



Kea Petroleum plc
("Kea" or the "Group")

PRELIMINARY RESULTS FOR THE PERIOD ENDED 31 MAY 2010

Kea Petroleum plc (AIM:KEA) is pleased to present its first Preliminary Results for the period ended 31 May 2010 (there is no comparable period).

Operational Highlights

- First oil discovery expected to enter test production before the end of 2010
- Gas discovery being evaluated to determine more optimal drilling option
- Discussions to extend gas exploration agreement with Methanex are ongoing
- Aggressive exploration programme on and offshore

Financial Highlights

- Over £20m of cash held at balance sheet date
- Loss before tax: £1.25m
- Loss per share: 0.32p

Chairman, Ian Gowrie-Smith said:

"At the balance sheet date Kea had cash balances of over £20 million sterling equivalent, which puts Kea in a well funded position to continue its planned exploration and development drilling programmes, in association with its joint venture and alliance partners such as Methanex. 2011 promises to be an exciting year as Kea's planned drilling programme continues to provide ample opportunities to bring success to the Company through further oil and gas discoveries."

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CHAIRMAN'S STATEMENT

Kea Petroleum Plc (Kea) has maintained an active and aggressive exploration programme in New Zealand since listing on AIM in early 2010. This has seen the granting of three new permit areas, two of them offshore along trend with our key land permits, the acquisition of over 75km of new 2D land seismic and the drilling of three exploration wells, two onshore and one offshore. The first well Wingrove-2 resulting in an oil discovery, during April, in Kea's wholly owned onshore Taranaki permit 51153. This well is expected to be put into test production before the end of the year. With a total net acreage of 3,810 square km we are now planning an exciting new drilling campaign, starting in the New Zealand summer, around the end of this year.

This exploration programme will be a mix of shallower oil targets similar to our Wingrove discovery and deeper gas targets, which can rapidly be brought on stream, through our existing agreement with Methanex New Zealand Limited (a subsidiary of Methanex Corporation of Canada) (Methanex) or via other markets.

A successful and strategic seismic acquisition programme was completed in our onshore Taranaki acreage earlier in the year, which has provided Kea with an extended inventory of prospects to target during future drilling programmes. The actual order of wells within the first drilling programme is dependent on a number of matters including rig availability and the deliberations by New Zealand's Ministry of Economic Development (MED) over certain critical approvals. An aggressive programme of up to six holes is planned to commence during Q1 2011.

Following the successful drilling of Wingrove-2 in April a net total of approximately 16m of oil bearing sandstones have been identified from log data in Wingrove-2. To address the waxy and viscous nature of this oil, we have purchased a specially designed downhole heating unit with associated equipment aimed at ensuring that long term oil flow integrity can be maintained. Based on comparison with oil pay in similar nearby fields, the potential production rate is estimated in the hundreds of barrels per day range.

After putting Wingrove-2 into production we will concentrate on further, already identified development, targets which can be reached by deviating from the Wingrove site, as well as several nearby exploration targets which are also being ranked for drilling. Amongst these targets located in PEP 51153 are:

The Douglas prospect which could be drilled from the Wingrove-1 site to 3,000m to test the oil bearing potential of fractured Tikorangi Limestone. This formation has been a prolific oil producer in the Waihapa Field, about 3 km west of Douglas.

The Ruapuha prospect which is a shallow 1,500m test of a simple closed structure defined by our recent seismic study, which the Board believes could hold oil in a similar reservoir type to that at Wingrove.

The Huinga prospect is a deep oil and gas play which requires remapping to incorporate data gained from drilling Douglas before a decision to drill could be made. Huinga could also be drilled from the Wingrove site.

Based on our in-house estimates of resources in the Wingrove area, together with Kea's 100% ownership of the relevant acreage, the Board believes that the multiple prospects in Permit area 51153 could potentially build substantial value for Kea.

