Key Petroleum Ltd

ACN 120 580 618

QUARTERLY REPORT

FOR PERIOD ENDED 31 DECEMBER 2012

UPDATES ON PETROLEUM EXPLORATION ACTIVITIES

FOCUS AND STRATEGY FOR KEY PETROLEUM LIMITED FOR THE QUARTER

Key Petroleum Limited ("Key") continues to focus on its Australian based exploration activities.

The focus for the next quarter will be:

- the completion of drilling the Cyrene-1 commitment well (EP 438)
- acquiring approvals for the drilling of Waugh-1 in the North Perth Basin
- Geochemical Survey in EP 448

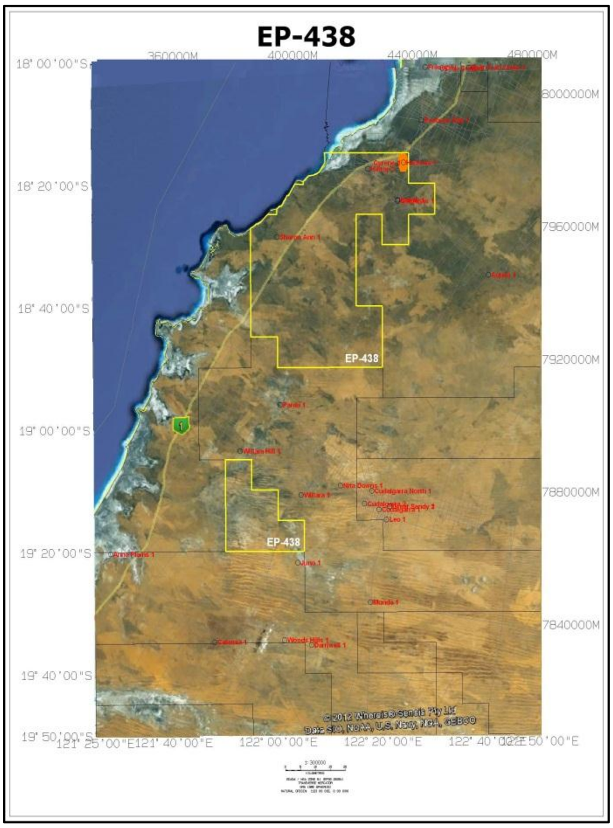
EXPLORATION PROGRAM 2013

- Currently seeking a Farmin partner to drill a well in EP 448
- Commencing heritage and environmental approvals for geochemical survey for EP 448
- Several other conventional structural and stratigraphic leads identified on trend with Ambrose within the Nita objective
- Formation evaluation of Cyrene-1 likely to occur in February 2013
- Waugh-1 potentially drilled in first half of 2013 depending on timing of approvals
- Currently evaluating new opportunities to complement existing portfolio of exploration interests

EP 438, CANNING BASIN, WESTERN AUSTRALIA

Following the satisfaction of obligations under a previously agreed farmin agreement, the interests in the EP 438 Exploration Permit will be as follows:

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



On 21 January 2013 Key, through its wholly owned subsidiary Gulliver Productions Pty Ltd, spudded Cyrene-1 exploration well on behalf of the EP 438 joint venture.

At the date of this release, DCA Rig 7 was running back in hole at Cyrene-1 and was at a depth of 824 metres. The Wallal Sandstone and Grant Formations had being intersected as prognosed and in line with expectations from the offset well Hedonia-1.

