Standards**

All Directors and employees are expected to act with the utmost of integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

### **Conflict of Interest**

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

### **Directors Dealings in Company Securities**

The Constitution permits Directors to acquire securities in the Company. Company policy prohibits Directors from dealing in Company securities whilst in possession of price sensitive information. Directors must notify the Company Secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, the Company on behalf of the Directors must advise the Australian Stock Exchange of any transactions conducted by them in shares and/or options in the Company.

### **Nomination Committee**

The role of the Nomination Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee. 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 web.

### **Audit Committee**

The Company does not have an Audit Committee. The role of the Audit Committee has been assumed by the full Board. Refer to the explanation for departure above for full details on how the Board assures integrity of its financial statements. The Board as the Audit Committee meets at least bi-annually (in respect of the full year and half year reports).

**Performance Evaluation of the Board and its Members**

During the financial year an evaluation of the Board and its members was not formally carried out. To date, there has been no formal process in place for performance evaluation.

**Company's Remuneration Policies**

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 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.

Full details of the objective and structure of directors remuneration is provided in the Remuneration Report in the Directors Report.

**Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors**

There are no retirement benefits for non-executive directors.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	<b>Consolidated</b>		<b>Parent Entity</b>	
		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Revenue	2(a)	<b>304</b>	187	<b>270</b>	187
Depreciation expense		<b>(17)</b>	(2)	<b>(17)</b>	(2)
Salaries and employees benefits expensed		<b>(533)</b>	(229)	<b>(533)</b>	(229)
Share based payments expensed		<b>(574)</b>	(416)	<b>(574)</b>	(416)
Consultants and directors fees expensed		<b>(306)</b>	(143)	<b>(306)</b>	(143)
Exploration and evaluation expensed		<b>(812)</b>	-	<b>(793)</b>	-
Impairment of deferred exploration		<b>(1,053)</b>	(383)	<b>(1,053)</b>	(383)
Impairment of intercompany investments		-	-	<b>(1)</b>	-
Impairment of intercompany loans		-	-	<b>(997)</b>	-
Carrying value of non-current assets disposed		-	(5)	-	(5)
Other expenses	2(b)	<b>(758)</b>	(552)	<b>(756)</b>	(551)
<b>Loss before income tax expense</b>		<b>(3,749)</b>	(1,543)	<b>(4,760)</b>	(1,542)
Income tax expense	3	-	-	-	-
<b>Net loss attributable to members of Kairiki Energy Limited</b>		<b>(3,749)</b>	(1,543)	<b>(4,760)</b>	(1,542)
Basic loss per share (cents per share)	4	<b>(1.14) cents</b>	(0.58) cents		

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**BALANCE SHEET  
AS AT 30 JUNE 2008**

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	5	15,171	8,700	14,550	7,448
Trade and other receivables	6	226	179	226	179
<b>Total Current Assets</b>		<b>15,397</b>	<b>8,879</b>	<b>14,776</b>	<b>7,627</b>
<b>Non-Current Assets</b>					
Trade and other receivables	6	-	-	8,852	6,229
Other financial assets	7	-	-	1	2
Plant and equipment	8	35	35	35	35
Deferred exploration expenditure	9	8,701	6,039	280	1,120
<b>Total Non-Current Assets</b>		<b>8,736</b>	<b>6,074</b>	<b>9,168</b>	<b>7,386</b>
<b>Total Assets</b>		<b>24,133</b>	<b>14,953</b>	<b>23,944</b>	<b>15,013</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	10	473	664	284	627
Provisions	11	20	-	20	-
<b>Total Current Liabilities</b>		<b>493</b>	<b>664</b>	<b>304</b>	<b>627</b>
<b>Total Liabilities</b>		<b>493</b>	<b>664</b>	<b>304</b>	<b>627</b>
<b>Net Assets</b>		<b>23,640</b>	<b>14,289</b>	<b>23,640</b>	<b>14,386</b>
<b>EQUITY</b>					
Issued capital	12	31,718	18,278	31,718	18,278
Reserves	13	1,704	2,044	2,713	2,139
Accumulated losses		(9,782)	(6,033)	(10,791)	(6,031)
<b>Total Equity</b>		<b>23,640</b>	<b>14,289</b>	<b>23,640</b>	<b>14,386</b>

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2008**

<b>Consolidated</b>	<b>Issued Capital \$'000</b>	<b>Accumulated Losses \$'000</b>	<b>Options Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 July 2006</b>	6,042	(4,490)	380	-	1,932
Shares issued during the period	12,885	-	-	-	12,885
Share issue expenses	(649)	-	-	-	(649)
Cost of share based payment	-	-	1,759	-	1,759
Currency translation differences	-	-	-	(95)	(95)
Loss attributable to members of the parent entity	-	(1,543)	-	-	(1,543)
<b>Balance at 30 June 2007</b>	18,278	(6,033)	2,139	(95)	14,289
Shares issued during the period	<b>14,052</b>	-	-	-	<b>14,052</b>
Share issue expenses	<b>(612)</b>	-	-	-	<b>(612)</b>
Cost of share based payment	-	-	574	-	574
Currency translation differences	-	-	-	(914)	(914)
Loss attributable to members of the parent entity	-	(3,749)	-	-	(3,749)
<b>Balance at 30 June 2008</b>	<b>31,718</b>	<b>(9,782)</b>	<b>2,713</b>	<b>(1,009)</b>	<b>23,640</b>

<b>Parent</b>	<b>Issued Capital \$'000</b>	<b>Accumulated Losses \$'000</b>	<b>Option Reserve \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 July 2006</b>	6,042	(4,489)	380	1,933
Shares issued during the period	12,885	-	-	12,885
Share issue expenses	(649)	-	-	(649)
Cost of share based payment	-	-	1,759	1,759
Loss attributable to members of the parent entity	-	(1,542)	-	(1,542)
<b>Balance at 30 June 2007</b>	18,278	(6,031)	2,139	14,386
Shares issued during the period	<b>14,052</b>	-	-	<b>14,052</b>
Share issue expenses	<b>(612)</b>	-	-	<b>(612)</b>
Cost of share based payment	-	-	574	574
Loss attributable to members of the parent entity	-	(4,760)	-	(4,760)
<b>Balance at 30 June 2008</b>	<b>31,718</b>	<b>(10,791)</b>	<b>2,713</b>	<b>23,640</b>

