

QUARTERLY REPORT

For the Quarter Ended 31st March 2011

HIGHLIGHTS

Southern England – Weald Basin - Onshore

LIDSEY #2 DRILLING PAD CONSTRUCTION COMPLETED

- Site construction work has now been completed allowing drilling to commence once drilling rig becomes available.

STRONG OIL PRICES BENEFITING

- Oil sales from both Brockham and Lidsey fields providing strong receipts as Company benefits from increases in world oil pricing. An average price of USD \$105 per barrel achieved throughout the quarter and USD \$114 throughout the month of March 2011.

Tanzania – Nyuni PSA

FARM DOWN - NYUNI BLOCK INTEREST REDUCED FROM 20% TO 5%

- Agreement with Aminex/Ndovu to reduce interest from 20% to 5%. Provides free carry through the drilling phase of Nyuni 2, to be drilled in the Nyuni Block.
- PSA Licence extended and terms for a new PSA over block agreed with Tanzanian Petroleum Development Corporation (TPDC).

NYUNI 2 DRILLING

- Nyuni 2 well now expected to be drilled in late May 2011.

UNITED KINGDOM

KEY PETROLEUM WEALD BASIN LTD - ONSHORE SOUTHERN ENGLAND

Brockham Oilfield (PL 235) and Lidsey Oilfield (PL 241) (Key 100%)

PRODUCTION OPERATIONS

SALES COMPARISON – LAST 3 MONTHS

MONTH	LIDSEY SALES BBLs	BROCKHAM SALES BBLs	TOTAL SALES BBLs	CUMULATIVE PRODUCTION SOLD
March	1,233	1,275	2,508	28,106
February	0	1,035	1,035	25,598
January	612	862	1,474	24,563

Oil sales for the March 2011 quarter were approximately USD \$525,962. Oil prices remained healthy throughout the quarter, with an average price of USD \$105 per barrel being achieved. During the month of March a price of USD \$114.60 was received for oil sales due to continuing strong oil prices. At one time during that month prices of over USD \$120 per barrel were observed.

January production was impacted with typical UK winter weather hindering tanker movements. In addition, no exports were made during the month of February from Lidsey while a number of field operations were undertaken. Oil was still produced at Lidsey but retained in storage vessels. Lidsey production was exported very early in March which is reflected in the higher March receipts.

DRILLING OPERATIONS

The extensive concrete construction work for the Lidsey #2 development well has now been completed at the Lidsey oilfield. This work was required to extend the concrete hard standing areas and run-off drains which are required for the Lidsey #2 drilling rig package and to comply with various granted drilling approvals.



Lidsey #2 Development Well Location and Drilling Pad

EXPLORATION ACTIVITIES

AUSTRALIA

NORTH PERTH BASIN

EP 437 (45%)

Having participated in the funding of the drilling of two wells, Dunnart #1 and Dibblers #1, Key Petroleum has now earned its 45% interest in the Perth Basin block, EP 437. The Dunnart well was plugged and abandoned at the end of December 2010 but the Dibblers well was spudded in January 2011.

Dibblers #1

The Dibblers #1 well was spudded at 06:30 hrs Friday 21st January 2011. It was located approximately 15 km north east of the town of Dongara in Western Australia and reached a total depth at approximately 525mRT (1722ft). A suite of electric line logs were run and results indicated that the reservoir, at this location, was water wet. The joint venture therefore made the decision to move into the plug and abandonment phase for this well.

Although the failure to locate hydrocarbons in the reservoir section of the Dibblers #1 well was disappointing the geological information gained is providing the EP 437 joint venture with considerable knowledge as to the nature of the reservoirs and structures in the area that can be used in determining other potential targets within the EP 437 block.

OFFSHORE TANZANIA

Nyuni Block (Key 5%)

NYUNI EXTENSION GRANTED AND NYUNI 2 TO BE DRILLED

The Company announced on 15th April 2011 that it had been advised that the Nyuni joint venture had received a formal extension of 6 months to the Nyuni East Songo-Songo Production Sharing Agreement ('Nyuni PSA') from the Tanzanian Ministry of Energy and Minerals. This extension is to cover the likely eventuality that the Nyuni 2 well, due to be spudded in the next few weeks and drilled from Nyuni island, will not be completed within the life of the existing Nyuni PSA which expires this year. The Nyuni 2 well is to spud from the same drilling location as Nyuni 1 and will be directionally drilled to the south east to intersect the Albian/Aptian and Neocomian sands up dip from the proven gas in Nyuni 1.

DEVELOPMENT LICENCE SIGNED

The Company announced on 14th April 2011 that the Minister for Energy and Minerals of Tanzania, the Hon. William Ngeleja, had signed a Development Licence for the Kiliwani North Gas Field in Tanzania. This is viewed as a major step forward in bringing the Kiliwani North Field on to production.

This Development Licence covers an area carved out of the Nyuni East Songo-Songo Production Sharing Agreement ('Nyuni PSA') which includes the geologically mapped area of the Kiliwani North gas field. The Kiliwani North-1 well flowed gas at a stabilized rate of 40 million cubic feet per day (*equivalent to 6,700 barrels of oil per day*) under full production test conditions.

Kiliwani North has been independently estimated to contain 45 billion cubic feet ('BCF') gas in place on a Pmean Contingent Resources basis, equivalent to 7.5 million barrels of

oil. The joint venture is working towards the gas from Kiliwani North being available to assist in countering current energy shortages in Tanzania.

