

**KEY**  
PETROLEUM LIMITED

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# **QUARTERLY REPORT**

## **FOR THE PERIOD ENDED 30 SEPTEMBER 2013**

**ACN 120 580 618**

## UPDATE ON PETROLEUM EXPLORATION ACTIVITIES HIGHLIGHTS IN THE QUARTER

Key Petroleum Limited (“Key” or “Company”) continues its strategic focus on onshore Australian-based exploration potential and opportunities in the Perth and Canning Basins.

During the quarter, Key has continued negotiations on various Canning Basin acreage positions and held meetings to discuss planned Heritage Surveys required to facilitate the completion of next year’s work commitment in the EP448 Permit.

The acquisition of interests in Canning Basin permits have been a focal point in Key’s acreage negotiations. A Sale Agreement, announced on 29 July 2013, with Emerald Oil and Gas NL (“Emerald”) sees Key’s interest in EP104 and Retention Lease R1 increase significantly.

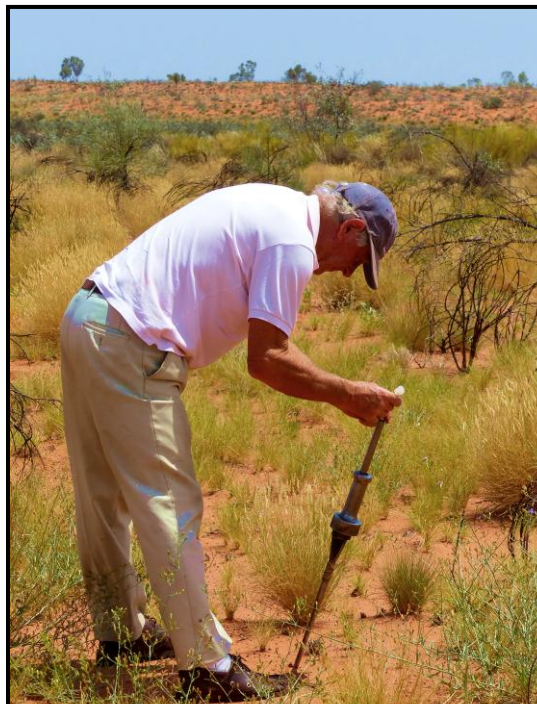
Key is now the largest equity holder in EP104 following the withdrawal of Buru Energy Limited (“Buru”) and has accordingly taken on the operatorship of the permit through its subsidiary Gulliver Productions Pty Ltd (“Gulliver”).

Subsequent to receipt of regulatory approvals from the Department of Mines and Petroleum (“DMP”), the Geochemical Survey within EP448 permit commenced post the September quarter.

Key has also taken on the role of Operator for the drilling of the Dunnart-2 exploration commitment well in the North Perth Basin.

Activities for the next quarter include:

- Planning for the drilling of the Dunnart-2 well in the North Perth Basin including land holder, contractor and DMP liaison;
- Completing technical reviews with the EP104 joint venture to determine the size and risk of all conventional and unconventional gas prospects;
- Coordinate Heritage Surveys in the south-eastern part of EP448 after the ‘Cultural Season’ which are required for approvals for drilling in 2014 in accordance with the existing Heritage Protection Agreement protocol;
- Scout areas in EP448 for road, air strip and drilling locations by helicopter and on-ground in addition to carrying out the Geochemical Soil Survey; and
- Progressing farmin discussions for up to two wells, Ambrose-1 and Walsh-1, in EP448 for 2014 drilling operations pending the results of the Geochemical Soil Survey.



Key Petroleum is the first company to undertake a Geochemical Survey of this type and size in the Canning Basin.

## 2013 EXPLORATION PROGRAMME



### EP 437

Approvals for the drilling of Dunnart-2 were granted to previous Operator, Empire Oil Company (WA) Limited ("Empire") by the DMP. Due to Key and Caracal removing operatorship from Empire in September, these approvals are required to be resubmitted or bridging documents submitted to reflect Key as the new Operator.

The Company anticipates the due diligence and resubmission of relevant DMP applications, in addition to the availability of Drilling Contractors Australia, will lead to delays in the drilling of this exploration commitment well.

The Company can also advise that there are no other rigs in the State of Western Australia that can carry out this programme in a cost effective manner and that no rigs can be mobilised from interstate due to the high mobilisation costs for this single well in addition to the lengthy and costly third party rig inspections that

would be required to make the rig compliant with the DMP's regulations. The Company is now discussing formal contract terms with DCA for drilling in early 2014.

