KEY PETROLEUM LIMITED

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13 February 2017

The Manager
The Australian Securities Exchange
The Announcements Officer
Level 4/20 Bridge Street
SYDNEY NSW 2000

Dear Sir

INTERIM FINANCIAL REPORT TO 31 DECEMBER 2016

We attach herewith Interim Financial Report to 31 December 2016.

Regards

IEGregory

IAN GREGORY
Company Secretary
KEY PETROLEUM LIMITED

KEY PETROLEUM LIMITED

ABN 50 120 580 618

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the period ended 30 June 2016 and any public announcements made by Key Petroleum Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Contents	Page

KEY PETROLEUM LIMITED
31 DECEMBER 2016
ABN 50 120 580 618

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity consisting of Key Petroleum Limited ("Key or "the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

DIRECTORS

The names of the directors who held office during or since the end of the half-year are:

Rex Turkington
Kane Marshall
Dennis Wilkins
Min Yang
Geoffrey Baker

REVIEW AND RESULTS OF OPERATIONS

A summary of consolidated revenues and results for the half-year is set out below:

	2016	
	Revenues	**Results**
	$	**$**
Consolidated entity revenues and loss	17,408	(622,483)

Exploration activities for the first half included geological and geophysical work undertaken in the newly acquired 40% interest in offshore Perth Basin block WA-481P as well as onshore Perth Basin block EP437 in preparation for drilling of the Wye-Knot 1 exploration well in 2017.

During the period the Department of Mines and Petroleum ("DMP") renewed Retention Lease R1 for a further five years and granted the Company a Special Prospecting Authority SPA-20AO in the Canning Basin.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of directors.

Kane Marshall
Managing Director
Perth, Dated • 13 February 2017

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To the Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the review of the financial statements of Key Petroleum Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully

BENTLEYS
Chartered Accountants

DOUG BELL CA
Director

Dated at Perth this 13th day of February 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half-year	
	2016	2015
	$	$
REVENUE FROM CONTINUING OPERATIONS	**17,408**	**30,293**
EXPENDITURE		
Depreciation & Amortisation expense	**(18,845)**	**(21,788)**
Salaries and employee benefits expense	**(161,542)**	**(171,748)**
Corporate expenditure	**(66,768)**	**(37,108)**
Administration costs	**(193,383)**	**(229,782)**
Exploration Costs written off	**(160,359)**	**(169,795)**
Finance costs	**(5,731)**	**(6,264)**
Share-based payments expense	**(33,263)**	**(32,616)**
LOSS BEFORE INCOME TAX	**(622,483)**	**(638,808)**
Income tax expense	**-**	**-**
LOSS FROM CONTINUING OPERATIONS	**(622,483)**	**(638,808)**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**(396)**	**(1,813)**
Other comprehensive income for the period, net of tax	**(396)**	**(1,813)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	**(622,879)**	**(640,621)**
Basic loss per share for loss attributable to the ordinary equity holders of the company (cents per share)	**(0.07)**	**(0.09)**

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	31 December 2016 $	30 June 2016 $
CURRENT ASSETS			
Cash and cash equivalents		**753,545**	1,573,472
Trade and other receivables		**170,601**	146,463
TOTAL CURRENT ASSETS		**924,146**	1,719,935
NON-CURRENT ASSETS			
Receivables		**15,000**	15,000
Plant and equipment		**273,508**	292,352
Capitalised exploration costs	3	**4,021,046**	4,084,087
TOTAL NON-CURRENT ASSETS		**4,309,554**	4,391,439
TOTAL ASSETS		**5,233,700**	6,111,374
CURRENT LIABILITIES			
Trade and other payables		**158,128**	154,396
Provisions	4	**-**	2,479,543
TOTAL CURRENT LIABILITIES		**158,128**	2,633,939
NON-CURRENT LIABILITIES			
Provisions	4	**2,537,221**	349,468
TOTAL NON-CURRENT LIABILITIES		**2,537,221**	349,468
TOTAL LIABILITIES		**2,695,349**	2,983,407
NET ASSETS		**2,538,351**	3,127,967
EQUITY			
Issued capital		**37,540,470**	37,540,470
Reserves		**577,112**	544,245
Accumulated losses		**(35,579,231)**	(34,965,748)
TOTAL EQUITY		**2,538,351**	3,127,967

