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# QUARTERLY REPORT
# For the Quarter Ended 31st March 2008

## HIGHLIGHTS

### TANZANIA

- Kiliwani North #1 exploration well spudded on 23rd February 2008. The well intersected a gross gas column of 60 metres and a new Tanzanian gas discovery was declared.

- Kiliwani North #1 drilled and completed as a production well ahead of schedule and under budget. The casing over the gas interval was perforated with strong pressures recorded. A well testing programme will be undertaken in the next quarter to determine gas flow rate capacity, reservoir properties and gas composition.

- Kiliwani North #1 commercialisation process has commenced and discussions with potential gas customers in Tanzania are ongoing.

- Preliminary technical evaluation of the Kiliwani North #1 results indicates the well intersected a gas-water contact deeper than at the adjacent Songo-Songo Gas Field indicating, when combined with other well data, a separate gas accumulation was discovered. A positive outcome with potential for the other exploration prospects and leads in the Nyuni Block.

### ITALY

- Number of meetings held with the governmental authorities to progress the Environmental Impact Assessment studies submitted for the four offshore application areas.

- The preferred drilling location for the Borsano onshore permit is being evaluated by local drilling personnel. The approval process is expected to take longer than expected due to location's proximity to industrialized area north of Milan

### SURINAME

- Five well exploration campaign scheduled in Coronie Block during fourth quarter 2008. This follows the initial drilling campaign in the Uitkijk block in which three of five wells encountered hydrocarbons.

**NEW VENTURE: NAMIBIA**

- Consortium Agreement signed with Pancontinental Oil & Gas NL (ASX code PCL) for joint petroleum exploration activities, offshore Namibia.

- Pancontinental Oil & Gas NL has applied for their Reconnaissance Licence No. 1 of 2007 to be converted into a Petroleum Agreement (PA) and Exploration Licence (EL).with Key to hold a 50% participant in any successful award.

## EXPLORATION ACTIVITY

**OFFSHORE TANZANIA**
**Nyuni Block ( Key 20.0% )**

**Kiliwani #1**
Kiliwani #1 exploration well, drilled through the expected Neocomian aged reservoir section with an 8-1/2" bit reaching a total depth of 2570mMD on 7$^{th}$ February 2008. A number of sands were encountered over the target section in the well together with minor background gas. Electric wireline logging and pressure recording was performed over these intervals, however, results indicated that the primary Neocomian target did not warrant further investigation, at this location, as no commercial hydrocarbon zones had been identified. The well was subsequently plugged and abandoned with the drilling rig released from the well location on 13th February 2008.

An initial technical review of results indicated that the main reason for the lack of success in this well was that the Neocomian target sands were encountered too deep and below the gas water contact (GWC) of the adjacent Songo Songo Gas Field.

**Kiliwani North #1**
The Kiliwani North #1 exploration well spudded on 23$^{rd}$ February 2008 following the relocation of the Caroil #6 drilling rig from Kiliwani island to Songo Songo Island.

This well successfully intersected a gross gas column of 60 metres in the Neocomian sandstone reservoir objective, the same producing reservoir as in the nearby Songo Songo gas field. Electric logging, gas logging and formation pressures taken within the well confirmed the presence of the gas interval. Drilling of the well was also a technical success with the well being drilled ahead of schedule to a total depth of 2030 m RT (6,687 ft) which was reached on 13$^{th}$ March 2008.

Preliminary evaluation of results indicated importantly that the gas-water contact was deeper than that observed at the adjacent Songo-Songo Gas Field. This, combined with the other data gathered, demonstrates that this deeper gas-water contact in the Kiliwani North #1 discovery well is in a separate structure and gas accumulation compared to the Songo-Songo gas field.

The well has also confirmed the presence of potential sandstone reservoirs in the Tertiary section which will likely be a target in future wells drilled in the area. The Kiliwani North gas discovery further enhances the prospectivity of the remaining leads and prospects within the Nyuni Block.
The Nyuni joint venture Operator, Ndovu (Aminex), officially notified the Tanzanian Petroleum Development Corporation (TPDC) of the successful gas discovery at Kiliwani North #1 on 17$^{th}$ March 2008.

The close proximity of Kiliwani North #1 to the Songo Songo gas processing facility gives confidence that this discovery will be economic and commercialized in a relatively short period of time. The commercialisation process of the well will initially involve a well test that will be conducted to determine flow rate capacity of the well, reservoir properties and additional gas composition data. At the time of writing this report, delays in the mobilisation of the well testing equipment from Middle East shipping ports meant this well test is now scheduled to take place during the first half of May 2008.

**ONSHORE SURINAME**
**Uitkijk and Coronie ( Key 1.75% )**

The Company is participating in a multi-well drilling programme in Suriname, through its 50% shareholding in Portsea Oil & Gas Pty Ltd, which has a 3.5% free carried interest through an agreement with Hardman Oil and Gas Pty Ltd, a company owned by Tullow Oil Plc. Both areas are located adjacent to Suriname's main producing oil fields, Tambaredjo and Calcutta.

The Joint Venture is to commence a five well exploration campaign in the Coronie Block, to the west of Tambaredjo, during the fourth quarter. This is following on from the initial drilling campaign in the Uitkijk block, east of Tambaredjo, where three of five wells encountered hydrocarbons. The project participants are currently undertaking a number of technical studies to determine physical well locations.

