

KEY
PETROLEUM LIMITED

ANNUAL REPORT

FOR THE 12 MONTHS ENDED 30 JUNE 2014

ACN 120 580 618

CORPORATE INFORMATION

ABN 50 120 580 618

Directors

Rex Turkington (Chairman & Non-Executive Director)
Kane Marshall (Managing Director)
Dennis Wilkins (Non-Executive Director)
Min Yang (Non-Executive Director)
Geoff Baker (Alternate Non-Executive Director to Min Yang)

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

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admin@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 2014.

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

Rex Turkington, B.Com(Hons), BCA, GAICD, AAFSI, ADA1(ASX) (Non-Executive Director and Chairman since 14 January 2014)

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, is a graduate of the Australian Institute of Company Directors and is an associate of the Institute of Financial Services of Australia. Mr Turkington is also a non-executive director of TNG Limited.

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 Petroleum 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) from the University of Western Australia and a Bachelor of Commerce in Investment Finance and Corporate Finance from the University of Western Australia.

Dennis Wilkins, B.Bus, AICD, ACIS (Non-Executive Director and Acting Chairman from the beginning of the financial year until 31 August 2013, and between 13 December 2013 and 14 January 2014)

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 also a non-executive director of Duketon Mining Limited. 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.

Min Yang, (Non-Executive Director, appointed 28 January 2014)

Ms Yang resides in Hong Kong and has over 20 years of experience with private and state-run businesses in China and has expertise in the identification of opportunities in resources and financial investment. Currently the Director and Chairman of ASF Group Limited and a Non-Executive Chairman of Rey Resources Limited and ActivEX Limited.

Geoff Baker, BCom, LLB, MBA (Alternate Non-Executive Director to Min Yang, appointed 28 January 2014)

Mr Baker is an Australian solicitor residing and working in Hong Kong and UK and has over 30 years of experience assisting companies in conducting business in China in addition to providing advice in mining, resources and finance. Currently a Director of ASF Group Limited and a Non-Executive Director of Rey Resources Limited and ActivEX Limited.

Ian Paton was a Non-Executive Director and Chairman from the beginning of the financial year until 13 December 2013.

COMPANY SECRETARY

Ian Gregory, BBus, FGIA, FCIS, F Fin, MAICD

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 Governance Institute of Australia (GIA), a past Chairman of that body and has also served on the National Council of GIA.

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
Rex Turkington	-	6,000,000	-
Kane Marshall	9,000,000	12,000,000	4,000,000
Dennis Wilkins	-	1,500,000	-
Min Yang	112,918,070 ⁽¹⁾	-	-
Geoff Baker	112,918,070 ⁽¹⁾	-	-

(1) Ms Yang and Mr Baker are both directors of ASF Group Limited which is the ultimate holding company of ASF Oil & Gas Holdings Pty Ltd which holds shares in Key Petroleum Limited.

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

The 2013/2014 financial year has seen Key Petroleum Limited ("Key") continue to build a foundation for growth as it increased its exploration efforts in the Perth and Canning Basins. During the period, the Company rationalised all of its Perth and Canning Basin interests through various Sale Agreements and joint venture partner withdrawals, these events have allowed Key to assume operatorship of all acreage in its exploration portfolio. This is a particularly important milestone for the Company at a time when there has been increasing regulatory cost burdens on conducting exploration activities in Western Australia and fundamentally places the Company in a strong position to commence a conventional oil exploration campaign in the next financial year while maintaining control of the costs. Financially, Key conducted a strategic placement of 19.9% of the enlarged capital structure to cornerstone investor ASF Group Limited ("ASF"). The goals of both ASF and Key are to unlock value in not only Canning Basin exploration projects but to seek out additional projects which reflect the goals and values presented to shareholders in 2012.

During the financial year, Key conducted a geochemical survey in EP448 in the Canning Basin. The permit is regarded as frontier in terms of locality and infrastructure however survey results have now been integrated with vintage seismic and other geological data to identify two mature prospects for drilling located only a few short hours' drive from the Great Northern Highway. In parallel, reviews around the Point Torment-1 and Stokes Bay-1 wells have identified prospective areas for conventional oil and gas only a short distance from the town of Derby where both oil and gas markets have been identified and infrastructure costs are not likely to be as costly as other areas of the Canning Basin.

Other than exploration activities and prospectivity reviews, the Company has been active in acreage gazettal rounds and was successful in being the preferred bidder for Discrete Area L12-10. The acreage was identified as being along trend and in close proximity to geochemical anomalies in the adjacent EP448 block. Award of the exploration permit in relation to L12-10 will be made by the State Government once all Native Title negotiations have concluded.

The activities undertaken during the year continue to follow the strategy for growth as outlined in 2012 with the Company appointed as Operator in acreage held and the evaluation of new opportunities. The Company has also sought to minimise its exploration costs, which has been achieved in the first instance with the farmout of EP437 for the drilling of Dunnart-2 to Rey Resources Limited ("Rey") in which Key maintain an equity position of 43.47%, while remaining as Operator and Rey contribute 86.94% of the costs of the drilling of Dunnart-2 up to \$1.7 million.

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

Several high impact prospects were identified from vintage seismic and geological data in EP437, with three of those prospects identified for drilling in the short term. These prospects are Dunnart, Wye-Knot and Condor South. The lowest risk and most mature prospect, Dunnart was drilled with the commencement of the new financial year with exploration well Dunnart-2. Options continue to be evaluated with regard to testing or a coordinated campaign with a smaller fit for purpose rig for both further exploration and/or completion operations with a view to carrying out production testing.

DIRECTORS' REPORT (continued)

EP448

During the financial year, Key completed a 200km geochemistry soil survey, which encompassed an area over 2,000 square kilometres and was conducted by helicopter. The survey was coordinated to facilitate on ground logistics in order to identify access routes for future well locations.

