

Key Petroleum Limited and its Controlled Entities

ABN 50 120 580 618

Annual Report

for the year ended 30 June 2013

Corporate Information

ABN 50 120 580 618

Directors

Ian Paton (Chairman & Non-Executive Director)

Kane Marshall (Managing Director)

Dennis Wilkins (Non-Executive Director)

Rex Turkington (Non-Executive Director)

Company Secretary

Ian Gregory

Registered Office and Principal Place of Business

Ground Floor, 39 Stirling Highway

NEDLANDS WA 6009

Telephone: +61 8 6389 0322

Facsimile: +61 8 6389 0697

Solicitors

Mizen & Mizen Pty Ltd

69 Mount Street

PERTH WA 6000

Bankers

National Australia Bank Limited

1232 Hay Street

WEST PERTH WA 6005

Share Register

Computershare Investor Services Pty Ltd

Level 2, Reserve Bank Building

45 St George's Terrace

PERTH WA 6000

Auditors

Bentleys

Level 1, 12 Kings Park Road

WEST PERTH WA 6005

Internet Address

www.keypetroleum.com.au

Email Address

info@keypetroleum.com.au

Stock Exchange Listings

Key Petroleum Limited shares (Code: KEY) are listed on the Australian Securities Exchange.

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Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Key Petroleum Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

DIRECTORS

The names and details of the Company's directors in office during the year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Kane Marshall (Managing Director)

Mr Marshall has several years' experience working in the international oil industry. He was most recently employed by Santos Ltd as a Consultant Production Engineer with the Roma Implementation Team in Brisbane and prior to that, as a Reservoir Engineer for both Chevron Australia and Woodside Energy on North West Shelf projects based in Perth.

Early in 2002 Mr Marshall moved to the United Kingdom where he worked for Highland Energy Limited as a Geologist and Reservoir Engineer then later with RWE Dea UK Limited as a Petroleum Engineer.

Mr Marshall holds academic qualifications which include a Masters of Petroleum Engineering from Curtin University, Bachelor of Science (Petroleum Geology) and a Bachelor of Commerce in Investment Finance and Corporate Finance.

Dennis Wilkins, B.Bus, AICD, ACIS (Non-Executive Director and Acting Chairman from 18 July 2012 to 31 August 2013)

Mr Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 22 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid-tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DW Corporate Pty Ltd which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a former director of Minemakers Limited, Enterprise Metals Limited, Marengo Mining Limited and South Boulder Mines Limited within the last 3 years.

Ian Paton, BSc(Hons), M Pet Eng, MBA (Chairman & Non-Executive Director)

Mr Paton, a Geophysicist and Petroleum Engineer has substantial worldwide experience in the oil and gas industry having held senior technical and management roles in both exploration and development with numerous companies including Santos Ltd, Conoco, Coogee Resources Pty Ltd, New Standard Energy and PTTEP, a national petroleum and exploration company of Thailand.

Ian has been instrumental in many oil and gas discoveries in Australia and South East Asia and the United States over the last 30 years.

Rex Turkington, BCom(Hons), AAFSI (Non-Executive Director - appointed 18 July 2012)

Mr Turkington is a highly experienced corporate advisor and economist who has worked extensively in the financial services and stockbroking industry in Australia, specialising in the exploration and mining sectors. He has extensive experience with equities, derivatives, foreign exchange and commodities, and has participated in numerous corporate initial public offerings and capital raisings for listed exploration and mining companies. Mr Turkington is currently a Director of an Australian corporate advisory company, offering corporate finance and investor relations advice to listed companies. He holds a first class Honours Degree in Economics, and is an Associate of the Financial Services Institute of Australia.

Craig Marshall was a director from the beginning of the year until 18 July 2012.

COMPANY SECRETARY

Ian Gregory, BBus, FCIS, FCSA, F Fin, MAICD (appointed 18 December 2012)

Ian is a professionally well-connected Director and Company Secretary with over 30 years' experience in the provision of company secretarial, governance and business administration services with listed and unlisted companies in a variety of industries, including oil and gas, exploration, mining, mineral processing, banking and insurance. He also has expertise which includes launching successful start-up operations through the development of the company secretarial role and board reporting processes.

Ian currently consults on company secretarial and governance matters to a number of listed companies.

Prior to founding his own consulting Company Secretarial business in 2005 Ian was the Company Secretary of Iluka Resources Ltd (6 years), IBJ Australia Bank Ltd Group, the Australian operations of The Industrial Bank of Japan (12 years), and the Griffin Coal Mining Group of companies (4 years).

Ian is a member of the Western Australian Branch Council of Chartered Secretaries Australia (CSA), a past Chairman of that body and has also served on the National Council of CSA.

Dennis Wilkins was company secretary from the beginning of the year until 18 December 2012.

Directors' Report (continued)

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Key Petroleum Limited were:

	Ordinary Shares	Options over Ordinary Shares	Performance Rights
Kane Marshall	9,000,000	12,000,000	4,000,000
Dennis Wilkins	-	1,500,000	-
Ian Paton	1,000,000	6,000,000	2,500,000
Rex Turkington	-	6,000,000	-

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the acquisition of petroleum permits, and the exploration of these permits with the objective of identifying economic oil and gas reserves.

DIVIDENDS

No dividends were paid or declared during the year. No recommendation for payment of dividends has been made.

OPERATING AND FINANCIAL REVIEW

Operations Review

This last financial year has been an exciting growth period for Key Petroleum Limited. The Company has quickly transitioned from having low impact minority international interests to being a focused junior oil and gas explorer in Australia. The Company through its recent acquisition of Emerald Oil and Gas NL's Canning Basin interests now holds a high equity position and is Operator of two exploration permits.

During the financial year, Key operated and drilled the Cyrene-1 exploration commitment well on behalf of the EP438 Joint Venture. Although the results from the conventional Willara Formation were disappointing, the Company was able to keep its portion of costs of the well to \$280,000 demonstrating the Company's ability to operate some of the most oppressive work conditions and during the notorious wet season of the Canning Basin. The acquisition of Goldwyer core data in this exploration campaign has now enabled Key to significantly de-risk other Goldwyer play concepts in EP448 and better understand the exploration potential in this part of the Canning Basin.

The acquisition and exploration activities of the Company carried out during the financial year were in line with the Company growth strategy outlined to shareholders at the 2012 Annual General Meeting.

Going forward the Company will continue its focus on operated exploration activities and vertical integration of new business opportunities that will involve high equity positions that align with the Company's exploration portfolio of interests.

Exploration Outlook

EP437

It is the intention of the EP437 joint venture to drill the exploration well Dunnart-2 (formerly Waugh-1) in the first or second quarter of this financial year but commencement of drilling is now dependent on formal environmental approval from the Department of Mines and Petroleum ("DMP"). The Dunnart-2 exploration well will target mean prospective recoverable oil in the order of 3 million barrels. If oil is recovered from a well test at Dunnart-2 then a follow up appraisal and development well location has been mapped at Dunnart-3 which will be immediately drilled after Dunnart-2 is either completed or suspended.

EP438

Since the drilling of the Cyrene-1 well, the EP438 joint venture has submitted a renewal programme with the DMP. The acquisition of the Goldwyer Formation core was pivotal in understanding other play concepts in the permit and it is expected that the renewal process could take a number of months before approval is formally granted.

Directors' Report (continued)

EP448

During the financial year, Key was awarded a variation to complete a 200km geochemistry soil survey, which is expected to be completed by the year, in place of the original 500km seismic commitment. The geochemistry survey has now been designed to cover all the unconventional and conventional leads and prospects that the technical team have identified.

These prospects and leads were a result of integrating maturity studies on the Goldwyer Formation together with Cyrene-1 core data, regional gravity data, seismic data and magnetic data to identify two large unconventional structures. Both structures are interpreted as having large sequences of source rocks from the Ordovician age sequence including the Bongabinni Formation and Goldwyer Formation source rocks. The integration of the data has also now identified a ridge between the Kidson Sub-basin and these two source area "lows" where a number of sizeable conventional oil leads and prospects have been mapped.

The Company has now actively moved the EP448 project to a stage where it has identified two well locations for 2014 including one conventional lead to be drilled with Walsh-1 and another well location, Amrbose-1 which will target a large unconventional structure in the south east of the permit. The planned geochemistry survey, together with environmental and heritage surveys, has been specifically designed so as to:

- Define further prospects and leads;
- Minimise environmental foot print with the use of helicopters;
- Enable timely processing of traditionally lengthy environmental approvals for 2014 drilling with the undertaking of the field environmental surveys;
- Scout two existing well locations for road, fixed wing and drill pad infrastructure with the intention of creating minimal disturbance to the environment;
- Enable timely processing of heritage approvals required for high impact exploration activities including drilling activity; and
- Keep costs to a minimum.

EP104/R1/L15

During the financial year a technical review was undertaken to understand the nature of the play concepts along the EP104/R1 and L15 trend. This review has identified several prospects for gas in close proximity to both Broome and Derby where a gas supply shortage has been identified ensuring that any commercial gas discoveries can be brought to market with very attractive economic metrics and commercial terms.