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees, including for exploration expensed		(2,354)	(992)	(2,296)	(992)
Interest received		299	150	265	150
Other income		133	-	133	-
<b>Net cash used in operating activities</b>	5(i)	<b>(1,922)</b>	<b>(842)</b>	<b>(1,898)</b>	<b>(842)</b>
<b>Cash flows from investing activities</b>					
Payments for exploration expenditure capitalised		(2,770)	(3,916)	(228)	(378)
Payments for exploration bonds		(1,664)	-	-	-
Payments for plant and equipment		(17)	(36)	(17)	(36)
Proceeds from sale of non-current assets		-	4	-	4
Payments associated with acquisition of controlled entity		-	(1)	-	(1)
Bonds paid		(80)	(24)	(80)	(24)
Loans to controlled entities		-	-	(4,637)	(4,886)
Loans from controlled entity		-	-	891	-
<b>Net cash used in investing activities</b>		<b>(4,531)</b>	<b>(3,973)</b>	<b>(4,071)</b>	<b>(5,321)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		14,052	12,885	14,052	12,885
Expenses of share issues		(981)	(281)	(981)	(280)
<b>Net cash provided by financing activities</b>		<b>13,071</b>	<b>12,604</b>	<b>13,071</b>	<b>12,605</b>
<b>Net increase / (decrease) in cash held</b>		<b>6,618</b>	<b>7,789</b>	<b>7,102</b>	<b>6,442</b>
Cash at the beginning of the financial year		8,700	1,006	7,448	1,006
Effect of exchange rate changes		(147)	(95)	-	-
<b>Cash and cash equivalents at 30 June 2008</b>	5	<b>15,171</b>	<b>8,700</b>	<b>14,550</b>	<b>7,448</b>

# KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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### 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 2008. These include the following:

- AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8. This now requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. This is not expected to be significantly different from current disclosures.

- Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. This is not expected to be significantly different from current disclosures.

- AASB 2008-1. These amendments to AASB 2 amend the definition of vesting conditions. To date Kairiki has not issued any options with non-vesting conditions and as such there will be no significant impact for Kairiki.

- AASB 2008-3. These amendments are consequential amendments to 20 standards and have no significant affect for Kairiki.

- AASB 2008-5 amendment to AASB136. This amendment requires additional disclosures about discounted cash flow assumptions for impairment models. There will be no financial impact for Kairiki as these amendments increase disclosure only.

#### *Adoption of new accounting standard - AASB 7*

The Group has adopted AASB 7 Financial Instruments; Disclosures and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

#### (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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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

(d) **Basis of consolidation - continued**

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**

Both the functional and presentation currency of Kairiki Energy Limited and its Australian subsidiaries is Australian Dollars, while for the subsidiary with operations overseas, namely Yilgarn Petroleum Philippines Pty Ltd, it is United States 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 operating overseas 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 weighted 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.

# KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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

#### (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.

#### (i) **Impairment of financial assets**

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

##### (i) *Financial assets carried at amortised cost*

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.

##### (ii) *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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, discounted at the current market rate of return for a similar financial asset.

#### (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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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

(k) **Exploration and evaluation expenditure**

*Expenditure Expensed Immediately*

Expenditure on exploration and evaluation expenditure is expensed as incurred. 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. See below.

*Deferred Expenditure*

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.

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.

(l) **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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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

**(m) Investments and other financial assets - continued**

*(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.

**(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.

**(p) Employee leave benefits**

*(i) Wages, salaries and, annual leave*

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.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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

**(q) 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.

**(r) 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.

**(s) Share-based payment transactions**

*Equity settled transactions:*

The Group provides benefits to executive directors, employees 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.

**(t) 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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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

(t) **Income Tax - continued**

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.

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.

(u) **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.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

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

**(v) 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.

**(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, Africa/Europe (Romania, Tunisia and Italy) and Australia.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>2. Revenue and Expenses</b>				
<b>(a) Revenue</b>				
Interest income – non related entities	<b>299</b>	183	<b>265</b>	183
Proceeds from the sale of non-current assets	-	4	-	4
Other income	<b>5</b>	-	<b>5</b>	-
	<b>304</b>	187	<b>270</b>	187
<b>(b) Other Expenses</b>				
Operating lease rental expense	<b>96</b>	70	<b>96</b>	70
Travel and accommodation	<b>361</b>	229	<b>361</b>	229
Net expense from movement in provision for employee entitlements	<b>20</b>	(17)	<b>20</b>	(17)
Other administrative costs	<b>281</b>	270	<b>279</b>	269
	<b>758</b>	552	<b>756</b>	551
<b>(c) Losses / (Gains)</b>				
Loss on disposal of non-current assets	-	1	-	1

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>3. Income Tax</b>				
<b>(a) Income Tax Expense</b>				
The income tax expense for the year differs from the prima facie tax as follows:				
Loss for year	<b>(3,749)</b>	(1,543)	<b>(4,760)</b>	(1,542)
Prima facie income tax (benefit) @ 30%	<b>(1,125)</b>	(463)	<b>(1,428)</b>	(463)
Tax effect of non-deductible items	<b>488</b>	126	<b>788</b>	126
Deferred tax assets not brought to account	<b>637</b>	337	<b>640</b>	337
Total income tax expense	<b>-</b>	-	<b>-</b>	-

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

**(b) Deferred Tax Assets**

Deferred tax assets not brought to account arising from tax losses

	<b>4,417</b>	3,780	<b>3,044</b>	2,404
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Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

**Franking Credits**

The franking account balance at year end was \$nil (2007: \$nil).