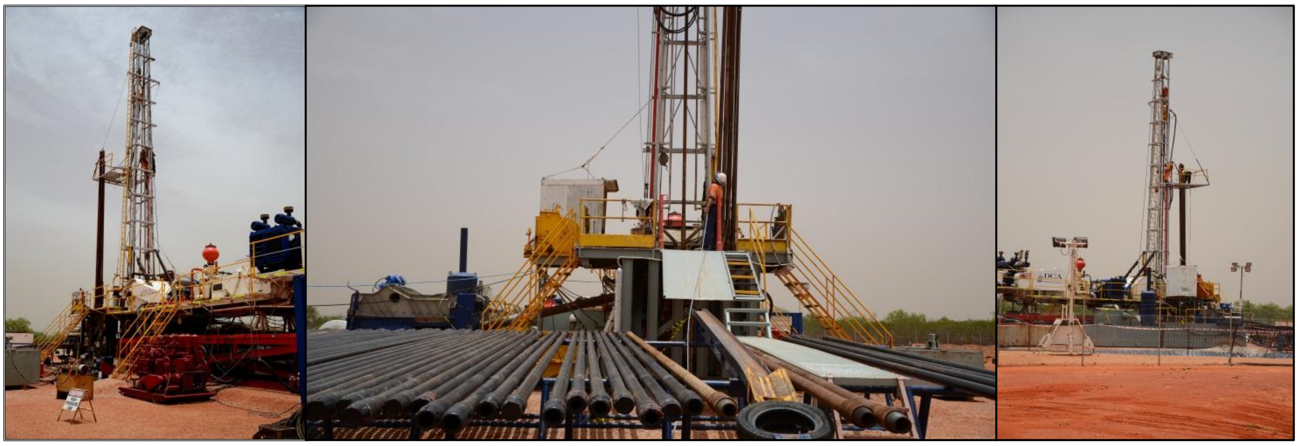
The forward plan is to drill the 8 ½" hole section to the coring point then core the lower section of the Goldwyer Shale Formation which had good oil and gas shows in Hedonia-1.

The Cyrene structure consists of a four way dip closed anticline with estimated potential recoverable oil 5MBO.

Cyrene-1 is located 100km South of Broome, 2km from the Great Northern Highway and adjacent to the Hedonia-1 well drilled by Gulf in 1984.

Prospect Information:

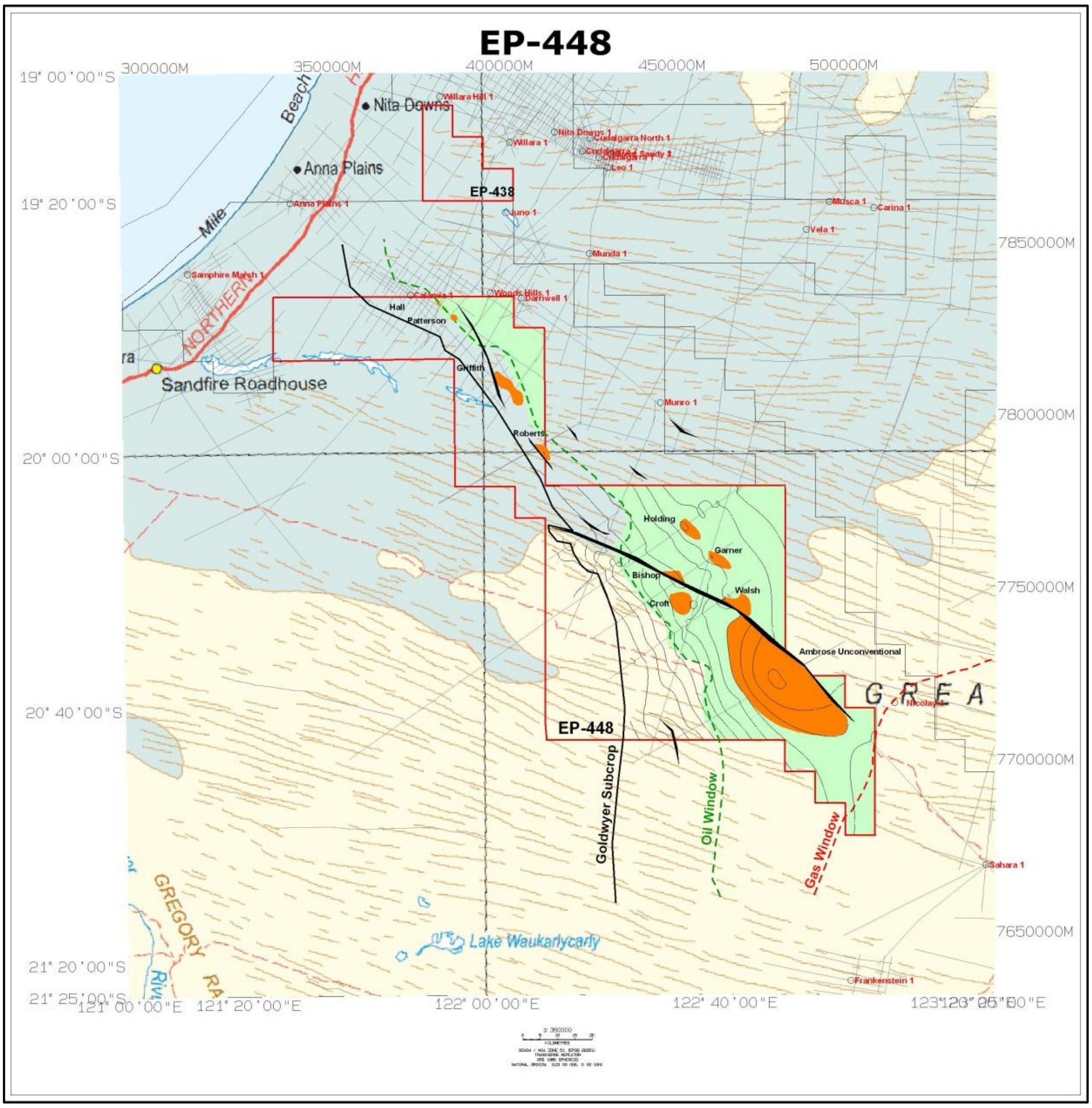
- Athos 2D seismic survey was completed in late 2011
- 80km of 2D seismic was acquired using vibroseis vehicles
- Joint Venture is viewing potential follow-up prospects for drilling after Cyrene-1



