

Key Petroleum Ltd

ACN 120 580 618

Suite 7
154 Hampden Road
NEDLANDS
Western Australia 6009
Tel. +61 8 6389 0322
Fax: +61 8 6389 0697
info@keypetroleum.com
www.keypetroleum.com

15 March 2012

The Manager
The Australian Securities Exchange
The Company Announcements Office
Level 4/20 Bridge Street
SYDNEY NSW 2000

Dear Sir

**RE: KEY PETROLEUM LIMITED
HALF YEARLY REPORT FOR THE PERIOD ENDING 31 DECEMBER 2011**

Please find enclosed the Key Petroleum Limited Half Yearly Report for the period ending 31 December 2011 which includes the Consolidated Financial Statements.

Yours faithfully



**JL CRAIG MARSHALL
CHAIRMAN
KEY PETROLEUM LIMITED**

KEY PETROLEUM LIMITED

ABN 50 120 580 618

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2011

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 2011 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 2011

ABN 50 120 580 618

Contents	Page
DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION	4
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	5
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	7
CONSOLIDATED STATEMENT OF CASH FLOWS	8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	9
DIRECTORS' DECLARATION	19
INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS	20

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

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 2011.

DIRECTORS

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

Craig Marshall (appointed 7 December 2011)

Dennis Wilkins

John Sheppard

Kenneth Russell (resigned 7 December 2011)

REVIEW AND RESULTS OF OPERATIONS

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

	2011	
	Revenues	Results
	\$	\$
Australia	32,900	(631,967)
United Kingdom	882,051	(965,248)
Tanzania	-	(356,329)
Italy	86	(48,357)
Consolidated entity revenues and loss	915,037	(2,001,901)

During the period the Company acquired Gulliver Productions Pty Ltd from Empire Oil & Gas NL for an issue of 52 million shares in Key Petroleum Limited and a 22.5% interest of North Perth Basin Permit EP 437. This transaction was approved by shareholders at the Company's Annual General Meeting on 30 November 2011.

The Company, through its wholly-owned subsidiary Gulliver Productions Pty Ltd, holds interests in three exploration permits, a Retention Licence and a Production Licence in the Canning Basin, Western Australia.

During the period ending 31 December 2011 Mr Craig Marshall was appointed a Director and Chairman of the Company.

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.



JL Craig Marshall

Chairman

Perth, 15 March 2012

**Bentleys Audit & Corporate
(WA) Pty Ltd**

Level 1, 12 Kings Park Road
West Perth WA 6005
Australia

PO Box 44
West Perth WA 6872
Australia

ABN 33 121 222 802

T +61 8 9226 4500

F +61 8 9226 4300

bentleys.com.au

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 2011 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



CHRIS WATTS CA
Director

DATED at PERTH this 15th day of March 2012

KEY PETROLEUM LIMITED**31 DECEMBER 2011****ABN 50 120 580 618****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Half-year	
	2011	2010
	\$	\$
REVENUE FROM CONTINUING OPERATIONS	915,037	920,645
EXPENDITURE		
Cost of Goods Sold	(535,106)	(455,459)
Depreciation & Amortisation expense	(473,380)	(1,628,383)
Exploration costs written off	(1,012,092)	(4,900,363)
Salaries and employee benefits expense	(134,834)	(137,850)
Corporate expenditure	(121,425)	(128,187)
Administration costs	(637,644)	(636,144)
Interest expense	(2,457)	-
Share of net loss of associate accounted for using the equity method	-	(7)
Other expenses	-	7
LOSS BEFORE INCOME TAX	(2,001,901)	(6,965,741)
Income tax expense	-	-
LOSS FOR THE HALF-YEAR	(2,001,901)	(6,965,741)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	41,450	(446,301)
Other comprehensive income for the period, net of tax	41,450	(446,301)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED	(1,960,451)	(7,412,042)
Basic and diluted loss per share (cents)	(0.9)	(4.4)

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

KEY PETROLEUM LIMITED**31 DECEMBER 2011****ABN 50 120 580 618****CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	31 December 2011 \$	30 June 2011 \$
CURRENT ASSETS		
Cash and cash equivalents	1,201,195	1,972,248
Trade and other receivables	484,044	560,624
Inventories	-	93,806
TOTAL CURRENT ASSETS	1,685,239	2,626,678
NON-CURRENT ASSETS		
Receivables	30,365	48,903
Plant and equipment	11,496	92,211
Petroleum assets	-	452,286
Capitalised exploration costs	928,218	637,711
TOTAL NON-CURRENT ASSETS	970,079	1,231,111
TOTAL ASSETS	2,655,318	3,857,789
CURRENT LIABILITIES		
Trade and other payables	237,805	333,728
TOTAL CURRENT LIABILITIES	237,805	333,728
NON CURRENT LIABILITIES		
Provisions	504,139	499,211
TOTAL NON CURRENT LIABILITIES	504,139	499,211
TOTAL LIABILITIES	741,944	832,939
NET ASSETS	1,913,374	3,024,850
EQUITY		
Issued capital	29,146,158	28,214,283
Reserves	(1,181,623)	(1,140,173)
Accumulated losses	(26,051,161)	(24,049,260)
TOTAL EQUITY	1,913,374	3,024,850

