KEY PETROLEUM LIMITED

ABN 50 120 580 618

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED
31 DECEMBER 2010

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 2010 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 2010

ABN 50 120 580 618

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31 DECEMBER 2010

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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 2010.

DIRECTORS

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

Dennis Wilkins	
Kenneth Russell	
John Sheppard	Appointed 31 August 2010
Edward Ellyard	Resigned 31 August 2010
Richard O'Shannassy	Resigned 31 August 2010

REVIEW AND RESULTS OF OPERATIONS

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

	2010	
	Revenues	**Results**
	$	**$**
Australia	62,707	(1,722,738)
United Kingdom	857,942	(1,342,768)
Tanzania	(41)	(3,856,081)
Italy	37	(44,154)
Consolidated entity revenues and loss	920,645	(6,965,741)

During the period ended 31 December 2010, Key Petroleum Limited produced 10,269 barrels of oil (2009: 5,047 barrels) from its United Kingdom operations.

The Company entered into a Joint Venture on the EP 437 permit and began drilling the Dunnart #1 well in December 2010. The Dibblers #2 well was completed in February 2011. Both wells were plugged and abandoned.

During the period work continued on Italy and Tanzanian projects. In February 2011 the Company announced that Aminex plc would acquire 15% of the Nyuni joint venture by paying 20% of the dry hole cost for the Nyuni 2 well.

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.

Dennis Wilkins
Chairman
Perth, 16 March 2011

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To The Board of Directors

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

This declaration is made in connection with our review of the financial report of Key Petroleum Limited and Controlled Entities for the half year ended 31 December 2010 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the review.

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 16th day of March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Half-year	
	2010	2009
	$	$
REVENUE FROM CONTINUING OPERATIONS	920,645	474,198
EXPENDITURE		
Cost of Goods Sold	(455,459)	(207,668)
Depreciation & Amortisation expense	(1,628,383)	(1,122,322)
Exploration costs written off	(4,900,363)	(1,681,383)
Salaries and employee benefits expense	(137,850)	(82,021)
Corporate expenditure	(128,187)	(730,188)
Administration costs	(636,144)	(606,317)
Share based expense	-	-
Share of net loss of associate accounted for using the equity method	(7)	(49)
Other expenses	7	-
LOSS BEFORE INCOME TAX	(6,965,741)	(3,955,750)
Income tax expense	-	-
LOSS FOR THE HALF-YEAR	(6,965,741)	(3,955,750)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(446,302)	(547,398)
Other comprehensive income for the period, net of tax	(446,302)	(547,398)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	(7,412,042)	(4,503,148)
Basic and diluted earnings per share (cents)	(4.42)	(3.27)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

KEY PETROLEUM LIMITED

31 DECEMBER 2010

ABN 50 120 580 618

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	31-Dec 2010 $	30-Jun 2010 $
CURRENT ASSETS		
Cash and cash equivalents	4,001,748	2,902,916
Trade and other receivables	394,179	594,536
Inventories	46,516	47,237
TOTAL CURRENT ASSETS	4,442,443	3,544,689
NON-CURRENT ASSETS		
Receivables	75,592	75,254
Plant and equipment	119,341	145,305
Petroleum assets	784,146	2,787,049
Capitalised exploration costs	308,081	3,546,076
TOTAL NON-CURRENT ASSSETS	1,287,160	6,553,684
TOTAL ASSETS	5,729,603	10,098,373
CURRENT LIABILITIES		
Trade and other payables	220,296	667,192
TOTAL CURRENT LIABILITIES	220,296	667,192
NON CURRENT LIABILITIES		
Abandonment Provision	498,048	575,707
TOTAL NON CURRENT LIABILITIES	498,048	575,707
TOTAL LIABILITIES	718,344	1,242,899
NET ASSETS	5,011,259	8,855,474
EQUITY		
Issued capital	28,198,284	24,599,056
Reserves	(1,017,748)	(471,169)
Accumulated losses	(22,169,277)	(15,272,413)
TOTAL EQUITY	5,011,259	8,855,474

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Issued Capital	Options Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
BALANCE AT 1 JULY 2009	19,868,699	276,557	(87,870)	(9,200,407)	10,856,979
Total comprehensive income for the period	-	-	(547,398)	(3,955,750)	(4,503,148)
Shares issued during the period	4,749,307	-	-	-	4,749,307
Share issue transaction costs	(113,950)	-	-	-	(113,950)
BALANCE AT 31 DECEMBER 2009	24,504,056	276,557	(635,268)	(13,156,157)	10,989,188
BALANCE AT 1 JULY 2010	24,599,056	309,177	(780,346)	(15,272,413)	8,855,474
Total comprehensive income for the period	-	-	(446,302)	(6,965,741)	(7,412,043)
Shares issued during the period	3,675,605	-	-	-	3,675,605
Share issue transaction costs	(296,377)	-	-	-	(296,377)
Employee share options	220,000	(100,277)	-	68,877	188,600
BALANCE AT 31 DECEMBER 2010	28,198,284	208,900	(1,226,648)	(22,169,277)	5,011,259