**Tax Consolidation Legislation**

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

	<b>Consolidated</b>	
	<b>2008</b>	2007
	Cents	Cents
<b>4. Earnings per Share</b>		
Basic earnings per share	<b>(1.14)</b>	(0.58)

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

	<b>\$'000</b>	\$'000
Earnings – Net loss for year	<b>(3,749)</b>	(1,543)
	<b>Number</b>	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<b>328,488,179</b>	266,391,738

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

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>5. Cash and Cash Equivalents</b>				
Cash at bank and on hand	<b>15,171</b>	8,700	<b>14,550</b>	7,448
<hr/>				
<b>(i) Reconciliation of loss for the year to net cash flows used in operating activities</b>				
Loss for the year	<b>(3,749)</b>	(1,543)	<b>(4,760)</b>	(1,542)
Add back non-cash items:				
Depreciation	<b>17</b>	2	<b>17</b>	2
Loss on sale of non-current assets	-	1	-	1
Exploration expenditure written off	<b>1,053</b>	310	<b>1,053</b>	310
Equity settled share based payment	<b>574</b>	416	<b>574</b>	416
Provision for investment and loan diminution	-	1	<b>998</b>	-
Change in operating assets and liabilities:				
Decrease / (increase) in receivables	<b>48</b>	(146)	<b>48</b>	(146)
Increase / (decrease) in payables	<b>115</b>	134	<b>152</b>	134
Increase / (decrease) in provisions	<b>20</b>	(17)	<b>20</b>	(17)
Net cash flows used in operating activities	<b>(1,922)</b>	(842)	<b>(1,898)</b>	(842)

**(ii) Non-Cash Financing and Investing Activities**

During the year share based payments of \$574,000 (2007: \$1,759,000) were made. There were no other non-cash financing or investing activities.

**6. Trade and other receivables**

**Current**

Cash secured against bond	<b>80</b>	-	<b>80</b>	-
GST refunds due	<b>76</b>	120	<b>76</b>	120
Sundry debtors	<b>70</b>	59	<b>70</b>	59
	<b>226</b>	179	<b>226</b>	179

**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 22.
- (iv) Other receivables generally have repayments between 30 and 90 days.

**Non-Current**

*Unsecured loans to controlled entities:*

Loans to controlled entities	-	-	<b>10,622</b>	7,002
Less provision for impairment of loans	-	-	<b>(1,770)</b>	(772)
	-	-	<b>8,852</b>	6,229

Transactions between Kairiki and its subsidiaries consist of intercompany loans, upon which no interest is charged and no repayment schedule exists. The fair value approximates the carrying value of the receivable. A provision for impairment loss was recognised as there was objective evidence that the inter-company loan receivable was impaired.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>7. Other Financial Assets</b>				
<b>Non-Current</b>				
Investment in unlisted controlled entities - at cost	-	-	<b>14,251</b>	14,251
Less provisions for impairment	-	-	<b>(14,250)</b>	(14,249)
	<b>-</b>	<b>-</b>	<b>1</b>	<b>2</b>

Name of Controlled Entity	Class of Share	Place of Incorporation	% Held by Parent Entity	
			<b>2008</b>	<b>2007</b>
			Great Southern Mines NL	Ordinary
Resource Assets Pty Ltd	Ordinary	Australia	100%	100%
Yilgarn Petroleum Philippines Pty Ltd	Ordinary	Australia	100%	100%
Kairiki Energy Asia Pty Ltd (previously Orion Energy Asia Pty Ltd)	Ordinary	Australia	100%	100%

**8. Plant and Equipment**

Plant and equipment - at cost or fair value	<b>53</b>	36	<b>53</b>	36
Accumulated depreciation and impairment	<b>(18)</b>	(1)	<b>(18)</b>	(1)
	<b>35</b>	35	<b>35</b>	35
<i>Reconciliation of plant and equipment</i>				
Carrying amount at beginning of the year	<b>35</b>	6	<b>35</b>	6
Additions	<b>17</b>	36	<b>17</b>	36
Disposals	-	(4)	-	(4)
Loss on disposal	-	(1)	-	(1)
Depreciation charge for year	<b>(17)</b>	(2)	<b>(17)</b>	(2)
Carrying amount at end of the year	<b>35</b>	35	<b>35</b>	35

**9. Deferred Exploration Expenditure**

Deferred mineral expenditure	<b>83</b>	1,120	<b>83</b>	1,120
Deferred oil and gas expenditure	<b>6,954</b>	4,919	<b>197</b>	-
Deferred oil and gas expenditure – bonds	<b>1,664</b>	-	-	-
	<b>8,701</b>	6,039	<b>280</b>	1,120
Expenditure bought forward	<b>6,039</b>	1,052	<b>1,120</b>	1,052
Capitalised expenditure incurred during the year	<b>3,715</b>	4,027	<b>213</b>	450
Share based payments capitalised	-	1,343	-	-
Expenditure written off during the year	<b>(1,053)</b>	(383)	<b>(1,053)</b>	(382)
	<b>8,701</b>	6,039	<b>280</b>	1,120

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 mineral tenements. This is due to the low level of current and planned activity to assess the existence of economically recoverable reserves of the tenements.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>10. Trade and Other Payables</b>				
<b>Current</b>				
Trade payables and accruals				
- Other corporations	<b>387</b>	606	<b>198</b>	569
- Director related entities	<b>86</b>	58	<b>86</b>	58
	<b>473</b>	664	<b>284</b>	627

*Fair Value and Risk Exposures*

- (i) Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.
- (ii) Details regarding foreign exchange and liquidity risk are disclosed in note 22.
- (iii) Trade and other payables are unsecured and usually paid within 60 days of recognition.

**11. Provisions**

**Current**

Employee benefits	<b>20</b>	-	<b>20</b>	-
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**12. Issued Capital**

**(a) Issued and paid up capital**

Ordinary shares fully paid	<b>31,718</b>	18,278	<b>31,718</b>	18,278
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**(b) Movement in ordinary shares on issue**

	<b>Number</b>	<b>\$'000</b>
<b>At 1 July 2006</b>	197,470,368	6,042
Issued on 5 July 2006 as placement of shares for cash	1,200,000	96
Issued on 11 July 2006 as placement of shares for cash	68,800,000	5,504
Issued for cash on exercise of share options (5 cents per share)	5,000,000	250
Issued for cash on exercise of share options (15 cents per share)	1,000,000	150
Issued on 29 June 2007 as placement of shares for cash	40,500,000	6,885
Share issue expenses	-	(649)
<b>At 1 July 2007</b>	313,970,368	18,278
Exercise of options during the year	48,275,499	2,564
Issued on 24 June 2008 as placement of shares for cash (23 cents per share)	49,949,730	11,488
Share issue expenses	-	(612)
<b>At 30 June 2008</b>	412,195,597	31,718

