



# KEY

PETROLEUM LIMITED

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25 February 2016

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 2015

We attach herewith Interim Financial Report to 31 December 2015.

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 2015**

**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 2015 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 2015**  
**ABN 50 120 580 618**

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**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**DIRECTORS' REPORT**

Your directors submit their report on the consolidated entity consisting of Key Petroleum Limited ("Key") and the entities it controlled at the end of, or during, the half-year ended 31 December 2015.

**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:

	<b>2015</b>	
	<b>Revenues</b>	<b>Results</b>
	<b>\$</b>	<b>\$</b>
Consolidated entity revenues and loss	30,293	(638,808)

Exploration activities for the first half included geological and geophysical work undertaken in the Canning Basin blocks with significant upside identified in the offshore component of EP104 and along trend in the R1 and L15. The upside was identified by mapping vintage 2D seismic with further seismic reprocessing expected to be de-risk some of the prospectivity.

Also during the half year Key announced contingent resources and reserves for the Point Torment Gas Field and the West Kora Oilfield.

A post mortem evaluation of the Dunnart-2 commitment well in EP437, Perth Basin was undertaken during the half year. Dunnart-2 drilling operations were conducted without incident and under budget in June 2015.

Work program variations and extension requests have been submitted to the Department of Mines and Petroleum ("DMP") for Retention Lease R1 and Exploration Permit EP448 in the Canning Basin in order to gather further geological information and thereby encourage joint venture participation. At the date of this report the DMP are still assessing the variation and extension.

**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 • 25 February 2016

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

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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 2015, 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 25<sup>th</sup> day of February 2016

**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

	Half-year	
	2015	2014
	\$	\$
<b>REVENUE FROM CONTINUING OPERATIONS</b>	<b>30,293</b>	<b>71,418</b>
<b>EXPENDITURE</b>		
Depreciation and amortisation expense	(21,788)	(22,025)
Salaries and employee benefits expense	(171,748)	(236,861)
Corporate expenditure	(37,108)	(23,082)
Administration costs	(229,782)	(268,280)
Exploration costs written off	(169,795)	(186,596)
Finance costs	(6,264)	(2,852)
Share-based payments expense	(32,616)	(32,616)
<b>LOSS BEFORE INCOME TAX</b>	<b>(638,808)</b>	<b>(700,894)</b>
Income tax expense	-	-
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(638,808)</b>	<b>(700,894)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Items that may be reclassified subsequently to profit and loss</b>		
Exchange differences on translation of foreign operations	(1,813)	(8,537)
Other comprehensive income for the period, net of tax	(1,813)	(8,537)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED</b>	<b>(640,621)</b>	<b>(709,431)</b>
Basic loss per share for loss attributable to the ordinary equity holders of the company (cents per share)	(0.09)	(0.12)

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 2015**  
**ABN 50 120 580 618**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

	Notes	31 December 2015 \$	30 June 2015 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,573,108	2,648,442
Trade and other receivables		81,983	322,651
<b>TOTAL CURRENT ASSETS</b>		<b>1,655,091</b>	<b>2,971,093</b>
<b>NON-CURRENT ASSETS</b>			
Receivables		15,000	15,000
Plant and equipment		314,173	335,611
Capitalised exploration costs	3	4,979,803	4,504,096
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,308,976</b>	<b>4,854,707</b>
<b>TOTAL ASSETS</b>		<b>6,964,067</b>	<b>7,825,800</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		191,679	449,595
Provisions	4	2,479,543	2,479,543
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,671,222</b>	<b>2,929,138</b>
<b>NON CURRENT LIABILITIES</b>			
Provisions	4	345,274	341,086
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>345,274</b>	<b>341,086</b>
<b>TOTAL LIABILITIES</b>		<b>3,016,496</b>	<b>3,270,224</b>
<b>NET ASSETS</b>		<b>3,947,571</b>	<b>4,555,576</b>
<b>EQUITY</b>			
Issued capital		36,844,550	36,844,550
Reserves		511,868	481,065
Accumulated losses		(33,408,847)	(32,770,039)
<b>TOTAL EQUITY</b>		<b>3,947,571</b>	<b>4,555,576</b>

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

**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

	Issued Capital	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>BALANCE AT 1 JULY 2014</b>	<b>35,301,510</b>	<b>462,161</b>	<b>(75,312)</b>	<b>(30,652,304)</b>	<b>5,036,055</b>
Loss for the half-year	-	-	-	(700,894)	(700,894)
<b>Other Comprehensive Income</b>					
Exchange differences on translation of foreign operations	-	-	(8,537)	-	(8,537)
<b>Total Comprehensive Income</b>	-	-	(8,537)	(700,894)	(709,431)
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	32,616	-	-	32,616
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>35,301,510</b>	<b>494,777</b>	<b>(83,849)</b>	<b>(31,353,198)</b>	<b>4,359,240</b>
<b>BALANCE AT 1 JULY 2015</b>	<b>36,844,550</b>	<b>559,262</b>	<b>(78,197)</b>	<b>(32,770,039)</b>	<b>4,555,576</b>
Loss for the half-year				(638,808)	(638,808)
<b>Other Comprehensive Income</b>					
Exchange differences on translation of foreign operations	-	-	(1,813)	-	(1,813)
<b>Total Comprehensive Income</b>	-	-	(1,813)	(638,808)	(640,621)
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	32,616	-	-	32,616
<b>BALANCE AT 31 DECEMBER 2015</b>	<b>36,844,550</b>	<b>591,878</b>	<b>(80,010)</b>	<b>(33,408,847)</b>	<b>3,947,571</b>