Results of the geochemical survey were integrated with existing seismic data over EP448 locating an area of high propane anomalies adjacent to an identified source area for oil generation. This area and the prospects contained within them have been named the 'Darriwell Project'. Source rock work from conodont alteration index studies of wells drilled in and around the Darriwell Project area suggested that source rocks in EP448 including the Goldwyer, Nita and Willara Formations were in the peak oil generating window.

The conclusion of the geochemical survey results and integration with data from the Darriwell Project area identified two mature prospects suitable for drilling in the southern Canning Basin, named Griffith and Patterson. Key's evaluation of these prospects indicate the potential for significant recoverable resources and the Company is seeking a farmin partner in the 2014/2015 financial year to include exploration wells in this part of the Canning Basin with exploration in the EP104 area. Importantly, the Company has furthered negotiations with Native Title parties in the northern part of EP448 for heritage clearance work around the Patterson and Griffith prospects with the work anticipated to be carried out either at the end of 2014 prior to the onset of the wet season or early 2105 at the conclusion of the wet season.

EP104/R1/L15

During the financial year the Company undertook a transaction with Buru Energy Limited, to increase its equity holding in both R1 and L15. This transaction resulted in Key becoming Operator of the permits and is now discussing the possibility of conducting workover campaigns in L15 and R1 with an interested third party. A planned workover in West Kora-1 would be carried out in conjunction with other activities in the Lennard Shelf province and would include discussions for offtake of any crude either via Broome Port or leveraging off other oilfield project synergies in the area. Geotechnical studies during the period identified the need to remediate the Point Torment-1 and Stokes Bay-1 causeways and it is the intention of the Company to not only undertake the remediation work in the immediate future but to additionally mature workover campaigns in one or both wells and drill and additional prospect in R1.

New Opportunities

The Company has identified, and continues to assess, a number of new venture opportunities congruent with the Company's 2012 strategic plan and it is likely that during the next financial year the Company will be participating in a number of exploration wells and new ventures.

Outlook

It has been a positive year for the Company, firming up the foundation for continued growth with the Board seeking to maintain a cash position of in excess of \$3 million. The Company reiterates its commitment to deliver value to shareholders and retain a strong financial position at a time when there has been a shortage of liquidity in small equity markets and a lack of exploration activity in the Western Australian petroleum sector. The Company will maintain its lean corporate structure giving it ability to move quickly on any commercial opportunities and execute exploration projects at relatively low costs when compared to its peers. The prospects for Key remain positive with production testing and exploration activities currently being planned in the North Perth Basin in addition to a coordinated workover and exploration campaign in the Canning Basin.

Finance Review

The Group has recorded an operating loss after income tax for the year ended 30 June 2014 of \$1,332,959 (2013: \$2,371,464). At 30 June 2014 funds available totalled \$3,410,031 (2013: \$3,564,704).

DIRECTORS' REPORT (continued)

Operating Results for the Year

Summarised operating results are as follows:

	2014	
	Revenues \$	Results \$
<i>Geographic segments</i>		
Australia	156,644	(1,206,892)
Italy	-	(126,067)
Consolidated entity revenues and loss	156,644	(1,332,959)

Shareholder Returns

	2014	2013
Basic loss per share (cents)	(0.3)	(0.6)

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 20, 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 was 9.25% for the 2014 financial year (9.5% effective 1 July 2014), and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

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.

DIRECTORS' REPORT (continued)

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 a 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.

Ian Paton was issued 2,500,000 performance rights for nil consideration following shareholder approval granted at a General Meeting held on 6 August 2013. 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.

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2014.

Voting and comments made at the Company's 2013 Annual General Meeting

The Company received approximately 95% of "yes" votes on its remuneration report for the 2013 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														
Rex Turkington⁽¹⁾	2014	60,000	-	-	-	-	-	-	-	-	12,844	-	-	72,844
(appointed 18 July 2013)	2013	55,000	-	-	-	-	-	-	-	-	7,466	-	-	62,466
Kane Marshall	2014	250,000	-	-	-	23,125	-	-	-	-	71,347	-	-	344,472
	2013	250,004	-	-	-	22,500	-	-	-	-	64,111	-	-	336,615
Dennis Wilkins⁽²⁾	2014	37,136	-	-	-	-	-	-	-	-	7,408	-	-	44,544
	2013	30,000	-	-	-	-	-	-	-	-	6,656	-	-	36,656
Min Yang	2014	20,000	-	-	-	-	-	-	-	-	-	-	-	20,000
(appointed 28 January 2014)														
Geoff Baker	2014	-	-	-	-	-	-	-	-	-	-	-	-	-
(appointed 28 January 2014)														
Ian Paton⁽³⁾	2014	27,083	-	-	-	-	-	-	-	-	40,887	-	-	67,970
(resigned 13 December 2013)	2013	70,417	-	-	-	-	-	-	-	-	36,742	-	-	107,159
Craig Marshall	2013	4,989	-	-	-	-	-	-	-	-	-	-	-	4,989
(resigned 18 July 2012)														
Total key management personnel	2014	394,219	-	-	-	23,125	-	-	-	-	132,486	-	-	549,830
	2013	410,410	-	-	-	22,500	-	-	-	-	114,975	-	-	547,885

(1) In addition to the above remuneration, which is for Mr Turkington's services as director, a total of \$8,400 (2013: \$15,000) 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.

(2) In addition to the above remuneration, which is for Mr Wilkins' services as director/chairman, a total of \$26,428 (2013: \$71,814) was paid to DW Corporate Pty Ltd, a business of which Mr Wilkins is principal. DW Corporate 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.

(3) In addition to the above remuneration, which is for Mr Paton's services as director, a total of \$78,000 (2013: \$164,200) 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.

Service agreements

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

Rex Turkington, Non-Executive Chairman:

- Annual consulting fee of \$60,000 to be paid to Katarina Corporation Pty Ltd, a business of which Mr Turkington is principal.
- Agreement commenced 14 January 2014 for a twelve month period.
- The agreement may be terminated, without cause, by either party with one months' written notice.