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

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	Issued Capital	Options Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
BALANCE AT 1 JULY 2010	24,599,056	309,177	(780,346)	(15,272,413)	8,855,474
Loss for the half-year	-	-	-	(6,965,741)	(6,965,741)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(446,302)	-	(446,302)
TOTAL COMPREHENSIVE INCOME	-	-	(446,302)	(6,965,741)	(7,412,043)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
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
BALANCE AT 1 JULY 2011	28,214,283	208,900	(1,349,073)	(24,049,260)	3,024,850
Loss for the half-year	-	-	-	(2,001,901)	(2,001,901)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	41,450	-	41,450
TOTAL COMPREHENSIVE INCOME	-	-	41,450	(2,001,901)	(1,960,451)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the period	931,875	-	-	-	931,875
BALANCE AT 31 DECEMBER 2011	29,146,158	208,900	(1,390,523)	(26,051,161)	1,913,374

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

KEY PETROLEUM LIMITED**31 DECEMBER 2011****ABN 50 120 580 618****CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Half-year	
	2011	2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	873,798	917,826
Payments to suppliers and employees	(1,391,962)	(1,719,836)
Expenditure on mining interests	(287,590)	(1,719,187)
Interest received	27,292	62,077
Net cash outflow from operating activities	(778,462)	(2,459,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchases of subsidiaries, net of cash acquired	1,781	-
Refund of security deposit	18,768	-
Proceeds on sale of plant and equipment	10,000	-
Payments for plant and equipment	-	(5,904)
Net cash outflow from investing activities	30,549	(5,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares and options	1,876	3,567,827
Net cash inflow from financing activities	1,876	3,567,827
Net (decrease)/increase in cash and cash equivalents	(746,037)	1,102,803
Cash and cash equivalents at the beginning of the half-year	1,972,248	2,902,916
Effect of exchange rate movement on cash held in foreign currencies	(25,016)	(3,971)
CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR	1,201,195	4,001,748

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

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

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

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated 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 2011 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*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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 \$2,001,901 for the half year ended 31 December 2011 (2010: \$6,965,741 loss). Included within this loss was the write off of exploration expenditure of \$1,012,092 (2010: \$4,900,363).

The net working capital position of the Group at 31 December 2011 was \$1,447,434 (June 2011: \$2,199,144) and the net decrease in cash held during the half year was \$746,037 (June 2011: \$928,160 decrease).

The Group has expenditure commitments relating to work programme obligations of their assets of \$589,740 which potentially could fall due in the twelve months to 31 December 2012.

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. The Company constantly considers capital needs and capital raising opportunities.

Should the Group not be successful in its planned capital raisings, it may be necessary to sell further assets and reduce exploration expenditure by various methods including surrendering or withdrawing from less prospective tenements.

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.

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)**

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

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2011, 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 2011.

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 2011. 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.

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (continued)

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 activities by segment

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.

Australia

The Australian segment is newly acquired, refer note 4, and is engaged in exploration for oil and gas in the company's interests in Australia. There was no activity in this segment from the date of acquisition, hence this segment is not included in part (i).

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 initially 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.

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)

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 December 2011	United Kingdom \$	Tanzania \$	Italy \$	Total \$
Revenue				
External sales	854,071	-	-	854,071
Net foreign exchange gains	27,980	-	-	27,980
Interest revenue	-	-	86	86
Total Segment Revenue	882,051	-	86	882,137
<i>Reconciliation of segment revenue to group revenue</i>				
Interest revenue				23,599
Net foreign exchange gains				9,301
Total group revenue				915,037
Segment result before income tax	156,923	-	(48,357)	108,566
<i>Reconciliation of segment result to group profit/(loss) before tax</i>				
Amounts not included in the segment result but reviewed by the Board:				
Depreciation and amortisation	(255,649)	-	-	(255,649)
Impairment of capitalised exploration costs	(655,763)	(356,329)	-	(1,012,092)
Interest revenue				23,599
Administration charges				(536,471)
Corporate charges				(121,425)
Unallocated Items:				
Depreciation and amortisation				(217,732)
Other				9,303
Net loss before tax from continuing operations				(2,001,901)

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)**

NOTE 2: OPERATING SEGMENTS (continued)

(i) Segment performance

	United Kingdom	Tanzania	Italy	Total
	\$	\$	\$	\$
Six months ended 31 December 2010				
Revenue				
External sales	857,942	-	-	857,942
Inter-segment sales	-	-	-	-
Interest revenue	-	(41)	37	(4)
Total Segment Revenue	857,942	(41)	37	857,938
<i>Reconciliation of segment revenue to group revenue</i>				
Intersegment elimination	-	-	-	-
Total group revenue				920,645
Segment net profit before tax	271,260	(6,663)	(33,606)	230,991
<i>Reconciliation of segment result to group profit/(loss) before tax</i>				
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)	(3,868,966)
Equity accounted profits of associates and JVs				(7)
Impairment of investment				7
Interest revenue				62,703
Administration charges				(1,621,643)
Corporate charges				(119,074)
Unallocated Items:				
Depreciation and amortisation				(14,355)
Other				(21,369)
Net profit before tax from continuing operations				<u>(6,965,741)</u>