**(c) Options at 30 June 2008**

	<i>Number</i>	<i>Exercise Price</i>	<i>Expiry Date</i>
Listed Options	142,324,501	5 cents	On or before 31/12/2008
Unlisted Options	4,250,000	10 cents	On or before 30/06/2009
Unlisted Options	5,000,000	12 cents	On or before 30/06/2009
Unlisted Options	2,500,000	10.5 cents	Between 3/10/2008 and 3/10/2009
Unlisted Options	2,750,000	13.5 cents	Between 3/10/2009 and 3/10/2010
Unlisted Options	1,250,000	20 cents	Between 14/05/2009 and 31/05/2011
Unlisted Options	1,250,000	25 cents	Between 14/05/2010 and 31/05/2011
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
	164,824,501		

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**12. Issued Capital (Continued)**

During the year:

- (i) 35,025,499 listed options were exercised during the year.
- (ii) 13,250,000 unlisted options were exercised during the year.
- (iii) 13,250,000 options were granted as share-based payments.
- (iv) No options were cancelled.

**(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.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>13. Reserves</b>				
Option reserve	<b>2,713</b>	2,139	<b>2,713</b>	2,139
Foreign currency translation reserve	<b>(1,009)</b>	(95)	-	-
	<b>1,704</b>	2,044	<b>2,713</b>	2,139
<b>Option Reserve:</b>				
Opening balance 1 July	<b>2,139</b>	380	<b>2,139</b>	380
Share-based payments	<b>574</b>	1,759	<b>574</b>	1,759
Closing balance 30 June	<b>2,713</b>	2,139	<b>2,713</b>	2,139

*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	<b>(95)</b>	-	-	-
Currency translation differences	<b>(914)</b>	(95)	-	-
Closing balance 30 June	<b>(1,009)</b>	(95)	-	-

*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.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**14. Contingent Liabilities**

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.

<b>Consolidated</b>		<b>Parent Entity</b>	
<b>2008</b>	2007	<b>2008</b>	2007
<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000

**15. Commitments**

**Operating leases (non-cancellable):**

- Within one year	106	107	106	107
- More than one year but not later than five years	35	103	35	103
	<b>141</b>	210	<b>141</b>	210

**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	5,469	279	310	279
- More than one year but not later than five years	-	5,647	-	-
	<b>5,469</b>	5,926	<b>310</b>	279

**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	583	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 2008/2009. Estimated expenditure commitments and rents on mining, exploration and prospecting leases for 2008/2009 by the Group is \$449,000 (2007/2008: \$279,000). 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.

*Farm-in Commitment*

On 29 May 2006 the Company's wholly owned subsidiary, Yilgarn Petroleum Philippines Pty Ltd, entered into a farm-in agreement with Nido Petroleum Limited to earn a 40% participating interest in Service Contract 54 in the Northwest Palawan Basin, offshore Philippines. Under the farm-in the Company will earn its 40% interest upon completion of two stages. The first stage, which has been met, required the Company to fund a seismic program to a cap of US\$3.2 million (the Company's net share) on a 4:3 basis. The Company has elected to continue into the drilling phase (the second stage) and it will earn its interest by paying 80% of the costs of drilling two wells on a dry hole basis up to a maximum of US\$15 million, gross. The service contract requires a minimum well cost commitment of US\$6 million gross which must be incurred by February 2009. The Company has the right to assign all or part of its interest at any time, subject to any conditions imposed on the Company relating to the Convertible Notes (refer note 23 (a)).

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**15. Commitments - continued**

*Conditional agreements to acquire Romania, Tunisia and Italian exploration permits*

In November 2007, Kairiki, signed conditional purchase agreements, subject to certain conditions precedent, with Stratic Energy Limited ("Stratic") to each acquire an interest in the following:

- Stratic's 20% interest in the South Craiova Permit, onshore Romania for US\$500,000; and
- Stratic's 50% interest in the Chorbane Permit located onshore southeast Tunisia for US\$500,000.

The acquisition of Chorbane is expected to occur in the third quarter of 2008 once the conditions precedent are satisfied, including payment of a letter of credit to the Tunisian government in the amount of US\$500,000.

Subsequent to year end, Kairiki and Stratic elected to terminate the acquisition of the South Craiova Permit.

In April 2008, the Company entered into conditional purchase agreements, subject to certain conditions precedent, with AuDAX Resources Ltd ("AuDAX") to acquire a 30% interest in each of the following:

- Kerkouane Permit located offshore northeast Tunisia for US\$300,000; and
- Italian Permit G.R15.PU, located offshore the island of Pantelleria southwest of Sicily for US\$300,000.

The Kerkouane Permit has a two year exploration period from 22 February 2008. Acquisition of 400km 2D seismic and the drilling of one well is required in the two year period. A letter of credit is required by the Tunisian Ministry in the amount of US\$450,000, net to Kairiki, until commencement of drilling.

Subsequent to year end, the Company completed the acquisition of the Kerkouane Permit.

The acquisition of G.R15.PU is expected to be completed in the third quarter of 2008.

**16. Key Management Personnel Disclosures**

Kairiki Energy Limited applied the option under *Corporations Amendments Regulation 2006* to transfer key management personnel remuneration disclosures required by AASB 124 *Related Party Disclosures* to the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

**(a) Compensation of Key Management Personnel**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	\$	\$	\$	\$
Short-term employment benefits	<b>809,953</b>	463,660	<b>809,953</b>	457,660
Post-employment benefits	<b>97,755</b>	43,964	<b>97,755</b>	43,964
Share based payment	<b>574,129</b>	1,481,968	<b>574,129</b>	416,074
	<b>1,481,837</b>	1,989,592	<b>1,481,837</b>	917,698

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**16. Directors and Executive Disclosures (Continued)**

**(b) Option holdings of Key Management Personnel**

<b>2008</b>	<b>Balance at 1 July 2007</b>	<b>Granted as remuneration</b>	<b>Options exercised</b>	<b>Acquired/ (disposed) on market</b>	<b>Change due to appointment / (resignation)</b>	<b>Balance at 30 June 2008</b>	<b>Not exercisable</b>	<b>Exercisable</b>
<b>Directors</b>								
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	-
<b>Executives</b>								
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