DCA Rig 7 rigging up before drilling at Cyrene-1, Canning Basin, Western Australia

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 received a variation to its work commitment obligation from the Department of Mines and Petroleum.

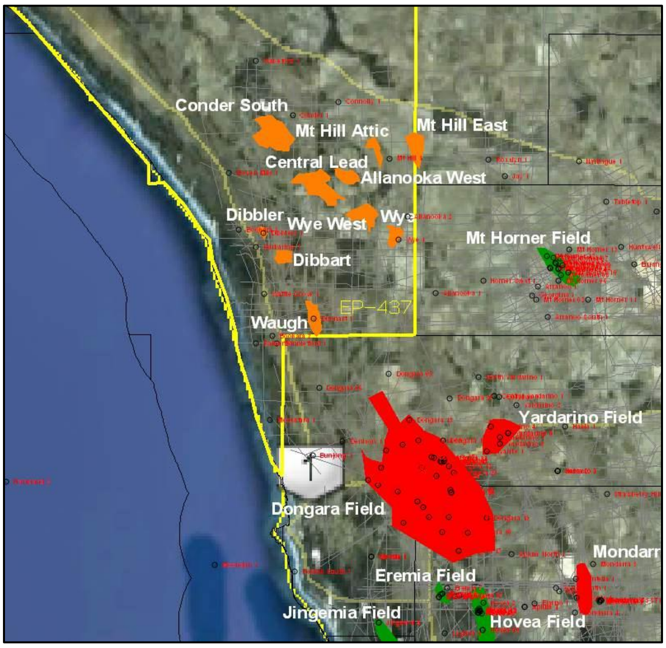
The geochemistry survey will assist in ranking of conventional prospects which consist of stratigraphic pinch out and fault dependent closures at the Nita Formation objective. The survey will also assist in determining the extent of the Ambrose shale prospect and well location in 2014.

Prospect Information:

- Core of Goldwyer Shale in Cyrene-1 will assist in understanding of unconventional potential of the EP 448 permit
- Large unconventional Ambrose Shale oil prospect in EP 448 interpreted to be within the oil window updip of Nicolay-1 which has been interpreted to be in the gas window. This was drilled by New Standard Energy and ConocoPhillips recently

EP 437, PERTH BASIN, WESTERN AUSTRALIA

Key Petroleum Ltd (Key Petroleum Australia Pty Ltd)	*50.0%*
Empire Oil and Gas NL (Empire Oil Company WA Pty Ltd)	*35.0%*
Caracal Exploration Pty Ltd	*15.0%*



Recent re-mapping of EP 437 has identified a further nine prospects within the Bookara sandstone member. Exploration commitment well Waugh-1 is required to be drilled prior to May 2013.