### EP 448

A Heritage Survey is required to be carried out around areas of infrastructure, clearing and drilling in EP448 and discussions with Traditional Owners are progressing with further meetings scheduled in October and November 2013.

The current technical interpretation of existing prospects in the permit led to an expansion of the Geochemical Survey in terms of the amount of samples to be collected to identify whether there were other areas of the permit that could be investigated for future exploration work.

## EP 448, CANNING BASIN, WESTERN AUSTRALIA

KEY PETROLEUM LIMITED (Gulliver Productions Pty Ltd) (OPERATOR)	78.00%
INDIGO OIL PTY LTD	22.00%

The main exploration focus during the quarter has been the coordination of the Geochemical Soil Survey, which will be the first of its kind to be carried out in the Canning Basin within the Great Sandy Desert.

Key received the relevant approvals from the DMP to undertake the Survey over a 2,000 km<sup>2</sup> area subsequent to the quarter in October 2013.

The permit is a frontier block comprising nearly 8,500 km<sup>2</sup> in area which is hostile, remote and where no wildcat wells have ever been drilled. Existing interpretations of maturity data from wells in this part of the Canning Basin indicate that nearly half of the block is likely to be in the oil generating window and, due to the proximity of the block to the basin margin, both carbonate and sandstone conventional oil play types are possible. Once the Geochemical Soil Survey is completed and integrated into the existing seismic and aeromagnetic data set a full evaluation of all existing and new prospects will be carried out.

### *Geochemical Survey Information*

The Survey has been tailored to identify areas of micro seepage of surface hydrocarbons which could identify further areas of prospectivity within Ordovician and earlier age post salt sediments.

In late October, helicopter operations commenced with the survey covering three existing seismic lines and a pre-existing track. Personnel were dropped at sampling points 1km apart to take samples.

In conjunction with the Geochemical Soil Survey, well scouting and logistics were carried out by Inland Essential Services and environmental surveys conducted by Datasticians. All parties are specialised consultants with over 60 years' experience between them operating in hostile and remote parts of the Canning Basin.



The first Geochemical Survey of its kind in the Canning Basin has been carried out by Key Petroleum's consultant Dr John Conolly within the EP448 permit. Key's acreage in the Canning Basin incorporates prospects over large and remote areas including the Great Sandy Desert (as pictured above).

## EP 104 TREND, CANNING BASIN, WESTERN AUSTRALIA

### EP104 (BENEFICIAL INTERESTS AFTER COMPLETION)

GULLIVER PRODUCTIONS PTY LTD (OPERATOR)	53.97%
PANCONTINENTAL OIL AND GAS NL	19.59%
FAR LIMITED	15.67%
INDIGO OIL PTY LTD	10.77%

### R1 (BENEFICIAL INTERESTS AFTER COMPLETION)

BURU ENERGY LIMITED (OPERATOR)	43.28%
GULLIVER PRODUCTIONS PTY LTD (KEY)	30.61%
PANCONTINENTAL OIL AND GAS NL	11.11%
FAR LIMITED	8.89%
INDIGO OIL PTY LTD	6.11%

### L15

BURU ENERGY LIMITED (OPERATOR)	15.50%
GULLIVER PRODUCTIONS PTY LTD (KEY)	49.00%
PANCONTINENTAL OIL AND GAS NL	12.00%
FAR LIMITED	12.00%
INDIGO OIL PTY LTD	11.50%

As announced on 29 July 2013, a Sale Agreement was executed between Key, through its subsidiary Gulliver, and Emerald for its interest in EP104 and R1.

Completion of the Emerald transaction for its Canning Basin interests in EP104 (24.98%) and R1 (14.17%) is anticipated to occur in November 2013.

Key, through Gulliver, is now the largest equity holder in the EP104 permit, with operatorship falling to Key by virtue of the Joint Operating Agreement.

EP104 has recently been re-mapped and a five year renewal application lodged with the DMP.

Several leads have already been interpreted from the seismic data and current mapping has defined prospects both onshore and offshore.

Evaluation of the permit indicates that there is potential recoverable gas-in-place of 150BCF found in the deltaic sands in the Lower Anderson Formation, which extends from Stokes Bay-1 to Point Torment -1 in R1 and south-east to West Kora-1 and Kora-1 in L15.