Successful drilling by large exploration companies operating in the deep water areas, both offshore Tanzania and in neighbouring northern Mozambique, has shown the potential of the area with large gas finds being reported. The Kiliwani North Development Licence however is the first new Development Licence granted in Tanzania as a consequence of exploration drilling carried out in recent times and is a significant milestone in the commercialisation of Tanzanian gas.

The Kiliwani North wellhead is situated on the southern tip of Songo-Songo island off the coast of Tanzania and is less than 3 kilometres from the nearest access point to the process facilities (being upgraded) at the input end of the Songas common-user pipeline which delivers gas from the neighbouring Songo-Songo field to the city of Dar es Salaam. Ndovu, the joint venture operator, has already negotiated a memorandum of understanding for the future sale of gas to industrial users in the Dar es Salaam area and expects to be able to deliver first gas within 12 months.

Another prospect which lies within the development area is known as Fanjove North, but this has yet to be drilled. It has been independently estimated to contain in excess of 200 BCF gas in place, equivalent to approximately 30 million barrels of oil, on a Pmean Prospective Resources basis and, subject to the outcome of a planned transition zone seismic survey, may be drilled in due course.

ITALY

ONSHORE ITALY

Borsano Permit (Key 100%)

No progress has been made with this permit.

OFFSHORE ITALY

Application & Exploration Areas (Key 100%)

Key has three application areas and one exploration Permit as follows:

Lampedusa d 341 C.R-.PU Application;

Lampedusa d 342 C.R-.PU Application;

Elba d 91 E.R-.PU Application;

West Sardinia E.R54.PU.

As reported at the end of the last quarter, Key was endeavouring to determine the long term impact that the enforcement of exclusion zones on Key's application areas would have. This is still the current situation.

SURINAME (Onshore)

Uitkijk and Coronie (Key net equity 1.75% indirect)

EXPLORATION PROSPECTS

Coronie

Drilling at Coronie was scheduled to commence in the December Quarter however, Tullow Oil plc and Paradise Oil Company (POC), a subsidiary of the state oil company, Staatsolie Maatschappij Suriname N.V., and operator of the Coronie campaign announced it was

now expecting to start the drilling of 5 wells in Q1 2011. No official confirmation on this has been received by Key. In a recent quarterly publication (December 2010) from Staatsolie, the Managing Director of POC, Mr Brunning was reported as stating that preparations for exploration drilling were underway in Coronie.

He pointed out that although there has been a slight delay in the Coronie exploration programs, the exploration drilling of the five wells in Coronie was expected to commence soon.

He went on to say that POC and its partner Tullow Oil would be coordinating drilling of the five wells in Coronie. He pointed out that an analysis was made of the Coronie swamp in 2007 and 2008 in order to get an insight in the nature of the ground. "Crews have entered the area early this year to map the soil conditions. Actually, we should already have drilled the first well" he said. "We've had some delay in constructing the access roads to the well sites, since the vegetation and the soil condition appeared to be different than was expected."

Staatsolie commented that, geologically, the odds favor an oil strike in Coronie. The Managing Director of POC emphasized that two to three migratory paths lead from the oil rock bottom in the Guyana basin to the main land, one of which leads to Saramacca, where oil has already been struck and is being produced.

"The exploration area in Coronie is so outstretched that we could fit in the Tambaredjo field six to seven times between the five wells we're about to drill", says Mr Brunning. "Drilling will mainly take place to the south, with the deepest well at 850 meters. The distance between base camp and the farthest well will be 90 kilometers."

(Note: Tambaredjo is a 1,0 Million STOIP barrel field that has been producing in Suriname since 1984)

Data obtained from the wells will be assessed in 2011 and the results will determine the follow up, among which are the drilling of more exploration wells or appraisal wells or even conducting a seismic program.

Uitkijk

Drilling of a further 2 wells in the Uitkijk block, where success with hydrocarbon finds was previously announced, is now scheduled for Q2 2011.

ENQUIRIES

Please direct any queries to:

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NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr. Ken Russell of Key Petroleum Ltd, who has at least 35 years experience in the sector. He consents to that information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

KEY PETROLEUM LTD

ABN

120 580 618

Quarter ended ("current quarter")

MARCH 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	362	1,280
1.2 Payments for (a) exploration & evaluation	(1,284)	(2,977)
(b) development	-	-
(c) production	(262)	(895)
(d) administration	(375)	(1,488)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	30	92
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(1,529)	(3,988)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(6)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	(6)
1.13 Total operating and investing cash flows (carried forward)	(1,529)	(3,994)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,529)	(3,994)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	16	3,692
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	(108)
	Net financing cash flows	16	3,584
	Net increase (decrease) in cash held	(1,513)	(410)
1.20	Cash at beginning of quarter/year to date	4,002	2,903
1.21	Exchange rate adjustments to item 1.20	2	(2)
1.22	Cash at end of quarter	2,491	2,491

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	128
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 includes aggregate amounts paid to directors including salary, directors' fees, consulting fees and superannuation

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	Nil	Nil
3.2	Credit standby arrangements	Nil	Nil

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	300
4.2	Development	-
4.3	Production	(350)
4.4	Administration	300
Total		250

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,191	3,702
5.2 Deposits at call	300	300
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,491	4,002

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	216,047,707	216,047,707		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	3,120,000	3,120,000		
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	41,175,058 250,000	41,175,058 -	<i>Exercise price</i> 7.5 cents 30 cents	<i>Expiry date</i> 30 November 2011 30 November 2011
7.8 Issued during quarter	1,560,000	1,560,000	7.5 cents	30 November 2011
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 29 April 2011

Print name: **John Ribbons**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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