New Opportunities

In addition to the Emerald acquisition, the Company has identified, and continues to assess, a number of new opportunities. The opportunities will be pursued only on the basis that they fit the criteria as previously outlined to Shareholders.

Outlook

The outlook for Key Petroleum is extremely positive with cash reserves of over \$3.5 million at a time when there has been a shortage of liquidity in small equity markets. The Company has the ability to move quickly on any commercial opportunities, having a small team and reduced its overheads during the course of the financial year. Compared to peers in the oil and gas sector, the prospects are bright for Key with imminent exploration activity in the North Perth basin as well as in Key's flagship asset areas – the EP104/R1/L15 gas trend and the large acreage holding in EP448.

Finance Review

The Group has recorded an operating loss after income tax for the year ended 30 June 2013 of \$2,371,464 (2012: \$2,898,621). At 30 June 2013 funds available totalled \$3,564,704 (2012: \$1,460,859).

Operating Results for the Year

Summarised operating results are as follows:

	2013	
	Revenues	Results
	\$	\$
<i>Geographic segments</i>		
Australia	354,058	(1,711,910)
United Kingdom (discontinued operation, refer note 29)	-	(595,434)
Tanzania (discontinued operation, refer note 29)	8	(7,244)
Italy	-	(56,876)
Consolidated entity revenues and loss	354,066	(2,371,464)

Shareholder Returns

	2013	2012
Basic loss per share (cents)	(0.6)	(1.1)

Directors' Report (continued)

Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Company believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

Directors' Report (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report, no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 21, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect of its production and exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Company are not aware of any breach of environmental legislation for the year under review.

The Group is in compliance with the various environmental legislation and regulations that govern its activities in the jurisdictions in which it operates.

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Key Petroleum Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The board of Key Petroleum Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary or an agreed fee (which is based on factors such as length of service and experience) and superannuation or GST. The board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also eligible to participate in the employee share and option arrangements.

The executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Group. Based on each individual's timesheet, costs are allocated to exploration projects and treated in accordance with the accounting policy described at note 1(p), or expensed where the time is not allocated directly to a project. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$500,000). Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are eligible to participate in the employee option plan.

Performance based remuneration

The Group currently has performance based remuneration components built into director and executive remuneration packages.

Kane Marshall was issued 4,000,000 performance rights for nil consideration following shareholder approval granted at the General Meeting held on 6 August 2012. Half of the performance rights will vest if the volume weighted average price of the Company's shares as quoted on ASX increases by 100% from the share price reference point for a consecutive period of at least 30 business days during a calendar year. The other half will vest if the volume weighted average price of the Company's shares as quoted on ASX increases by 150% from the share price reference point for a consecutive period of at least 30 business days during a calendar year.

Directors' Report (continued)

Ian Paton was issued 2,500,000 performance rights for nil consideration following shareholder approval granted at the General Meeting held on 6 August 2012. Half of the performance rights will vest if the volume weighted average price of the Company's shares as quoted on ASX increases by 100% from the share price reference point for a consecutive period of at least 30 business days during a calendar year. The other half will vest if the volume weighted average price of the Company's shares as quoted on ASX increases by 150% from the share price reference point for a consecutive period of at least 30 business days during a calendar year.

Group performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders' investment objectives and directors' and executives' performance. The Company plans to facilitate this process by directors and executives participating in future option issues to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. For details of directors' and executives' interests in options at year end, refer to note 14 of the financial statements.

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2013.

Voting and comments made at the Company's 2012 Annual General Meeting

The Company received approximately 96% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Group are set out in the following table.

The key management personnel of the Group include the directors as per page 3 above.

Given the size and nature of operations of the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the Corporations Act 2001.

Directors' Report (continued)

Key management personnel of the Group

		Short Term Benefits				Post-employment benefits		Long-Term Benefits		Equity-Settled Share-Based Payments		Cash-Settled Share Based Payments	Termination benefits	Total
		Salary & Fees	Profit Share & Bonuses	Non-Monetary	Other	Pension & super-annuation	Other	Incentive plans	LSL	Shares/ Units	Options/ Rights			
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors														
Kane Marshall	2013	250,004	-	-	-	22,500	-	-	-	-	64,111	-	-	336,615
	2012	115,200	-	-	-	-	-	-	-	-	-	-	-	115,200
Dennis Wilkins⁽¹⁾	2013	30,000	-	-	-	-	-	-	-	-	6,656	-	-	36,656
	2012	39,166	-	-	-	-	-	-	-	-	-	-	-	39,166
Ian Paton⁽²⁾	2013	70,417	-	-	-	-	-	-	-	-	36,742	-	-	107,159
	2012	-	-	-	-	-	-	-	-	-	-	-	-	-
Rex Turkington⁽³⁾ (appointed 18 July 2012)	2013	55,000	-	-	-	-	-	-	-	-	7,466	-	-	62,466
Craig Marshall (appointed 7 December 2011, resigned 18 July 2012)	2013	4,989	-	-	-	-	-	-	-	-	-	-	-	4,989
	2012	4,521	-	-	-	-	-	-	-	-	-	-	-	54,521
John Sheppard (resigned 3 April 2012)	2012	22,500	-	-	-	2,025	-	-	-	-	-	-	-	24,525
Kenneth Russell (resigned 7 December 2011)	2012	131,250	-	-	-	-	-	-	-	-	-	-	-	131,250
Total key management personnel	2013	410,410	-	-	-	22,500	-	-	-	-	114,975	-	-	547,885
	2012	362,637	-	-	-	2,025	-	-	-	-	-	-	-	364,662

(1) In addition to the above remuneration, which is for Mr Wilkins' services as director/chairman, a total of \$71,814 (2012: \$173,074) was paid to DW Corporate Pty Ltd, a business of which Mr Wilkins is principal. DWCorporate Pty Ltd provided company secretarial, bookkeeping and other corporate services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

(2) In addition to the above remuneration, which is for Mr Paton's services as director, a total of \$164,200 (2012: nil) was paid to Valmap Pty Ltd, a business of which Mr Paton is principal. Valmap Pty Ltd provided geophysical and engineering consulting services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

(3) In addition to the above remuneration, which is for Mr Turkington's services as director, a total of \$15,000 (2012: N/A) was paid to Katarina Corporation Pty Ltd, a business of which Mr Turkington is principal. Katarina Corporation Pty Ltd provided corporate consulting services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

Service agreements

The details of service agreements of the key management personnel of Key Petroleum Limited are as follows:

Kane Marshall, Managing Director:

- Term of agreement – four months on a contractual basis of \$150/hour payable to Odyssey Oil Pty Ltd until the 2nd July 2012 when Mr Marshall became a full time employee and went on to an annual salary of \$250,000 inclusive of superannuation.

Directors' Report (continued)

Share-based compensation

Options

Options are issued at no cost to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of key management personnel of Key Petroleum Limited to increase goal congruence between key management personnel and shareholders. The following options over ordinary shares of the Company were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
Directors								
Kane Marshall	06/08/2012	4,000,000	(1)	06/08/2017	5.5	2.5	N/A	3.2
Kane Marshall	06/08/2012	4,000,000	(2)	06/08/2017	6.4	2.5	N/A	2.6
Kane Marshall	06/08/2012	4,000,000	(3)	06/08/2017	7.4	2.4	N/A	2.0
Dennis Wilkins	06/08/2012	1,000,000	(1)	06/08/2017	5.5	2.5	N/A	7.5
Dennis Wilkins	06/08/2012	1,000,000	(2)	06/08/2017	6.4	2.5	N/A	6.0
Dennis Wilkins	06/08/2012	1,000,000	(3)	06/08/2017	7.4	2.4	N/A	4.7
Ian Paton	06/08/2012	2,000,000	(1)	06/08/2017	5.5	2.5	N/A	5.1
Ian Paton	06/08/2012	2,000,000	(2)	06/08/2017	6.4	2.5	N/A	4.1
Ian Paton	06/08/2012	2,000,000	(3)	06/08/2017	7.4	2.4	N/A	3.2
Rex Turkington	30/11/2012	2,000,000	(4)	06/08/2017	4.4	2.1	N/A	4.9
Rex Turkington	30/11/2012	2,000,000	(5)	06/08/2017	5.2	2.0	N/A	3.9
Rex Turkington	30/11/2012	2,000,000	(6)	06/08/2017	5.9	1.9	N/A	3.1

- (1) These options will vest once the market capitalisation of the Company appreciates 100% from 6 August 2012.
- (2) These options will vest once the market capitalisation of the Company appreciates 150% from 6 August 2012.
- (3) These options will vest once the market capitalisation of the Company appreciates 200% from 6 August 2012.
- (4) These options will vest once the market capitalisation of the Company appreciates 100% from 30 November 2012.
- (5) These options will vest once the market capitalisation of the Company appreciates 150% from 30 November 2012.
- (6) These options will vest once the market capitalisation of the Company appreciates 200% from 30 November 2012.

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Key Petroleum Limited during the year.

Performance Rights

Performance rights are issued to directors and executives as part of their remuneration. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel from obtaining mortgages in securities held in the Company.

