

KEY PETROLEUM LIMITED

ABN 50 120 580 618

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2008

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 2008 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 2008**

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KEY PETROLEUM LIMITED

31 DECEMBER 2008

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 2008.

DIRECTORS

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

Edward Ellyard

Kenneth Russell

Terrence Nilsen (resigned 8 July 2008)

Dennis Wilkins

Richard O'Shannassy

REVIEW AND RESULTS OF OPERATIONS

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

	2008	
	Revenues	Results
	\$	\$
Australia	789,444	181,631
Tanzania	265	(26,435)
Italy	300	(9,179)
Consolidated entity revenues and loss	<u>790,009</u>	<u>146,017</u>

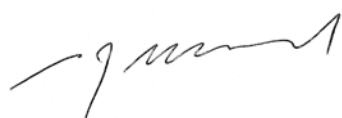
During the period under review the Company realised the above revenues substantially from its foreign currency holdings. A gain of \$549,188 was the result of the decision to hold United States dollars to hedge future expenditures against movement in the Australian dollar.

Key Petroleum Limited is an active petroleum exploration Company, currently focused primarily in Tanzania and Italy. The Company continues to review global opportunities that will provide future growth.

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.



Ted Ellyard

Chairman

Perth, 13 March 2009

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 2008 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
Chartered Accountants



RANKO MATIĆ
Director

DATED at PERTH this 13th day of March 2009

KEY PETROLEUM LIMITED**31 DECEMBER 2008****CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Half-year	
	2008	2007
	\$	\$
REVENUE FROM CONTINUING OPERATIONS	790,009	457,923
EXPENDITURE		
Depreciation expense	(22,821)	(27,489)
Exploration costs written off	(3,650)	(4,552,489)
Salaries and employee benefits expense	(234,974)	(273,983)
Corporate expenditure	(111,444)	(164,514)
Administration costs	(209,458)	(317,461)
Share based expense	(50,325)	(6,232)
Share of net loss of associate accounted for using the equity method	(11,320)	(14,537)
Other expenses	-	(169,659)
PROFIT/(LOSS) BEFORE INCOME TAX	146,017	(5,068,441)
Income tax benefit / (expense)	-	-
PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	146,017	(5,068,441)
Basic earnings per share (cents)	0.2	(5.9)
Diluted earnings per share (cents)	0.2	(5.9)

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

KEY PETROLEUM LIMITED**31 DECEMBER 2008****CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008**

	31 December 2008 \$	30 June 2008 \$
CURRENT ASSETS		
Cash and cash equivalents	7,373,624	8,777,786
Trade and other receivables	249,096	189,246
TOTAL CURRENT ASSETS	7,622,720	8,967,032
NON-CURRENT ASSETS		
Receivables	62,047	27,538
Investments accounted for using the equity method	517,807	529,127
Plant and equipment	157,986	132,509
Petroleum permits and capitalised exploration costs	5,985,312	4,579,031
Intangible assets	2,891	2,891
TOTAL NON-CURRENT ASSETS	6,726,043	5,271,096
TOTAL ASSETS	14,348,763	14,238,128
CURRENT LIABILITIES		
Trade and other payables	104,047	217,992
TOTAL CURRENT LIABILITIES	104,047	217,992
TOTAL LIABILITIES	104,047	217,992
NET ASSETS	14,244,716	14,020,136
EQUITY		
Issued capital	19,868,699	19,868,699
Reserves	293,452	214,889
Accumulated losses	(5,917,435)	(6,063,452)
TOTAL EQUITY	14,244,716	14,020,136

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

KEY PETROLEUM LIMITED**31 DECEMBER 2008****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Half-year	
	2008	2007
	\$	\$
TOTAL EQUITY AT THE BEGINNING OF THE HALF-YEAR	14,020,136	19,550,428
Exchange differences on translation of foreign operations	28,238	(2,332)
NET INCOME RECOGNISED DIRECTLY IN EQUITY	28,238	(2,332)
PROFIT/(LOSS) FOR THE HALF-YEAR	146,017	(5,068,441)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE HALF-YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	174,255	(5,070,773)
Transactions with equity holders in their capacity as equity holders:		
Shares and options issued during the half-year	-	220,000
Employee share options	50,325	6,232
	50,325	226,232
TOTAL EQUITY AT THE END OF THE HALF-YEAR	14,244,716	14,705,887

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

KEY PETROLEUM LIMITED**31 DECEMBER 2008****CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Half-year	
	2008	2007
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Expenditure on mining interests	(1,490,505)	(2,408,607)
Payments to suppliers and employees	(608,902)	(918,852)
Interest received	194,354	445,468
Net cash (outflow) from operating activities	(1,905,053)	(2,881,991)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchases of subsidiaries, net of cash acquired	-	(24,234)
Payments for plant and equipment	(48,297)	(22,799)
Net cash (outflow) from investing activities	(48,297)	(47,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares and options	-	220,000
Net cash inflow from financing activities	-	220,000
Net increase (decrease) in cash and cash equivalents	(1,953,350)	(2,709,024)
Cash and cash equivalents at the beginning of the half-year	8,777,786	15,055,731
Effect of exchange rate movement on cash held in foreign currencies	549,188	-
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	7,373,624	12,346,707

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

KEY PETROLEUM LIMITED**31 DECEMBER 2008****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****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 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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 2008 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 period and corresponding interim reporting period.

NOTE 2: SEGMENT INFORMATION**Primary reporting format – geographic segments**

	Australia	Tanzania	Italy	Total
	\$	\$	\$	\$
Half-year 2008				
Total segment revenue	789,444	265	300	790,009
Intersegment elimination				-
Consolidated revenue				<u>790,009</u>
Segment result	181,631	(26,435)	(9,179)	146,017
Intersegment elimination				-
Loss before income tax				<u>146,017</u>
Half-year 2007				
Total segment revenue	457,625	158	140	457,923
Intersegment elimination				-
Consolidated revenue				<u>457,923</u>
Segment result	(454,410)	(4,552,331)	(61,700)	(5,068,441)
Intersegment elimination				-
Loss before income tax				<u>(5,068,441)</u>

KEY PETROLEUM LIMITED

31 DECEMBER 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3: EQUITY SECURITIES ISSUED

	Number of options	
	2008	2007
Issue of options during the half-year		
Exercisable at 50 cents, on or before 30 November 2010 (unlisted)	5,000,000	-
Exercisable at 20 cents, on or before 30 November 2010 (unlisted)	750,000	-
Exercisable at 35 cents, on or before 31 March 2009 (listed) ⁽¹⁾	-	44,000,002
Exercisable at 35 cents, on or before 31 March 2009 (unlisted)	-	225,000
	5,750,000	44,225,002

(1) These options were issued at 0.5 cents each, to raise a total of \$220,000.

NOTE 4: CONTINGENCIES

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

NOTE 5: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2008, 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 2008

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 11 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 2008 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.



Ted Ellyard

Chairman

Perth, 13 March 2009

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 and Controlled Entities (the consolidated entity) which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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 consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim 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 consolidated entity's financial position as at 31 December 2008 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 and Controlled Entities, 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.

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Independent Auditor's Review Report

To the Members of Key Petroleum Limited and Controlled Entities (Continued)



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 consolidated entity's financial position as at 31 December 2008 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.

A handwritten signature in blue ink that reads "Bentleys".

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink that reads "Ranko Matić".

RANKO MATIĆ
Director

DATED at PERTH this 13th day of March 2009