Key, together with joint venture partners, is seeking regulatory approval to drill Waugh-1. If regulatory approvals can be obtained in the next quarter then the Joint Venture may drill Waugh-1 immediately after Cyrene-1.

Prospect Information:

- Seismically defined drillable prospect
- Drilling Program lodged to drill in 2013
- Depending on the timing of approvals, could be drilled with DCA Rig 7 in the first half of 2013 immediately after Cyrene-1
- Total Depth 750m
- Potential recoverable reserves of 3-5MBO

EP 437 location near Dongara, Onshore North Perth Basin, Western Australia

OTHER BUSINESS

During the quarter, Key completed divestment of all its non-core assets and continues the liquidation process of its Italian subsidiary Puma Petroleum Srl. The Company has not received the remaining £80,000 for the sale of its UK Weald Basin assets and is considering its options in this regard.

The Company is evaluating a number of exploration opportunities to complement its existing asset portfolio in Australia. Key's focus is on operating opportunities and the Company continues to progress joint venture discussions on maturing its existing Canning Basin assets.

During the quarter, the Company appointed Mr Ian Gregory as Company Secretary. Mr Gregory has extensive experience in Corporate Secretarial matters with listed energy companies. Mr Dennis Wilkins remains as a Non-Executive Director.

Key will be updating its website and the way it communicates with its shareholders in the next quarter which will include video and audio media material as well as an extensive image gallery of its operations.

Kane Marshall
BSc (Geology), BCom (Inv & Corp Fin), Masters PetEng, AAPG, SPE, PESGB, SPWLA
Managing Director
Key Petroleum Ltd

Dated - 31 January 2013
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"): 31 December 2012

CONSOLIDATED STATEMENT OF CASH FLOWS

	Cash flows related to operating activities	Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(38)	(147)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(98)	(441)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	16	22
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	10
1.7	Other (provide details if material)	-	(9)
	Net Operating Cash Flows	(120)	(565)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	(156)	(156)
	(c) other fixed assets	(17)	(17)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	190	204
	(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	17	31
1.13	Total operating and investing cash flows (carried forward)	(103)	(534)
1.13	Total operating and investing cash flows (brought forward)	(103)	(534)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	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)	(333)	(602)
	Net financing cash flows	(333)	3,386
	Net increase (decrease) in cash held	(436)	2,852
1.20	Cash at beginning of quarter/year to date	4,756	1,461
1.21	Exchange rate adjustments to item 1.20	(7)	-
1.22	Cash at end of quarter (refer item 1.25)	4,313	4,313

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	191
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

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	550
4.2	Development	-
4.3	Production	-
4.4	Administration	250
	Total	**800**

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	4,313	4,756
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	4,313	4,756

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**	450,509,417	450,509,417		
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)	 7,000,000 7,000,000 7,000,000 2,000,000 2,000,000 2,000,000		*Exercise price* 5.5 cents 6.4 cents 7.4 cents 4.4 cents 5.2 cents 5.9 cents	*Expiry date* 06/08/2017 06/08/2017 06/08/2017 06/08/2017 06/08/2017 06/08/2017
7.8	Issued during quarter	2,000,000 2,000,000 2,000,000		4.4 cents 5.2 cents 5.9 cents	06/08/2017 06/08/2017 06/08/2017
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Performance Rights**	3,250,000 3,250,000		Performance Rights A Performance Rights B	
7.12	Issued during quarter				
7.13	Exercised during quarter				
7.14	Expired/cancelled during quarter				
7.15	**Debentures** (totals only)				
7.16	**Unsecured notes** (totals only)				

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: I E Gregory Date: **31 January 2013**

(Company Secretary)

Print name: **Ian Gregory**

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.