

KEY PETROLEUM LIMITED

ABN 50 120 580 618

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2007

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 2007 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 2007

Contents	Page
DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION	4
CONSOLIDATED INCOME STATEMENT	5
CONSOLIDATED BALANCE SHEET	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	7
CONSOLIDATED CASH FLOW STATEMENT	8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	9
DIRECTORS' DECLARATION	12
INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS	13

KEY PETROLEUM LIMITED

31 DECEMBER 2007

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 2007.

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

Dennis Wilkins

Richard O'Shannassy (appointed 1 July 2007)

REVIEW AND RESULTS OF OPERATIONS

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

	2007	
	Revenues	Results
	\$	\$
Australia	457,625	(454,410)
Tanzania	158	(4,552,331)
Italy	140	(61,700)
Consolidated entity revenues and loss	<u>457,923</u>	<u>(5,068,441)</u>

Key Petroleum Limited is an active petroleum exploration Company, currently focused primarily in Tanzania and Italy. However, 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.



Kenneth Russell

Managing Director

Perth, 12 March 2008

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 2007 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 12th day of March 2008

KEY PETROLEUM LIMITED**31 DECEMBER 2007****CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Half-year	
	2007	2006
		(unaudited)
	\$	\$
REVENUE FROM CONTINUING OPERATIONS	457,923	323
EXPENDITURE		
Depreciation expense	(27,489)	-
Exploration costs written off	(4,552,489)	-
Salaries and employee benefits expense	(273,983)	-
Corporate expenditure	(164,514)	(630)
Administration costs	(317,461)	(950)
Share based expense	(6,232)	-
Share of net loss of associate accounted for using the equity method	(14,537)	-
Other expenses	(169,659)	-
LOSS BEFORE INCOME TAX	(5,068,441)	(1,257)
Income tax benefit / (expense)	-	-
LOSS ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	(5,068,441)	(1,257)
Basic and diluted loss per share (cents)	(5.9)	N/A

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

KEY PETROLEUM LIMITED**31 DECEMBER 2007****CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007**

	31 December 2007 \$	30 June 2007 \$
CURRENT ASSETS		
Cash and cash equivalents	12,346,707	15,055,731
Trade and other receivables	158,430	107,264
TOTAL CURRENT ASSETS	12,505,137	15,162,995
NON-CURRENT ASSETS		
Receivables	26,540	24,135
Investments accounted for using the equity method	548,696	563,233
Plant and equipment	147,543	157,987
Petroleum permits and capitalised exploration costs	1,566,599	3,724,891
Intangible assets	27,424	-
TOTAL NON-CURRENT ASSETS	2,316,802	4,470,246
TOTAL ASSETS	14,821,939	19,633,241
CURRENT LIABILITIES		
Trade and other payables	108,306	82,813
Provisions	7,746	-
TOTAL CURRENT LIABILITIES	116,052	82,813
TOTAL LIABILITIES	116,052	82,813
NET ASSETS	14,705,887	19,550,428
EQUITY		
Issued capital	19,868,699	19,868,699
Reserves	223,900	-
Accumulated losses	(5,386,712)	(318,271)
TOTAL EQUITY	14,705,887	19,550,428

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

KEY PETROLEUM LIMITED**31 DECEMBER 2007****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Half-year	
	2007	2006 (unaudited)
	\$	\$
TOTAL EQUITY AT THE BEGINNING OF THE HALF-YEAR	19,550,428	-
Exchange differences on translation of foreign operations	(2,332)	-
NET INCOME RECOGNISED DIRECTLY IN EQUITY	(2,332)	-
LOSS FOR THE HALF-YEAR	(5,068,441)	(1,257)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE HALF-YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	(5,070,773)	(1,257)
Transactions with equity holders in their capacity as equity holders:		
Shares and options issued during the half-year	220,000	1
Employee share options	6,232	-
	226,232	1
TOTAL EQUITY AT THE END OF THE HALF-YEAR	14,705,887	(1,256)