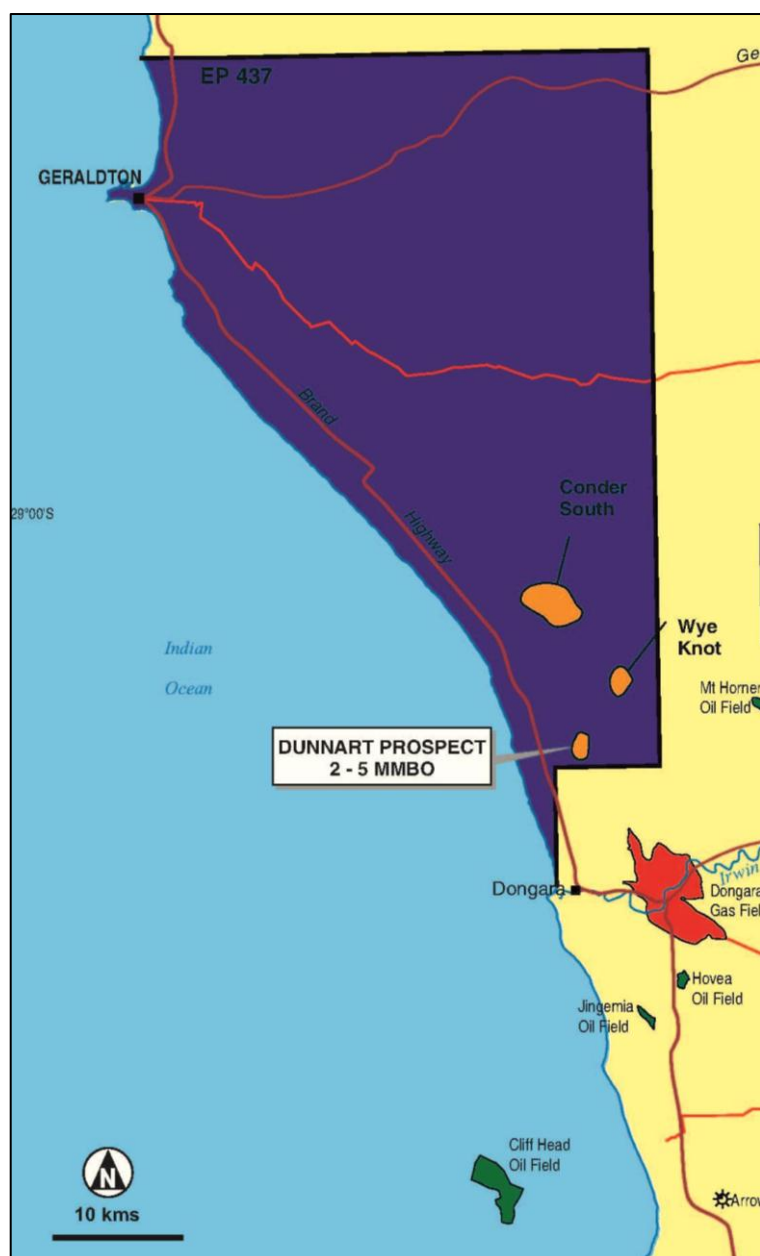


## EP 437, PERTH BASIN, WESTERN AUSTRALIA

KEY PETROLEUM (AUSTRALIA) PTY LTD (OPERATOR)	50.00%
EMPIRE OIL COMPANY (WA) LIMITED	35.00%
CARACAL EXPLORATION PTY LTD	15.00%

Delays to the drilling of Dunnart-2 are expected due to the change in Operator status after Key and Caracal called a meeting and removed Empire as Operator of the EP437 joint venture.

Key announced recently that the change in operatorship would lead to a delay as a new Approval to Drill was required by the DMP following the change of Operator as well as discussing the availability of various contractors and personnel.



The Dunnart prospect is located in the onshore North Perth Basin. It has a tilted fault block, which is defined by seven seismic dip lines and one strike seismic line.

The well is located up-dip from Dunnart-1 and it is planned to be drilled to a total depth of 670m.

The estimated potential resource is 2-5MMBO in the Early Triassic Bookara Sandstone which is sealed by thick marine shales of the Kockatea Shale.

The Dunnart-1 well drilled on this structure recorded excellent oil shows through the Bookara Sandstone but was not tested.

## CURRENT OUT LOOK FOR KEY PETROLEUM

Key has a healthy cash position of circa \$3.23 million to meet immediate commitments and has been active in the quarter assessing new acreage opportunities that are congruent with the Company's existing portfolio of exploration play types. The strategy for these investments not only involves operatorship opportunities but play types in younger basins with a range of risk. The ultimate goal of the Board is to have a portfolio of assets that range from low to high risk and prospect size and these elements will be discussed in the Chairman's address at the Company's AGM.