<b>2007</b>	<b>Balance at 1 July 2006</b>	<b>Granted as remuneration</b>	<b>Options exercised</b>	<b>Net Change Other</b>	<b>Change due to appointment / (resignation)</b>	<b>Balance at 30 June 2007</b>	<b>Not exercisable</b>	<b>Exercisable</b>
<b>Directors</b>								
P Fry	5,000,000	7,500,000	-	-	-	12,500,000	-	12,500,000
L Brown	-	15,000,000	-	700,000	-	15,700,000	-	15,700,000
C Swarbrick	-	-	-	-	-	-	-	-
R Jefferies	-	-	-	-	-	-	-	-
P Vassileff	7,250,000	-	-	-	(7,250,000)	-	-	-
G Clatworthy	8,250,000	-	-	-	(8,250,000)	-	-	-
<b>Executives</b>								
N Taylor	1,000,000	-	-	-	(1,000,000)	-	-	-
	21,500,000	22,500,000	-	700,000	(16,500,000)	28,200,000	-	28,200,000

**(c) Shareholdings of Key Management Personnel**

	<b>Balance at beginning of the year</b>	<b>Options exercised</b>	<b>Net Change Other</b>	<b>Change due to appointment / (resignation)</b>	<b>Balance at end of the year</b>
<b>2008</b>					
<b>Directors</b>					
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	-	-	-	-	-
<b>Executives</b>					
N Bassett	-	-	(200,000)	700,000	500,000
C Lavin	-	-	-	-	-
	4,619,557	10,000,000	(200,000)	700,000	15,119,557
<b>2007</b>					
<b>Directors</b>					
P Fry	2,500,000	-	692,185	-	3,192,185
L Brown	692,372	-	735,000	-	1,427,372
C Swarbrick	-	-	-	-	-
R Jefferies	-	-	-	-	-
P Vassileff	8,111,130	-	-	(8,111,130)	-
G Clatworthy	5,440,000	-	-	(5,440,000)	-
<b>Executives</b>					
N Taylor	-	-	-	-	-
	16,743,502	-	1,427,185	(13,551,130)	4,619,557

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**16. Directors and Executive Disclosures (Continued)**

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**

There were no other transactions with Key Management Personnel during the year.

**17. Share Based Payments**

**(a) Summary of share based payments**

The following share-based payments were made during the year:

2008

Granted to Directors and approved by shareholders on 4 September 2007:

- 2,500,000 options expiring 3 October 2009, exercisable at 10.5 cents each, vesting 12 months after issue; and
- 2,750,000 options expiring 3 October 2010, exercisable at 13.5 cents each, vesting 24 months after issue.

Granted to Directors and Key Management Personnel and approved by shareholders on 29 November 2007:

- 3,300,000 options expiring 30 November 2009, exercisable at 30 cents each, vesting 12 months after issue; and
- 2,200,000 options expiring 30 November 2009, exercisable at 35 cents each, vesting 12 months after issue.

Granted to an executive on 14 May 2008 (ratified by shareholders on 15 July 2008):

- 1,250,000 options expiring 31 May 2011, exercisable at 20 cents each, vesting 12 months after issue; and
- 1,250,000 options expiring 31 May 2011, exercisable at 25 cents each, vesting 24 months after issue.

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:

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.

2007

• On 1 August 2006:

- 2,500,000 options were issued to a director at an exercise price of 1.5 cents, expiring 30 September 2007. All options have vested and are exercisable. No options have been exercised at balance date.
- 5,000,000 options were issued to directors at an exercise price of 5 cents, expiring on 31 December 2008. All options have vested and are exercisable. No options have been exercised at balance date.
- 10,000,000 options were issued to directors and consultants at an exercise price of 7 cents, expiring 30 June 2008. All options have vested and are exercisable. No options have been exercised at balance date.
- 4,250,000 options were issued to directors and consultants at an exercise price of 10 cents, expiring 30 June 2009. All options have vested and are exercisable. No options have been exercised at balance date.
- 3,750,000 options were issued to directors at an exercise price of 12 cents, expiring 30 June 2009. All options have vested and are exercisable. No options have been exercised at balance date.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**17. Share Based Payments- continued**

2007 - continued

- On 3 October 2006:
  - 750,000 options were issued to consultants at an exercise price of 10 cents, expiring 30 June 2009. All options have vested and are exercisable. No options have been exercised at balance date.
  - 1,250,000 options were issued to consultants at an exercise price of 12 cents, expiring on 30 June 2009. All options have vested and are exercisable. No options have been exercised at balance date.

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:

Grant date	1/8/2006	1/8/2006	1/8/2006	1/8/2006	1/8/2006	3/10/2006	3/10/2006
Dividend yield (%)	-	-	-	-	-	-	-
Expected volatility (%)	72	73	74	74	74	74	74
Risk-free interest rate (%)	5.58	5.58	5.58	5.58	5.58	5.58	5.58
Underlying share price (\$)	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Option exercise price (\$)	0.015	0.05	0.07	0.10	0.12	0.10	0.12
Value of Option (\$)	0.1055	0.0772	0.0617	0.0529	0.0456	0.0529	0.0456

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.

**(b) Range of exercise price**

The range of exercise price for options granted as share based payments outstanding at the end of the year was \$0.10 - \$0.35 (2007: \$0.015 - \$0.12).

**(c) Weighted average remaining contractual life**

The weighted average remaining contractual life of share based payment options that were outstanding as at 30 June 2008 was 1.24 years (2007: 1.42 years).

**(d) Weighted average fair value**

The weighted average fair value of share based payment options granted during the year was \$0.0918 (2007: \$0.064).

**(e) Value of share based payments in the financial statements**

Included as an expense in the income statement is \$574,000 (2007: \$416,000) relating to share based payments made during the year. An amount of \$nil (2007: \$1,343,000) has been included in deferred exploration expenditure.