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



**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

	Half-year	
	2015	2014
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	89,517	-
Payments to suppliers and employees	(419,423)	(543,718)
Expenditure on petroleum interests	(773,426)	(586,155)
Interest received	29,638	49,484
Payment of finance costs	(2,075)	(2,852)
<b>Net cash outflow from operating activities</b>	<b>(1,075,769)</b>	<b>(1,083,241)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for plant and equipment	(350)	(63,045)
Proceeds from sale of equity interests	-	35,455
<b>Net cash inflow from investing activities</b>	<b>(350)</b>	<b>(27,590)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares and options	-	-
Payments for share issue costs	-	-
<b>Net cash inflow from financing activities</b>	<b>-</b>	<b>-</b>
Net (decrease)/increase in cash and cash equivalents	(1,076,119)	(1,110,831)
Cash and cash equivalents at the beginning of the half-year	2,648,442	3,410,031
Effect of exchange rate changes on cash and cash equivalents	785	228
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR</b>	<b>1,573,108</b>	<b>2,299,428</b>

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 2015**

**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 2015 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 2015 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 \$638,808 for the half-year ended 31 December 2015 (2014: \$700,894) and net cash outflows from operating activities of \$1,075,769 (2014: \$1,083,241).

The Company has exploration commitments due within twelve months of \$7,842,290. During the period Key lodged a work program variation with the DMP for Exploration Permit EP448 and Retention Lease 1. As at the date of this report the variations have not been assessed and as such exploration commitments are based on the original award from the DMP. Key also has a rehabilitation liability of \$2,479,543 due within twelve months should it's application for renewal of Retention Lease 1 not be granted by the DMP. Please refer to note 4 for further details of the rehabilitation liability. These conditions indicate 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.

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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (continued)**

**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:

	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Opening net book amount	<b>2,111,393</b>	1,886,183
Capitalised exploration and evaluation costs	<b>475,708</b>	1,120,829
Asset Retirement Obligation	<b>2,392,702</b>	2,392,702
Exploration and evaluation costs written off and assets included in a disposal group classified as held for sale	-	(895,619)
Closing net book amount	<b>4,979,803</b>	4,504,095

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 L15 Production License and R1 Retention Lease.

Exploration Permit EP448 expired on 15 December 2015. Gulliver Productions Pty Ltd, a wholly owned subsidiary of Key Petroleum Ltd, have requested for a variation of the current year work program and an extension to 30 September 2016. At the date of this report the DMP are still assessing the variation and extension.

**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF  
YEAR ENDED 31 DECEMBER 2015 (continued)**

**NOTE 3: CAPITALISED EXPLORATION COSTS (continued)**

Retention Lease 1 expired on 31 January 2016. Gulliver Productions Pty Ltd, a wholly owned subsidiary of Key Petroleum Ltd, have requested for a variation of the current year work program and an extension to 30 September 2016. At the date of this report the DMP are still assessing the variation and extension.

**NOTE 4: PROVISIONS**

	\$
Half Year ended 31 December 2015	
Carrying amount at start of period	2,820,628
Change in provision	4,189
Carrying amount at end of period	2,824,817
Current	2,479,543
Non-current	345,274
	2,824,817
Year ended 30 June 2015	
Carrying amount at start of year	400,000
Change in provision	2,420,628
Carrying amount at end of year	2,820,628
Current	2,479,543
Non-current	341,085
	2,820,628

The current liability in the Financial Statements relates to the rehabilitation estimate for Retention Licence R1 in the Canning Basin which has an expiry date of 31 January 2016. The Company is currently in the process of applying for a renewal of the Retention Licence. Should the renewal be granted the liability will be deferred until the end of the renewal period, that being a further five years. The current provision is based upon an estimate to plug and abandon the Stokes Bay 1 and Point Torment 1 wells 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.

The non-current provision for rehabilitation relates to the West Kora 1 well and disused production facilities in Production License L15. The estimate is based upon converting the well to a water well following confirmation from the pastoral lease owner and removing the tank farm and restoring the site back to its original condition.

**NOTE 5: CONTINGENCIES**

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

**NOTE 6: SUBSEQUENT EVENTS**

No matter or circumstance has arisen since 31 December 2015, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF  
YEAR ENDED 31 DECEMBER 2015 (continued)**

**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

	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
Within one year	7,842,290	4,334,725
Later than one year but not later than five years	13,616,695	7,956,535
	<u>21,458,985</u>	<u>12,291,260</u>

During the period Gulliver Productions Pty Ltd, a wholly owned subsidiary of Key Petroleum Ltd, lodged a work program variation with the Department of Mines and Petroleum for Exploration Permit EP448 and Retention Lease 1. As at the date of this report the variations have not been assessed and as such the exploration commitments noted above are based on the original award from the DMP.

**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.

**KEY PETROLEUM LIMITED**  
**31 DECEMBER 2015**  
**ABN 50 120 580 618**

**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 2015 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, • 25 February 2016

## 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 2015, 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 2015 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)

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### 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 2015 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 \$638,808 during the period ended 31 December 2015. 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 25<sup>th</sup> day of February 2016