Kane Marshall, Managing Director:

- Mr Marshall is a full-time employee of the Company with an annual salary of \$250,000, plus statutory superannuation.

Min Yang, Non-Executive Director:

- Annual consulting fee of \$48,000 to be paid to Luxe Hill Ltd, a business of which Ms Yang is principal.
- Agreement commenced 1 February 2014 for a twelve month period.
- The agreement may be terminated, without cause, by either party with three months' written notice.

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	3.5
Kane Marshall	06/08/2012	4,000,000	(2)	06/08/2017	6.4	2.5	N/A	2.9
Kane Marshall	06/08/2012	4,000,000	(3)	06/08/2017	7.4	2.4	N/A	2.2
Dennis Wilkins	06/08/2012	1,000,000	(1)	06/08/2017	5.5	2.5	N/A	6.8
Dennis Wilkins	06/08/2012	1,000,000	(2)	06/08/2017	6.4	2.5	N/A	5.5
Dennis Wilkins	06/08/2012	1,000,000	(3)	06/08/2017	7.4	2.4	N/A	4.3
Ian Paton	06/08/2012	2,000,000	(1)	06/08/2017	5.5	2.5	N/A	9.0
Ian Paton	06/08/2012	2,000,000	(2)	06/08/2017	6.4	2.5	N/A	7.2
Ian Paton	06/08/2012	2,000,000	(3)	06/08/2017	7.4	2.4	N/A	5.6
Rex Turkington	30/11/2012	2,000,000	(4)	06/08/2017	4.4	2.1	N/A	7.3
Rex Turkington	30/11/2012	2,000,000	(5)	06/08/2017	5.2	2.0	N/A	5.8
Rex Turkington	30/11/2012	2,000,000	(6)	06/08/2017	5.9	1.9	N/A	4.5

- (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	6.6
Kane Marshall	06/08/2012	2,000,000	Nil	(3)	N/A	3.6	5.5
Ian Paton	06/08/2012	1,250,000	Nil	(2)	N/A	3.6	20.9
Ian Paton	06/08/2012	1,250,000	Nil	(3)	N/A	3.6	17.4

- (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 determined that the probability of this performance condition being met was 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 determined that the probability of this performance condition being met was 50%.

Equity instruments held by key management personnel

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, and any nominally held, are set out below. There were no shares granted during the reporting period as compensation.

2014

	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
<i>Directors of Key Petroleum Limited</i>				
Ordinary shares				
Rex Turkington	-	-	-	-
Kane Marshall	9,000,000	-	5,000,000	14,000,000
Dennis Wilkins	-	-	-	-
Min Yang (appointed 28 January 2014)	-	-	⁽¹⁾ 112,918,070	⁽²⁾ 112,918,070
Geoff Baker (appointed 28 January 2014)	-	-	⁽¹⁾ 112,918,070	⁽²⁾ 112,918,070
Ian Paton (resigned 13 December 2013)	1,000,000	-	-	⁽¹⁾ 1,000,000

(1) Amount held at the respective dates of appointment and resignation.

(2) Ms Yang and Mr Baker are both directors of ASF Group Limited which is the ultimate holding company of ASF Oil & Gas Holdings Pty Ltd which holds shares in Key Petroleum Limited.

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:

2014

	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>							
Rex Turkington	6,000,000	-	-	-	6,000,000	-	6,000,000
Kane Marshall	12,000,000	-	-	-	12,000,000	-	12,000,000
Dennis Wilkins	1,500,000	-	-	-	1,500,000	-	1,500,000
Min Yang (appointed 28 January 2014)	-	-	-	-	-	-	-
Geoff Baker (appointed 28 January 2014)	-	-	-	-	-	-	-
Ian Paton (resigned 13 December 2013)	6,000,000	-	-	-	⁽¹⁾ 6,000,000	-	6,000,000

(1) Amount held at date of resignation.

All vested options are exercisable at the end of the year.

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.”

DIRECTORS' REPORT (continued)

Loans to key management personnel

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

Other transactions with key management personnel

A total of \$26,428 (2013: \$71,814) 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. At 30 June 2014 there was an outstanding amount owing to DWCorporate Pty Ltd of \$3,372 (2013: \$nil).

A total of \$78,000 (2013: \$164,200) 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. At 30 June 2014 there was an outstanding amount owing to Valmap Pty Ltd of \$nil (2013: \$23,558).

A total of \$8,400 (2013: \$15,000) 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. At 30 June 2014 there was an outstanding amount owing to Katarina Corporation Pty Ltd of \$5,500 (2013: \$5,500).

End of audited Remuneration Report

DIRECTORS' MEETINGS

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

	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
Rex Turkington	8	8	2	2
Kane Marshall	8	8	*	*
Dennis Wilkins	7	8	2	2
Min Yang (appointed 28 January 2014)	3	3	1	1
Geoff Baker (Alternate Director, appointed 28 January 2014)	3	3	*	*
Ian Paton (resigned 13 December 2013)	3	3	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

Unissued ordinary shares of Key Petroleum Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price (cents)	Number of options
12 March 2013	12 March 2017	2.5	500,000
7 December 2012	6 August 2017	4.4	2,000,000
7 December 2012	6 August 2017	5.2	2,000,000
8 August 2012	6 August 2017	5.5	7,000,000
7 December 2012	6 August 2017	5.9	2,000,000
8 August 2012	6 August 2017	6.4	7,000,000
8 August 2012	6 August 2017	7.4	7,000,000
Total number of options outstanding at the date of this report			27,500,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

DIRECTORS' REPORT (continued)

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Key Petroleum Limited paid a premium of \$31,999 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

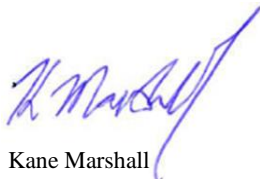
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

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 14.