The following performance rights were granted to or vesting with key management personnel during the year, there were no performance rights forfeited during the year:

	Grant Date	Granted Number	Vested Number	Date Vesting and Exercisable	Expiry Date	Value per right at grant date (cents) ⁽¹⁾	% of Remuneration
Directors							
Kane Marshall	06/08/2012	2,000,000	Nil	(2)	N/A	3.6	6.1
Kane Marshall	06/08/2012	2,000,000	Nil	(3)	N/A	3.6	5.1
Ian Paton	06/08/2012	1,250,000	Nil	(2)	N/A	3.6	11.9
Ian Paton	06/08/2012	1,250,000	Nil	(3)	N/A	3.6	9.9

- (1) The value at grant date in accordance with AASB 2: Share Based Payments of performance rights granted during the year as part of remuneration. The value is the closing share price on grant date.
- (2) These rights vest upon the satisfaction of the following performance hurdle:
 "When the volume weighted average price of the Company's shares increases by 100% for a consecutive period of at least 30 business days during each calendar year of the directors' term."
 At the grant date, the Board has determined that the probability of this performance condition being met is 60%.

Directors' Report (continued)

(3) These rights vest upon the satisfaction of the following performance hurdle:

“When the volume weighted average price of the Company’s shares increases by 150% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

At the grant date, the Board has determined that the probability of this performance condition being met is 50%.

DIRECTORS' MEETINGS

During the year the Company held seven meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
Kane Marshall	6	7	*	*
Dennis Wilkins	6	7	1	1
Ian Paton	5	7	-	1
Rex Turkington (appointed 18 July 2012)	6	6	1	1
Craig Marshall (resigned 18 July 2012)	1	1	-	-

Notes

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the year.

* - Not a member of the Audit Committee.

SHARES UNDER OPTION

At the date of this report there are 27,500,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	-
Movements of share options during the year	
Issued, exercisable at 5.5 cents, on or before 6 August 2017	7,000,000
Issued, exercisable at 6.4 cents, on or before 6 August 2017	7,000,000
Issued, exercisable at 7.4 cents, on or before 6 August 2017	7,000,000
Issued, exercisable at 4.4 cents, on or before 6 August 2017	2,000,000
Issued, exercisable at 5.2 cents, on or before 6 August 2017	2,000,000
Issued, exercisable at 5.9 cents, on or before 6 August 2017	2,000,000
Issued, exercisable at 2.5 cents, on or before 12 March 2017	500,000
Total number of options outstanding as at 30 June 2013 and the date of this report	27,500,000

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
12 March 2017	2.5	500,000
6 August 2017	4.4	2,000,000
6 August 2017	5.2	2,000,000
6 August 2017	5.5	7,000,000
6 August 2017	5.9	2,000,000
6 August 2017	6.4	7,000,000
6 August 2017	7.4	7,000,000
Total number of options outstanding at the date of this report		27,500,000

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

Directors' Report (continued)

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Key Petroleum Limited paid a premium of \$10,518 to insure the directors and secretary of the company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Bentleys, or associated entities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

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 12.

Signed in accordance with a resolution of the directors for Key Petroleum Limited.



Kane Marshall
Managing Director

Perth, 2 September 2013

To: The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of Key Petroleum Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

DATED at PERTH this 2nd day of September 2013

Corporate Governance Statement

The Board of Directors

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any shareholding qualification.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The board considers that the Group is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees (other than an Audit Committee) at this time. The board as a whole is able to address the governance aspects of the full scope of the Group's activities and to ensure that it adheres to appropriate ethical standards.

Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Group including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Appointments to Other Boards

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

Independent Professional Advice

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Group's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that petroleum exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Group.

ASX Principles of Good Corporate Governance

The board has reviewed its current practices in light of the revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Group's size and the resources it has available.

As the Group's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has adopted the revised Recommendations and the following table sets out the Company's present position in relation to each of the revised Principles.

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 1:	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	A	Matters reserved for the board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	N/A	Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues. The performance and remuneration of executive and non-executive Directors is reviewed by the board with the exclusion of the Director concerned. The performance and remuneration of executive management is reviewed and approved by the board.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A	The Company's Board Charter is available on the Company website.
Principle 2:	Structure the board to add value		
2.1	A majority of the board should be independent directors	N/A	The board comprises four directors, one of whom is independent (Rex Turkington). The board believes that this is both appropriate and acceptable at this stage of the Company's development.
2.2	The chair should be an independent director	N/A	The Company only has one independent director. The board believes that this is both appropriate and acceptable at this stage of the Company's development. Sourcing alternative or additional directors to strictly comply with this Principle is considered expensive with costs outweighing the potential benefits.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	A	The positions of Chairman and Managing Director are held by separate persons.
2.4	The board should establish a nomination committee	N/A	Given the Company's size and the complexity of its affairs, it is not considered necessary to have a separate Nomination Committee. The full board undertakes the duties of a nomination committee. Acting in its ordinary capacity from time to time as required, the board carries out the process of determining the need for screening and appointing new directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to the process.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	N/A	Given the size of the Company, formal procedures for evaluating the performance of the board, committees and individual directors have not been developed. The Company conducts these aspects on an ongoing basis and takes corrective action if required.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills and experience of Directors as well as their period of office are set out in the Company's Annual Report (Directors' Report) and on its website.
Principle 3:	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code	A	The Company has established a Code of Conduct which can be viewed on its website.

A = *Adopted*
N/A = *Not adopted*

Corporate Governance Statement continued

3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	A	The Company has adopted a diversity policy which can be viewed on its website.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, the policy does not include requirements for the board to establish measurable objectives for achieving gender diversity. Given the Company's size and stage of development as an exploration company, the board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	A	The proportion of women employees in the whole organisation is 16.7%. There are currently no women in senior executive positions. There are currently no women on the board.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	
Principle 4: Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee	A	The Company has established an audit committee which comprises three members (Ian Paton, Rex Turkington and Dennis Wilkins). The charter for this committee is disclosed on the Company's website. In addition, the board as a whole addresses the governance aspects to the full scope of the Company's activities to ensure that it adheres to appropriate ethical standards. All matters which might properly be dealt with by special committees are subject to regular scrutiny at full board meetings.
4.2	The audit committee should be structured so that it:		
	• consists only of non-executive directors	A	
	• consists of a majority of independent directors	N/A	There Company only has one independent director. Sourcing alternative or additional directors to strictly comply with this Principle is considered expensive with costs outweighing the potential benefits.
	• is chaired by an independent chair, who is not chair of the board	A	
	• has at least three members	A	
4.3	The audit committee should have a formal charter	A	A copy of the Audit Committee Charter is available on the company website.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

Principle 5: Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	A	A copy of the Continuous Disclosure Policy is available on the Company's website. The Company has instigated internal procedures designed to provide reasonable assurance to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The board is acutely aware of the continuous disclosure regime and there are strong informational systems in place to ensure compliance, underpinned by experience.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	The Board receives monthly updates on the status of the Company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each Board Meeting.
Principle 6: Respect the rights of shareholder			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Reports, Half Yearly Reports, Quarterly Reports, the Company's Website and the distribution of specific releases covering major transactions and events or other price sensitive information.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	The Company has formulated a Communication Policy which can be viewed on the Company's website.
Principle 7: Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	The Company has formulated a Risk Management Policy which can be viewed on the Company's website.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	A	
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	A	

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	A	
Principle 8: Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee	N/A	The board considers that due to the size and complexity of the Company's affairs it does not merit the establishment of a separate remuneration committee. Until the situation changes the board will carry out any necessary remuneration committee functions. The board undertakes this role with the assistance of any external advice which may be required from time to time.
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> consists of a majority of independent directors is chaired by an independent chair has at least three members 	N/A	Please refer to 8.1 above.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	<p>The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors is not to exceed \$500,000 per annum unless approved by shareholders at the Company's annual general meeting.</p> <p>The Company has separate policies relating to the remuneration of non-executive directors as opposed to executive directors and senior executives. These policies provide a basis for distinguishing the type of remuneration which is suitable for the two classes.</p> <p>The level of remuneration packages and policies applicable to directors are detailed in the Remuneration Report which forms part of the Directors' Report in this Annual Report.</p>
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9.25%, and do not receive any other retirement benefits.