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

KEY PETROLEUM LIMITED

31 DECEMBER 2007

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Half-year	
	2007	2006 (unaudited)
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Expenditure on mining interests	(2,408,607)	(100,000)
Payments to suppliers and employees	(918,852)	(1,800)
Interest received	445,468	323
Net cash (outflow) from operating activities	(2,881,991)	(101,477)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchases of subsidiaries, net of cash acquired	(24,234)	-
Payments for plant and equipment	(22,799)	(1,136)
Net cash (outflow) from investing activities	(47,033)	(1,136)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares and options	220,000	1
Funds received in advance of share issue	-	215,000
Payment in advance of share issue costs	-	(15,212)
Net cash inflow from financing activities	220,000	199,789
Net increase (decrease) in cash and cash equivalents	(2,709,024)	97,176
Cash and cash equivalents at the beginning of the half-year	15,055,731	-
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	12,346,707	97,176

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

KEY PETROLEUM LIMITED

31 DECEMBER 2007

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 2007 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 2007 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.

Comparative figures

Key Petroleum Limited was incorporated on 5 July 2006 as a private company and converted to a public company on 16 February 2007. This is the first interim report to be prepared by the Company. Comparative figures for the corresponding interim period are from 5 July to 31 December 2006 (unaudited).

NOTE 2: SEGMENT INFORMATION

Primary reporting format – geographic segments

	Australia	Tanzania	Italy	Total
	\$	\$	\$	\$
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>
Half-year 2006 (unaudited)				
Total segment revenue	323	-	-	323
Intersegment elimination				-
Consolidated revenue				<u>323</u>
Segment result	(1,257)	-	-	(1,257)
Intersegment elimination				-
Loss before income tax				<u>(1,257)</u>

KEY PETROLEUM LIMITED

31 DECEMBER 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3: EQUITY SECURITIES ISSUED

	2007 Shares	2007 \$	2006 Shares	2006 \$
Issue of ordinary shares during the half-year				
Issued on incorporation	-	-	5	1
	-	-	5	1

	Number of options	
	2007	2006
Issue of options during the half-year		
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	-
	<u>44,225,002</u>	-

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

NOTE 4: ACQUISITION OF SUBSIDIARIES

On 13 August 2007 Key Petroleum (Tanzania) Pty Ltd was incorporated in Western Australia with Key Petroleum Limited as the sole shareholder.

On 24 October 2007 Funguo Petroleum Pty Limited was incorporated in Tanzania with Key Petroleum Limited as the sole beneficial shareholder.

On 1 July 2007 the parent entity acquired 100% of the issued share capital of Puma Petroleum Limited ("Puma"), a company registered in the British Virgin Islands. Post acquisition, the legal domicile of Puma has been changed to Italy.

The acquired business contributed \$140 revenue and a loss of \$61,700 to the Group for the period from 1 July 2007 to 31 December 2007. At the date of acquisition the acquired entity was involved in oil and gas exploration in Italy.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$
Purchase consideration:	
Cash paid	24,533
Total purchase consideration	<u>24,533</u>
Fair value of net identifiable liabilities acquired	(2,891)
Goodwill	<u>27,424</u>

	Acquiree's carrying amount \$	Fair Value \$
Fair value of net identifiable liabilities acquired:		
Cash at bank	299	299
Payables	(3,190)	(3,190)
Net identifiable liabilities acquired	<u>(2,891)</u>	<u>(2,891)</u>

KEY PETROLEUM LIMITED

31 DECEMBER 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5: CONTINGENCIES

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

NOTE 6: SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2007, 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 2007

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 2007 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.



Kenneth Russell
Managing Director
Perth, 12 March 2008

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 2007, 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.

RLF Bentleys
Audit & Corporate Pty Ltd
ABN 33 121 222 802

Level 1
12 Kings Park Road
West Perth WA 6005

PO Box 44
West Perth WA 6872

T +61 8 9226 4500
F +61 8 9226 4300

www.bentleys.com.au

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 the consolidated entity's financial position as at 31 December 2007 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. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Key Petroleum Limited and Controlled Entities on 12th March 2008, would be in the same terms if provided to the directors as at the date of this auditor's review report

Independent Auditor's Review Report

To the Members of Key Petroleum Limited (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 the consolidated entity's financial position as at 31 December 2007 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
Chartered Accountants



RANKO MATIĆ
Director

DATED at PERTH this 12th day of March 2008