



ACN 120 580 618

ASX: KEY
THE QUARTERLY REPORT
FOR PERIOD ENDED
30 SEPTEMBER 2012

With updates on activities in the
Canning and Perth Basins, Western Australia
to 31 October 2012

HIGHLIGHTS

➤ FOCUS AND STRATEGY FOR KEY PETROLEUM LIMITED FOR THE QUARTER

Key Petroleum Limited ("Key") continued to focus on its Australian based exploration activities. The focus for the next quarter will be the drilling of the Cyrene-1 (EP438) well and continued exploration activities of the company's Canning and Perth Basin interests.

➤ EP438, CANNING BASIN, WESTERN AUSTRALIA

On 19 October 2012 Buru Energy Limited ("Buru"), Mitsubishi Corporation ("Mitsubishi") and Indigo Oil Pty Ltd ("Indigo") delegated to Key's subsidiary company Gulliver Productions Pty Ltd ("Gulliver") the role of Operator for the sole purpose of executing and completing the Drilling and Testing Program for the Cyrene-1 well.

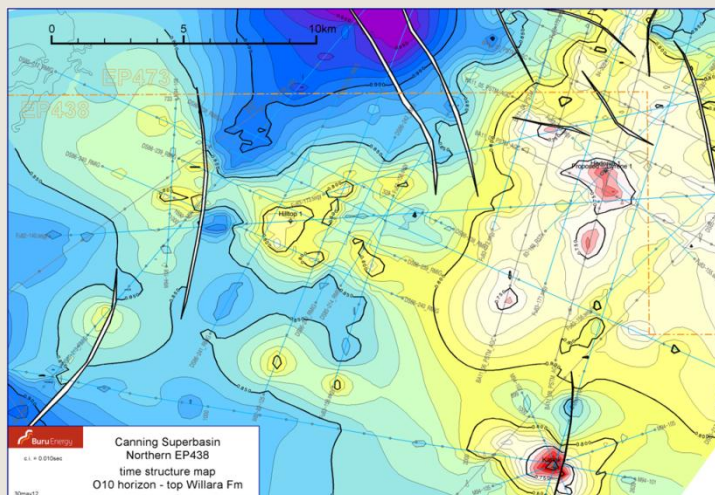
Following the satisfaction of obligations under a previously agreed farmin agreement, the interests in the EP438 Exploration Permit will be as follows:

<i>Key Petroleum Limited (Gulliver Productions Pty Ltd) (Operator)</i>	20.0%
<i>Buru Energy Limited</i>	37.5%
<i>Mitsubishi Corporation (Diamond Resources (Canning) Pty Ltd)</i>	37.5%
<i>Indigo Oil Pty Ltd</i>	5.0%

As released 29 October, 2012 Key has now secured a slot on Drilling Contractor Australia's (DCA) drilling rig DCA Rig 7 for the drilling of Cyrene-1. All civil and construction site works at the Cyrene-1 well location have been completed with the site prepared to withstand the wet season, being located one hour south from Broome.



The use of DCA Rig 7 is appropriate given it is a smaller rig designed for shallow wells at a lower capital cost than what would be incurred on Ensign #32 currently operated by Buru Energy. Ensign #32 requires more man power and higher construction costs and has been brought into the Canning Basin to drill wells up to 3,500 metres total depth. DCA Rig 7 has a history in Western Australia of drilling exploration wells including Sally May-1 in the Canning Basin for Kingsway Oil and more recently Dunnart-1 and Dibblers-1 in the North Perth Basin.

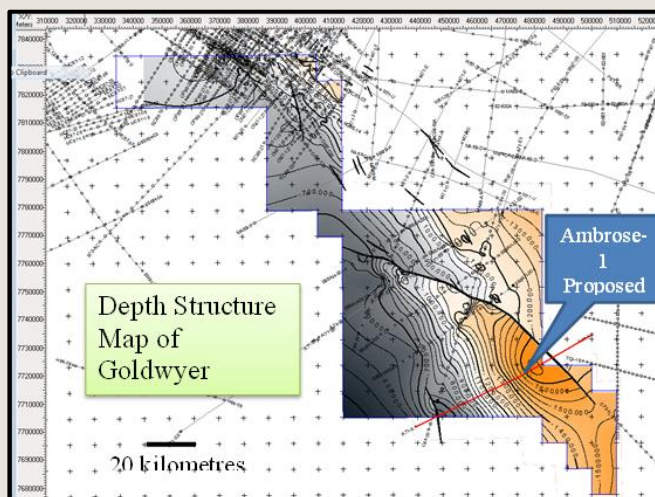


Upon receiving approvals from the DMP, DCA Rig 7 and Key’s 30 man camp will be immediately mobilised to site. It is estimated that after receiving these approvals, mobilisation of the rig and camp to the Cyrene-1 wellsite will take approximately between one and two weeks.

