

KEY
PETROLEUM LIMITED

Level 2
47 Stirling Highway
Nedlands WA 6009

T: + 61 (08) 6389 0322
F: + 61 (08) 6389 0697

27 February 2015

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 2014

We attach herewith Interim Financial Report to 31 December 2014.

Regards

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 2014**

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 2014 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*.

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

Contents	Page
DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION	5
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	6
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	7
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	8
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	9
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	10
DIRECTORS' DECLARATION	15
INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS	16

KEY PETROLEUM LIMITED

31 DECEMBER 2014

ABN 50 120 580 618

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity consisting of Key Petroleum Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

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 (Alternate Director)

REVIEW AND RESULTS OF OPERATIONS

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

	2014	
	Revenues	Results
	\$	\$
Consolidated entity revenues and loss	71,418	(700,894)

Exploration activities for the first half included the successful drilling of Dunnart-2 commitment well in EP437, Perth Basin. Dunnart-2 drilling operations were conducted without incident and under budget. Good quality Bookara Sandstone samples were retrieved from a second Drill Stem Test ("DST") and were found to fluoresce under fluoroscope, indicating live oil. Wireline logging and formation evaluation undertaken yielded results that suggested the existence of reservoir quality sands at the top of the Bookara Sandstones. Formation fluid samples were collected for assaying but these results proved inconclusive with a combination of water, mud filtrate and oil emulsion recovered in two small sample chambers.

Upon completion of formation evaluation operations, the Department of Mines and Petroleum granted an approval to suspend the well with 7" production casing, which was run to a total depth of 657 metres cemented to surface with a production wellhead installed.

The EP437 Joint Venture has agreed to production test Dunnart-2 from an interval yet to be determined. Production testing will require running and setting completion string.

Good faith negotiations with Traditional Owners of Discrete Area L12-10 in the Canning Basin continued during the first half of the financial year and Key continues consultation with the DMP with regards to the negotiation process.

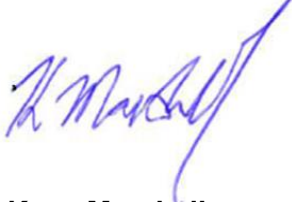
The Group is ideally placed for an active second half of the financial year including the flow back testing of Dunnart-2 and if warranted suitable rig contract options for follow up drilling either on the Dunnart structure or on mature ready to drill prospects such as Wye Knot.

Subsequent to the end of the first half of the financial year Key executed a Sale Agreement with Pancontinental Oil and Gas NL and FAR Limited which will see Key increase its equity positions in EP104 by 25.26%, L15 by 24% and R1 by 20%.

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 5.

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



Kane Marshall
Managing Director
Perth, Dated • 27 February 2015

**Bentleys Audit & Corporate
(WA) Pty Ltd**

Level 1, 12 Kings Park Road
West Perth WA 6005

Australia

PO Box 44

West Perth WA 6872

Australia

ABN 33 121 222 802

T +61 8 9226 4500

F +61 8 9226 4300

bentleys.com.au

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 2014, 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 27th day of February 2015

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

	Half-year	
	2014	2013
	\$	\$
REVENUE FROM CONTINUING OPERATIONS	71,418	95,052
EXPENDITURE		
Depreciation & Amortisation expense	(22,025)	(4,136)
Salaries and employee benefits expense	(236,861)	(153,702)
Corporate expenditure	(23,082)	(78,633)
Administration costs	(268,280)	(202,882)
Exploration Costs written off	(186,596)	-
Finance costs	(2,852)	(5,089)
Doubtful debts expense	-	(167,274)
Share-based payments expense	(32,616)	(66,787)
LOSS BEFORE INCOME TAX	(700,894)	(583,451)
Income tax expense	-	-
LOSS FROM CONTINUING OPERATIONS	(700,894)	(583,451)
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(8,537)	(852)
Other comprehensive income for the period, net of tax	(8,537)	(852)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	(709,431)	(584,303)
 Basic loss per share for loss attributable to the ordinary equity holders of the company (cents per share)	 (0.12)	 (0.13)

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

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	31 December 2014 \$	30 June 2014 \$
CURRENT ASSETS			
Cash and cash equivalents		2,299,428	3,410,031
Trade and other receivables		158,719	201,991
TOTAL CURRENT ASSETS		2,458,147	3,612,022
NON-CURRENT ASSETS			
Receivables		16,578	20,958
Plant and equipment		342,061	301,041
Capitalised exploration costs		2,259,482	1,886,183
TOTAL NON-CURRENT ASSETS		2,618,121	2,208,182
TOTAL ASSETS		5,076,268	5,820,204
CURRENT LIABILITIES			
Trade and other payables		317,028	384,149
TOTAL CURRENT LIABILITIES		317,028	384,149
NON CURRENT LIABILITIES			
Provisions		400,000	400,000
TOTAL NON CURRENT LIABILITIES		400,000	400,000
TOTAL LIABILITIES		717,028	784,149
NET ASSETS		4,359,240	5,036,055
EQUITY			
Issued capital		35,301,510	35,301,510
Reserves		410,928	386,849
Accumulated losses		(31,353,198)	(30,652,304)
TOTAL EQUITY		4,359,240	5,036,055