**ONSHORE ITALY**
**Borsano Permit ( Key 100% )**

The Company has continued to perform technical studies and undertake evaluation of the area. A drilling proposal has been prepared and is currently being reviewed by the Company's Italian operations team.

The Company is also working with its Italian consultants and the relevant governmental departments to develop a drilling location and to put in place the necessary approvals required. This is proving to be a time consuming affair due to the need to comply with local rules and regulations. Process is taking longer than expected due to location's proximity to industrialized area north of Milan.

**OFFSHORE ITALY**
**Application Areas ( Key 100% )**

The Company has interest in four application areas as follows:

| | |
|---|---|
| Lampedusa | d 341 C.R–.PU Application |
| Lampedusa | d 342 C.R–.PU Application |
| West Sardinia | d 90 E.R-.PU Application |
| Elba | d 91 E.R–.PU Application |

Environmental Impact Assessment studies (EIA) for each area are currently being evaluated by the Ministry and the Company is awaiting their final response and approval. A number of meetings have been held recently in Italy with the relevant governmental bodies to respond to questions raised.

Technical evaluation work has continued in parallel with the EIA process with the Company working closely with its Italian technical specialists working together evaluating geological and geophysical data.

The technical focus now for these areas is detailed geophysical mapping.

**NAMIBIA - NEW VENTURE**
**Reconnaissance Licence No. 1 of 2007**
**Application - Exploration Licence and Petroleum Agreement ( Key 50% )**

The Company has signed a Consortium Agreement with Pancontinental Oil & Gas NL (ASX code PCL) for joint petroleum exploration activities offshore Namibia.

The two companies believe that the area holds significant oil exploration potential and have been jointly studying existing regional geological and seismic data for some time.

Pancontinental currently holds a Reconnaissance Licence, No RL-1 of 2007 ('RL') covering an area of approximately 30,000 square kilometres, offshore from the coast of Namibia, in an area known as the Walvis Basin. The joint venture partners are now applying for this RL to be converted into a Petroleum Agreement (PA) and an Exploration Licence (EL) and Key has agreed to be a 50% participant in any successful award.

Offshore Namibia is an extension of the West African continental margin, which hosts prolific oil and gas producing areas such as Nigeria and Angola. Activity in the area is now increasing with companies such as Hunt Oil, BHP Billiton and Tullow Oil acquiring licences along the Namibian coast. Another company, the Russian company, Sintezneftegaz, is currently drilling on behalf of a consortium of companies, to the north of the RL area in 762m of water.

Under the terms of the joint venture agreement between Pancontinental and Key, Key will pay Pancontinental, on completion of a number of conditions, up to A$100,000 in reimbursement of past expenditure and will share in certain future costs.

**ENQUIRIES**

Please direct any queries to:

Ken Russell - Managing Director / CEO;

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or

Media
Ian Howarth – Farrington National

| | | |
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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, Managing Director/CEO of Key Petroleum Ltd, who has at least 5 years experience in the sector. He consents to that information in the form and context in which it appears.*

*Rule 5.3*

# Appendix 5B

## Mining exploration entity quarterly report

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

Name of entity

| |
|---|
| **Key Petroleum Limited** |

| ACN | Quarter ended ("current quarter") |
|---|---|
| 120 580 618 | 31 March 2008 |

## 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 | - | - |
| 1.2 | Payments for (a) exploration and evaluation | (1,520) | (3,988) |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) administration | (401) | (1,174) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 183 | 628 |
| 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** | (1,738) | (4,534) |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: (a) prospects | - | - |
| | (b) equity investments | - | (24) |
| | (c) other fixed assets | (5) | (29) |
| 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** | (5) | (53) |
| 1.13 | Total operating and investing cash flows (carried forward) | (1,743) | (4,587) |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | (1,743) | (4,587) |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | 220 |
| 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) Share issue costs | - | - |
| | **Net financing cash flows** | - | 220 |
| | **Net increase (decrease) in cash held** | (1,743) | (4,367) |
| 1.20 | Cash at beginning of quarter/year to date | 12,432 | 15,056 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | **Cash at end of quarter** | 10,689 | 10,689 |

## 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 | 213 |
| 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

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

+ 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 | 1,000 |
| 4.2 | Development | - |
| | **Total** | **1,000** |

# 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 | 906 | 274 |
| 5.2 | Deposits at call | 9,783 | 12,158 |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.22) | 10,689 | 12,432 |

## 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 | | | | |

## 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** *(description)* | | | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 86,000,005 | 72,971,672 | | |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 | **+Convertible debt securities** *(description)* | | | | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 | **Options** *(description and conversion factor)* | 44,000,002<br>225,000 | 44,000,002<br>Nil | *Exercise price*<br>35 cents<br>35 cents | *Expiry date*<br>31 March 2009<br>31 March 2009 |
| 7.8 | Issued during quarter | | | | |
| 7.9 | Exercised during quarter | | | | |
| 7.10 | Expired during quarter | | | | |
| 7.11 | **Debentures** *(totals only)* | | | | |
| 7.12 | **Unsecured notes** *(totals only)* | | | | |

+ 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 /~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: (Company secretary) Date: **29 April 2008**

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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+ See chapter 19 for defined terms.