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

A handwritten signature in blue ink, appearing to read "Kane Marshall".

Kane Marshall
Managing Director

Perth, 25 September 2014

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

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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 2014, 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 25th day of September 2014

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 the board's duties and physical ability to undertake the 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 recognises the need for the Company to operate with the highest standards of behaviour and accountability. Subject to the exceptions outlined below the Company has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) to determine an appropriate system of control and accountability to best fit the business and operations commensurate with these guidelines. Copies of corporate governance policies are accessible on the Company's website at www.keypetroleum.com.au.

As the Company's activities develop in size, nature and scope the implementation of additional corporate governance structures will be given further consideration.

The Company has complied with each of the Eight Corporate Governance Principles and Recommendations as published by the ASX Corporate Governance Council (2nd Edition), other than in relation to the matters specified below.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

ASX Principle	Status	Reference/comment
Principle 1: Lay solid foundations for management and oversight		
1.1	A	Matters reserved for the board are included on the Company's website.
1.2	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	A	The Company's Board Charter is available on the Company website.
Principle 2: Structure the board to add value		
2.1	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	A	The Company only has one independent director, Rex Turkington, who was appointed Chairman of the board on 14 January 2014 following the resignation of Ian Paton.
2.3	A	The positions of Chairman and Managing Director are held by separate persons.
2.4	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	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	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	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 (Rex Turkington, Dennis Wilkins and Min Yang, who replaced Ian Paton). 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	The 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 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 The Managing Director and Chief Financial Officer (or equivalent) provide the Board the assurance in compliance with this Recommendation that the declaration provided in accordance with S.295A of the Corporations Act was founded on a sound system of risk management and internal control and that system was operating effectively in all material respects in relation to financial reporting risks.

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	<p>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.</p> <p>Non-executive directors are entitled to statutory superannuation. There are no other schemes for retirement benefits for non-executive directors.</p> <p>Directors are prohibited from entering into transactions which limit the risk of participating in unvested entitlements under any equity based remuneration scheme.</p>
<p><i>A = Adopted</i> <i>N/A = Not adopted</i></p>			

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2014	Notes	2014 \$	2013 \$
CONTINUING OPERATIONS			
REVENUE AND OTHER INCOME	2	156,644	354,058
EXPENDITURE			
Depreciation expense		(19,055)	(6,086)
Salaries and employee benefits expense		(342,017)	(548,996)
Corporate expenditure		(80,208)	(154,565)
Administration costs		(512,007)	(644,390)
Exploration costs written off	9	(271,053)	(648,032)
Share-based payments expense	23	(132,486)	(120,775)
Finance costs		(9,646)	-
Impairment		(123,131)	-
LOSS BEFORE INCOME TAX	3	(1,332,959)	(1,768,786)
INCOME TAX BENEFIT / (EXPENSE)	4	-	-
LOSS FROM CONTINUING OPERATIONS		(1,332,959)	(1,768,786)
Loss from discontinued operation	28	-	(602,678)
LOSS FOR THE YEAR		(1,332,959)	(2,371,464)
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		55,781	93,014
Other comprehensive income for the year, net of tax		55,781	1,252,202
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF KEY PETROLEUM LIMITED		(1,277,178)	(1,119,262)
Basic loss per share for loss from continuing operations (cents per share)	22	(0.27)	(0.41)
Basic loss per share for loss from continuing and discontinued operations (cents per share)	22	(0.27)	(0.55)

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 2014	Notes	2014 \$	2013 \$
CURRENT ASSETS			
Cash and cash equivalents	5	3,410,031	3,564,704
Trade and other receivables	6	201,991	367,365
TOTAL CURRENT ASSETS		3,612,022	3,932,069
NON-CURRENT ASSETS			
Receivables	7	20,958	20,958
Plant and equipment	8	301,041	22,551
Capitalised exploration costs	9	1,886,183	965,403
TOTAL NON-CURRENT ASSETS		2,208,182	1,008,912
TOTAL ASSETS		5,820,204	4,940,981
CURRENT LIABILITIES			
Trade and other payables	10	384,149	257,498
TOTAL CURRENT LIABILITIES		384,149	257,498
NON-CURRENT LIABILITIES			
Provisions	11	400,000	-
TOTAL NON-CURRENT LIABILITIES		400,000	-
TOTAL LIABILITIES		784,149	257,498
NET ASSETS		5,036,055	4,683,483
EQUITY			
Issued capital	12	35,301,510	33,804,246
Reserves	13(a)	386,849	198,582
Accumulated losses		(30,652,304)	(29,319,345)
TOTAL EQUITY		5,036,055	4,683,483

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 2014

	Issued Capital \$	Share- Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
BALANCE AT 1 JULY 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
Loss for the year	-	-	-	(1,332,959)	(1,332,959)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	-	-	55,781	-	55,781
TOTAL COMPREHENSIVE INCOME	-	-	55,781	(1,332,959)	(1,277,178)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	1,507,135	-	-	-	1,507,135
Share issue transaction costs	(9,871)	-	-	-	(9,871)
Share-based payments	-	132,486	-	-	132,486
BALANCE AT 30 JUNE 2014	35,301,510	462,161	(75,312)	(30,652,304)	5,036,055

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 2014	Notes	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		59,454	207,525
Payments to suppliers and employees		(898,708)	(1,391,593)
Interest received		112,058	107,429
Finance costs paid		(5,214)	-
Expenditure on petroleum interests		(1,070,510)	(960,392)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	21(a)	<u>(1,802,920)</u>	<u>(2,037,031)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(297,545)	(25,339)
(Payment)/Refund of security deposit		-	(5,958)
Proceeds on sale of financial assets		-	216,066
Proceeds on sale of oil and gas permit		400,000	-
Proceeds on sales of subsidiaries, net of cash disposed		87,571	243,337
NET CASH INFLOW FROM INVESTING ACTIVITIES		<u>190,026</u>	<u>428,106</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares and options		1,467,935	3,988,228
Payments of share issue transaction costs		(9,871)	(263,925)
NET CASH INFLOW FROM FINANCING ACTIVITIES		<u>1,458,064</u>	<u>3,724,303</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(154,830)	2,115,378
Cash and cash equivalents at the beginning of the financial year		3,564,704	1,460,859
Effects of exchange rate changes on cash and cash equivalents		157	(11,533)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	<u><u>3,410,031</u></u>	<u><u>3,564,704</u></u>