➤ **PERMIT EP 448, CANNING BASIN, WESTERN AUSTRALIA**

Key Petroleum Limited (Gulliver Productions Pty Ltd) (Operator)	70%
Indigo Oil Pty Ltd	20%
United Oregon Limited	10%

During the quarter Key has completed several geological and geophysical studies over the EP448 Permit. These include a remapping of seismic data and basin modelling of the Goldwyer unconventional shale reservoir targets.



This re-mapping confirms the prospectivity of the Ambrose-1 shale oil target in the southeast part of the permit. This prospect lies updip and on-trend with the New Standard Energy and Conoco-Phillips shale gas target to the southeast. Ambrose-1 is targeted to be drilled in 2013-2014 and Key is actively seeking a farm-in partner for this project.

➤ **EP437, PERTH BASIN, WESTERN AUSTRALIA**

Exploration commitment well Waugh-1 is required to be drilled prior to May 2013. Key is now reviewing, together with joint venture partners, whether it can obtain a slot on DCA Rig 7 after the drilling of Cyrene-1 to drill this well in early 2013.

➤ **TANZANIA**

Kiliwani North Development - Key Petroleum Limited - 5%

The sale agreement for all of Key's Tanzanian assets and liabilities is nearing completion.

➤ **ITALY**

Puma Petroleum SRL – 100% (a wholly-owned subsidiary of Key Petroleum Limited)

The Company is ceasing all activities in the country of Italy and has elected to put its subsidiary company Puma Petroleum S.r.l into liquidation.

➤ **CORPORATE**

During the quarter, the Company completed an oversubscribed capital raising of \$4 million to contribute to exploration activities in EP438, EP448 and EP437.

The company has recently moved into its own premises after renting space in a serviced office during a period of initial growth. The new premises will allow Key to accommodate additional staff required during the drilling of the Cyrene-1 well and other follow up exploration activities. The move is also expected to significantly reduce overhead costs.

Kane Marshall

**BSc (Geology), BCom (Inv & Corp Fin), Masters PetEng, AAPG, SPE
Managing Director**

Key Petroleum Ltd

Dated this the 31 October, 2012
Perth, Western Australia

Competent Persons Statement

Information in this ASX Release relates to exploration results that are based on information compiled by Mr Kane Marshall who is a full time employee of Key Petroleum Limited. Kane Marshall is a Practicing Petroleum Engineer and holds a BSc (Geology), BCom (Inv & Corp Fin) and Masters in Petroleum Engineering.

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 2012

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	0	0
1.2 Payments for (a) exploration & evaluation	(109)	(109)
(b) development	-	-
(c) production	(0)	(0)
(d) administration	(343)	(343)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	6	6
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	10	10
1.7 Other (provide details if material)	(9)	(9)
Net Operating Cash Flows	(445)	(445)
Cash flows related to investing activities		
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	14	14
(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	14	14
1.13 Total operating and investing cash flows (carried forward)	(431)	(431)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(431)	(431)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,988	3,988
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)	(269)	(269)
	Net financing cash flows	3,719	3,719
	Net increase (decrease) in cash held	3,288	3,288
1.20	Cash at beginning of quarter/year to date	1,461	1,461
1.21	Exchange rate adjustments to item 1.20	7	7
1.22	Cash at end of quarter (refer item 1.25)	4,756	4,756

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	165
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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+ See chapter 19 for defined terms.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	-
4.3 Production	(0)
4.4 Administration	250
Total	300

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	4,756	1,461
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,756	1,461

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	450,509,417	450,509,417		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	142,436,710	142,436,710		
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>	7,000,000		<i>Exercise price</i> 5.5 cents	<i>Expiry date</i> 06/08/2017
	7,000,000		6.4 cents	06/08/2017
	7,000,000		7.5 cents	06/08/2017
7.8 Issued during quarter	7,000,000		5.5 cents	06/08/2017
	7,000,000		6.4 cents	06/08/2017
	7,000,000		7.5 cents	06/08/2017
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Performance Rights	3,250,000		Performance Rights A	
	3,250,000		Performance Rights B	
7.12 Issued during quarter	3,250,000		Performance Rights A	
	3,250,000		Performance Rights B	
7.13 Exercised during quarter				
7.14 Expired/cancelled during quarter				

+ See chapter 19 for defined terms.

7.15	Debentures <i>(totals only)</i>		
7.16	Unsecured notes <i>(totals only)</i>		

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 give a true and fair view of the matters disclosed.

Sign here: 
(Company secretary)

Date: 26 October 2012

Print name: **Dennis Wilkins**

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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