A = *Adopted*
N/A = *Not adopted*

Consolidated Statement of Profit or Loss and Other Comprehensive Income

YEAR ENDED 30 JUNE 2013	Notes	2013 \$	2012 \$
CONTINUING OPERATIONS			
REVENUE AND OTHER INCOME	2	354,058	79,407
EXPENDITURE			
Depreciation expense		(6,086)	(7,330)
Salaries and employee benefits expense		(548,996)	(375,218)
Corporate expenditure		(154,565)	(147,140)
Administration costs		(644,390)	(787,526)
Exploration costs written off		(648,032)	(690,708)
Share-based payments expense		(120,775)	-
LOSS BEFORE INCOME TAX	3	(1,768,786)	(1,928,515)
INCOME TAX BENEFIT / (EXPENSE)	4	-	-
LOSS FROM CONTINUING OPERATIONS		(1,768,786)	(1,928,515)
Loss from discontinued operation	29	(602,678)	(970,106)
LOSS FOR THE YEAR		(2,371,464)	(2,898,621)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences realised on disposal of foreign operations		1,159,188	-
Exchange differences on translation of foreign operations		93,014	(34,222)
Other comprehensive income for the year, net of tax		1,252,202	(34,222)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED		(1,119,262)	(2,932,843)
Basic loss per share for loss from continuing operations (cents per share)	23	(0.41)	(0.75)
Basic loss per share for loss from continuing and discontinued operations (cents per share)	23	(0.55)	(1.13)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Financial Position

AT 30 JUNE 2013	Notes	2013 \$	2012 \$
CURRENT ASSETS			
Cash and cash equivalents	5	3,564,704	1,460,859
Trade and other receivables	6	367,365	138,380
		3,932,069	1,599,239
Assets classified as held for sale	29	-	288,925
TOTAL CURRENT ASSETS		3,932,069	1,888,164
NON-CURRENT ASSETS			
Receivables	7	20,958	20,772
Plant and equipment	8	22,551	3,298
Capitalised exploration costs	9	965,403	929,984
TOTAL NON-CURRENT ASSETS		1,008,912	954,054
TOTAL ASSETS		4,940,981	2,842,218
CURRENT LIABILITIES			
Trade and other payables	10	257,498	184,520
		257,498	184,520
Liabilities directly associated with assets classified as held for sale	29	-	627,565
TOTAL CURRENT LIABILITIES		257,498	812,085
TOTAL LIABILITIES		257,498	812,085
NET ASSETS		4,683,483	2,030,133
EQUITY			
Issued capital	11	33,804,246	30,152,409
Reserves	12(a)	198,582	(1,174,395)
Accumulated losses		(29,319,345)	(26,947,881)
TOTAL EQUITY		4,683,483	2,030,133

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2013

	Issued Capital \$	Share- Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
BALANCE AT 1 JULY 2011	28,214,283	208,900	(1,349,073)	(24,049,260)	3,024,850
Loss for the year	-	-	-	(2,898,621)	(2,898,621)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	(34,222)	-	(34,222)
TOTAL COMPREHENSIVE INCOME	-	-	(34,222)	(2,898,621)	(2,932,843)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	1,931,876	-	-	-	1,931,876
Share issue transaction costs	6,250	-	-	-	6,250
BALANCE AT 30 JUNE 2012	30,152,409	208,900	(1,383,295)	(26,947,881)	2,030,133
Loss for the year	-	-	-	(2,371,464)	(2,371,464)
OTHER COMPREHENSIVE INCOME					
Exchange differences realised on disposal of foreign operations	-	-	1,159,188	-	1,159,188
Exchange differences on translation of foreign operations	-	-	93,014	-	93,014
TOTAL COMPREHENSIVE INCOME	-	-	1,252,202	(2,371,464)	(1,119,262)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	3,988,228	-	-	-	3,988,228
Share issue transaction costs	(336,391)	-	-	-	(336,391)
Share-based payments	-	120,775	-	-	120,775
BALANCE AT 30 JUNE 2013	33,804,246	329,675	(131,093)	(29,319,345)	4,683,483

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2013	Notes	2013 \$	2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		207,525	1,440,246
Payments to suppliers and employees		(1,391,593)	(2,450,609)
Interest received		107,429	37,854
Expenditure on petroleum interests		(960,392)	(529,531)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22(a)	(2,037,031)	(1,502,040)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(25,339)	(1,900)
Proceeds on sale of plant and equipment		-	10,000
(Payment)/Refund of security deposit		(5,958)	18,768
Proceeds on sale of financial assets		216,066	-
Proceeds on sale of investment in associate company		-	50,000
Proceeds on sales of subsidiaries, net of cash disposed	29	243,337	-
Payment for subsidiary, net of cash acquired	19(c)	-	1,781
NET CASH INFLOW FROM INVESTING ACTIVITIES		428,106	78,649
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares and options		3,988,228	1,001,876
Payments of share issue transaction costs		(263,925)	(58,350)
NET CASH INFLOW FROM FINANCING ACTIVITIES		3,724,303	943,526
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		2,115,378	(479,865)
Cash and cash equivalents at the beginning of the financial year		1,460,859	1,972,248
Effects of exchange rate changes on cash and cash equivalents		(11,533)	(31,524)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	3,564,704	1,460,859

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Financial Statements

30 JUNE 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Key Petroleum Limited and its subsidiaries. The financial statements are presented in the Australian currency. Key Petroleum Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 2 September 2013. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Key Petroleum Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Key Petroleum Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which have been measured at fair value.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Key Petroleum Limited (“Company” or “parent entity”) as at 30 June 2013 and the results of all subsidiaries for the year then ended. Key Petroleum Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Key Petroleum Limited.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Key Petroleum Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Key Petroleum Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

The consolidated entity's revenue is derived primarily from oil sales. Sales revenue is recognised when the physical product and associated risks and rewards of ownership pass to the purchaser. This is generally at the time of delivery to the purchaser's premises. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(f) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(n)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(k) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(l) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets - reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

Measurement

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments are determined are disclosed in note 26.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(m) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

of those assets to retained earnings.

(n) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation (note 27).

(o) Petroleum assets

Petroleum assets are measured on the cost basis less amortisation and impairment losses. The carrying amount of petroleum assets is reviewed bi-annually by Directors to ensure that it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Amortisation

Amortisation of petroleum and gas licences, production facilities, field equipment and buildings are determined based on the proven and probable hydrocarbon reserves.

(p) Exploration and evaluation costs

Exploration, evaluation and development costs incurred are accumulated in respect of each identifiable area of interest.

These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which: (i) such costs are expected to be recouped through successful development and exploitation or from sale of area; or (ii) exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(s) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(t) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(u) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(x) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9: Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2011–7] (applies to periods beginning on or after 1 January 2013)

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2011–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

AASB 1054: Australian Additional Disclosures (applies to periods beginning on or after 1 January 2013)

This Standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This Standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

compliance with Australian Accounting Standards;
the statutory basis or reporting framework for financial statements;
whether the financial statements are general purpose or special purpose;
audit fees; and
imputation credits.

This Standard is not expected to impact the Group.

AASB 10: Consolidated Financial Statements (applies to periods beginning on or after 1 January 2013)

This Standard establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and Interpretation 112 *Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This Standard is not expected to impact the Group.

AASB 11: Joint Arrangements (applies to periods beginning on or after 1 January 2013)

This Standard replaces AASB 131 *Interests in Joint Ventures* and Interpretation 113 *Jointly-Controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the Group.

AASB 12: Disclosures of Interests in Other Entities (applies to periods beginning on or after 1 January 2013)

This Standard includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The Group has not yet determined any potential impact on the financial statements.

AASB 13: Fair Value Measurement (applies to periods beginning on or after 1 January 2013)

This Standard establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB when fair value is required or permitted by AASB. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. The Group has not yet determined any potential impact on the financial statements.

AASB 119: Employee Benefits (applicable for annual reporting periods commencing on or after 1 January 2013)

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The definition of short-term benefits has been revised, meaning some annual leave entitlements may become long-term in nature with a

Notes to the Financial Statements continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

revised measurement. Similarly the timing for recognising a provision for termination benefits has been revised, such that provisions can only be recognised when the offer cannot be withdrawn.

Consequential amendments were also made to other standards via AASB 2011-10.

(z) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Exploration and evaluation costs

Exploration and evaluation costs are accumulated in respect of each identifiable area of interest.

These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which: (i) such costs are expected to be recouped through successful development and exploitation or from sale of area; or (ii) exploration and evaluation activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made.

Environmental Issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the Group's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Share-based payments

Share-based payment transactions, in the form of options to acquire ordinary shares, are valued using the Black-Scholes option pricing model. This model uses assumptions and estimates as inputs.

Notes to the Financial Statements continued

30 JUNE 2013	2013	2012
	\$	\$
2. REVENUE AND OTHER INCOME		
From continuing operations		
<i>Other revenue</i>		
Interest from financial institutions	132,740	34,247
Management fees	154,135	-
Net gain on sale of financial assets	60,066	-
Gain on sale of investment in associate company	-	40,399
Foreign exchange gains	7,117	4,761
	354,058	79,407
3. EXPENSES		
Loss before income tax includes the following specific expenses:		
Superannuation expense	34,274	2,284
Loss on sale of plant and equipment	-	61,711
Minimum lease payments relating to operating leases	47,044	-
4. INCOME TAX		
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) Reconciliation of income tax expense to prima facie tax payable		
The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Loss from continuing operations before income tax expense	(1,768,786)	(1,920,249)
Prima facie tax benefit at the Australian tax rate of 30%	(530,636)	(576,075)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Exploration expenditure written off	-	199,482
Impairment of Investments	-	37,042
Sundry items	35,972	(488)
	(494,664)	(340,039)
Movements in unrecognised temporary differences	(40,550)	(291,050)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	535,214	631,089
Income tax expense	-	-

