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## QUARTERLY REPORT

*For the Quarter Ended 30th September 2011*

### HIGHLIGHTS

#### Corporate Activity

##### **KEY ANNOUNCED PROPOSAL TO ACQUIRE 100% OF GULLIVER PRODUCTIONS PTY LTD**

- On the 24<sup>th</sup> October 2011 Key announced it had entered into an agreement to purchase all of the assets of Gulliver Productions Pty Limited ("Gulliver"), a privately held Australian domiciled, oil and gas exploration, development and production Company and subsidiary of ASX listed Empire Oil and Gas NL ("Empire"). Gulliver holds significant interests in the prospective Canning Basin, Western Australia.

#### Southern England – Weald Basin - Onshore

##### **REVENUE**

- Oil sales revenue of approx US\$542,735 or AUD\$527,000 for the quarter.

##### **LIDSEY-2 DRILLING**

- Now re-scheduled to begin post Gulliver acquisition.

#### Tanzania – Nyuni PSA

##### **NYUNI-2 DRILLING**

- On 6<sup>th</sup> October 2011 the Company announced drilling of the Nyuni-2 well had been terminated. The well operations activities then moved into suspension and abandonment due to mechanical problems with downhole drilling and logging tools inhibiting further drilling activity in the side tracked well.

## **CASH POSITION**

\$1.876M

## **CORPORATE ACTIVITY**

### **RELOCATION OF REGISTERED OFFICE TO WEST PERTH**

- As part of its continuing restructuring Key has relocated its office to Ground Floor, 20 Kings Park Road, West Perth, Western Australia 6005

### **EMPIRE OIL AND GAS NL/ GULLIVER PRODUCTIONS PTY LTD**

- Since the termination of the Zeta acquisition, Key has negotiated with Empire Oil and Gas NL (“Empire”), an ASX listed Company to acquire 100% of the issued capital and assets of its subsidiary Gulliver Productions Pty Ltd (“Gulliver”). Gulliver is an Australian exploration, development and production company with significant assets located onshore in the West Australian Canning Basin area.
- This acquisition is viewed by the Board of Directors of Key and its advisors as providing desired short and long term growth opportunities for the Company as well as an increased Australian position. As Australia now imports more than 75% of its oil requirements the Board feels this is a particularly good time to expand its position in its home country.
- The transaction has been designed to minimise, as much as is possible, the dilution effect on shareholders interests and provides an immediate focus area and activity in one of Australia’s emerging hydrocarbon provinces which is enjoying recent success.

### **HIGHLIGHTS OF THE GULLIVER ACQUISITION**

- Gulliver has interests in five (5) exploration and production licences in the Canning Basin of Western Australia. These licences include several undeveloped and/or partially developed oil and gas discoveries.
- Four of the licences are in joint venture with and operated by Buru Energy Limited (“Buru”) which has enjoyed recent success in the northern Canning Basin.
- Consideration for the 100% acquisition will be the issue of 52 million ordinary shares in Key to Empire, representing approximately 19% of the total issued capital of Key on completion.
- Key will assign to Empire a 22.5% interest (from its current 45%) in Exploration Permit EP 437 in the northern part of the onshore Perth Basin.
- The acquisition and issue of shares will be the subject of approval by Key shareholders at the Annual General Meeting, scheduled to take place late in November 2011.
- Following approval by Key shareholders and completion of the transaction, Mr Ken Russell, Managing Director will resign as a Director and Empire’s Managing Director, Mr Craig Marshall, will be invited to join the board as a Non Executive Director and to assume the role of Chairman. Mr Marshall has extensive industry experience that will be applied to the exploration and development of these exciting new projects and also to Key’s UK production assets. Mr Dennis Wilkins and Mr John Sheppard will remain as Non-Executive Directors of Key.

