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ASX and Media Release

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Key Petroleum Enters Australian Oil Hunt

Key Petroleum (**ASX:KEY**) has joined the hunt for domestic oil in Australia by reaching agreement in principle with CalEnergy Resources (Australia) Limited (a MidAmerican Energy Holdings Company affiliate) to participate in its two-well, onshore drilling campaign in permit EP 437 in the North Perth Basin.

Subject to agreeing and executing formal agreements, Key will earn a 45% interest in the EP437 permit by agreeing to pay 60% of drilling costs with those drilling costs being capped at \$2.25 million, thereafter Key's contribution will decrease to 45%. Drilling is expected to commence end Q3/Q4.

The North Perth Basin is a known hydrocarbon province and has seen considerable success for a number of companies. Key's decision to participate in the drilling of these two onshore wells is based on the belief that it has the potential to provide low cost oil production.

Key believes the first two wells could produce in the region of 400 bbls/day and the permit has considerable upside potential with other prospects identified.

Key Petroleum's Managing Director /CEO, Ken Russell, said, *"Key has been internationally focussed, however, when an opportunity presents itself to enter into what we believe to be prospective prospects in our own backyard, we'd be foolish to not participate."*

"Oil demand and prices are likely to continue to rise and the opportunities to access low-cost oil deposits are decreasing. This drilling program, in a forgotten corner of the North Perth Basin, aims to access shallow pools using a small land drilling rig, thereby reducing the overall cost." Mr Russell said.

Mr Russell continued, “CalEnergy is part of a substantial energy group based in the USA that Key believes has put together a programme that should see both companies enjoying success in this area. We look forward to working together with CalEnergy in the future.”

Further details will be released as the project gathers pace.

Background:

Key Petroleum Ltd is a producer of oil in the United Kingdom from its 100% owned, two onshore oil fields, Brockham and Lidsey located in the Weald Basin in the south of England. Key is also involved in oil and gas exploration and development projects in Tanzania where it has a 20% interest in the Nyuni block and in the West Songo Songo block where it holds a 50% interest and is the operator. Key has further interests in both on and offshore areas in Italy which it holds 100% and in Suriname, an established oil producing area in South America, where it indirectly holds a free carried interest in two onshore blocks.

For further Company background information please see the company’s website at <http://www.keypetroleum.com> or contact

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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 35 years petroleum engineering experience in the sector. He consents to that information in the form and context in which it appears.