Our second well, Beluga-1, located in PEP 51155, was drilled in June 2010 and funded under a profit sharing agreement with Methanex, which has a large and underutilized nearby methanol plant. Although there is log evidence of gas in the Beluga-1 reservoir, the sandstones were thinner and had poorer porosity than predicted. The decision was therefore made to suspend the hole while we carried out studies incorporating the Beluga-1 information into our database to enable us to determine a more optimal drill location for both the Tariki and Mangahewa sandstones. The studies should tell us whether to deviate from Beluga-1 to intersect better Tariki reservoir sandstones in what still stands as a large trap, or drill a new hole directed specifically at intersecting the Kapuni sandstones at what could be a better structural location within the trap, on the edge of which Beluga-1 is situated.

Discussions with Methanex to extend our existing agreements with it are ongoing. While the scale of Methanex's financial participation in Kea's forward drilling programme is yet to be determined, the Board believes that Methanex is favourably disposed to further participation. Methanex recently announced the recommissioning of the second methanol production train at their New Plymouth plant which augers well for Kea.

In May of this year Kea acquired a 10% stake in our third well, the Tuatara-1 wildcat, operated by AWE New Zealand Limited, a subsidiary of ASX listed AWE Limited and situated south of several existing fields in the offshore Taranaki Basin. It was drilled to 1,911m in August, but unfortunately, despite both oil and gas shows, the well was not deemed to have found sufficient reservoir to warrant testing. Kea will continue as a 10% participant in this joint venture, although our main focus will continue to be in the Group's 100% owned licence areas.

PEP 381204 was acquired from Genesis Energy in July 2010. The permit includes both the Felix and Mangatōa prospects.

Felix is to be drilled by a 3,500m well, deviated from onshore to offshore, to test both the oil and gas bearing potential of Miocene sandstones, which reservoir oil in nearby wells, and Eocene sandstones which are established production in the adjacent Pohokura gas-condensate field immediately to the south, with other secondary Oligocene targets.

The Mangatōa prospect will be further evaluated after the drilling of the Felix prospect described above, which should enable more precise mapping in depth of this prospect, and hence a better definition of the subsurface intersection at which to target a well. An offshore well some 20km north of our planned onshore location, intersected a gross interval of 40m gas bearing Cretaceous sands within this same structure.

PEP 52333 was granted to Kea on 13 October 2010. This permit contains the Mercury Prospect, a turbidite sand target originally mapped approximately 20 years ago by a Shell consortium. Kea has now reprocessed existing 2D seismic data on this permit, and will use the improved data to remap the permit area. Mercury is located a short distance to northeast of Shell's Pohokura Field, now New Zealand's largest gas and condensate producer.

PEP 52200 was granted to Kea on 22 October 2010. This permit contains the Manta Prospect, a turbidite sand target originally mapped over 20 years ago by TCPL, who were then operator of the nearby Kupe South Field. Kea will initially focus on reprocessing existing 2D seismic data on this permit to better define the prospect.

At the balance sheet date Kea had cash balances of over £20 million sterling equivalent, which puts Kea in a well funded position to continue its planned exploration and development drilling programmes, in association with its joint venture and alliance partners such as Methanex. 2011 promises to be an exciting year as Kea's planned drilling programme continues to provide ample opportunities to bring success to the Company through further oil and gas discoveries.

Ian Gowrie-Smith
Chairman

26 October 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 May 2010

		Period ended 31 May 2010 £'000
	Notes	
Revenue		-
Cost of sales		<u>-</u>
Gross profit		-
Administration expenses		<u>(1,357)</u>
Operating loss		(1,357)
Finance income	4	<u>106</u>
Loss before taxation	2	(1,251)
Taxation	5	<u>98</u>
Loss for the period		<u>(1,153)</u>
Other comprehensive income:		
Exchange differences on translating foreign operation		<u>157</u>
Total comprehensive loss for the period		<u><u>(996)</u></u>
Loss per share		
Basic and fully diluted (pence per share)	6	<u><u>(0.32)p</u></u>

The loss for the period and total comprehensive loss for the period are 100% attributable to equity shareholders of the parent undertaking.