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Issued Capital	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
BALANCE AT 1 JULY 2015	**36,844,550**	**559,262**	**(78,197)**	**(32,770,039)**	**4,555,576**
Loss for the half-year	-	-	-	(638,808)	(638,808)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(1,813)	-	(1,813)
TOTAL COMPREHENSIVE INCOME	-	-	(1,813)	(638,808)	(640,621)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Share based payments	-	32,616	-	-	32,616
BALANCE AT 31 DECEMBER 2015	**36,844,550**	**591,878**	**(80,010)**	**(33,408,847)**	**3,947,571**
BALANCE AT 1 JULY 2016	**37,540,470**	**624,140**	**(79,895)**	**(34,956,748)**	**3,127,967**
Loss for the half-year				(622,483)	(622,483)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(396)	-	(396)
TOTAL COMPREHENSIVE INCOME	-	-	(396)	(622,483)	(622,879)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Share based payments	-	33,263	-	-	33,263
BALANCE AT 31 DECEMBER 2016	**37,540,470**	**657,403**	**(80,291)**	**(35,579,231)**	**2,538,351**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half-year	
	2016	2015
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	4,683	89,517
Payments to suppliers and employees	(400,604)	(419,423)
Expenditure on petroleum interests	(438,202)	(773,426)
Interest received	15,636	29,638
Payment of finance costs	(1,440)	(2,075)
Net cash outflow from operating activities	**(819,927)**	**(1,075,769)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	-	(350)
Payments for exploration equity interests	-	-
Net cash inflow from investing activities	**-**	**(350)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares and options	-	-
Payments for share issue costs	-	-
Net cash inflow from financing activities	**-**	**-**
Net (decrease)/increase in cash and cash equivalents	(819,927)	(1,076,119)
Cash and cash equivalents at the beginning of the half-year	1,573,472	2,648,442
Effect of exchange rate changes on cash and cash equivalents	-	785
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	**753,545**	**1,573,108**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with IAS 34 "International Financial Reporting".

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Key Petroleum Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going Concern

This interim financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred a loss from ordinary activities of $622,483 for the half-year ended 31 December 2016 (2015: $638,808) and net cash outflows from operating activities of $819,927 (2015: $1,075,769).

The Company has exploration commitments due within twelve months of $1,644,350. This condition indicates a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

The ability of the Group to continue to pay its debts as and when they fall due is principally dependent upon the Company successfully farming out its expenditure commitments on selected projects, ultimately developing one of its oil and gas permits or raising additional share capital.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- the Directors have an appropriate plan in place to contain certain operating and exploration expenditure by farming out the Group's exploration commitments; and
- in light of the Group's current projects, the Directors believe that, if required, additional capital can be raised in the market within the ordinary course of business. This was demonstrated by a capital raise for a further $1 million subsequent to the end of the reporting period.

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Company be unable to continue as a going concern and meet its debts as and when they fall due.

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

Adoption of new and revised Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

The adoption of the above standards has not had a material impact on this half year financial report.

NOTE 2: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

Key has identified that it has only one operating segment being exploration for oil and gas in Australia.

NOTE 3: CAPITALISED EXPLORATION COSTS

Exploration and evaluation costs carried forward in respect of areas of interest:

	31 December 2016 $	30 June 2016 $
Opening net book amount	**4,084,087**	4,504,095
Capitalised exploration and evaluation costs	**233,041**	675,909
Asset Retirement Obligation	**(296,082)**	-
Exploration and evaluation costs written off	**-**	(1,095,917)
Closing net book amount	**4,021,046**	4,084,087

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective petroleum interests.