- The five (5) Petroleum permits held by Gulliver are:
  - Exploration Permit EP 104 (14.8% interest), located near Derby WA;
  - Retention Licence RL 1 (14.8% interest), contains wells with untested or undeveloped oil and gas discoveries and is located adjacent and on trend with Buru's Valhalla gas discovery;
  - Production Licence L 15 (49.0% interest), contains the West Kora oil field which has potential for re-commencement of oil production following a workover to isolate water production in the well;
  - Exploration Permit EP 438 (76% interest, reducing to 20% upon completion of free carry). Buru is currently earning a 70% interest by sole funding expenditure of \$3 million including a seismic survey and the drilling of an exploration well in 2012. Gulliver is therefore being free carried through an exciting exploration programme with large upside potential;
  - Exploration Permit EP 448 (70.0% interest). This permit is located in the southern part of the basin where other companies have committed large exploration programmes in the search for shale gas reserves.

## **UNITED KINGDOM**

### **KEY PETROLEUM WEALD BASIN LTD - ONSHORE SOUTHERN ENGLAND**

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

#### **PRODUCTION OPERATIONS**

##### **SALES – LAST 3 MONTHS**

<b>MONTH</b>	<b>LIDSEY SALES BBLs</b>	<b>BROCKHAM SALES BBLs</b>	<b>TOTAL SALES BBLs</b>	<b>CUMULATIVE PRODUCTION SOLD</b>
<b>September</b>	433	1044	1477	37573
<b>August</b>	614	1037	1651	36096
<b>July</b>	650	1080	1730	34445

Oil sales for the September 2011 quarter were approximately USD\$542,735 or AUD \$527,000

The Company continues to benefit from the strong Brent oil pricing.

#### **DRILLING OPERATIONS**

The Lidsey-2 development well has now been re-scheduled for post the completion of the Gulliver acquisition.

## **EXPLORATION ACTIVITIES**

### **AUSTRALIA**

#### **NORTH PERTH BASIN**

**EP437 (45%) (Reducing to 22.5% with completion of the Gulliver Acquisition)**

The joint venture continues with its evaluation and geological studies into the permit. It is currently reviewing previous data from the two wells drilled in the last campaign and reviewing potential targets for future drilling.

## **OFFSHORE TANZANIA**

### **Nyuni Block (Key 5.0%)**

#### **NYUNI-2 WELL SUSPENDED**

Drilling of the Nyuni 2 well has now been suspended following the drilling rig experiencing extreme drilling conditions. Key was a free carried participant in this well.

The Nyuni-2 well was being drilled from Nyuni Island, approximately 30km off the coast of Tanzania in the Indian Ocean. It had been drilled to 3,450 metres measured depth and casing had been run to 2,945 metres. The intention had been to run a full suite of electric logs to total depth however as a result of obstructions near the base of the well bore this operation proved impossible to complete.

The rig attempted repeated times to drill out the obstruction but these operations were also unsuccessful. The decision was then made to cement off the lower section of the well bore with the intention to deviate around the obstruction and drill a side track well bore.

The side track operation also proved to be highly problematic and the mud motor and drill bit assembly, part of the drill string became irretrievably jammed in the well bore.

The joint venture obtained advice from a number of sources as to methods to overcome these issues but that advice indicated that any further attempts to side track or attempt fishing operations would have provided limited chance of success and importantly expose the participants in the well to considerable cost. A decision was taken to suspend the well leaving it in a condition that would allow re-entry at a later date.

The Nyuni prospect remains a prime exploration target for the joint venture and preliminary indications of gas from both Neocomian and shallower Cretaceous sands were encountered, suggesting the same active petroleum system that was encountered in the previously drilled Nyuni-1 well. The geological information gained from the drilling of Nyuni-2 will now be examined and solutions to overcoming the operational conditions encountered in the well will be investigated.