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 May 2010

Company Registration: 7023751

		31 May 2010 £'000
	Notes	
Current Assets		
Cash and cash equivalents	9	20,095
Trade and other receivables	10	<u>1,470</u>
		<u>21,565</u>
Non-Current Assets		
Property, plant & equipment	8	18
Oil & gas exploration assets	7	<u>2,437</u>
		<u>2,455</u>
Total Assets		<u>24,020</u>
Current Liabilities		
Trade and other payables	11	3,277
		<u>3,277</u>
Total liabilities		<u>3,277</u>
Shareholders' Equity		
Issued capital	12	5,037
Share premium	12	16,390
Merger reserve	13	125
Share option reserve	14	187
Translation reserve		157
Retained earnings		<u>(1,153)</u>
Total equity		<u>20,743</u>
Total Equity and Liabilities		<u>24,020</u>

The financial statements were approved by the Board of Directors on 26 October 2010

P. Wright
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 May 2010

	Share capital	Share premium	Merger Reserve	Share option reserve	Translation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Issue of shares	5,037	16,390	-	-	-	-	21,427
Equity settled share options	-	-	-	187	-	-	187
Restructure	-	-	125	-	-	-	125
Transactions with owners	5,037	16,390	125	187	-	-	21,739
Loss for the period	-	-	-	-	-	(1,153)	(1,153)
Other comprehensive income:							
Exchange differences on translation of foreign operations	-	-	-	-	157	-	157
Total comprehensive loss for the year	-	-	-	-	157	(1,153)	(996)
At 31 May 2010	5,037	16,390	125	187	157	(1,153)	20,743

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 May 2010

	Period ended 31 May 2010 £'000
Net cash inflow from operating activities	864
Cash flows from investing activities	
Interest received	106
Expenditure on oil and gas exploration assets	(2,437)
Purchase of property, plant and equipment	<u>(22)</u>
Net cash used in investing activities	(2,353)
Cash flows from financing activities	
Proceeds from share issues	<u>21,427</u>
Net cash generated from financing activities	<u>21,427</u>
Net increase in cash and cash equivalents	19,938
Foreign exchange differences - net	<u>157</u>
Cash and cash equivalents at balance sheet date	<u>20,095</u>
Reconciliation of cash flows from operating activities with loss for the period	
Loss for the period	(1,153)
Movements in Working Capital	
Trade and other receivables	(1,470)
Trade and other payables	3,277
Depreciation	4
Interest received	(106)
Share option expense	187
Merger reserve	<u>125</u>
Net cash inflow from operating activities	<u>864</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 May 2010

The financial information set out in this preliminary announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 for the period ended 31 May 2010 but is derived from those accounts. The financial statements for 2010 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on the 2010 accounts and have issued an unqualified opinion.

1. Revenue and segmental reporting

The Group's single business segment is the exploration for hydrocarbons, comprising oil and gas.

The following table provides a breakdown of the Group's capital expenditure based on the area of operation:

	2010
	£'000
New Zealand	2,437

The following table provides a breakdown of the Group's total segment non current assets based on the area of operation:

	2010
	£'000
New Zealand	14
Corporate - unallocated	4
	<hr/>
	18

2. Loss before taxation

	2010
	£'000
Loss before taxation has been arrived at after charging / (crediting):	£'000
Foreign exchange differences	(6)
Depreciation of property, plant and equipment	4
Employee benefits expense: Employee costs (Note 3)	333
Operating leases rentals: Land and buildings	60
Audit and non-audit services: Fees payable to the Company's auditor for the audit of the Group accounts	30
Fees payable to the Company's auditor and its associates for other services: The audit of the Company's subsidiaries, pursuant to legislation	10
Reporting Accountants – AIM listing	80
Tax services	10
Revenue from sub-letting part of Group head office in London	(47)

3. Employee numbers and costs

	2010
	£'000
Employee costs (including directors):	
Wages and salaries	219
Social security costs	103
Pension costs – defined contribution plans	11
	<hr/>
	333
	<hr/>

The average number of employees (including directors) during the period was as follows:

Management	6
Administration	2
Exploration and Mining	1
	<hr/>
	9
	<hr/>

	£'000
Remuneration of key management personnel:	
Emoluments	358
Pension costs	11
	<hr/>
	369
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Included in the figure of £369,000 are costs of £56,000 relating to time spent by the CEO and other employees that have been capitalised against specific projects.