Notes to the Financial Statements continued

30 JUNE 2013		2013	2012
	Notes	\$	\$
4. INCOME TAX (cont.)			
(c) Deferred Tax Assets			
Employee entitlements		6,358	-
Capital raising costs and other section 40-880 deductions		83,113	33,074
Tax losses		207,743	245,921
		<u>297,214</u>	<u>278,995</u>
Set off deferred tax liabilities	4(d)	<u>(297,214)</u>	<u>(278,995)</u>
Net deferred tax assets		<u>-</u>	<u>-</u>
(d) Deferred Tax Liabilities			
Accrued interest revenue		7,593	-
Capitalised exploration and evaluation costs		289,621	278,995
		<u>297,214</u>	<u>278,995</u>
Set-off deferred tax assets	4(c)	<u>(297,214)</u>	<u>(278,995)</u>
Net deferred tax liabilities		<u>-</u>	<u>-</u>
(e) Tax Losses			
Unused tax losses for which no deferred tax asset has been recognised		3,664,524	3,129,311
		<u>3,664,524</u>	<u>3,129,311</u>

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2013 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- i. the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- ii. the Group continues to comply with conditions for deductibility imposed by law; and
- iii. no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

5. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	338,614	959,103
Short-term deposits	3,226,090	501,756
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	<u>3,564,704</u>	<u>1,460,859</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

6. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Trade receivables	97,401	86,515
Other receivables	122,408	51,865
Consideration receivable from the sale of the UK Operations (note 29)	147,556	-
	<u>367,365</u>	<u>138,380</u>

Credit Risk – Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counter party or group of counterparties other than those receivables specifically provided for and mentioned within note 26. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

Notes to the Financial Statements continued

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6. CURRENT ASSETS – TRADE AND RECEIVABLES (cont.)

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered to be 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross Amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31 - 60	61 - 90	> 90	
	\$	\$	\$	\$	\$	\$	\$
2013							
Trade receivables	97,401	-	-	-	-	-	97,401
Other receivables	269,964	-	-	-	-	-	269,964
Total	367,365	-	-	-	-	-	367,365
2012							
Trade receivables	86,515	-	-	-	-	-	86,515
Other receivables	51,865	-	-	-	-	-	51,865
Total	138,380	-	-	-	-	-	138,380

7. NON-CURRENT ASSETS – RECEIVABLES

	2013	2012
	\$	\$
Bank guarantees	20,958	15,000
Other non-current receivables	-	5,772
Total	20,958	20,772

8. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Plant and equipment

Cost	28,995	3,655
Accumulated depreciation	(6,444)	(357)
Net book amount	22,551	3,298

Plant and equipment

Opening net book amount	3,298	92,211
Exchange differences	-	1,983
Additions	25,339	1,900
Assets included in a disposal group classified as held for sale and other disposals	-	(81,220)
Depreciation charge	(6,086)	(11,576)
Closing net book amount	22,551	3,298

Notes to the Financial Statements continued

30 JUNE 2013	2013	2012
	\$	\$
9. NON-CURRENT ASSETS – CAPITALISED EXPLORATION COSTS		
Exploration, evaluation and development costs carried forward in respect of areas of interest		
<i>Pre-production</i>		
Opening net book amount	929,984	637,711
Exchange differences	-	18,401
Acquisitions	-	929,984
Capitalised exploration and evaluation costs	683,620	661,409
Exploration and evaluation costs written off and assets included in a disposal group classified as held for sale	(648,201)	(1,317,521)
Closing net book amount	<u>965,403</u>	<u>929,984</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective petroleum interests.

10. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	193,922	158,138
Other payables and accruals	63,576	26,382
	<u>257,498</u>	<u>184,520</u>

11. ISSUED CAPITAL**(a) Share capital**

	Notes	2013		2012	
		Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	11(b), 11(e)	450,509,417	33,804,246	308,072,707	30,152,409
Total issued capital		<u>450,509,417</u>	<u>33,804,246</u>	308,072,707	30,152,409

(b) Movements in ordinary share capital

Beginning of the financial year	308,072,707	30,152,409	216,047,707	28,214,283
– Share placement	142,436,710	3,988,228	40,000,000	1,000,000
– Vendor shares issued	-	-	52,000,000	930,000
– On exercise of 7.5 cent options	-	-	25,000	1,875
– Share issue transaction costs	-	(336,391)	-	6,251
End of the financial year	<u>450,509,417</u>	<u>33,804,246</u>	308,072,707	30,152,409

(c) Movements in options on issue

	Number of options	
	2013	2012
Beginning of the financial year	-	41,425,058
Issued during the year:		
– Exercisable at 2.5 cents, on or before 12 March 2017	500,000	-
– Exercisable at 4.4 cents, on or before 6 August 2017	2,000,000	-
– Exercisable at 5.2 cents, on or before 6 August 2017	2,000,000	-
– Exercisable at 5.5 cents, on or before 6 August 2017	7,000,000	-
– Exercisable at 5.9 cents, on or before 6 August 2017	2,000,000	-
– Exercisable at 6.4 cents, on or before 6 August 2017	7,000,000	-
– Exercisable at 7.4 cents, on or before 6 August 2017	7,000,000	-
Exercised/expired/cancelled during the year		
– Exercisable at 7.5 cents, on or before 30 November 2011 (listed)	-	(41,175,058)
– Exercisable at 30 cents, on or before 30 November 2011	-	(250,000)
End of the financial year	<u>27,500,000</u>	-

Notes to the Financial Statements continued

30 JUNE 2013

11. ISSUED CAPITAL (cont.)

(d) Movements in performance rights on issue

	Number of performance rights	
	2013	2012
Beginning of the financial year	-	-
Issued during the year:		
– Performance Rights A	3,250,000	-
– Performance Rights B	3,250,000	-
End of the financial year	6,500,000	-

(e) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being petroleum exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. Refer to Note 1 for managements plans to remain a going concern. The working capital position of the Group at 30 June 2013 and 30 June 2012 are as follows:

	2013	2012
	\$	\$
Cash and cash equivalents	3,564,704	1,460,859
Trade and other receivables	367,365	138,380
Trade and other payables	(257,498)	(184,520)
Working capital position	3,674,571	1,414,719

12. RESERVES

(a) Reserves

Foreign currency translation reserve	(131,093)	(1,383,295)
Share-based payments reserve	329,675	208,900
	198,582	(1,174,395)

(b) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated within a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

Notes to the Financial Statements continued

30 JUNE 2013

13. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made

14. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2013	2012
	\$	\$
Short-term benefits	410,410	362,637
Post-employment benefits	22,500	2,025
Share-based payments	114,975	-
	547,885	364,662

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 10.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration, together with terms and conditions of the options, can be found in the remuneration report on page 9.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Key Petroleum Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2013	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<i>Directors of Key Petroleum Limited</i>							
Kane Marshall	-	12,000,000	-	-	12,000,000	-	12,000,000
Dennis Wilkins	-	3,000,000	-	(1,500,000)	1,500,000	-	1,500,000
Ian Paton	-	6,000,000	-	-	6,000,000	-	6,000,000
Rex Turkington (appointed 18 July 2012)	-	6,000,000	-	-	6,000,000	-	6,000,000
Craig Marshall (resigned 18 July 2012)	-	-	-	-	-	-	-
All vested options are exercisable at the end of the year.							
2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<i>Directors of Key Petroleum Limited</i>							
Craig Marshall (appointed 7 December 2011)	-	-	-	-	-	-	-
Kane Marshall (appointed 3 April 2012)	-	-	-	-	-	-	-
Dennis Wilkins	-	-	-	-	-	-	-
Ian Patton (appointed 5 June 2012)	-	-	-	-	-	-	-
John Sheppard (resigned 3 April 2012)	17,500	-	-	(17,500)	-	-	-
Kenneth Russell (resigned 7 December 2011)	-	-	-	-	-	-	-
<i>Other key management personnel of the Group</i>							
John Ribbons (resigned 5 June 2012)	300,000	-	-	(300,000)	-	-	-

Notes to the Financial Statements continued

30 JUNE 2013

14. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Key Petroleum Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2013

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Key Petroleum Limited				
Ordinary shares				
Kane Marshall	3,100,740	-	5,899,260	9,000,000
Dennis Wilkins	1,000,000	-	(1,000,000)	-
Ian Paton	-	-	1,000,000	1,000,000
Rex Turkington (appointed 18 July 2012)	-	-	-	-
Craig Marshall (resigned 18 July 2012)	1,000,000	-	⁽¹⁾ (1,000,000)	-

(1) Amount held at date of resignation.

2012

	Balance at start of the period	Received during the period on the exercise of options	Other changes during the period	Balance at end of the period
Directors of Key Petroleum Limited				
Ordinary shares				
Craig Marshall (appointed 7 December 2011)	-	-	1,000,000	1,000,000
Kane Marshall (appointed 3 April 2012)	-	-	3,100,740	3,100,740
Dennis Wilkins	1,000,000	-	-	1,000,000
Ian Patton (appointed 5 June 2012)	-	-	-	-
John Sheppard (resigned 3 April 2012)	70,000	-	(70,000)	-
Kenneth Russell (resigned 7 December 2011)	5,815,000	-	(5,815,000)	-
Other key management personnel of the Group				
Ordinary shares				
John Ribbons (resigned 5 June 2012)	1,000,000	-	-	1,000,000

(iv) Performance Right holdings

Kane Marshall was issued 4,000,000 performance rights for nil consideration on 6 August 2012 following shareholder approval granted at the General Meeting held on that date. Ian Paton was issued 2,500,000 performance rights for nil consideration on 6 August 2012 following shareholder approval granted at the General Meeting held on that date. The performance rights were issued in two equal tranches that will vest on the respective satisfaction of the following performance conditions:

(1) Performance rights A:

“When the volume weighted average price of the Company’s shares increases by 100% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

(2) Performance rights B:

“When the volume weighted average price of the Company’s shares increases by 150% for a consecutive period of at least 30 business days during each calendar year of the directors’ term.”