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	Half-year 2010 $	Half-year 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		917,826	460,771
Payments to suppliers and employees		(1,719,836)	(1,650,920)
Expenditure on mining interests		(1,719,187)	(512,154)
Interest received		62,077	62,341
Net cash (outflow) from operating activities		(2,459,120)	(1,639,962)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of subsidiaries, net of cash acquired		-	(202,384)
Payments for plant and equipment		(5,904)	(6,079)
Net cash (outflow) from investing activities		(5,904)	(208,463)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares and options		3,567,827	4,635,357
Repayment of borrowings/project acquisition		-	(4,001,662)
Net cash inflow from financing activities		3,567,827	633,695
Net increase (decrease) in cash and cash equivalents		1,102,803	(1,214,730)
Cash and cash equivalents at the beginning of the half-year		2,902,916	5,594,855
Effect of exchange rate movement on cash held in foreign currencies		(3,971)	(10,062)
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR		4,001,748	4,370,063

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010

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

This general purpose financial report for the interim half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

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 year ended 30 June 2010 and any public announcements made by Key Petroleum Limited during the interim 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.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

NOTE 2: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources

The Group is managed primarily on the basis of geographic location of assets given that the type of work done in each location is of a similar nature. Operating segments are therefore determined on this basis.

Types of activites by segment

Australia

The Australian segment is engaged in exploration for oil and gas in the company's interests in Australia.

United Kingdom

The United Kingdom segment produces oil for sale and conducts exploration on the company's licenses.

Tanzania

The Tanzanian segment is engaged in exploration for oil and gas in the company's interests in Tanzania

Italy

The Italian segment is engaged in exploration for oil and gas in the company's interests in Italy.

Basis for accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Intersegment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set annually and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Inter-segment loans payable and receivable are intitially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

NOTE 2: OPERATING SEGMENTS (continued)

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

(i) Segment performance

Six months ended 31.12.2010	United Kingdom $	Tanzania $	Italy $	Australia $	Total $
Revenue					
External sales	857,942	-	-	-	857,942
Inter-segment sales	-	-	-	-	-
Interest revenue	-	(41)	37	-	(4)
Total Segment Revenue	857,942	(41)	37	-	857,938
Reconciliation of segment revenue to group revenue					
Intersegment elimination					
Total group revenue					920,645
Segment net profit before tax	271,260	(6,663)	(33,606)	-	230,991
Reconciliation of segment result to group profit/(loss) before tax					
Amounts not included in the segment result but reviewed by the Board:					
Depreciation and amortisation	(1,614,028)	-	-	-	(1,614,028)
Impairment of capitalised exploration costs		(3,858,418)	(10,548)	(1,031,397)	(4,900,363)
Equity accounted profits of associates and JVs					(7)
Impairment of investment					7
Interest revenue					62,703
Administration charges					(590,246)
Corporate charges					(119,074)
Unallocated Items:					
Depreciation and amortisation					(14,355)
Other					(21,369)
Net profit before tax from continuing operations					(6,965,741)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (continued)

NOTE 2: OPERATING SEGMENTS (continued)

(i) Segment performance

Six months ended 31.12.2009	United Kingdom $	Tanzania $	Italy $	Australia $	Total $
Revenue					
External sales	400,175	-	-	-	400,175
Inter-segment sales	-	-	-	-	-
Interest revenue	-	-	112	-	112
Total Segment Revenue	400,175	-	112	-	400,287
Reconciliation of segment revenue to group revenue					
Intersegment elimination	-	-	-	-	-
Total group revenue					474,198
Segment net profit before tax	(208,954)	(241)	(78,196)	-	(287,390)
Reconciliation of segment result to group profit/(loss) before tax					
Amounts not included in the segment result but reviewed by the Board:					
Depreciation and amortisation	(1,104,119)	-	-	-	(1,104,119)
Impairment of capitalised exploration costs	-	(1,695,896)	-	-	(1,695,896)
Equity accounted profits of associates and JVs					(49)
Interest revenue					73,911
Administration charges					(340,637)
Corporate charges					(536,854)
Unallocated Items:					
Depreciation and amortisation					(18,204)
Other					(46,512)
Net profit before tax from continuing operations					(3,955,750)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (continued)

NOTE 2: OPERATING SEGMENTS (continued)