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

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	Issued Capital	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
BALANCE AT 1 JULY 2013	33,804,246	329,675	(131,093)	(29,319,345)	4,683,483
Loss for the half-year	-	-	-	(583,451)	(583,451)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(852)	-	(852)
TOTAL COMPREHENSIVE INCOME	-	-	(852)	(583,451)	(584,303)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the period	39,200	-	-	-	39,200
Share based payments	-	66,787	-	-	66,787
BALANCE AT 31 DECEMBER 2013	33,843,446	396,462	(131,945)	(29,902,796)	4,205,167
BALANCE AT 1 JULY 2014	35,301,510	462,161	(75,312)	(30,652,304)	5,036,055
Loss for the half-year	-	-	-	(700,894)	(700,894)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(8,537)	-	(8,537)
TOTAL COMPREHENSIVE INCOME	-	-	(8,537)	(700,894)	(709,431)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Share based payments	-	32,616	-	-	32,616
BALANCE AT 31 DECEMBER 2014	35,301,510	494,777	(83,849)	(31,353,198)	4,359,240

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

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Half-year	
	2014	2013
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(543,718)	(440,890)
Expenditure on petroleum interests	(586,155)	(544,070)
Interest received	49,484	63,402
Payment of finance costs	(2,852)	(2,741)
Net cash outflow from operating activities	(1,083,241)	(924,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	(63,045)	-
Proceeds from sale of equity interests	35,455	-
Net cash inflow from investing activities	(27,590)	-
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	(1,110,831)	(924,299)
Cash and cash equivalents at the beginning of the half-year	3,410,031	3,564,704
Effect of exchange rate changes on cash and cash equivalents	228	826
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	2,299,428	2,641,231

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 2014

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 2014 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 2014 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 \$700,894 for the half-year ended 31 December 2014 (2013: \$583,451) and net cash outflows from operating activities of \$1,083,241 (2013: \$924,299).

The Company has exploration commitments due within twelve months of \$4,334,725.

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. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

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.

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.

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 (AASB) that are relevant to their operations and effective for the current half-year.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF
YEAR ENDED 31 DECEMBER 2014 (continued)**

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

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

- AASB 1031 'Materiality' (2013)
- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non Financial Assets'
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'
- AASB 2013-9 'Amendments to Australian Accounting Standards' – Part B: 'Materiality'
- AASB 2014-1 'Amendments to Australian Accounting Standards'
 - Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'
 - Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)'
 - Part C: 'Materiality'
- Interpretation 21 'Levies'

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF
YEAR ENDED 31 DECEMBER 2014 (continued)**

NOTE 2: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

Key has now 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	30 June
	2014	2014
	\$	\$
<i>Pre-production</i>		
Opening net book amount	1,886,183	965,403
Capitalised exploration and evaluation costs	559,895	1,191,833
Exploration and evaluation costs written off and assets included in a disposal group classified as held for sale	(186,596)	(271,053)
Closing net book amount	2,259,482	1,886,183

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.

NOTE 4: CONTINGENCIES

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

NOTE 5: SUBSEQUENT EVENTS

Subsequent to end of the half year Key Petroleum Limited executed a Sale Agreement to acquire Pancontinental and FAR interests in Exploration Permit 104, Retention Lease R1 and Production Licence L15 located in the Canning Basin.

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF
YEAR ENDED 31 DECEMBER 2014 (continued)**

NOTE 5: SUBSEQUENT EVENTS (continued)

Pre and post completion participating interests are:

EP 104 Titleholder	Pre-Completion	Post Completion
FAR	15.67%	-
Pancontinental	19.59%	-
Key	53.97%	89.23%
Indigo Oil Pty Ltd	10.77%	10.77%
Total	100.00%	100.00%

L15 Titleholder	Pre-Completion	Post Completion
FAR	12.00%	-
Pancontinental	12.00%	-
Key	61.40%	85.40%
Indigo Oil Pty Ltd	14.60%	14.60%
Total	100.00%	100.00%

R1 Titleholder	Pre-Completion	Post Completion
FAR	8.89%	-
Pancontinental	11.11%	-
Key	65.23%	85.23%
Indigo Oil Pty Ltd	14.77%	14.77%
Total	100.00%	100.00%

In consideration for Key assuming all rights, obligations and liabilities associated with the assignment of interests in EP104, R1 and L15, Pancontinental and FAR agree to pay to Key an amount of \$50,000 cash each.

The transfer of the above registered interests is conditional upon standard approval by the Department of Mines and Petroleum however no party sees any reason why the transfer of registered interests should not be approved.

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF
YEAR ENDED 31 DECEMBER 2014 (continued)**

NOTE 6: 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 2014	31 December 2013
	\$	\$
within one year	4,334,725	3,173,000
later than one year but not later than five years	7,956,535	14,475,000
	12,291,260	17,648,000

NOTE 7: 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.

KEY PETROLEUM LIMITED
31 DECEMBER 2014
ABN 50 120 580 618

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 6 to 14 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 2014 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, • 27 February 2015

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 2014, 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 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 2014 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.

Independent Auditor's Review Report

To the Members of Key Petroleum Limited (Continued)



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 2014 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 \$700,894 during the period ended 31 December 2014. 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
Chartered Accountants

DOUG BELL CA
Director

Dated at Perth this 27th day of February 2015