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 2014

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 25 September 2014. 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

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to their operations and effective for the current annual reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the first time for the annual reporting period commencing 1 July 2013 that are relevant to the Group include:

- AASB 10 *Consolidated Financial Statements*;
- AASB 11 *Joint Arrangements*;
- AASB 12 *Disclosure of Interests in Other Entities*;
- AASB 13 *Fair Value Measurement*;
- AASB 119 *Employee Benefits*;
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*; and
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior years. However, the above standards have affected the disclosures in the notes to the financial statements.

(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 2013.

(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.

(v) Going concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group incurred a loss for the year of \$1,332,959 (2013: \$2,371,464) and net cash outflows from operating activities of \$1,802,920 (2013: \$2,037,031).

The Group has exploration commitments due within twelve months of \$4,573,785.

The ability of the Group to continue to pay its debts as and when they fall due is principally dependent upon successfully farming out its expenditure commitments on selected projects, ultimately developing one of its oil and gas permits or raising additional share capital. These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern.

The Directors believe it is appropriate to prepare these accounts on a going concern basis because:

- In light of the Group's current projects, the Directors believe that, if required, additional capital can be raised in the market within the ordinary course of business. This has been evidenced by the Company successfully raising \$1,507,135 via the issue of ordinary shares during the year; and
- If required, the Directors will be able to contain certain operating and exploration expenditure by farming out the Group's exploration commitments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Should the Group be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the 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.

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 transferred asset. 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 profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

(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, 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 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.

(iii) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a Group entity transacts with a joint operation in which a Group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity;

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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 similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(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 that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Measurement

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 25.

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)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 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 26).

(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').

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(y) New accounting standards and interpretations

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Group does not anticipate that there will be a material effect on the financial statements from the adoption of these standards.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 "Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities"	1 January 2014	30 June 2015
AASB 2013-3 "Amendments to AASB 135 – Recoverable Amount Disclosures for Non-Financial Assets"	1 January 2014	30 June 2015
AASB 2013-5 "Amendments to Australian Accounting Standards – Investment Entities"	1 January 2014	30 June 2015
AASB 2013-9 "Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments"	1 January 2014	30 June 2015

(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.

Provisions for rehabilitation

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014	2014	2013
	\$	\$
2. REVENUE AND OTHER INCOME		
From continuing operations		
<i>Other revenue</i>		
Interest from financial institutions	107,424	132,740
Management fees	28,453	154,135
Net gain on sale of financial assets	-	60,066
Fuel tax credits	1,049	-
Foreign exchange gains	19,718	7,117
	156,644	354,058
3. EXPENSES		
Loss before income tax includes the following specific expenses:		
Superannuation expense	32,837	34,274
Minimum lease payments relating to operating leases	41,902	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	(1,332,959)	(1,768,786)
Prima facie tax benefit at the Australian tax rate of 30%	(399,887)	(530,636)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	39,746	-
Sundry items	60,408	35,972
	(299,733)	(494,664)
Movements in unrecognised temporary differences	(237,889)	(40,550)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	537,622	535,214
Income tax expense	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014		2014	2013
	Notes	\$	\$
4. INCOME TAX (cont.)			
(c) Deferred Tax Assets			
Sundry accruals and employee entitlements		6,900	6,358
Capital raising costs and other section 40-880 deductions		111,671	83,113
Tax losses		455,971	207,743
		<u>574,542</u>	<u>297,214</u>
Set off deferred tax liabilities	4(d)	<u>(574,542)</u>	<u>(297,214)</u>
Net deferred tax assets		<u>-</u>	<u>-</u>
(d) Deferred Tax Liabilities			
Accrued revenue		8,687	7,593
Capitalised exploration and evaluation costs		565,855	289,621
		<u>574,542</u>	<u>297,214</u>
Set-off deferred tax assets	4(c)	<u>(574,542)</u>	<u>(297,214)</u>
Net deferred tax liabilities		<u>-</u>	<u>-</u>
(e) Tax Losses			
Unused tax losses for which no deferred tax asset has been recognised		3,269,230	3,664,524
		<u>3,269,230</u>	<u>3,664,524</u>

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2014 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	406,374	338,614
Short-term deposits	3,003,657	3,226,090
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	<u>3,410,031</u>	<u>3,564,704</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	118,682	97,401
Other receivables	47,854	122,408
Consideration receivable from the sale of the UK Operations (note 28)	35,455	147,556
	<u>201,991</u>	<u>367,365</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 25. 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)

30 JUNE 2014

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	
	\$	\$	\$	\$	\$	\$	\$
2014							
Trade receivables	118,682	-	-	-	-	-	118,682
Other receivables	47,854	-	-	-	-	-	47,854
Consideration receivable from sale of UK Operations ⁽¹⁾	-	-	-	-	-	35,455	35,455
Total	166,536	-	-	-	-	35,455	201,991
2013							
Trade receivables	97,401	-	-	-	-	-	97,401
Other receivables	269,964	-	-	-	-	-	269,964
Total	367,365	-	-	-	-	-	367,365

(1) The balance is not impaired as the amount was received subsequent to year-end.