**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 16.

**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.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	\$	\$	\$	\$
<b>19. Auditors' Remuneration</b>				
Amount received or due and receivable by the auditor for:				
Auditing the financial statements, including audit review - current year audits				
	<b>20,500</b>	11,000	<b>20,500</b>	11,000
Other services - taxation services				
	<b>12,000</b>	-	<b>12,000</b>	-
<b>Total remuneration of auditors</b>				
	<b>32,500</b>	11,000	<b>32,500</b>	11,000

**20. Joint Venture**

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

<b>Joint Venture</b>	<b>Principal Activities</b>	<b>Percentage Interest</b>	
		<b>2008</b>	2007
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 and profit. The Joint Venture is of the type where initially one party contributes tenements with the other party earning a specified percentage by funding exploration activities; thereafter the parties often share exploration and development costs and output in proportion to their ownership of Joint Venture assets. The Joint Venture does not hold any 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.

**21. 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.

<b>Geographic Segments</b>	<b>2008</b>				<b>2007</b>		
	<b>Philippines \$'000</b>	<b>Africa/Europe \$'000</b>	<b>Australia \$'000</b>	<b>Total \$'000</b>	<b>Philippines \$'000</b>	<b>Australia \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>							
Interest revenue	34	-	265	299	-	183	183
Other revenue			5	5	-	4	4
Total consolidated revenues				<u>304</u>			<u>187</u>
<b>Result</b>							
Profit/(loss) before income tax	12	(547)	(3,214)	(3,749)	-	(1,543)	(1,543)
Income tax expense	-	-	-	-			-
Net loss for year				<u>(3,749)</u>			<u>(1,543)</u>
<b>Assets and Liabilities</b>							
Segment assets	9,041	213	14,879	24,133	6,171	8,782	14,953
Segment liabilities	188	-	305	493	37	627	664
<b>Other segment information</b>							
Plant and equipment capitalised	-	-	17	17	-	36	36
Exploration and evaluation expenditure capitalised	3,502	197	16	3,715	3,576	450	4,026
Share based payments expensed	-	-	574	574	-	416	416
Depreciation	-	-	17	17	-	2	2
Impairment of exploration deferred	-	-	1,053	1,053	-	383	383
Other non-cash expenses	-	-	20	20	-	-	-

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**21. Financial Reporting by Segments - continued**

<b>Geographic Segments</b>	<b>2008</b>				<b>2007</b>		
	<b>Philippines \$'000</b>	<b>Africa/Europe \$'000</b>	<b>Australia \$'000</b>	<b>Total \$'000</b>	<b>Philippines \$'000</b>	<b>Australia \$'000</b>	<b>Total \$'000</b>
<b>Cash flow information</b>							
Net cash flow used in operating activities	(24)	(546)	(1,352)	(1,922)	-	(842)	(842)
Net cash flow used in investing activities	(4,206)	(197)	(128)	(4,531)	(3,539)	(435)	(3,973)
Net cash flow from financing activities	-	-	13,071	13,071	-	12,605	12,605

**22. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise cash and short-term deposits. 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.

***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 AAA (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.

***Liquidity Risk***

The Group has no significant exposure to liquidity risk as there is effectively no debt. The Group manages liquidity risk by monitoring immediate and forecast cash requirements and ensuring adequate cash reserves are maintained.

***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.

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

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008 \$'000</b>	<b>2007 \$'000</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<i>Financial Assets:</i>				
Cash and cash equivalents (interest-bearing accounts)	14,956	8,457	14,547	7,858
Trade and other receivables	80	-	80	-
Net exposure	<u>15,036</u>	<u>8,457</u>	<u>14,627</u>	<u>7,858</u>

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**22. Financial Risk Management Objectives and Policies - continued**

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 2008, 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:

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Judgements of reasonably possible movements:				
<i>Post tax profit - higher / (lower)</i>				
+ 0.5%	75	42	73	37
- 0.5%	(75)	(42)	(73)	(37)
<i>Equity - higher / (lower)</i>				
+ 0.5%	75	42	73	37
- 0.5%	(75)	(42)	(73)	(37)

The sensitivity in 2008 is larger than in 2007, due to a higher average cash balance during the year.

**Foreign Currency Risk**

As a result of oil and gas exploration operations in the Philippines, being denominated in US\$, the Group's balance sheet can be affected by movements in the US\$/A\$ exchange rates. The Company does not hedge this exposure. The Group also has exposure to Euros, but this was immaterial for the year ended 30 June 2008.

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 2008, the Group had the following exposures to US\$ foreign currency that is not designated in cash flow hedges:

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<i>Financial Assets:</i>				
Cash and cash equivalents	609	839	16	-
<i>Financial Liabilities:</i>				
Trade and other payables	188	37	-	-
Net exposure	<u>421</u>	<u>802</u>	<u>16</u>	<u>-</u>

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 2008, 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:

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Judgements of reasonably possible movements:				
<i>Post tax profit - higher / (lower)</i>				
AUD/USD + 5 %	(20)	(38)	(1)	-
AUD/USD - 5 %	22	42	-	-
<i>Equity - higher / (lower)</i>				
AUD/USD + 5 %	(20)	(38)	(1)	-
AUD/USD - 5 %	22	42	-	-

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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**22. Financial Risk Management Objectives and Policies - continued**

The movements in 2007 profit and equity are due to the increased exposure to US\$ foreign currency through increased activity levels.

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.

**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 Group is not subject to any externally imposed capital requirements. The Convertible Note issued subsequent to year end with the IMC Group will impose certain restrictions on the Company in regard to its future debt funding capabilities (refer note 23(a)).

**23. Events Subsequent to Year End**

There are no matters or circumstances that have arisen since 30 June 2008 that have or may significantly affect the operations, results, or state of affairs of the Group in future financial years, other than the following:

**(a) Issue of Convertible Note**

On 29 August 2008, Kairiki executed a Convertible Note agreement ('Notes') with IMC Oil & Gas Investments Ltd, part of the IMC Group, to raise up to US\$10 million.