(c) Loans to key management personnel

There were no loans to key management personnel during the year.

Notes to the Financial Statements continued

30 JUNE 2013

14. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(d) Other transactions with key management personnel

A total of \$71,814 (2012: \$173,074) was paid to DWCorporate Pty Ltd, a business of which Mr Wilkins is principal. DWCorporate Pty Ltd provided company secretarial, bookkeeping and other corporate services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

A total of \$164,200 (2012: nil) was paid to Valmap Pty Ltd, a business of which Mr Paton is principal. Valmap Pty Ltd provided geophysical and engineering consulting services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

A total of \$15,000 (2012: N/A) was paid to Katarina Corporation Pty Ltd, a business of which Mr Turkington is principal. Katarina Corporation Pty Ltd provided corporate consulting services to the Key Group during the year. The amounts paid were at usual commercial rates with fees charged on an hourly basis.

15. REMUNERATION OF AUDITORS

	2013	2012
	\$	\$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
Audit services		
Bentleys – audit of financial reports	52,100	32,550
Mazars – audit of UK financial reports	-	15,010
Total remuneration for audit services	<u>52,100</u>	<u>47,560</u>

16. CONTINGENCIES

A contingent liability exists in relation to the purchase of Puma Petroleum S.r.l which occurred in 2007. Key Petroleum Limited will issue:

- 400,000 Key shares upon the granting of an Exploration Permit for the second Offshore Block.
- 200,000 Key shares upon the granting of an Exploration Permit for the third Offshore Block
- 400,000 Key shares upon the granting of an extension of permission to drill on the Borsano Permit.

There are no material contingent assets of the Group at balance date.

17. COMMITMENTS

(a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

within one year	1,120,000	1,920,000
later than one year but not later than five years	10,000,000	8,600,000
	<u>11,120,000</u>	<u>10,520,000</u>

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

Minimum lease payments		
within one year	40,675	-
later than one year but not later than five years	10,250	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	<u>50,925</u>	<u>-</u>

The property lease is a non-cancellable lease with a two-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to increase by 4% on each annual anniversary of the commencement date. An option exists to renew the lease at the end of the two-year term for an additional term of two years. The lease allows for subletting of all lease areas.

Notes to the Financial Statements continued

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18. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Key Petroleum Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 20.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 14.

19. BUSINESS COMBINATIONS

Prior period

(a) Summary of acquisitions

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 a loss of \$18,127 to the Group for the period from 7 December 2011 to 30 June 2012. If the acquisition had occurred on 1 July 2011, consolidated revenue and consolidated loss for the year ended 30 June 2012 would have been \$1,508,771 and \$2,898,819.

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 (refer to (c) below):	
52,000,000 ordinary shares	930,000
Total purchase consideration	<u>930,000</u>
Fair value of net identifiable assets acquired (refer to (b) below)	<u>930,000</u>
Goodwill	<u>-</u>

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	\$	\$
Cash	1,782	1,782
Petroleum permits and capitalised exploration costs	121,759	928,218
Net identifiable assets acquired	<u>123,541</u>	<u>930,000</u>

(c) Purchase consideration

	2013	2012
	\$	\$
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	-	-
Less: Balances acquired		
Cash and cash equivalents	<u>-</u>	<u>1,782</u>
Inflow of cash	<u>-</u>	<u>1,782</u>

Notes to the Financial Statements continued

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20. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding*	
			2013 %	2012 %
Gulliver Productions Pty Ltd	Australia	Ordinary	100	100
Puma Petroleum S.r.L.	Italy	Ordinary	100	100
Key Petroleum (Australia) Pty Ltd	Australia	Ordinary	100	100
Funguo Petroleum Pty Limited	Tanzania	Ordinary	-	100
Key Petroleum (UK) Limited	England	Ordinary	-	100
Key Petroleum Weald Basin Limited	England	Ordinary	-	100
Key Petroleum Offshore Pty Ltd ⁽¹⁾	Australia	Ordinary	100	-

⁽¹⁾ Key Petroleum Offshore Pty Ltd was incorporated on 1 May 2013 with Key Petroleum Limited as the sole shareholder. The Company has remained dormant since incorporation.

* The proportion of ownership interest is equal to the proportion of voting power held.

21. EVENTS OCCURRING AFTER THE REPORTING DATE

During July 2013 the Company executed a Sale Agreement to acquire the Emerald Oil & Gas NL interests in Exploration Permit 104 and Retention Lease R1 located in the Canning Basin. Consideration to be paid by the Company consists of \$50,000 cash and the issue of 4 million fully paid ordinary shares.

No other matter or circumstance has arisen since 30 June 2013, 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.

22. STATEMENT OF CASH FLOWS

	2013 \$	2012 \$
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(2,371,464)	(2,898,621)
Non-Cash Items		
Depreciation of non-current assets	6,086	482,216
Loss on sale of plant and equipment	-	61,711
Loss on sale of subsidiaries	578,913	-
Profit on sale of financial assets	(60,066)	-
Share-based payments expense	120,775	-
Profit on sale of investment in associate company	-	(40,399)
Net exchange differences	(47,383)	21,377
Change in operating assets and liabilities, net of effects from purchase of controlled entity		
(Increase)/decrease in trade and other receivables	(228,985)	152,430
Decrease in inventories	-	94,278
Increase in provisions	-	4,890
(Increase)/decrease in petroleum permits and capitalised exploration costs	(35,419)	654,347
Increase/(decrease) in trade and other payables	512	(34,269)
Net cash outflow from operating activities	(2,037,031)	(1,502,040)

(b) Non-cash financing and investing activities

(i) Financial assets received

During the current year, as part consideration on the sale of the Tanzanian Assets (refer note 29), the Group received shares in ASX listed Bounty Oil and Gas NL valued at \$156,000.

(ii) Share issue

During the prior year 52,000,000 ordinary shares were issued, with a deemed value of \$930,000, as consideration for the acquisition of subsidiary, refer to note 19.

Notes to the Financial Statements continued

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2013

2012

\$

\$

23. LOSS PER SHARE**(a) Reconciliation of earnings used in calculating loss per share**

Loss attributable to the owners of the Company used in calculating basic loss per share:

From continuing operations	(1,768,786)	(1,920,249)
From discontinued operation	(602,678)	(978,372)
From continuing and discontinued operations	<u>(2,371,464)</u>	<u>(2,898,621)</u>

Number of shares

Number of shares

(b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share

429,436,589255,679,743**24. SHARE-BASED PAYMENTS****(a) Employees and contractors options**

The Group provides benefits to employees (including Directors) and contractors of the Group in the form of share-based payment transactions, whereby options to acquire ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. The exercise prices of the options granted range from 2.5 cents to 7.4 cents, and the expiry dates range from 12 March 2017 to 6 August 2017.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

	2013		2012	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	-	-	250,000	30.0
Granted	27,500,000	6.1	-	-
Forfeited/cancelled	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(250,000)	30.0
Outstanding at year-end	<u>27,500,000</u>	<u>6.1</u>	-	-
Exercisable at year-end	<u>500,000</u>	<u>2.5</u>	-	-

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 4.1 years (2012: N/A), and the exercise prices range from 2.5 to 7.4 cents.

The weighted average fair value of the options granted during the 2013 financial year was 2.3 cents. The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2013	2012
Weighted average exercise price (cents)	6.1	-
Weighted average life of the option (years)	5.0	-
Weighted average underlying share price (cents)	3.4	-
Expected share price volatility	100.2%	-
Risk free interest rate	3.4%	-

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

Notes to the Financial Statements continued

30 JUNE 2013

24. SHARE BASED PAYMENTS (cont.)

(b) Employees and contractors performance rights

The Group provides benefits to employees (including directors) and contractors of the Group in the form of share-based payment transactions, whereby performance rights over ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. Performance rights granted to directors have no expiration date.

Performance rights granted carry no dividend or voting rights. When each performance condition is satisfied, each performance right is converted into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the performance rights granted:

	2013	2012
Outstanding at the beginning of the year	-	-
Granted	6,500,000	-
Forfeited/cancelled	-	-
Exercised	-	-
Expired	-	-
Outstanding at year-end	<u>6,500,000</u>	<u>-</u>

The weighted average fair value of performance rights granted during the year was 3.6 cents (2012: N/A). The fair value was calculated by reference to the closing share price on the date of each grant of performance rights.

