

QUARTERLY ACTIVITY REPORT For the period ending 30 September 2009

The Directors wish to report the following activities for the quarter ended 30 September 2009;

Highlights:

- ❖ Kairiki farms-down 5% interest in SC 54A to Trafigura
- ❖ SC 54 Joint Venture announces intention to approve FID 4Q 2009 with target first oil early 2010
- ❖ Government approves partitioning of SC 54 into SC 54A and SC 54B
- ❖ Tindalo Development receives Philippines Government approval
- ❖ Significant upgrade of Gindara Prospect in SC 54B

Oil & Gas Activities

Philippines Offshore Oil and Gas Permit

- SC 54A - 35% Participating Interest
- SC 54B - 40% Participating Interest

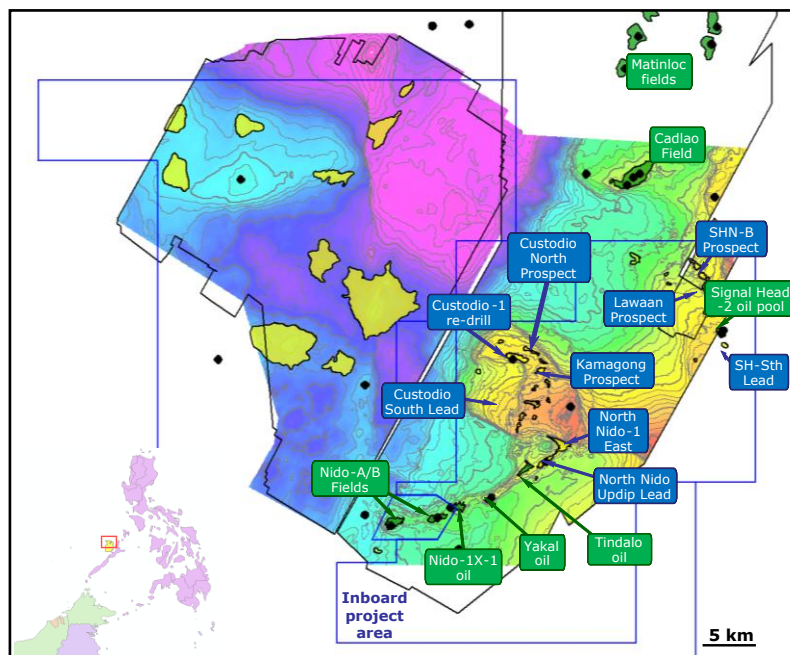


Figure 1: Northern portion of Service Contract 54 showing key prospects and leads and 3D seismic coverage of both the inboard and outboard.

Tindalo Development

As announced on 7 September 2009, the Joint Venture has received approval of the Plan of Development from the Philippine Department of Energy.

The Tindalo final investment decision (FID) by the SC 54A Joint Venture partners has been pushed back to 4Q 2009 from the original target of September 2009 and the Operator continues to target first oil early 2010. Discussions with equipment and service providers have progressed and are now nearing completion.

During the quarter an Environmental Impact Assessment for the Tindalo development and SC 54 as a whole was prepared and submitted to the Environmental Management Bureau for review.

Permit Partitioning

In July 2009, Kairiki Energy Limited advised that the Philippine Department of Energy approved the request of the Service Contract 54 Joint Venture partners to partition the Contract into two areas – Area ‘A’ and Area ‘B’.

SC 54 Area ‘A’, the inboard, shallow water area, encompasses some 867 sq. km of the Contract area including the Tindalo and Yakal oil discoveries and the associated portfolio of shallow water discoveries and targets.

SC 54 Area ‘B’ covers some 3179 sq. km of the deeper water area of the block which contains the large Gindara Prospect along with several other attractive exploration targets.

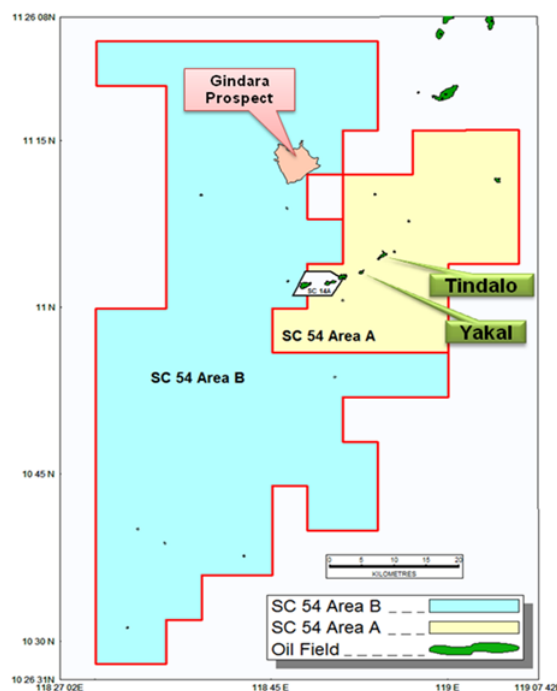


Figure 2: Partitioned areas SC 54A (Inboard) and SC 54B (Outboard)



SC 54A Farm-out to Trafigura

Subsequent to the end of the quarter, on 22 October, Kairiki announced that it had entered into a farm-out agreement with a subsidiary of Trafigura Pte Ltd (Trafigura) to farm-out 5% of its current 40% interest in SC 54A. Kairiki will receive a cash payment of US\$3.8 million (~A\$4.2 million) after which Trafigura will be responsible for its participating interest share of the development costs of the Tindalo oil field project. Under the terms of a separate crude oil marketing agreement, Trafigura's affiliate, Trafigura Pte Ltd, will market Kairiki's net share of the crude oil produced from SC 54A.

