



"...we have elevated Key Petroleum Ltd from purely an exploration company into both an explorer and an oil producer..."

Ken Russell *MD/CEO*



CHIEF EXECUTIVE'S REVIEW

THE YEAR IN REVIEW WITH CEO KEN RUSSELL

Twelve months ago I stated in my 2008 annual review that the strategy for Key Petroleum Ltd through into 2009 would be similar to that undertaken throughout 2007 to 2008. I stressed that Key Petroleum's management saw the crucial elements of that strategy as being, in the short term, the commercialisation of the Kiliwani North #1 gas discovery in Tanzania; the expansion of our business in Italy and opening up further opportunities in and around that country. The longer term strategy for Key was to seek out further opportunities that would provide continuing growth and wealth creation for shareholders.

So how have we fared? Commercialisation of our Kiliwani North #1 gas find is ongoing, admittedly not as rapidly as we would have liked but is still progressing. A number of issues have slowed the process, such as protracted negotiations with the TPDC (Tanzanian Petroleum Development Corporation) over the pricing and taxation regime that would be applied to gas distributed via the existing Songo Songo gas plant and through the interconnecting pipeline to Dar es Salaam. There has also been much discussion within the Nyuni joint venture as to whether to tie back the Kiliwani North #1 well to the Songo Songo gas plant or build a standalone gas treatment plant.

The Nyuni joint venture also had uncertainties over the size of the gas field structure, particularly to the north and during the year the joint venture has undertaken further field seismic acquisition as well as some reprocessing of existing seismic in an attempt to understand the regional geology and specifically the Kiliwani structures. Analysis of results from that work is currently ongoing.

The global financial crisis during the year impacted all companies of our size and this was a major factor in us deciding to exit our project in Namibia. Our conclusion at that time was that attracting farm-in partners into this offshore project would be very difficult. We had previously been bullish about the Namibian project but in times where cost controls are imperative we made the decision that the Company could not assume liability for the additional and ongoing expenditure.

Elsewhere though, we have stuck with our plans to grow the Company. We have continued to consolidate our position in Italy where we have completed a number of environmental impact assessments which have been approved by the Italian authorities. We are now, subject to governmental approval, very close to the point where the application areas will be converted into exploration permits.

The longer term strategy for Key was, as I have said, to seek out further opportunities that will provide continuing growth and wealth creation for shareholders. We believe we have done that by securing two oil producing assets located onshore in southern England. Through the acquisition of these producing assets for the sum of £2,000,000, we have elevated Key Petroleum Ltd from purely an exploration company into both an explorer and an oil producer. Now, with both oil and gas assets, we believe we have positioned Key well for continued growth in the coming year and beyond.

Plans are well underway to improve oil production from these newly acquired oil fields and particularly at our Lidsey oil field. There we will be drilling a horizontal well with considerable upside potential, possibly up to 500 bbls of oil or more per day based on studies and research of the area.

As we move forward Key Petroleum Ltd's management team has a substantial workload. The planning for the Lidsey horizontal well is underway with drilling currently scheduled for IQ 2010. The optimisation of oil production from both our oil producing fields, the continuing commercialisation process for our gas assets and expansion of our European strategy with Italy as its centre point, combined together with our search for further producing assets with upside, cause me to believe that the Company is well placed for future growth.