The total directors' emoluments for the year were £335,000. In addition directors total pension contributions for the year were £11,000. The emoluments of the highest paid director were £139,000.

4. Finance income

	2010
	£'000
Interest income	106
	<hr/>

5. Taxation

There is no income tax expense due to losses incurred in the period. The tax assessed for the period differs from the standard rate of corporation tax as applied in the respective trading domains where the Group operates.

	2010
	£'000
Loss for the period before tax	(1,251)
Loss for period multiplied by the standard rate of corporation tax applicable in the UK, 28%	(350)
Effects of:	
Expenses not deductible for tax purposes	113
Capital allowances in excess of depreciation	(1)
Overseas tax losses not available to carry forward	27

Differences in rates of taxation	(5)
Unrelieved tax losses and other deductions raised in the period	<u>118</u>
Tax credit for the period	<u>(98)</u>
Deferred tax	2010
	£'000
Deferred tax assets:	
Short term timing differences	7
Tax losses available for offset against future taxable profits	773
Deferred tax liabilities:	
Timing differences on capitalised exploration expenditure	<u>(682)</u>
Net deferred tax asset recognised	<u>98</u>

Management consider it is probable that sufficient future taxable profits will be available to allow for the realisation of the net deferred tax asset which arises in the Company's New Zealand subsidiaries.

The parent Company has a deferred tax asset of £117,767 which is unrecognised as the likelihood of sufficient future taxable profits being generated within the parent Company does not yet meet the definition of "probable".

6. Loss per share

	Period ended
	31 May
	2010
	£'000
Loss for the year attributable to equity shareholders	(1,153)
	Pence per share
Basic and diluted loss per share	(0.32)p
	Number of shares
Issued ordinary shares at start of the period	-
Ordinary shares issued in the period	<u>503,690,000</u>
Issued ordinary shares at end of the period	<u>503,690,000</u>
Weighted average number of shares in issue for the period.	<u>364,836,627</u>

The diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive.

7. Oil and gas exploration assets

Exploration and evaluation expenses capitalised	£'000
Cost	
Additions	<u>2,437</u>
Net book value At 31 May 2010	<u><u>2,437</u></u>

All of the Group's operating expenses and other assets and liabilities are derived from the exploration and evaluation of hydrocarbon resources, unless stated otherwise in these financial statements.

8. Property, plant and equipment

	Office & computer equipment £'000
Cost	
Opening Balance	-
Additions	22
At 31 May 2010	<u>22</u>
Depreciation	
Opening Balance	-
Charge for the year	4
At 31 May 2010	<u>4</u>
Net Book Value At 31 May 2010	<u><u>18</u></u>

9. Cash and cash equivalents

	2010 £'000
Cash at bank and in hand	<u>20,095</u>

10. Trade and other receivables

	2010 £'000
Trade receivables	39
Other receivables	168
VAT / GST	806
Prepayments	<u>457</u>
	<u><u>1,470</u></u>

There were no financial assets overdue for receipt

11. Trade and other payables

	2010 £'000
Trade payables	1,825
Social security and other taxes	33
Accrued expenses	<u>1,419</u>
	<u><u>3,277</u></u>

12. Share capital

	Shares	Nominal Value (1.0p) £'000	Premium net of costs £'000	Total £'000
Authorised share capital Ordinary shares of £0.01 each	1,000,000,000			10,000
Issued, called up and fully paid Ordinary shares of £0.01 each				
Issued 23/10/09	40,000,000	400	-	400
Issued 23/10/09 on restructure (Note 13)	200,000,000	2,000	-	2,000
Issued 01/11/09	144,640,000	1,446	5,786	7,232
Issued 15/02/10 on AIM placement	75,000,000	750	4,341	5,091
Issued 21/05/10	43,750,000	438	6,242	6,680
Warrants exercised	300,000	3	21	24
31 May 2010	503,690,000	5,037	16,390	21,427

The market price of the ordinary shares at 31 May 2010 was 18.50p and the range during the year was 8.0p to 22.5p.

