25 NOVEMBER 2008

ENERGY

Kairiki Energy (KIK)

Shallow water targets quantified

87mb potential from initial targets. In its information memorandum for participation in the shallow water program of SC54, KIK has presented the results of its preliminary evaluation. This shallow water portion of SC 54 has proven prospectivity and oil production with 31 targets covered by 3D seismic data. KIK has estimated the potential to be 87 million barrels (mb) for 11 of the leading prospects in the shallow water (mid case, gross un-risked), which net to KIK amounts to 34.9mb. KIK has a 40% interest in the permit. Globally, carbonate build-ups have recovery factors averaging 51%. Assuming an average recovery of 50%, KIK's net recoverable share of the 11 leading prospects totals 17.5mb.

Risked valuation – best estimate $0.25 per share. We assess the risked value of the shallow water program and arrive at a best estimate of $105m or $0.25 per share for KIK's 40% interest, as summarised in the table below. In this analysis we use a conservative recovery factor (across all prospects) of 40%, probabilities (or chance of success) ranging from 15% to 95% and an NPV per barrel of US$10/b. A valuation range for different $/b NPVs in shown in Chart 1, below. In addition, there is even greater potential value in the SC54 deep water prospects identified by KIK, than in the shallow water. We provide the usual reminder that oil exploration is a high risk/reward business and so continue to rate KIK as a Speculative Buy.

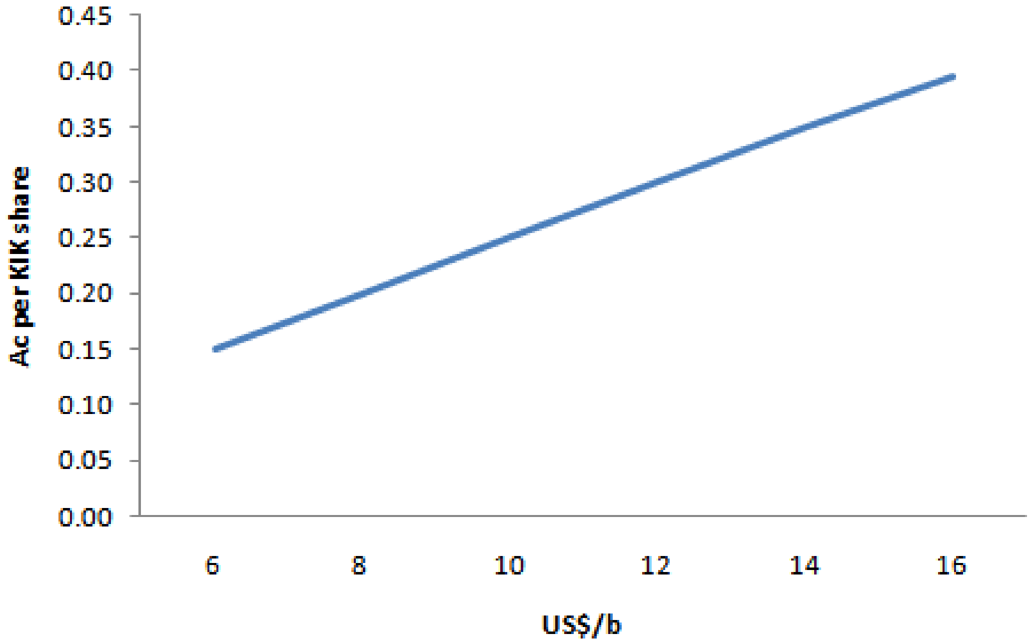
Table 1: SC54, Palawan Basin, Philippines, Shallow Water Program: SCE's evaluation:

Prospect	Water depth	Est OIP#	KIK	NPV/b	Unrisked NPV		COS*	Risked NPV	
	M	Mb	equity	US$/b	A$M	A$/share**	%	A$M	A$/share**
Yakal-1 (discovery)	114	2.4	40%	10	5	0.01	95%	5	0.01
Tindalo-1 (disc)	101	5.9	40%	10	13	0.03	95%	13	0.03
Lawaan	85	11.6	40%	10	27	0.06	60%	16	0.04
North Nido-1 updip	80	7.2	40%	10	16	0.04	70%	12	0.03
Signal Head-2 (disc)	76	6.9	40%	10	16	0.04	90%	14	0.03
Signal Head North-B	87	5.5	40%	10	13	0.03	60%	8	0.02
Custodio-1 re-drill	60	3.9	40%	10	9	0.02	60%	5	0.01
Kamagong	65	3.9	40%	10	9	0.02	60%	5	0.01
Signal Head South	78	3.8	40%	10	9	0.02	60%	5	0.01
Custodio North	87	2.3	40%	10	5	0.01	60%	3	0.01
North Nido-1 East	76	33.9	40%	10	77	0.18	15%	12	0.03
Others	c.100	10.0	40%	10	23	0.05	30%	7	0.02
Totals		97.3		10	222	0.52		105	0.25

#OIP: oil in place. We assume 40% recovery
at $US0.70/$A

*COS: chance of success
** assumes options not exercised

Chart 1: SC54 Shallow water risked values at a range of $/b NPVs



Recommendation: Spec Buy

Previous Close: $0.04

Disclosure: In June 2008 SCE acted as joint manager and received a fee in the placement of 50m KIK shares.

Peter Chapman
Resources Analyst

Southern Cross Equities

LIMITED ACN 071 935 441 AFSL 247027
Level 32, Aurora Place, 88 Phillip Street, Sydney 2000 **Postal** PO Box R234, Royal Exchange NSW 1225
Telephone direct +61 2 8224 2847 **Facsimile** +61 2 9231 0588
www.sceq.com.au