Capitalised exploration and evaluation costs include the asset restoration obligation relating to Production License L15 and Retention Lease R1.

During the period Key acquired a 40% interest in WA-481-P. Geological and geophysical costs as well as transfer fees to the National Offshore Petroleum Administrator have been capitalised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (continued)

NOTE 3: CAPITALISED EXPLORATION COSTS (continued)

During the period Gulliver Productions Pty Ltd, a wholly owned subsidiary of the Company, surrendered Exploration Permit EP448. The surrender of EP448 was a subsequent event to the annual report for the year ended 30 June 2016 and as such carried forward exploration of $1,095,917 was written off in the previous financial year.

During the period, Gulliver Productions Pty Ltd received confirmation from the DMP that Retention Lease R1 had been renewed for a further 5 years. The present value of the Asset Retirement Obligation was amended ($291,790) to reflect the new expiration date of the Retention Lease being September 2021.

NOTE 4: PROVISIONS

	$
Half Year ended 31 December 2016	
Carrying amount at start of period	2,829,011
Change in provision	(291,790)
Carrying amount at end of period	2,537,221
Current	-
Non-current	2,537,221
	2,537,221
Year ended 30 June 2016	
Carrying amount at start of year	2,820,628
Change in provision	8,383
Carrying amount at end of year	2,829,011
Current	2,479,543
Non-current	349,468
	2,829,011

The non-current provision is based upon:-

- An estimate to plug and abandon the Stokes Bay-1 and Point Torment-1 wells in Retention Lease R1 using a completion rig as well as removal of the causeway to each of the well pads. The causeway removal includes replacement of gravel to the original borrow pit;
- An estimate to convert the West Kora-1 well to a water well and restoring the disused production facilities in Production License L15 back to its original condition. Restoration includes removal of the existing tank farm.
- The present value of the Asset Retirement Obligation was amended ($291,790) to reflect the new expiration date of the Retention Lease being September 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (continued)

NOTE 5: CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at the reporting date.

NOTE 6: SUBSEQUENT EVENTS

Subsequent to the end of the reporting period the Company raised $1 million through the placement of 250 million shares.

NOTE 7: EXPLORATION COMMITMENTS

The Group has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

	31 December 2016	31 December 2015
	$	$
within one year	1,644,350	7,842,290
later than one year but not later than five years	27,616,413	13,616,695
	29,260,763	21,458,985

During the period Gulliver Productions Pty Ltd, a wholly owned subsidiary of Key Petroleum Ltd, received notification from the DMP that Retention Lease R1 had been renewed for a further 5 years. Gulliver Productions Pty Ltd also surrendered EP448 during the period.

During the period, Key Petroleum Ltd entered WA-481P at the start of the secondary term, the first year of which carries a $300,000 work commitment of geological and geophysical studies (Key share $120,000). The subsequent two years of the secondary term are discretionary, with each carrying an exploration well commitment. Key's share of the exploration well commitments have been included in the commitments noted above.

NOTE 8: FINANCIAL INSTRUMENTS

The Group's financial instruments consist of trade and other receivables and trade and other payables. These financial instruments are measured at amortised cost, less any provision for non-recovery. The carrying amounts of the financial assets and liabilities approximate their fair value.

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
   (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
2. there are reasonable grounds to believe that Key Petroleum Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Kane Marshall
Managing Director
Perth, • 13 February 2017

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Independent Auditor's Review Report

To the Members of Key Petroleum Limited

We have reviewed the accompanying half-year financial report of Key Petroleum Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the half-year.

Directors Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Key Petroleum Limited and Controlled Entities is not in accordance with the Corporations Act 2001 including:

a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that the Consolidated Entity incurred a net loss of $622,483 during the period ended 31 December 2016. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.

Bentleys

BENTLEYS
Chartered Accountants

DOUG BELL CA
Director

Dated at Perth this 13th day of February 2017