7. NON-CURRENT ASSETS – RECEIVABLES

	2014	2013
	\$	\$
Bank guarantees	20,958	20,958
	20,958	20,958

8. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Plant and equipment

Cost	326,540	28,995
Accumulated depreciation	(25,499)	(6,444)
Net book amount	301,041	22,551

Plant and equipment

Opening net book amount	22,551	3,298
Additions	297,545	25,339
Depreciation charge	(19,055)	(6,086)
Closing net book amount	301,041	22,551

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014	2014	2013
	\$	\$
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	965,403	929,984
Capitalised exploration and evaluation costs	1,191,833	683,620
Exploration and evaluation costs written off and assets included in a disposal group classified as held for sale	(271,053)	(648,201)
Closing net book amount	<u>1,886,183</u>	<u>965,403</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.

(a) Joint operations

The Group accounts for the assets, liabilities, revenues and expenses relating to its interests in Joint Operations in accordance with the accounting policy of the Group (refer note 1(b)(iii)). The Group has the following interests in Joint Operations:

	2014	2013
	%	%
EP448	78.00	78.00
EP104	53.97	53.97
R1	65.23	30.61
L15	61.40	49.00
EP438	-	20.00
EP437	43.47	50.00

10. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Trade payables	287,141	193,922
Other payables and accruals	97,008	63,576
	<u>384,149</u>	<u>257,498</u>

11. NON-CURRENT LIABILITIES - PROVISIONS

	2014	2013
	\$	\$
<i>Provision for rehabilitation</i>		
Carrying amount at start of year	-	-
Acquired through permit Sale Agreement – Asset Swap	400,000	-
Carrying amount at end of year	<u>400,000</u>	-

The Group has recognised a provision for remediation works that may be required in relation to activities carried out on the R1 and L15 permits. The provision has been recognised at the value prescribed by the Sale Agreement – Asset Swap (EP438, L15 and R1) entered into by the Group and Buru Energy Limited and Indigo Oil Pty Ltd during December 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

12. ISSUED CAPITAL

(a) Share capital

	Notes	2014		2013	
		Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	12(b), 12(e)	567,427,487	35,301,510	450,509,417	33,804,246
Total issued capital		567,427,487	35,301,510	450,509,417	33,804,246
(b) Movements in ordinary share capital					
Beginning of the financial year		450,509,417	33,804,246	308,072,707	30,152,409
– Share placement		112,918,070	1,467,935	142,436,710	3,988,228
– Issued as consideration for licence acquisition		4,000,000	39,200	-	-
– Share issue transaction costs		-	(9,871)	-	(336,391)
End of the financial year		567,427,487	35,301,510	450,509,417	33,804,246

(c) Movements in options on issue

	Number of options	
	2014	2013
Beginning of the financial year	27,500,000	-
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
End of the financial year	27,500,000	27,500,000

(d) Movements in performance rights on issue

	Number of performance rights	
	2014	2013
Beginning of the financial year	6,500,000	-
Issued during the year:		
– Performance Rights A	-	3,250,000
– Performance Rights B	-	3,250,000
End of the financial year	6,500,000	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

12. ISSUED CAPITAL (cont'd)

(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 2014 and 30 June 2013 are as follows:

	2014 \$	2013 \$
Cash and cash equivalents	3,410,031	3,564,704
Trade and other receivables	201,991	367,365
Trade and other payables	(384,149)	(257,498)
Working capital position	<u>3,227,873</u>	<u>3,674,571</u>

13. RESERVES

(a) Reserves

Foreign currency translation reserve	(75,312)	(131,093)
Share-based payments reserve	462,161	329,675
	<u>386,849</u>	<u>198,582</u>

(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.

14. DIVIDENDS

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

15. REMUNERATION OF AUDITORS

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	21,840	52,100
Total remuneration for audit services	<u>21,840</u>	<u>52,100</u>

16. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group at the reporting 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	4,573,785	1,120,000
later than one year but not later than five years	2,674,430	10,000,000
	<u>7,248,215</u>	<u>11,120,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014	2014	2013
	\$	\$
17. COMMITMENTS (cont'd)		
(b) Lease commitments: Group as lessee		
<i>Operating leases (non-cancellable):</i>		
Minimum lease payments		
within one year	10,250	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>10,250</u>	<u>50,925</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.

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 19.

(c) Key management personnel compensation

	2014	2013
	\$	\$
Short-term benefits	394,219	410,410
Post-employment benefits	23,125	22,500
Share-based payments	132,486	114,975
	<u>549,830</u>	<u>547,885</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 7 to 13.

(d) Transactions and balances with other related parties

Transactions with key management personnel are disclosed in the Directors' Report.

19. 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*	
			2014	2013
			%	%
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
Key Petroleum Offshore Pty Ltd	Australia	Ordinary	100	100
Key Petroleum Taranaki Limited ⁽¹⁾	New Zealand	Ordinary	100	-
Key Petroleum Services Pty Ltd ⁽²⁾	Australia	Ordinary	100	-

(1) Key Petroleum Taranaki Limited was incorporated on 12 September 2013 with Key Petroleum Limited as the sole shareholder.

(2) Key Petroleum Services Pty Ltd was incorporated on 3 February 2014 with Key Petroleum Limited as the sole shareholder.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014	2014	2013
	\$	\$
20. EVENTS OCCURRING AFTER THE REPORTING DATE		
No matter or circumstance has arisen since 30 June 2014, 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.		
21. CASH FLOW INFORMATION		
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities		
Net loss for the year	(1,332,959)	(2,371,464)
Non-Cash Items		
Depreciation of non-current assets	19,055	6,086
Doubtful debts expense	123,131	-
Loss on sale of subsidiaries	-	578,913
Profit on sale of financial assets	-	(60,066)
Share-based payments expense	132,486	120,775
Shares issued as consideration for the acquisition of licences	39,200	-
Net exchange differences	(12,387)	(47,383)
Change in operating assets and liabilities, net of effects from disposals of controlled entities		
(Increase) in trade and other receivables	(25,480)	(228,985)
(Increase) in petroleum permits and capitalised exploration costs	(920,780)	(35,419)
Increase in trade and other payables	174,814	512
Net cash outflow from operating activities	<u>(1,802,920)</u>	<u>(2,037,031)</u>
(b) Non-cash financing and investing activities		
<i>(i) Financial assets received</i>		
During the prior year, as part consideration on the sale of the Tanzanian Assets (refer note 28), the Group received shares in ASX listed Bounty Oil and Gas NL valued at \$156,000.		
<i>(ii) Share issue</i>		
During the current year 4,000,000 ordinary shares were issued, with a deemed value of \$39,200, as consideration for the acquisition of licences.		
	2014	2013
	\$	\$
22. 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	(1,332,959)	(1,768,786)
From discontinued operation	-	(602,678)
From continuing and discontinued operations	<u>(1,332,959)</u>	<u>(2,371,464)</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		
	<u>502,339,416</u>	<u>429,436,589</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