(ii) Segment assets

	United Kingdom	Tanzania	Italy	Australia	Total
31.12.2010					
Segment assets	1,691,097	38,694	173,327	-	1,903,118
Segment asset increases for the period:					
Capital expenditure	92,457	484,940	-	1,031,397	1,608,794
Acquisitions	-	-	-	-	-
	92,457	484,940	-	1,031,397	1,608,794
Reconciliation of segment assets to group assets					
Inter-segment eliminations					
Unallocated assets:					
Corporate assets					3,826,485
Equity accounted associates and joint ventures					-
Total group assets from continuing operations					5,729,603

(ii) Segment assets

	United Kingdom	Tanzania	Italy	Australia	Total
30.06.2010					
Segment assets	3,757,518	3,280,197	177,846	-	7,155,561
Segment asset increases for the period:					
Capital expenditure	271,846	565,195		-	837,041
Acquisitions	4,202,268	-	-	-	4,202,268
	4,474,114	565,195	-	-	5,039,309
Reconciliation of segment assets to group assets					
Inter-segment eliminations	-	-	-		-
Unallocated assets:					
Corporate assets					2,942,812
Equity accounted associates and joint ventures					-
Total group assets from continuing operations					10,098,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (continued)

NOTE 2: OPERATING SEGMENTS (continued)

(iii) Segment liabilities

	United Kingdom	Tanzania	Italy	Australia	Total
31.12.2010					
Segment liabilities	4,723,972	595,437	37,317	-	5,356,726
Reconciliation of segment liabilities to group liabilities					
Intersegment elimination					(4,752,435)
Unallocated liabilities					
Corporate liabilities					114,052
Total Liabilities from continuing operations					718,343

(iii) Segment liabilities

	United Kingdom	Tanzania	Italy	Australia	Total
30.06.2010					
Segment liabilities	5,662,001	509,671	36,773	-	6,208,445
Reconciliation of segment liabilities to group liabilities					
Intersegment elimination	-	-	-	-	(5,205,524)
Unallocated liabilities					
Corporate liabilities					239,978
Total Liabilities from continuing operations					1,242,899

(iv) Major customers

The Group has one customer in the United Kingdom segment which accounts for 100% of external revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (continued)

NOTE 3: EQUITY SECURITIES ISSUED

	2010 Shares	2010 $	2009 Shares	2009 $
Issues of ordinary shares during the half-year				
Issued for cash @ 4 cents per share	**62,830,134**	**2,622,005**	-	-
Issued for cash @ 5.3 cents per share	**19,501,887**	**1,033,600**		
Issued as consideration for consulting services	**420,168**	**20,000**	-	-
Adjustment for listed options issued in 2007		**220,000**		
Issued for cash @ 11 cents per share	**-**	**-**	43,175,513	4,749,306
Transaction costs	**-**	**(296,377)**	-	(113,950)
	82,752,189	**3,599,228**	43,175,513	4,635,356

	Number of options 2010	Number of options 2009
Movements of options during the half-year		
Issued, exercisable at 7.5 cents, on or before 30 November 2011 (listed)	**39,615,058**	-
Expired on 30 November 2010, exercisable at 50 cents (unlisted)	**(5,000,000)**	-
Expired/cancelled, exercisable at 20 cents, on or before 30 November 2010 (unlisted)	**(700,000)**	(200,000)
	33,915,058	(200,000)

NOTE 4: CONTINGENCIES

There has been no change in contingent liabilities or contingent assets since the last annual reporting date.

NOTE 5: SUBSEQUENT EVENTS

On the 14th January, 2011, the Company announced that the Dunnart #1 well on the EP 437 permit had been completed and that the Joint Venture had made a decision to plug and abandon the well.

On the 4th February, 2011 the Company announced that it had entered into a binding Heads of Agreement to decrease its interest in the Nyuni Production Sharing Agreement in Tanzania ('Nyuni PSA') from 20% to 5% through a farm-out arrangement with Aminex plc.

Under the terms of the farm-out, Aminex will fund a 20% share in the dry hole cost of the forthcoming Nyuni-2 exploration well in Tanzania to acquire a 15% interest in the PSA from Key Petroleum. The farm-out transaction has been approved by the Tanzanian Government as detailed in an announcement on the 25th February 2011.

Once the farm-out conditions have been satisfied, Key Petroleum will be responsible for 5% of the ongoing costs under the PSA, including any testing and completion costs of the Nyuni-2 well. The 15% interest being acquired by Aminex includes a 15% share of the tested Kiliwani North gas discovery and of the logged but not tested gas discovery in Albian-Aptian sands in the Nyuni-1 well, drilled in 2004.

On the 7th February, 2011, the Company announced the completion of the Dibblers #2 well on the EP 437 permit and that the Joint Venture had made a decision to plug and abandon the well.