The principle terms and conditions of the Notes are as follows:

- (i) Repayment Date: 8 September 2011;
- (ii) Convertible into ordinary fully paid shares at an issue price determined as the lesser of:
  - (a) A\$0.185; and
  - (b) the closing price of the ordinary shares on ASX on the conversion date, provided that, if this price is lower than A\$0.16, the conversion price will be A\$0.16;
- (iii) Shares issued upon conversion of the Notes, or part thereof, will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;
- (iv) A Noteholder may convert at any time prior to the Repayment Date, subject to a limit of 3 conversions with each conversion being in respect of a number of Notes which are convertible into at least 10 million shares;

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008

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23. *Events Subsequent to Year End – continued*

*(a) Issue of Convertible Note - continued*

(v) Repayment Rights: The parties will have rights of repayment as follows:

- (a) Kairiki shall have the right up to 31 January 2009 to give notice to repay up to 50% of the outstanding amount in respect of the Notes;
- (b) A relevant Noteholder shall have the right, during the period 1 January to 15 January each year, to require the Company to use all or a specified part of any cash balance held in a special repayment account, established for receipt of future net revenues and option conversion monies, to repay a portion of the outstanding amount in respect of the Notes; and
- (c) A relevant Noteholder has the right to full repayment of the outstanding amount in respect of the Notes on the occurrence or non-fulfillment of specified events or conditions before 31 January 2009. In the event that Kairiki and IMC fail to enter into the KIK/IMC Alliance Agreement by 1 December 2008 or the non-fulfillment of other specified conditions by 31 January 2009 through wilful breach, Kairiki will be liable to pay a break fee of US\$1 million;

(vi) Interest Rate: 12% per annum;

(vii) Security: Fixed and floating charges over all of the assets of the Company and its subsidiary Yilgarn Petroleum Philippines Pty Ltd but excluding certain property;

(viii) The Notes shall not provide for any voting rights at shareholder meetings of Kairiki;

(ix) Unless converted or redeemed during the term, the Notes will be redeemed at the Repayment Date at the face value of the Notes;

(x) Drawdown under the Convertible Note Deed will be conditional on, inter alia, IMC having the right to:

- (a) appoint a representative to the Board of 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 Notes will be accessed in two tranches by the Company. The first tranche of US\$8.5 million has been placed under the Company's 15% capacity under ASX Listing Rule 7.1. The remaining US\$1.5 million will be subject to shareholder approval, scheduled for October 2008.

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

**(b) Completion of Acquisition of Kerkouane**

On 31 July 2008, the Company announced the completion of the acquisition of a 30% interest in the Kerkouane Permit.

**(c) Shareholder General Meeting**

At a general meeting held on 14 August 2008, the shareholders approved the following:

- i) The ratification and issue of certain options to employees; and
- ii) Ratification of the prior issue and allotment of 49,949,730 fully paid ordinary shares, at an issue price of 23 cents per share, to institutional and other exempt investors.

**KAIRIKI ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

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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 2008 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 2008.

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

**Craig M. Gumley**  
Managing Director  
Perth, Western Australia  
18 September 2008

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KAIRIKI ENERGY LIMITED**

We have audited the accompanying financial report of Kairiki Energy Limited (the Company) which comprises the balance sheet as at 30 June 2008 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.

**Audit opinion**

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

- a) (i) giving a true and fair view of the Company's and the group's financial position as at 30 June 2008 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: 19 September 2008

The liability of Rothsay Chartered Accountants is limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

**KAIRIKI ENERGY LIMITED**

**SUPPLEMENTARY INFORMATION**

**Additional information included in accordance with Listing Rules of the Australian  
Stock Exchange Limited**

The shareholder information set out below was applicable as at 9 September 2008.

**1. Distribution of Holders**

	<b>Fully Paid Ordinary Shares</b>	<b>Listed Options 31/12/2008</b>
Number of holders in the following distribution categories:		
0 - 1,000	1,133	1
1,001 - 5,000	301	3
5,001 - 10,000	173	6
10,001-100,000	544	86
100,001 and over	212	96
	2,363	192
Number of holders	2,363	192
Holdings of less than a marketable parcel	1,250	

**2. Twenty Largest Shareholders**

The names of the twenty largest shareholders are as follows:

	<b>Number of Shares</b>	<b>Percentage of Issued Capital</b>
1 HSBC Custody Nominees (Australia) Limited – A/C 3	64,009,400	15.28
2 Nefco Nominees Pty Ltd	44,883,000	10.72
3 HSBC Custody Nominees (Australia) Limited	25,955,480	6.20
4 IMC Resources Pty Ltd	20,000,000	4.77
5 Yandal Investments Pty Ltd	18,000,000	4.30
6 Cogent Nominees Pty Ltd (SMP Accounts)	14,095,755	3.37
7 Lujeta Pty Ltd	14,000,000	3.34
8 Escot Finance Ltd	12,798,640	3.06
9 Daly Finance Corp	10,000,000	2.39
10 HSBC Custody Nominees (Australia) Limited – GSI ECSA	8,644,985	2.06
11 Lawrence James Brown	6,250,000	1.49
12 Merrill Lynch (Australia) Nominees Pty Limited	4,600,000	1.10
13 Colbern Fiduciary Nominees Pty Ltd	4,570,000	1.09
14 Cogent Nominees Pty Limited	4,186,726	1.00
15 Twynam Agricultural Group Pty Ltd	3,950,000	0.94
16 Paul Damien John Fry	3,750,000	0.90
17 RBC Dexia Investor Services Australia Nominees Pty Limited	3,700,000	0.88
18 Citicorp Nominees Pty Limited	3,363,813	0.80
19 Greenslade Holdings Pty Ltd	3,282,500	0.78
20 Mr Roderick Mckay and Mrs Kathleen Mckay	3,100,000	0.74
	273,140,299	65.21
Shares on Issue	418,872,490	

**KAIRIKI ENERGY LIMITED**

**SUPPLEMENTARY INFORMATION**

**Additional information included in accordance with Listing Rules of the Australian Stock Exchange Limited**

**3. Twenty Largest Listed Optionholders**

The names of the twenty largest listed optionholders are as follows:

	<b>Number of Options</b>	<b>Percentage of Listed Options</b>
1 Nefco Nominees Pty Ltd	35,700,000	26.08
2 HSBC Custody Nominees (Australia) Limited	12,000,000	8.77
3 Talex Investments Pty Ltd	9,900,000	7.23
4 HSBC Custody Nominees (Australia) Limited – A/C 3	9,000,000	6.57
5 Lawrence James Brown	5,000,000	3.65
6 Paul Damien Fry	5,000,000	3.65
7 Gregory John, Maria Ann & Carmen Helene Munyard <Riviera Super Fund A/C>	3,200,000	2.34
8 Mandevilla Pty Ltd	3,100,000	2.26
9 Halifax (Mohaka) Limited	2,500,000	1.83
10 Classic Caterers Pty Ltd <The Hardman Super Fund>	2,400,000	1.75
11 Top Class Holdings Pty Ltd <The Onslow Super Fund A/C>	2,070,000	1.51
12 Lawrence Addison & Jill Brown	2,064,332	1.51
13 Michael Joseph Wildie	2,000,000	1.46
14 Lawrence Brown & Lynda Brown <LJ & LM Brown SF>	1,966,239	1.44
15 Robert Kenneth McIntyre & Gaye Michele McIntyre	1,517,641	1.11
16 Alexander Wylie & Seiko Tanaka <A F Wylie Super A/C>	1,500,000	1.10
17 Michael Pope	1,315,000	0.96
18 Peter Vassileff <Pitch Investments A/C>	1,250,000	0.91
19 Elinora Investments Pty Ltd	1,200,000	0.88
20 Halifax Property Investments Ltd	1,000,000	0.73
	<b>103,683,212</b>	<b>75.74</b>

Listed options on Issue

136,897,608

**4. Unlisted Options**

Details of unlisted option holders are as follows:

<b>Class of unlisted options</b>	<b>Number of Options</b>	<b>Number of Holders</b>
a) Options exercisable at 10 cents each on or before 30 June 2009 Holdings of more than 20% of this class	4,250,000	3
- Lawrence James Brown	1,875,000	
- Paul Damien Fry	1,875,000	
b) Options exercisable at 12 cents each on or before 30 June 2009 Holdings of more than 20% of this class	3,750,000	2
- Lawrence James Brown	1,875,000	
- Paul Damien Fry	1,875,000	
c) Options exercisable at 10.5 cents each between 3 October 2008 and 3 October 2009 Holdings of more than 20% of this class	2,500,000	2
- Chris Swarbrick	1,250,000	
- Rae Jefferies	1,250,000	

**KAIRIKI ENERGY LIMITED**

**SUPPLEMENTARY INFORMATION**

**Additional information included in accordance with Listing Rules of the Australian Stock Exchange Limited**

<b>4. Unlisted Options - continued</b>			
d)	Options exercisable at 13.5 cents each between 3 October 2009 and 3 October 2010	2,750,000	2
	Holdings of more than 20% of this class		
	- Chris Swarbrick	1,500,000	
	- Rae Jefferies	1,250,000	
e)	Options exercisable at 30 cents each between 30 November 2008 and 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	
f)	Options exercisable at 30 cents each between 30 November 2008 and 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	
g)	Options exercisable at 20 cents each between 31 May 2009 and 31 May 2011	3,750,000	2
	Holdings of more than 20% of this class		
	- Ciaran Lavin	1,250,000	
	- Craig Moore Gumley	2,500,000	
h)	Options exercisable at 25 cents each between 31 May 2010 and 31 May 2011	3,750,000	2
	Holdings of more than 20% of this class		
	- Ciaran Lavin	1,250,000	
	- Craig Moore Gumley	2,500,000	
i)	Options exercisable at 30 cents each between 31 May 2010 and 31 May 2011	2,500,000	1
	Holdings of more than 20% of this class		
	- Craig Moore Gumley	2,500,000	

**5. Convertible Note**

8,500,000 notes at US\$1 each, held by IMC Oil & Gas Investments Ltd. Full details are provided in the subsequent events notes in the notes to the financial statements in this financial report.

**6. Restricted Securities**

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

# KAIRIKI ENERGY LIMITED

## SUPPLEMENTARY INFORMATION

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

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### 7. Substantial Shareholders

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

	<b>Number of Shares</b>	<b>Percentage of Issued Capital</b>
New City Investment Managers Limited	41,500,000	9.91
RAB Energy Fund Limited	32,009,400	7.64
IMC Resources Pty Ltd	22,870,000	5.46
Lotus Investments Pty Ltd	22,870,000	5.46
AMP Limited	21,429,329	5.12

### 8. 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*

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

### 9. On-market Buy-back

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

**KAIRIKI ENERGY LIMITED**

**SUPPLEMENTARY INFORMATION**

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

**AUSTRALIAN MINERAL INTERESTS  
TENEMENT SCHEDULE**

<b>Project</b>	<b>Manager Operator</b>	<b>Tenement</b>	<b>Interest %</b>
<b>New Bulong JV</b> <i>Western Australia</i>	<b>Kairiki Energy Limited</b>	P25/1983	)
		P27/1851-1853	) Great Southern Mines NL (35%)
		E25/218	)
		P25/1932-1944	) Kairiki Energy <b>Limited</b> (65%)
		E25/345	) Great Southern Mines NL (35%)
		M25/83	)
		P27/1312	)
		P27/1744*	)
		P27/1854-1855*	) Great Southern Mines NL (20%)
		M27/326*	)
		E25/90	)
		E25/346*	)
		P25/1982*	)
		P25/1993*	) Kairiki Energy <b>Limited</b> (100%)
M25/24	)		
M25/129	)		
M25/91	)		
<b>Browns Lagoon</b> <i>Western Australia</i>	<b>Kairiki Energy Limited</b>	P24/4239-4242	) Great Southern Mines NL (100%)
<b>Foley Well JV</b> <i>Western Australia</i>	<b>Gutnick Resources NL</b>	E31/405	)
		E31/769-770*	)
		E31/327-328*	) Great Southern Mines NL (100%)
		E31/377*	)
		E31/1812-1813*	)
		E31/1883-1885*	)
<b>Goodenough</b> <i>Western Australia</i>	<b>Kairiki Energy Limited</b>	M29/141	) Resource Assets Pty Ltd (100%)
		P29/1928-31*	)
		P29/1343	) Kairiki Energy <b>Limited</b> (80%)
		P29/1345	)
		P29-1387	)
		P29/1821-23 P 29/1817-20	) Kairiki Energy <b>Limited</b> (100%)
<b>Clinker Hill</b> <i>Western Australia</i>	<b>Kairiki Energy Limited</b>	E26/123	) Great Southern Mines NL (100%)
		M26/766*	)
<b>Cowarna Rocks</b> <i>Western Australia</i>	<b>Kairiki Energy Limited</b>	E28/1041	) Kairiki Energy <b>Limited</b> (100%)

\* Application Pending

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

**PHILIPPINES INTERESTS**

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