13. Merger reserve

	£'000
Additions	125
At 31 May 2010	125

In October 2009, the Company acquired the entire issued share capital of the recently incorporated KPHL by way of a share for share exchange with the then shareholders of KPHL. The difference between the nominal value of the shares issued by Kea Petroleum to the shareholders of KPHL and the nominal value of the shares of KPHL taken in exchange has been credited to a merger reserve on consolidation.

14. Share based payments

The Group has an unapproved share option plan for the benefit of employees. Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the period are as follows:

	2010 WAEP	
	Number	pence
Outstanding at the beginning of the period	-	-
Granted during the period	30,000,000	8.00
Exercised during the period	-	-
Forfeited during the period	-	-
Expired during the period	-	-
Outstanding at the balance sheet date	30,000,000	8.00
Exercisable at the balance sheet date	-	-

The fair value of options granted has been arrived at using a Black-Scholes model. The assumptions inherent in the use of this model are as follows:

- The option life is assumed to be at the end of the allowed period
- There are no vesting conditions

No variables change during the life of the option (e.g. dividend yield).

- Expected volatility was determined by calculating the weighted average share price movement of 4 comparable companies. Expected life was based on the contractual life of the options, adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Date of grant	Vesting period (Yrs)	Life in years from grant date	Exercise price (pence)	Risk-free rate	Share price at grant (pence)	Volatility of share price	Fair value (pence)	Number outstanding
15/02/10	Min 3 years	10	8.0	2.95%	9.15	85%	6.49	30,000,000

The Group recognised total expenses of £186,604 related to equity-settled share based payment transactions during the year. A corresponding credit has been made to the share option reserve. Further details of share based payments are set out in the Remuneration Report.

15. Financial instruments and risk management

Risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of liquid resources raised through share issues. The principal risks faced by the Group resulting from financial instruments are liquidity risk, foreign currency risk and, to a certain extent, interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other members. The Group will also seek to minimise the cost of capital and attempt to optimise the capital structure. Currently no dividends are paid to shareholders and capital for further development of the Group's products is achieved by share issues. The Group does not carry significant debt.

Categories of financial instrument

	2010
	£'000
Financial assets	
- Cash and cash equivalents	20,095
- Trade receivables	39
	<u>20,134</u>
Financial liabilities	
- Payables	<u>3,244</u>

There is no material difference between the fair values and the book values of these financial instruments. All financial liabilities are due within one year.

Foreign currency risk

The cash balances carried within the Group comprise the following foreign currency holdings:

	2010
	£'000
NZ dollars	5,853
US Dollars	2,693
AUS Dollars	1,936
	<u>10,482</u>

The Group operates within the UK and New Zealand. All transactions are denominated in Sterling, NZ Dollars or US dollars. As such the Company is exposed to transaction foreign exchange risk. The mix of currencies and terms of trade are such that the directors believe that the Company's exposure is minimal and consequently they do not specifically seek to hedge that exposure. A significant portion of the Group's funds are in Sterling with only sufficient funds held overseas to meet local costs. Funds are periodically transferred overseas to meet local costs when required.

The table below demonstrates the sensitivity of the Group's consolidated loss before tax to reasonably possible changes in the value of the US dollar and the NZ Dollar with respect to Sterling, all other variables held constant. The sensitivity analysis includes only the US dollars and NZ Dollar because the effects of other currencies is not significant. The sensitivities reflect only those changes in consolidated loss before tax that arise from translation of the value of US dollar and NZ dollars denominated financial assets and liabilities.