(c) Expenses arising from share-based payment transactions

	2013	2012
	\$	\$
Total expenses arising from share-based payment transactions recognised during the year were as follows:		
Options granted to employees and contractors	59,860	-
Performance rights granted to employees and contractors	60,915	-
	<u>120,775</u>	<u>-</u>

During the 2012 financial year 52,000,000 ordinary shares were issued, with a deemed value of \$930,000, as consideration for the acquisition of subsidiary, refer to note 19.

25. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Key Petroleum Limited, at 30 June 2013. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	3,609,048	902,925
Non-current assets	1,574,167	1,672,902
Total assets	<u>5,183,215</u>	<u>2,575,827</u>
Current liabilities	179,615	116,831
Total liabilities	<u>179,615</u>	<u>116,831</u>
Issued capital	33,804,246	30,152,409
Share-based payments reserve	329,675	208,900
Accumulated losses	(29,130,321)	(27,902,313)
Total equity	<u>5,003,600</u>	<u>2,458,996</u>
Loss for the year	(1,228,008)	(3,334,568)
Total comprehensive loss for the year	<u>(1,228,008)</u>	<u>(3,334,568)</u>

The parent entity is responsible for the contingent liabilities outlined in note 16.

The parent entity is responsible for the commitments outlined in note 17.

Interests in subsidiaries are set out in note 20.

Disclosures relating to key management personnel are set out in note 14.

Notes to the Financial Statements continued

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25. PARENT ENTITY INFORMATION (cont.)

Loans to related parties

Loans to subsidiaries

	Key Petroleum (UK) Ltd & Funguo Petroleum Pty Limited		Other subsidiaries		Total	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Beginning of the year	706,863	2,046,963	17,642	38,058	724,505	2,085,021
Loans advanced/(repaid)	(629,348)	7,750	971,788	35,604	342,440	43,354
Interest charged	-	-	-	-	-	-
Impairments	(77,515)	(1,347,850)	(388,874)	(56,020)	(466,389)	(1,403,870)
Closing balance	-	706,863	600,556	17,642	600,556	724,505

Key Petroleum Limited has provided unsecured, interest free loans to its wholly owned subsidiaries Key Petroleum (Australia) Pty Ltd, Puma Petroleum S.r.L. and Gulliver Productions Pty Ltd. Key Petroleum Limited had also provided unsecured loans to its wholly owned subsidiaries Key Petroleum (UK) Ltd and Funguo Petroleum Pty Limited with monthly interest charged at the BBSW rate plus 2%. These loans were concluded upon sale of the respective subsidiary, refer note 29. An impairment assessment is undertaken each financial year by examining the financial position of each subsidiary and the market in which the respective subsidiary operates to determine whether there is objective evidence that any of the subsidiaries are impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss. The recovery of the carrying value of loans to subsidiaries is dependent on the successful development and commercial exploitation, or alternatively, sale of the respective exploration areas of interest.

Notes to the Financial Statements continued

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2013

2012

\$

\$

26. FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets

Cash and cash equivalents	3,564,704	1,460,859
Loans and Receivables	367,365	159,152
Total Financial Assets	3,932,069	1,620,011

Financial Liabilities

Trade and other payables	257,498	184,520
Total Financial Liabilities	257,498	184,520

Specific Financial Risk Exposures and Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

(a) Market risk*(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	2013		GBP	2012	
	GBP	EUR		USD	EUR
Cash and cash equivalents	-	6,501	405,912	24,185	27,352
Trade and other receivables	90,000	41,441	-	5,865	41,441
Trade and other payables	-	(54,671)	-	(39,534)	(54,671)

Sensitivity analysis

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar, the Euro or the British pound with all other variables held constant, there would have been an immaterial impact on the Group's post-tax losses for the year (2012: Nil) and immaterial movements to the Group's equity for both years presented.

(ii) Price risk

The Group was previously exposed to movements in the world oil price as its revenues were generated through the sale of crude oil. Following the sale of the Weald Basin assets, refer note 29, the Group was not directly exposed to price risk during the 2013 financial year.

Sensitivity analysis

At 30 June 2012 if the oil price had changed by +/- 5% from the weighted average rate for the year with all other variables held constant, the post-tax loss for the Group would have been \$70,000 higher/lower as a result of lower/higher oil sales revenue.

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$3,564,704 (2012: \$1,460,859) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 3.3% (2012: 2.1%).

Notes to the Financial Statements continued

30 JUNE 2013

26. FINANCIAL RISK MANAGEMENT (cont.)

Sensitivity analysis

At 30 June 2013, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$31,792 lower/higher (2012: \$13,000 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is minimised by investing surplus funds in financial institutions that maintain AAA credit ratings and by ensuring customers and counterparties to transactions are of sound credit worthiness.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

All cash holdings within the Group are currently held with AAA rated financial institutions.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being oil and gas exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. Refer to Note 1 for managements plans to remain a going concern.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

Financial Liability and Financial Asset Maturity Analysis

	Within 1 Year		1 to 5 Years		Total	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables (excluding estimated annual leave)	236,306	184,520	-	-	236,306	184,520
Total contractual outflows	236,306	184,520	-	-	236,306	184,520
Financial assets – cash flows realisable						
Cash and cash equivalents	3,564,704	1,460,859	-	-	3,564,704	1,460,859
Trade and loan receivables	367,365	159,152	-	-	367,365	159,152
Total anticipated inflows	3,932,069	1,620,011	-	-	3,932,069	1,620,011
Net (outflow)/inflow on financial instruments	3,695,763	1,435,491	-	-	3,695,763	1,435,491

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their fair value.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Notes to the Financial Statements continued

30 JUNE 2013

26. FINANCIAL RISK MANAGEMENT (cont.)

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

As disclosed in note 1 should the Company not continue as a going concern then the fair value of financial assets and financial liabilities may not reflect the true fair value of financial assets and financial liabilities on a liquidation basis.

27. 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 (chief operating decision makers) 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

Australia

The Australian segment is engaged in exploration for oil and gas in the company's interests in Australia.

United Kingdom

The United Kingdom segment produces oil for sale and conducts exploration on the Company's licenses. This segment was sold in July 2012 and has therefore been classified as a discontinued operation in the financial statements, refer note 29.

Tanzania

The Tanzanian segment was engaged in exploration for oil and gas in the Company's interests in Tanzania. This segment was sold in November 2012 and has therefore been classified as a discontinued operation in the financial statements, refer note 29.

Italy

The Italian segment is engaged in exploration for oil and gas in the Company's interests in Italy.

Basis of 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.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly 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 Group's 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.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

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.

Notes to the Financial Statements continued

30 JUNE 2013

27. SEGMENT INFORMATION (cont.)

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Interest income
- Administration expenses
- Corporate expenses
- Corporate liabilities
- Cash

	Australia		United Kingdom		Tanzania		Italy		Total	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
Segment revenue										
External sales	-	-	-	1,400,503	-	-	-	-	-	1,400,503
Other revenue	154,135	-	-	28,861	-	-	-	-	154,135	28,861
Total segment revenue	154,135	-	-	1,429,364	-	-	-	-	154,135	1,429,364
<i>Reconciliation of segment revenue to Group revenue</i>										
Amounts not included in the segment result but reviewed by the Board:										
Interest revenue									132,740	34,247
Other revenue									67,190	45,160
Total Group revenue									354,066	1,508,771
Segment result										
Segment result before income tax	154,135	-	(23,604)	149,095	-	(17,503)	(56,876)	(94,761)	73,655	36,830
<i>Reconciliation of segment result to Group loss before tax</i>										
Amounts not included in the segment result but reviewed by the Board:										
Depreciation and amortisation	(6,086)	(7,330)	-	(474,886)	-	-	-	-	(6,086)	(482,216)
Impairment of capitalised exploration costs	(648,032)	(690,709)	(169)	(652,582)	-	25,769	-	-	(648,201)	(1,317,521)
Loss on sale of subsidiaries									(578,913)	-
Interest revenue									132,740	34,247
Administration charges									(1,257,284)	(1,067,979)
Corporate charges									(154,565)	(147,140)
<i>Unallocated items:</i>										
Other									67,190	45,160
Loss for the year									(2,371,464)	(2,898,621)

Notes to the Financial Statements continued

30 JUNE 2013

27. SEGMENT INFORMATION (cont.)

	Australia		United Kingdom		Tanzania		Italy		Total	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
Segment assets	965,403	928,219	-	914,700	-	29,578	68,298	85,172	1,033,701	1,957,669
<i>Reconciliation of segment assets to Group assets</i>										
Intersegment elimination									-	-
<i>Unallocated items:</i>										
Corporate assets									3,907,280	884,550
Total Group assets									4,940,981	2,842,219
<i>Segment asset increases for the year</i>										
Capital expenditure	708,959	-	-	-	-	-	-	-	708,959	-
Acquisitions	-	928,219	-	-	-	-	-	-	-	928,219
	708,959	928,219	-	-	-	-	-	-	708,959	928,219
Segment liabilities	976,556	52,793	-	5,269,779	-	629,273	77,884	67,688	1,054,440	6,019,533
<i>Reconciliation of segment liabilities to Group liabilities</i>										
Intersegment elimination									(954,120)	(5,271,486)
<i>Unallocated items:</i>										
Corporate liabilities									157,178	64,038
Total Group liabilities									257,498	812,085

