Ground Floor
39 Stirling Highway
Nedlands WA 6009

T: + 61 (08) 6389 0322
F: + 61 (08) 6389 0697

commrelations@keypetroleum.com.au

QUARTERLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2013

ACN 120 580 618

UPDATE ON PETROLEUM EXPLORATION ACTIVITIES

HIGHLIGHTS IN THE QUARTER

Key Petroleum Limited's ("Key" or "Company") focus on its onshore potential in Western Australia ramped up over the quarter with a marked acceleration in its exploration studies and operational activities.

Negotiations with Buru Energy Limited ("Buru") regarding the EP438 permit were concluded and a successful asset swap Sale Agreement was executed enabling Gulliver Productions Pty Ltd ("Gulliver" a wholly owned subsidiary of Key) to become Operator over the entirety of its Canning Basin portfolio. Concurrently, the execution of the Agreement saw Key become the largest equity holder in the EP104, R1 and L15[1] permit areas. The acquisition of interests from Buru has been a focal point in Key's acreage strategy.

All completion obligations in the previous Sale Agreement with Emerald Oil and Gas NL have now been concluded.

The EP104, R1 and L15 permit areas hold the West Kora oil field, the Point Torment gas discovery and untested Stokes Bay area.

The interest and Operatorship changes in both the Perth and Canning Basins sets Key up as a significant emerging oil and gas company in WA and puts the Company in a strong exploration position entering 2014.

Managing Director Kane Marshall with geochemical specialist Dr John Conolly analyse potential source areas during operations on the Curtly Geochemical Survey in October 2013.

A successful geochemical soil survey (Curtly Geochemical Soil Survey) carried out over the EP448 permit in October 2013 yielded encouraging preliminary results with new prospects identified through integrating the geochemical data and existing seismic. This preliminary assessment has identified four shallow oil prospects of which two, Griffiths and Patterson, are ranked as drillable prospects for 2014.

In November 2013, Key was named the preferred bidder for the L12-10 area, adjacent to the EP448 permit, in the Canning Basin. The area includes 19 graticular blocks located on the western margin of the Kidson Sub-basin. The area lies east of an area in EP448 where conventional leads have been mapped to the north of the Ambrose low and associated with geochemical anomalies.

[1] Key's subsidiary being the highest beneficial owner in the permit and thereby under the JOA Key assumes Operatorship

KEY PETROLEUM LIMITED

Activities for the next quarter include:

- Completing the EP437 Health and Safety Management System ("H&S Management System) for Key as Operator of the Dunnart-2 exploration commitment well and working towards finalising formal land access terms;
- Mapping and technical work programs for EP104, R1 and L15 areas to commence subject to Joint Venture approvals;
- Heritage Surveys in EP448 to comply with Heritage Protection Agreement protocols to enable drilling of conventional oil prospects;
- Progress farmin discussions to fund exploration wells in EP448 and EP437; and
- Initiate Native Title discussions with the DMP and Traditional Owners in discrete Area L12-10.

2014 EXPLORATION PROGRAM - CONVENTIONAL OIL PROSPECTS

Key's 2014 exploration program will focus on drilling shallow conventional oil prospects. This campaign is subject to securing suitable farmin partners and will be conducted within two central permits, the EP448 permit in the Canning Basin and the EP437 in the North Perth Basin.

Two wells are planned in EP448, with four prospects identified on trend with geochemical anomalies being Patterson, Griffiths, Griffiths North and Griffiths South.

Drilling of the Dunnart-2 commitment well within EP437 is dependent on final regulatory approvals and the agreement of land access terms without further delays and following legal due process.

EP 448

In the last quarter Key conducted meetings with Traditional Owners to discuss potential drilling locations, impacts on Aboriginal sites, land access and timing of both exploration and coordinated Heritage Surveys.

Heritage Surveys are required to fulfil exploration work commitments and must be undertaken to the commencement of drilling. The Survey will be conducted around areas of infrastructure, clearing and drilling.

EP 437

Key as the new Operator of the EP437 permit has submitted bridging documents for the drilling of Dunnart-2 EP and subsequent environmental approvals have now been granted.

Approvals outstanding for the drilling of Dunnart-2 include Key's H&S Management System and execution of a formal Land Access Agreement.

EP448, CANNING BASIN, WESTERN AUSTRALIA

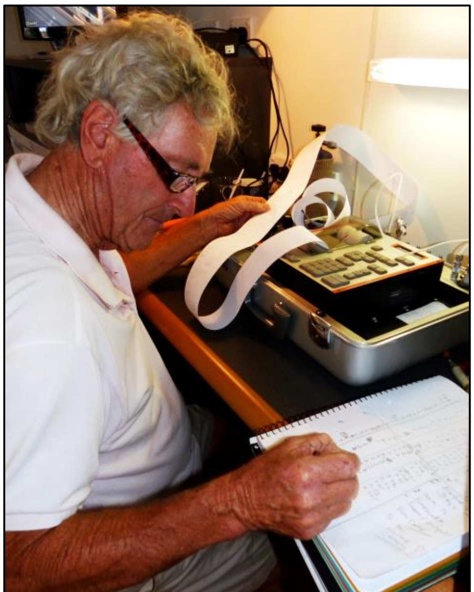
KEY PETROLEUM LIMITED (Gulliver Productions Pty Ltd) (OPERATOR)	78.00%
INDIGO OIL PTY LTD	22.00%