	Change in value of USD vs. £ %	Effect on loss before tax and equity £'000	Change in value of NZD vs. £ %	Effect on loss before tax and equity £'000
2010	15	398	15	940

Interest rate risk

The Group finances its operations through equity fundraising and therefore does not carry significant borrowings. Interest rate risk is therefore considered to be immaterial. The Group's cash balances and short term deposits are held at floating interest rates based on LIBOR and are reviewed to ensure maximum benefit is obtained from these resources. Risk is additionally reduced by ensuring two or more banks are used for deposits.

Liquidity risk

The Group is dependent on equity fundraising through private placing which the directors regard as the most cost effective method of fundraising. The directors monitor cash flow on a daily basis and at monthly board meetings in the context of their expectations for the business to ensure sufficient liquidity is available to meet foreseeable needs.

16. Capital commitments

As at 31 May 2010 the Group had no capital expenditure commitments. The terms of the petroleum exploration permits which the Group holds require it to carry out certain exploration activities within specified time frames. The actual costs of these activities are dependent on a number of factors including the scope of the work and whether farm out or similar arrangements are entered into with other parties. Estimated commitments for the minimum exploration work program obligations are as follows:

Within 1 year

- Collection of additional geochemistry and gravity samples - £75,000

Later than 1 year but not later than 5 years

- PEP 51155 Drill one additional well and collect geochemistry and gravity samples - £6,500,000
- PEP 51153 Drill one additional well and collect geochemistry and gravity samples - £2,500,000
- PEP 51339 Acquire 20km onshore seismic and drill one well - £2,500,000

17. Subsidiary companies consolidated in these accounts

	Country of incorporation	% interest in ordinary shares at 31 May 2010	Principal activity
Kea Petroleum Holdings Limited	New Zealand	100	Oil and gas exploration
Kea Exploration Limited	New Zealand	100	Oil and gas exploration
Kea Oil and Gas Limited	New Zealand	100	Oil and gas exploration

18. Operating lease commitments

At the balance sheet date, non-cancellable outstanding operating lease rentals are payable as follows:

	2010
	£'000
Land and buildings:	
One year	102
Two to five years	-
	<u>102</u>

The lease is on the property at 5-8 The Sanctuary in London and rental and service charge are payable in advance on a quarterly basis. The lease expires in July 2011.

19. Related party transactions

During the period Triple Plate Junction Plc, a company in which directors I Gowrie-Smith, D J Lees and P T Wright were directors and shareholders was charged an amount of £23,500 for office management services. The balance outstanding at the year end was £23,500. During the same period Triple Plate Junction Plc charged Kea Petroleum an amount of £34,654 for office management services. The amount outstanding at the year end was £nil.

The New Zealand head office operates from premises in Wellington that are leased from a trust in whom D J Bennett is a trustee and a beneficiary. The lease terms and conditions are at arms length.

The trust in which DJ Bennett is a trustee also provided services to the Group for which consulting fees of NZ\$150,000 were charged. (This charge is reflected in the remuneration table for directors).

20. Events after the balance sheet date

A total of 4,915,000 warrants have been exercised at 8p per warrant and the shares have been admitted to trading.

In July 2010 the Company acquired a 100% interest in licence area PEP381204 from Genesis Power Limited, a wholly owned subsidiary of Genesis Energy.

In June 2010 the Beluga-1 well was completed and suspended pending a review of the resulting data.

In August 2010 the Tuatara-1 well, in which Kea had a 10% share, was plugged and abandoned as no zones of economic potential had been identified.

On 13 October 2010 the Company was granted licence area PEP 52333, a 232.5 square km area, encompassing both onshore and offshore acreage in the Taranaki Basin.

On 22 October 2010 the Company was granted licence area PEP 52200, a 184.1 square km offshore area area in the Taranaki Basin.