28. COMPANY DETAILS

The registered office of the company is:

Key Petroleum Limited
Ground Floor, 39 Stirling Highway
NEDLANDS WA 6009

The principal place of business is:

Key Petroleum Limited
Ground Floor, 39 Stirling Highway
NEDLANDS WA 6009

Notes to the Financial Statements continued

30 JUNE 2013

2013

2012

\$

\$

29. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS**(a) Assets classified as held for sale**

Disposal group held for sale (discontinued operation – see (c) below)

Trade and other receivables	-	279,416
Plant and equipment	-	9,509
Total assets of disposal group held for sale	-	288,925

(b) Liabilities directly associated with assets classified as held for sale

Disposal group held for sale (discontinued operation – see (c) below)

Trade and other payables	-	114,939
Provisions	-	512,626
	-	627,565

(c) Discontinued operations*(i) Description*

On 6 July 2012 Key entered into an agreement to sell its subsidiaries Key Petroleum UK Limited and Key Petroleum Weald Basin Limited (“UK Operations”) which owns and operates the two small oilfields, Lidsey and Brockham in the Weald Basin, United Kingdom, to Angus Energy Weald Basin No.1 Ltd for £100,000 cash. The intention to sell was made during the 2012 financial year, with settlement occurring effective 31 July 2012, from which date the UK Operations ceased to be consolidated into the Group. The assets and liabilities of the UK Operations were classified as held for sale as at 30 June 2012 and the results are reported as a discontinued operation in these financial statements.

On 16 November 2012 Key executed a sale agreement to sell the Group’s Tanzanian assets through the sale of its 100% owned subsidiary Funguo Petroleum Pty Limited (“Tanzanian Operations”) to Bounty Oil and Gas NL (“Bounty”). Sale proceeds consisted of US\$250,000, of which US\$205,480 was allocated to development costs of the Kiliwani North Development Licence, and shares in Bounty valued at \$156,000. The Tanzanian Operations ceased to be consolidated into the Group from 16 November 2012 and its results are reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operations for the period to the respective dates of disposal are set out below:

(ii) Financial performance and cash flow information

Revenue	8	1,429,364
Expenses	(23,773)	(2,399,470)
Loss before income tax	(23,765)	(970,106)
Income tax expense	-	-
Loss after income tax of discontinued operations	(23,765)	(970,106)
Loss on sale of subsidiaries before income tax	(578,913)	-
Income tax expense	-	-
Loss on sale of subsidiaries after income tax	(578,913)	-
Loss of discontinued operations	(602,678)	(970,106)

The loss from discontinued operations of \$602,678 (2012: 978,372) is entirely attributable to the owners of Key Petroleum Limited.

Net cash inflow from operating activities	7,156	207,591
Net cashflow from investing activities	243,337	-
Net cashflow from financing activities	-	-
Net increase in cash generated by the discontinued operations	250,493	207,591

Notes to the Financial Statements continued

30 JUNE 2013	2013	2012
	\$	\$
29. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS (cont'd)		
<i>(iii) Details of the sales of subsidiaries</i>		
Consideration received or receivable:		
Cash on sale of the UK Operations	154,730	-
Cash on sale of the Tanzanian Operations	239,075	-
Fair value of financial assets received on sale of the Tanzanian Operations	156,000	-
Total disposal consideration	<u>549,805</u>	-
Carrying amount of net liabilities sold of UK Operations	348,782	-
Carrying amount of net assets sold of Tanzanian Operations	(187,389)	-
Sale expenses incurred	(20,123)	-
Impairment of loans to UK and Tanzanian Operations	(110,800)	-
Recognition of foreign exchange reserve on sale of UK Operations	(977,959)	-
Recognition of foreign exchange reserve on sale of Tanzanian Operations	(181,229)	-
Loss on sales before income tax	<u>(578,913)</u>	-
Income tax expense	-	-
Loss on sales after income tax	<u><u>(578,913)</u></u>	-

The carrying amounts of assets and liabilities at the respective dates of sale were:

	Date of Sale
	\$
Sale of UK Operations (31 July 2012):	
Cash	10,322
Trade and other receivables	155,769
Plant and equipment	9,274
Capitalised exploration costs	1,722
Total assets	<u>177,087</u>
Trade and other payables	(25,948)
Provisions	(499,921)
Total liabilities	<u>(525,869)</u>
Net liabilities disposed of	<u><u>(348,782)</u></u>
Sale of Tanzanian Operations (16 November 2012):	
Trade and other receivables	5,668
Capitalised exploration costs	196,548
Total assets	<u>202,216</u>
Trade and other payables	(14,827)
Total liabilities	<u>(14,827)</u>
Net assets disposed of	<u><u>187,389</u></u>

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 18 to 50 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors for Key Petroleum Limited.



Kane Marshall
Managing Director

Perth, 2 September 2013

Independent Auditor's Report

To the Members of Key Petroleum Limited

We have audited the accompanying financial report of Key Petroleum Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

Directors Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- a. The financial report of Key Petroleum Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- b. The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in directors' report of the year ended 30 June 2013. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Key Petroleum Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

DATED at PERTH this 2nd day of September 2013

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 August 2013.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Ordinary shares	
		Number of holders	Number of shares
1	- 1,000	59	10,271
1,001	- 5,000	102	343,286
5,001	- 10,000	171	1,527,958
10,001	- 100,000	788	35,228,482
100,001	and over	496	413,399,420
		1,616	450,509,417
The number of equity security holders holding less than a marketable parcel of securities are:		736	10,892,425

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Empire Oil and Gas NL	52,000,000	11.54
2	Jerele Mining Pty Ltd <Ellyard Super Fund A/C>	15,000,000	3.33
3	Supermax Pty Ltd <Supermax Super Fund A/C>	13,114,532	2.91
4	Flexiplan Management Pty Ltd <Susan Thomas PSF A/C>	10,000,000	2.22
5	Norwhale Pty Ltd	6,500,000	1.44
6	Key International Pty Ltd	6,156,645	1.37
7	Dr Rosamund Julian Banyard & Mr Phillip Stanley Holten <R Banyard Super Fund A/C>	5,277,000	1.17
8	DMG & Partners Securities Pte Ltd <Clients A/C>	5,161,041	1.15
9	Mr Allen King & Mrs Jolanka King & Mr John King <AJ & J King S/F A/C>	5,000,000	1.11
10	Mr Hercules Philippus Bronn & Mrs Charmaine Bronn <Bronn Superannuation A/C>	4,500,000	1.00
11	National Nominees Limited	4,475,000	0.99
12	Mrs Sharon Teresa Lydeamore	4,425,000	0.98
13	Centaur Oil Services Pty Ltd <Centaur Investments A/C>	4,179,354	0.93
14	Faulkner Capital Group Pty Ltd <Faulkner Investment A/C>	4,000,000	0.89
15	Mr Hermann Haltiner <Haltiner Family Super A/C>	4,000,000	0.89
16	Mr Phillip Stanley Holten & Dr Rosamund Julian Banyard <R Banyard Super Fund A/C>	4,000,000	0.89
17	Odyssey Oil Pty Ltd	4,000,000	0.89
18	Citicorp Nominees Pty Limited	3,858,055	0.86
19	Mr Kenneth Russell	3,747,750	0.83
20	Mr Malcolm Geoffrey Heron & Mrs Melissa Anne Heron <Heron Super Fund A/C>	3,500,000	0.78
		162,894,377	36.16

ASX Additional Information

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Empire Oil and Gas NL	52,000,000

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Schedule of interests in petroleum blocks

Location	Block	Percentage held / earning
Italy – Offshore	West Sardinia	100
Italy – Po Valley	Borsano	100
Australia – Onshore	EP437	50
Australia – Onshore	EP448	78
Australia – Onshore	EP438	76
Australia – Onshore	EP104*	53.97
Australia – Onshore	R1*	30.61
Australia – Onshore	L15	49

* *Beneficial interest upon satisfaction of conditions as per sale agreement with Emerald Gas Pty Ltd*

(f) Unquoted Securities

Class	Number of Securities	Number of Holders	Holders of 20% or more of the class	
			Holder Name	Number of Securities
Unlisted 2.5 cent Options, Expiry 12 March 2017	500,000	1		
Unlisted 4.4 cent Options, Expiry 6 August 2017	2,000,000	1	Katarina Corporation Pty Ltd	2,000,000
Unlisted 5.2 cent Options, Expiry 6 August 2017	2,000,000	1	Katarina Corporation Pty Ltd	2,000,000
Unlisted 5.5 cent Options, Expiry 6 August 2017	7,000,000	5		
Unlisted 5.9 cent Options, Expiry 6 August 2017	2,000,000	1	Katarina Corporation Pty Ltd	2,000,000
Unlisted 6.4 cent Options, Expiry 6 August 2017	7,000,000	5		
Unlisted 7.4 cent Options, Expiry 6 August 2017	7,000,000	5		
Performance Rights A	3,250,000	2	JL Kane Marshall	2,000,000
			Ian Mark Paton	1,250,000
Performance Rights B	3,250,000	2	JL Kane Marshall	2,000,000
			Ian Mark Paton	1,250,000