



"...we have continued to progress our existing projects but, more importantly, we continued to evaluate several projects and opportunities with potential to rapidly grow the company..."

Ted Ellyard *Chairman*

## CHAIRMAN'S LETTER

Dear Shareholder,

I am pleased to present to you the 2009 Annual Report for Key Petroleum and to advise that our Company has now achieved oil producer status following the acquisition of two onshore oil fields in the United Kingdom.

The 2009 financial year has been difficult with the Global Financial Crisis affecting the ability of companies to source capital and impacting on the share price of most resource companies. Whilst Key Petroleum was affected by the lack of liquidity in the market, we have continued to progress our existing projects but, more importantly, we continued to evaluate several projects and opportunities with potential to rapidly grow the company.

The recent acquisition of the UK producing oil fields represents the first new project to be added to the Company's portfolio since listing on ASX in April 2007 and we therefore wanted to ensure that it was as low risk as possible but with significant upside growth potential. Whilst current oil production levels from these fields are modest at about 85 barrels per day, it will provide an important positive cash flow to the Company. However, we are hopeful of increasing production levels by a factor of 5 times or greater by drilling a single horizontal well into one of the fields in early 2010.

Last year I talked about our drilling success in Tanzania, with the second well, Kiliwani North #1, discovering a gas accumulation and flow testing at the significant rate of 40 million cubic feet per day. Unfortunately, our plan to get this field into production has not progressed as quickly as we had hoped, due to delays in the approval process and gas price negotiations.

In Italy, we have continued to develop our current portfolio of one onshore and three offshore projects. Considerable administration effort has been required to establish Key Petroleum as an active participant and operator in the Italian petroleum industry. We are confident this effort will provide long term benefits to the Company and it has already enabled Key Petroleum to pursue some exciting and significant opportunities in this region.

Key Petroleum has a small but highly skilled technical team and administration staff based in Perth led by our CEO, Ken Russell, who is a petroleum engineer with many years international experience. I would like to thank Ken and his team for their tireless work over the past year to build and grow the Company.

I would also like to thank our long standing shareholders for their continuing support and welcome new shareholders following the recent capital raising of approx \$4.7 million. This has put Key Petroleum in a strong position to expand our operating roles and achieve our aims for increasing oil and gas production from multiple projects over the next two years.



**Ted Ellyard**  
Chairman