NOTE 6: GOING CONCERN

The accounts have been prepared on the going concern basis, which contemplates continuity of normal activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred a loss from general business activities of $6,965,741 for the half year ended 31 December 2010 (2009: $3,955,750 loss). Included within this loss was the write off of exploration expenditure of $4,900,363 (2009: $1,681,383).

The net working capital position of the Group at 31 December 2010 was $4,222,147 (June 2010: $2,877,497) and the net increase in cash held during the half year was $1,102,803 (June 2010: $2,691,939 decrease).

The Group has expenditure commitments relating to work programme obligations of their assets of $6,506,000 which potentially could fall due in the six months to 30 June, 2011. $5,000,000 of these commitments relate to the requirement to drill a well in the Tanzanian West Songo Songo block in the first half of 2011. However, drill rig availabilities may limit the Group's ability to drill within this timeframe. The Group is currently in talks regarding options for the divestment of its share of the West Songo Songo permit however there can be no guarantee that divestment will occur.

The ability of the Group to continue to pay its debts as and when they fall due is dependent upon the Company successfully raising additional share capital, continuing to enhance and develop its oil producing assets, possibly divesting some assets and ultimately developing its other assets.

NOTE 6: GOING CONCERN (continued)

Should the Group not be successful in its planned capital raisings, it may be necessary to sell some of its assets, farm out exploration projects and/or reduce exploration expenditure by various methods including surrendering or withdrawing from less prospective tenements. Should the Company be unable to raise the funds to meet its commitments in Tanzania, it is possible that the Group would default on its joint venture obligations. There is also a possibility that the Group could then be subjected to claims by its joint venture partner for failing to meet its financial obligations and damages for losses which may arise.

Although the Directors believe that they will be successful in these measures, if they are not, the Group may be unable to continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The Directors also recognise, that should the Group fail to secure the required funding to maintain its assets in good standing then the Directors would then be in a position whereby they could not commit to further capital expenditure on them. The consequences of this eventuating are that some of the Group's asset values could be severely impaired or even lost.

However, whilst bearing all of the above comments in mind, in light of the Group's current exploration and development projects, the Directors believe it is appropriate to prepare these accounts on a going concern basis because they have an ongoing and appropriate business plan which includes raising additional funds as and when required.

NOTE 7 : COMMITMENTS

(a) 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 Dec 10	30 June 10
within one year	6,506,000	20,045,000
later than one year but not later than five years	5,101,960	5,956,000
	11,607,960	26,001,000

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 17 are in accordance with the *Corporations Act 2001*, including:
   (a) complying with Accounting Standards AASB 134: Interim Financial Reporting; and
   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 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.

Dennis Wilkins
Chairman
Perth, 16 March 2011

Bentleys
Thinking ahead

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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 consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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.

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 2010 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 Key Petroleum Limited, 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.

Basis for Qualified Conclusion

Going Concern

As disclosed in Note 6 to the financial statements, the accounts have been prepared on the going concern basis, which contemplates continuity of normal activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Consolidated Entity incurred a loss from general business activities of $6,965,741 for the half year ended 31 December 2010. Included within this loss was the write off of exploration expenditure of $4,900,363.

The net working capital position of the Consolidated Entity at 31 December 2010 was $4,222,147 and the net increase in cash held during the half year was $1,102,803.

The Consolidated Entity has expenditure commitments relating to work programme obligations of their assets of $6,506,000 which potentially could fall due in the six months to 30 June, 2011. $5,000,000 of these commitments relate to the requirement to drill a well in the Tanzanian West Songo Songo block in the first half of 2011. However, drill rig availabilities may limit the Consolidated Entity's ability to drill within this timeframe. The Consolidated Entity is currently in talks regarding options for the divestment of its share of the West Songo Songo permit, however there can be no guarantee that divestment will occur.

The ability of the Consolidated Entity to continue to pay its debts as and when they fall due is dependent upon the Company successfully raising additional share capital, continuing to enhance and develop its oil producing assets, possibly divesting some assets and ultimately developing its other assets.

Should the Consolidated Entity not be successful in its planned capital raisings, it may be necessary to sell some of its assets, farm out exploration projects and/or reduce exploration expenditure by various methods including surrendering or withdrawing from less prospective tenements. Should the Company be unable to raise the funds to meet its commitments in Tanzania, it is possible that the Consolidated Entity would default on its joint venture obligations. There is also a possibility that the Consolidated Entity could then be subjected to claims by its joint venture partner for failing to meet its financial obligations and damages for losses which may arise.

As a result of these matters, a material uncertainty exists which may cast significant doubt on the Consolidated Entity's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

Qualified Conclusion

Based on our review, which is not an audit, with the exception of the matter described in the preceding paragraph, 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 2010 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.

Bentleys

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 16th day of March 2011