23. 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:

	2014		2013	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	27,500,000	6.1	-	-
Granted	-	-	27,500,000	6.1
Forfeited/cancelled	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	27,500,000	6.1	27,500,000	6.1
Exercisable at year-end	500,000	2.5	500,000	2.5

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 3.1 years (2013: 4.1 years), and the exercise prices range from 2.5 to 7.4 cents.

There were no options granted during the 2014 financial year. 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:

	2014	2013
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 2014

23. 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:

	2014	2013
Outstanding at the beginning of the year	6,500,000	-
Granted	-	6,500,000
Forfeited/cancelled	-	-
Exercised	-	-
Expired	-	-
Outstanding at year-end	<u>6,500,000</u>	<u>6,500,000</u>

There were no performance rights granted during the 2014 financial year. The weighted average fair value of the performance rights granted during the 2013 financial year was 3.6 cents. 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

	2014	2013
	\$	\$
Total expenses arising from share-based payment transactions recognised during the year were as follows:		
Options granted to employees and contractors	64,701	59,860
Performance rights granted to employees and contractors	67,785	60,915
	<u>132,486</u>	<u>120,775</u>

During the 2014 financial year 4,000,000 ordinary shares were issued, with a deemed value of \$39,200, as consideration for the acquisition of licences.

24. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Key Petroleum Limited, at 30 June 2014. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

Current assets	3,335,698	3,609,048
Non-current assets	1,882,661	1,574,167
Total assets	<u>5,218,359</u>	<u>5,183,215</u>
Current liabilities	189,534	179,615
Total liabilities	<u>189,534</u>	<u>179,615</u>
Issued capital	35,301,510	33,804,246
Share-based payments reserve	462,161	329,675
Accumulated losses	(30,734,846)	(29,130,321)
Total equity	<u>5,028,825</u>	<u>5,003,600</u>
Loss for the year	(1,604,525)	(1,228,008)
Total comprehensive loss for the year	<u>(1,604,525)</u>	<u>(1,228,008)</u>

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

The parent entity is responsible for the commitments outlined in note 18.

Interests in subsidiaries are set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

24. PARENT ENTITY INFORMATION (cont.)

Loans to related parties

Loans to subsidiaries

	Key Petroleum (UK) Ltd & Funguo Petroleum Pty Limited		Other subsidiaries		Total	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Beginning of the year	-	706,863	600,556	17,642	600,556	724,505
Loans advanced/(repaid)	-	(629,348)	908,320	971,788	908,320	342,440
Interest charged	-	-	-	-	-	-
Impairments	-	(77,515)	(592,753)	(388,874)	(592,753)	(466,389)
Closing balance	-	-	916,123	600,556	916,123	600,556

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 28. 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)

30 JUNE 2014

2014

2013

\$

\$

25. 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	3,410,031	3,564,704
Loans and Receivables	201,991	367,365
Total Financial Assets	3,612,022	3,932,069

Financial Liabilities

Trade and other payables	384,149	257,498
Total Financial Liabilities	384,149	257,498

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:

	2014		2013	
	GBP	EUR	GBP	EUR
Cash and cash equivalents	-	6,500	-	6,501
Trade and other receivables	20,000	-	90,000	41,441
Trade and other payables	-	(20,515)	-	(54,671)

Sensitivity analysis

Based on the financial instruments held at 30 June 2014, 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 (2013: Nil) and immaterial movements to the Group's equity for both years presented.

(ii) Price risk

The Group was not directly exposed to price risk during the 2013 or 2014 financial years.

(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 \$3,410,031 (2013: \$3,564,704) 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 3.1% (2013: 3.3%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

25. FINANCIAL RISK MANAGEMENT (cont.)

Sensitivity analysis

At 30 June 2014, 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 \$27,583 lower/higher (2013: \$31,792 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	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables (excluding estimated annual leave)	351,817	236,306	-	-	351,817	236,306
Total contractual outflows	351,817	236,306	-	-	351,817	236,306
Financial assets – cash flows realisable						
Cash and cash equivalents	3,410,031	3,564,704	-	-	3,410,031	3,564,704
Trade and loan receivables	201,991	367,365	-	-	201,991	367,365
Total anticipated inflows	3,612,022	3,932,069	-	-	3,612,022	3,932,069
Net inflow on financial instruments	3,260,205	3,695,763	-	-	3,260,205	3,695,763