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)

NOTE 2: OPERATING SEGMENTS (continued)

(ii) Segment assets

31 December 2011

	United Kingdom	Tanzania	Italy	Australia	Total
Segment assets	918,038	29,536	75,462	930,000	1,953,036
<i>Reconciliation of segment assets to group assets</i>					
Inter-segment eliminations					-
Unallocated assets:					
Corporate assets					702,283
Total group assets from continuing operations					2,655,319
Segment asset increases for the period:					
Acquisitions	-	-	-	930,000	930,000
	-	-	-	930,000	930,000
30 June 2011					
Segment assets	1,905,677	62,254	70,252	-	2,038,183
<i>Reconciliation of segment assets to group assets</i>					
Inter-segment eliminations					-
Unallocated assets:					
Corporate assets					1,819,606
Total group assets from continuing operations					3,857,789
Segment asset increases for the period:					
Capital expenditure	423,645	586,858	-	-	1,010,503
	423,645	586,858	-	-	1,010,503

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)**

NOTE 2: OPERATING SEGMENTS (continued)

(iii) Segment liabilities

	United Kingdom	Tanzania	Italy	Australia	Total
31 December 2011					
Segment liabilities	5,212,471	610,637	86,981	-	5,910,089
<i>Reconciliation of segment liabilities to group liabilities</i>					
Intersegment elimination					(5,197,892)
Unallocated liabilities					
Corporate liabilities					29,747
Total Liabilities from continuing operations					741,944
30 June 2011					
Segment liabilities	5,218,219	655,724	74,237	-	5,948,180
<i>Reconciliation of segment liabilities to group liabilities</i>					
Intersegment elimination					(5,201,743)
Unallocated liabilities					
Corporate liabilities					86,502
Total Liabilities from continuing operations					832,939

(iv) Major customers

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

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)**

NOTE 3: EQUITY SECURITIES ISSUED

	2011 Shares	2011 \$	2010 Shares	2010 \$
Issues of ordinary shares during the half-year				
Issued as consideration for acquisition of subsidiary	52,000,000	930,000	-	-
Issued on exercise of listed options	25,000	1,875	-	-
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
Transaction costs	-	-	-	(296,377)
	52,025,000	931,875	82,752,189	3,599,228

	Number of options	
	2011	2010
Movements of options during the half-year		
Exercised at 7.5 cents, on or before 30 November 2011 (listed)	(25,000)	-
Expired on 30 November 2011, exercisable at 7.5 cents (listed)	(41,150,058)	-
Expired on 30 November 2011, exercisable at 30 cents (unlisted)	(250,000)	-
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)
	(41,425,058)	33,915,058

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (continued)**

NOTE 4: BUSINESS COMBINATION

On 7 December 2011, following shareholder approval at the Annual General Meeting held on 30 November 2011, Key Petroleum Limited acquired 100% of the issued share capital of Gulliver Productions Pty Ltd, an Australian private company.

The acquired business contributed nil revenue and nil results to the Group for the period from 7 December 2011 to 31 December 2011. If the acquisition had occurred on 1 July 2011, consolidated revenue and consolidated loss for the half-year ended 31 December 2011 would have been unchanged.

At the date of acquisition, the acquired entity was involved in oil and gas exploration in Australia.

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

	\$
Purchase consideration:	
52,000,000 ordinary shares	930,000
Total purchase consideration	930,000
Fair value of net identifiable assets acquired	930,000
Goodwill	-

	Acquiree's carrying amount	Fair Value
	\$	\$
Fair value of net identifiable assets acquired:		
Cash	1,782	1,782
Petroleum permits and capitalised exploration costs	121,759	928,218
Net identifiable assets acquired	123,541	930,000

	Half-year	
	2011	2010
	\$	\$
Cashflow information:		
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	-	-
Less: Balances acquired	1,782	-
Cash	1,782	-
Inflow of cash	1,782	-

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED
31 DECEMBER 2011 (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 2011, 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.

NOTE 7: 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 December 2011	30 June 2011
	\$	\$
within one year	589,740	1,264,117
later than one year but not later than five years	49,145	4,812,360
	638,885	6,076,477

KEY PETROLEUM LIMITED

31 DECEMBER 2011

ABN 50 120 580 618

DIRECTORS' DECLARATION

In the directors' opinion:

1. the financial statements and notes set out on pages 5 to 18 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 2011 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.



JL Craig Marshall

Chairman

Perth, 15 March 2012

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 2011, 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 2011 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.

Independent Auditor's Review Report

To the Members of Key Petroleum Limited (Continued)



Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

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 2011 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.

Emphasis of Matter

Without qualifying our conclusion, attention is drawn to the following matter. As a result of matters described in Note 1: Going Concern to the financial report, uncertainty exists whether Key Petroleum Limited and Controlled Entities will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. 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.

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 15th day of March 2012