#### **ACREAGE SWAP IN TANZANIA**

On 13<sup>th</sup> September 2011 Key announced a reorganisation of its Tanzanian exploration portfolio whereby Aminex and Key who were 50-50 participants in the West Songo-Songo Production Sharing Agreement ('PSA') in Tanzania, with Key as the operating partner agreed that Aminex would withdraw from the PSA, transferring its 50% interest to Key who then holds 100% interest. In exchange, Key relinquished its 5% interest in the new 'Nyuni Area PSA' in favour of Aminex. The West Songo-Songo transfer is being submitted to the Tanzanian authorities for formal approval but the practical aspects of the transfer were implemented immediately.

Key retains a 5% working interest in the Kiliwani North gas development licence, which was carved out from the Nyuni PSA earlier this year.

## **ITALY**

### **ONSHORE ITALY**

#### **Borsano Permit (Key 100%)**

No activity during the quarter.

## **OFFSHORE ITALY**

Exploration Areas (Key 100%)

West Sardinia E.R54.PU

The Company continues to assess the attractiveness of the West Sardinia exploration permit.

## **SURINAME (Onshore)**

**Uitkijk and Coronie (Key net equity 1.75% indirect)**

### **Exploration Prospects**

The Suriname State Oil Company's (Staatsolie) management announced in its last quarterly report that it had commenced exploration for oil of the western regions of the country with the exploration program taking off in the Nickerie area. This is an area adjacent to the Coronie block. Exploratory drilling operations, at least three wells, will be drilled near an area known as South Drain.

Wells will be at depths ranging from 700 to 1,500 meters. All drilling sites have been determined based on the findings of a seismic survey conducted in 2008. When all the wells have been drilled and the data has been gathered, the hope is to better map the geological structure of the Nickerie subsoil which should also lead to a better understanding of the geological structures of the Cornie block.

### **Evaluation Phase Uitkijk Block-North**

Paradise Oil Company (POC), a Staatsolie subsidiary, has recently continued its operations in the Uitkijk Block. Two additional evaluation wells have been drilled in the northern part of the area. The evaluation wells have depths greater than 370 meters.

The two wells are being closely monitored for six months. Tests are being conducted to reveal whether this area has the same type of oil as the Tambaredjo field. The Uitkijk Block is situated close to the Tambaredjo field.

### **Interpretation**

Between 2007 and 2009 ten wells were drilled. Data collected during the exploration revealed that the area has oil deposits, roughly estimated between four and six million barrels. Paradise estimate this field would have a production span between ten and fifteen years. The next phase is intended to reveal not only whether these estimates are realistic but whether recovering the oil would be profitable. A thorough evaluation of both wells should yield this data.

## **ENQUIRIES**

Please direct any queries to:

**Ken Russell**  
Managing Director  
+ 61 8 9389 2111  
info@keypetroleum.com

or

**Dennis Wilkins**  
Chairman  
+61 8 9389 2111

**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 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

**Key Petroleum Limited**

ABN

50 120 580 618

Quarter ended ("current quarter")

30 September 2011

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	574	574
1.2 Payments for (a) exploration & evaluation	(40)	(40)
(b) development	-	-
(c) production	(176)	(176)
(d) administration	(493)	(493)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	17	17
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	2	2
<b>Net Operating Cash Flows</b>	<b>(116)</b>	<b>(116)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
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)	19	19
<b>Net investing cash flows</b>	<b>19</b>	<b>19</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(97)</b>	<b>(97)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(97)	(97)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
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)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(97)	(97)
1.20	Cash at beginning of quarter/year to date	1,972	1,972
1.21	Exchange rate adjustments to item 1.20	1	1
1.22	<b>Cash at end of quarter</b>	1,876	1,876

**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	147
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
<b>Total</b>		<b>250</b>

**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	1,076	672
5.2 Deposits at call	800	1,300
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>1,876</b>	<b>1,972</b>

**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			

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+ 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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	216,047,707	216,047,707		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <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				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <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 5).
- 2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 31 October 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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+ See chapter 19 for defined terms.