The Company remains focussed on increasing its existing equity positions in conjunction with seeking high equity interests in new acreage with the aim that the majority of exploration costs will be funded by strategic partners and alliances.

## OTHER BUSINESS

The Company is now in the process of following up on legal advice in the United Kingdom on the non-payment by Angus Energy for the disposal of its UK assets last year.

Further, the Company has written to the Ministry of Economic Development in Italy to waive all work commitments and withdraw formally from the two permits that its wholly owned subsidiary Puma Petroleum holds title to. Until such time that Puma comes off the title of these permits, Key cannot liquidate this subsidiary.

During the Quarter, Ian Paton was appointed Chairman of the Board of Key Petroleum at a time when the Company is active in assessing new acreage opportunities and other commercial transactions consistent with Key's operatorship strategy.

**IAN GREGORY**  
COMPANY SECRETARY



**Dated: 31 October, 2013**  
**Perth, Western Australia**

### **COMPETENT PERSONS STATEMENT**

*Information in this ASX Release relates to exploration data and results that are based on information compiled by Mr Kane Marshall who is a full time employee of Key Petroleum Limited and Mr Ian Paton. Both Kane Marshall and Ian Paton are Practicing Petroleum Engineers and Geoscientists who are members of the SPE and AAPG.*



## GLOSSARY

LNG	Liquefied Natural Gas
STOIP	Stock Tank Oil Initially In Place
TOC	Total Organic Content
EP	Environment Plan

## DISCLAIMER

The information in this presentation is an overview and does not contain all information necessary for investment decisions. In making investment decisions, investors should rely on their own examination of Key Petroleum Ltd and consult with their own legal, tax, business and/or financial advisors in connection with any acquisition of securities.

Prospective oil in place and recoverable reserve estimates have been made under the Society of Petroleum Engineers Petroleum Resources Management System (SPE-PRMS). Mr Paton and Mr Marshall have compiled the information in this release as Practicing Petroleum Engineers and Geoscientists and consent to the release of the information. The Company is compliant with recent listing rule changes for reporting of estimates as defined in Chapter 5 of the ASX Listing Rules.

The information contained in this presentation has been prepared in good faith by Key Petroleum Ltd. However, no representation or warranty, expressed or implied, is made as to the accuracy, correctness, completeness or adequacy of any statement, estimates, opinions or other information contained in this document.

Certain information in this document refers to the intentions of Key Petroleum Ltd, but these are not intended to be forecasts, forward looking statements, or statements about future matters for the purposes of the Corporations Act or any other applicable law. The occurrence of events in the future are subject to risks, uncertainties, and other factors that may cause Key Petroleum Ltd's actual results, performance or achievements to differ from those referred to in this document. Accordingly, Key Petroleum Ltd, its directors, officers, employees and agents do not give any assurance or guarantee that the occurrence of events referred to in this presentation will occur as contemplated.

## Appendix 5B

### Mining exploration entity and oil and gas 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, 01/05/2013

Name of entity

**Key Petroleum Limited**

ABN

50 120 580 618

Quarter ended ("current quarter")

30 September 2013

#### 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	-	-
1.2 Payments for (a) exploration & evaluation	(119)	(119)
(b) development	-	-
(c) production	-	-
(d) administration	(243)	(243)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	32	32
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(330)</b>	<b>(330)</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)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(330)</b>	<b>(330)</b>

+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(330)	(330)
<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>		(330)	(330)
1.20	Cash at beginning of quarter/year to date	3,565	3,565
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	3,235	3,235

### Payments to directors of the entity, associates of the directors, 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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+ 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	-
4.4 Administration	250
<b>Total</b>	<b>500</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	378	339
5.2 Deposits at call	2,857	3,226
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>3,235</b>	<b>3,565</b>

### Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased			

+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas 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> (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	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 <b>+Convertible debt securities</b> (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> (description and conversion factor)	500,000 2,000,000 2,000,000 7,000,000 2,000,000 7,000,000 7,000,000	- - - - - - -	<i>Exercise price</i> 2.5 cents 4.4 cents 5.2 cents 5.5 cents 5.9 cents 6.4 cents 7.4 cents	<i>Expiry date</i> 12 March 2017 6 August 2017 6 August 2017 6 August 2017 6 August 2017 6 August 2017 6 August 2017
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Performance Rights</b>	3,250,000 3,250,000	- -	<i>Classification</i> Performance Rights A Performance Rights B	

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )			
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## 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 2013

Print name: **Ian Gregory**

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+ See chapter 19 for defined terms.

## 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 and petroleum 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 or petroleum 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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