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

26. 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

26. SEGMENT INFORMATION (cont.)

	Australia		Italy		Total	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Segment revenue						
External sales	-	-	-	-	-	-
Other revenue	28,453	154,135	-	-	28,453	154,135
Total segment revenue	28,453	154,135	-	-	28,453	154,135
<i>Reconciliation of segment revenue to Group revenue</i>						
Amounts not included in the segment result but reviewed by the Board:						
Interest revenue					107,424	132,740
Other revenue					20,767	67,190
Total Group revenue					156,644	354,066
Segment result						
Segment result before income tax	28,453	154,135	(126,067)	(56,876)	(97,614)	97,259
<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	(19,055)	(6,086)	-	-	(19,055)	(6,086)
Impairment of capitalised exploration costs	(271,053)	(648,032)	-	-	(271,053)	(648,032)
Loss on sale of subsidiaries					-	(578,913)
Interest revenue					107,424	132,740
Administration charges					(939,327)	(1,257,284)
Corporate charges					(80,208)	(154,565)
Finance costs					(9,646)	-
<i>Unallocated items:</i>						
Other					20,767	43,417
Impairment					(44,247)	-
Loss for the year					(1,332,959)	(2,371,464)
Segment assets	1,886,183	965,403	9,417	68,298	1,895,600	1,033,701
<i>Reconciliation of segment assets to Group assets</i>						
Intersegment elimination						
					-	-
<i>Unallocated items:</i>						
Corporate assets					3,924,604	3,907,280
Total Group assets					5,820,204	4,940,981
<i>Segment asset increases for the year</i>						
Capital expenditure	1,191,833	708,959	-	-	1,191,833	708,959
	1,191,833	708,959	-	-	1,191,833	708,959
Segment liabilities	2,475,693	976,556	29,721	77,884	2,505,414	1,054,440
<i>Reconciliation of segment liabilities to Group liabilities</i>						
Intersegment elimination						
					(1,910,800)	(954,120)
<i>Unallocated items:</i>						
Corporate liabilities					189,535	157,178
Total Group liabilities					784,149	257,498

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014

27. 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

2014	2013
\$	\$

28. 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.

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
Expenses	-	(23,773)
Loss before income tax	-	(23,765)
Income tax expense	-	-
Loss after income tax of discontinued operations	-	(23,765)
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)

The loss from discontinued operations of \$nil (2013: \$602,678) is entirely attributable to the owners of Key Petroleum Limited.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2014	2014	2013
	\$	\$
28. 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	-	549,805
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	-	(578,913)
Income tax expense	-	-
Loss on sales after income tax	-	(578,913)

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	177,087
Trade and other payables	(25,948)
Provisions	(499,921)
Total liabilities	(525,869)
Net liabilities disposed of	(348,782)

Sale of Tanzanian Operations (16 November 2012):

Trade and other receivables	5,668
Capitalised exploration costs	196,548
Total assets	202,216
Trade and other payables	(14,827)
Total liabilities	(14,827)
Net assets disposed of	187,389

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 20 to 49 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 2014 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.

A handwritten signature in blue ink, appearing to read "Kane Marshall", written over a faint blue line.

Kane Marshall
Managing Director

Perth, 25 September 2014

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 statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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.

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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*.

Opinion

In our opinion:

- a. The financial report of Key Petroleum Limited 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 2014 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 statements also comply with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the Consolidated Entity incurred a net loss of \$1,332,959 during the year ended 30 June 2014. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of Key Petroleum Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



BENTLEYS
Chartered Accountants



DOUG BELL CA
Director

Dated at Perth this 25th day of September 2014

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 31 August 2014.

(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	64	10,535
1,001	- 5,000	99	332,594
5,001	- 10,000	165	1,469,302
10,001	- 100,000	810	36,610,438
100,001	and over	503	529,104,618
		1,641	567,427,487
The number of equity security holders holding less than a marketable parcel of securities are:		686	9,275,829

(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	ASF Oil & Gas Holdings Pty Ltd	112,918,070	19.90
2	First Super Technology Limited	26,000,000	4.58
3	Forever New Limited	26,000,000	4.58
4	Supermax Pty Ltd <Supermax Super Fund A/C>	21,914,532	3.86
5	Jerele Mining Pty Ltd <Ellyard Super Fund A/C>	15,000,000	2.64
6	Comsec Nominees Pty Limited	11,234,713	1.98
7	Key International Pty Ltd	8,156,645	1.44
8	HC Investment Holdings Pty Limited <The JC A/C>	6,800,000	1.20
9	KJM Consultants Pty Ltd <The Kane Marshall S/F A/C>	6,000,000	1.06
10	Seaville Investments Pty Ltd <Seaville Super Fund A/C>	6,000,000	1.06
11	Faulkner Capital Group Pty Ltd <Faulkner Investment A/C>	5,622,750	0.99
12	Odyssey Oil Pty Ltd	5,500,000	0.97
13	DMG & Partners Securities Pte Ltd <Clients A/C>	5,311,041	0.94
14	Mr Munyaradzi Covava Juru	5,100,000	0.90
15	Mr Allen King + Mrs Jolanka King + Mr John King <A J & J King S/F A/C>	5,000,000	0.88
16	National Nominees Limited	4,859,715	0.86
17	Mr Hercules Philippus Bronn + Mrs Charmaine Bronn <Bronn Superannuation A/C>	4,500,000	0.79
18	HSBC Custody Nominees (Australia) Limited	4,120,000	0.73
19	Mr Phillip Stanley Holten + Dr Rosamund Julian Banyard <R Banyard Super Fund A/C>	4,000,000	0.70
20	Mr Kenneth Russell	3,747,750	0.66
		287,785,216	50.75

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
ASF Oil & Gas Holdings Pty Ltd	112,918,070

(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
Australia – Onshore	EP437	43.47
Australia – Onshore	EP448	78.00
Australia – Onshore	EP104*	53.97
Australia – Onshore	R1*	65.23
Australia – Onshore	L15*	61.40
Australia – Onshore	L12-10**	100

* *Beneficial interests upon processing of title interests by the Department of Mines and Petroleum involving sale agreements with Emerald Gas Pty Ltd and Buru Energy Limited*

** *Key is the preferred bidder for discrete area L12-10. Award of the petroleum permit is only satisfied when good faith native title negotiations have been concluded and agreed with the Determined Area representatives and a state deed and heritage protection agreement are executed between those representatives and the state government.*

(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	Michelle Armitage	500,000
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
Performance Rights B	3,250,000	2	JL Kane Marshall	2,000,000