Kairiki's Joint Venture partner, Nido Petroleum Philippines Pty Limited (Nido), also advised Kairiki that it reached a similar agreement with Trafigura to farm-out 10% of Nido's working interest in SC 54A on similar terms and conditions.

The farm-out agreement is subject to Philippine government approvals and receipt of a release of the charge held by the Convertible Note Holder (IMC Group) over the 5% interest to be sold by Kairiki. In the event that Philippine government approval is not forthcoming by 30 March 2011, Trafigura has the right to terminate and be repaid the consideration amount and any cash calls less any revenue they have received from SC 54A.

SC 54B Gindara Prospect Update

An update of the Gindara Prospect was released in September 2009. The highlights of the update were as follows:

- ❖ ***3D seismic reprocessing has improved subsurface imaging and markedly reduced prospect risk***
- ❖ ***Prospect area now covers 28 km² (from 11 km²) with over 300 metres of vertical relief at the Top Nido Limestone reservoir objective***
- ❖ ***Unrisked mean Oil In-Place (OIIP) volumes have increased to 634 million barrels with an unrisked upside of approximately 1 billion barrels***
- ❖ ***Gindara is the leading prospect in the SC 54 Block B inventory***

The previous Gindara interpretation was based on a conventional time migrated 3D seismic volume and had delineated a large structural closure at the Top Nido Limestone primary objective. The SC 54B Joint Venture proceeded to reprocess the 3D survey as a Pre-Stack Depth Migrated 3D volume (PSDM) to improve certainty on the structure's size and the distribution of effective reservoir within the mapped closure

The PSDM processing was undertaken by CGGVeritas and the resulting PSDM volume is of excellent quality, achieving significant improvement in image resolution resulting in a high confidence interpretation as summarised below:

- The areal extent of the Gindara closure at the Top Nido Limestone objective has increased from 11 km² to ~28 km² with a vertical closure in excess of 300 meters.
- Gindara is now defined as a very large, simple four-way closure at the Top Nido Limestone primary objective. Trap risk is considered low, having markedly improved as a result of the PSDM interpretation.



- The greatly enhanced 3D image quality has enabled detailed internal mapping of the Nido Limestone reservoir distribution within the Gindara closure not previously possible on the original processing.
- Internal reservoir heterogeneities including the presence of local reefal build-ups are now discernible within the structure, providing greater confidence in the distribution of effective reservoir within the trap and importantly a better estimate of potential oil-in-place volumes. Reservoir risk has been substantially reduced as a consequence.
- The PSDM processing has further reduced charge and migration risk into the Gindara structure by improving the definition of the area of oil generation and migration that is thought to have charged the structure. This area extends to the north-east where mature source rocks located in the adjacent Malampaya Graben would have generated hydrocarbons. The Malampaya Graben is flanked by numerous oil and gas discoveries including the giant Malampaya field (>500 million barrels oil equivalent) operated by Shell Exploration and approximately 30 kilometres to the north of Gindara.

Revised Gindara Prospect Volumetrics

The increased closure and better constrained internal reservoir distribution has resulted in a material increase in oil-in-place estimates for Gindara (summarised below). Probabilistic assessment has resulted in unrisksed mean oil-in-place (OIP) for the Nido Limestone reservoir of 634 million barrels (unrisksed). The unrisksed upside potential (P10) is approximately 1 billion barrels.

Gindara	P90	P50	P10	Mean
OIP (MMbbls)	292	581	1022	634

Further upside is recognised in secondary, higher risk reservoirs at the shallower Miocene and deeper Pre-rift stratigraphic sections, both of which would likely be tested through the drilling of the Gindara Prospect.

Gindara is now considered substantially de-risked following completion of the PSDM work and revised volumetrics. The prospect represents an outstanding high potential/low risk drilling candidate for the first well in SC 54B.

Mineral Projects

In March 2009, the company announced that it has entered into term sheet agreements to farm-out its minerals tenements to third parties effective immediately. The third parties will earn a 90% interest in the mineral tenements by funding 100% of the cost of all the exploration work required to maintain the tenements in good standing with the Department of Mines and Petroleum.



Kairiki will receive as consideration the following:

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

These transactions will be completed by 31 December 2009.

Corporate Summary

During the quarter, the following occurred:

- **Convertible Note**

On 31 July 2009, Kairiki received notice from IMC that they would seek repayment of the funds held in an escrow account of \$1,022,000 relating to the conversion of options at 31 December 2008 in accordance with the convertible note agreement. The repayment reduced the convertible note debt balance of US\$10,370,000 to US\$9,530,000.

- **Change in Substantial shareholders**

During the quarter the following changes in substantial shareholders occurred:

- Yandal Investments Pty Ltd increased its holding from 34,000,000 to 44,302,419 shares

- **Cash Position**

At 30 September 2009, Kairiki had a cash balance of \$8,464,000. The decrease in cash during the quarter of \$1,362,000 was attributable to the following:

- Payment of Interest on Convertible Note of \$0.38 million
- Exploration Costs of \$0.40 million
- Equity raising costs of \$0.28 million relating to the June 2009 quarter
- General and administrative costs of \$0.30 million

The cash position at 30 September 2009 does not include proceeds to be received from the farm-out of SC 54A of US\$3.8m (A\$4.2m).

Yours faithfully

Lawrence Brown
Managing Director



For more information on the Company visit www.kairikienergy.com

Competent Persons Statement:

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