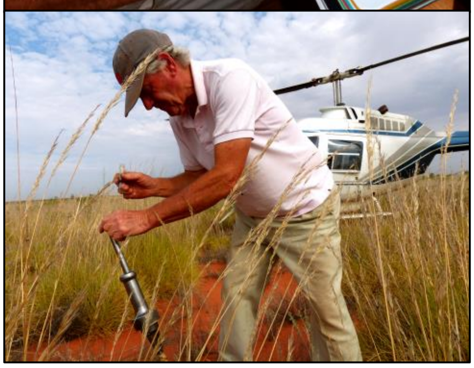
The EP448 permit is a frontier block in a remote and hostile part of the Canning Basin area with limited access where no wildcat wells have been drilled before.

Exploration data in this part of the Basin is limited but Key's technical team is conducting further studies and integrating recently acquired information to understand the full potential and resource range of this permit.

As part of this assessment the team has been utilising existing maturity data from nearby wells that have been drilled in addition to seismic and aeromagnetic data to identify additional potential prospects.

To further define drilling locations and pinpoint active petroleum systems within the permit, Key carried out a geochemical soil survey targeting strategically located areas along seismic lines and tracks over a portion of the permit.





The Curtly Geochemical Survey was carried out within the EP448 permit in October 2013.

Geochemical Survey Information

Following DMP approvals in October 2013, Key commenced the first geochemical survey of its type within the Canning Basin.

The Curtly Geochemical Soil Survey covered an area of remote land within WA's Great Sandy Desert, approximately 2,000kms^2.

Due to the remote location, the geochemical survey was carried out by helicopter. It was tailored to identify areas of surface hydrocarbon micro seepage that could potentially identify further areas of prospectivity.

Personnel were dropped by helicopter at sampling points 1km apart along existing seismic lines and pre-existing tracks to collect samples.

Specialist geochemical consultants, including Dr John Conolly, collected a large number of samples over five days.

Working concurrently with the survey, complex logistical field work was carried out to determine optimal well locations, access roads and potential airstrip locations.

Vital flora and fauna data necessary for future environmental approvals was also acquired during the operation.

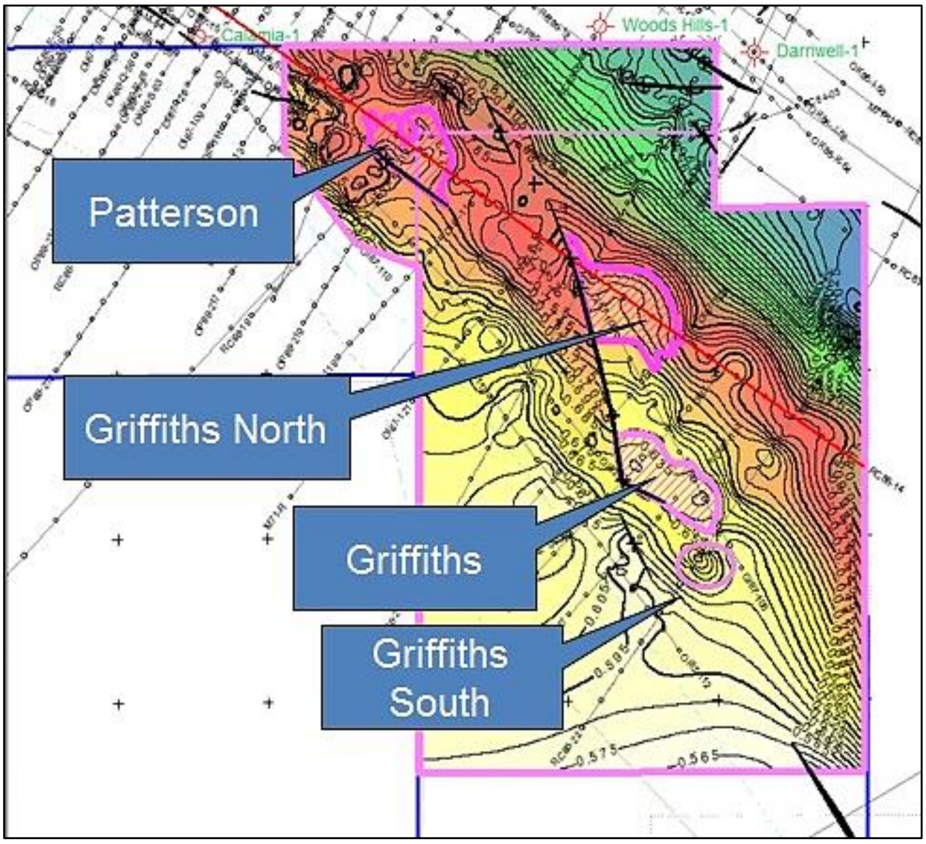
Exploration and Drilling Information

A year of drilling shallow conventional oil prospects is planned as part of Key's 2014 exploration program. The campaign is subject to securing suitable farmin partners.

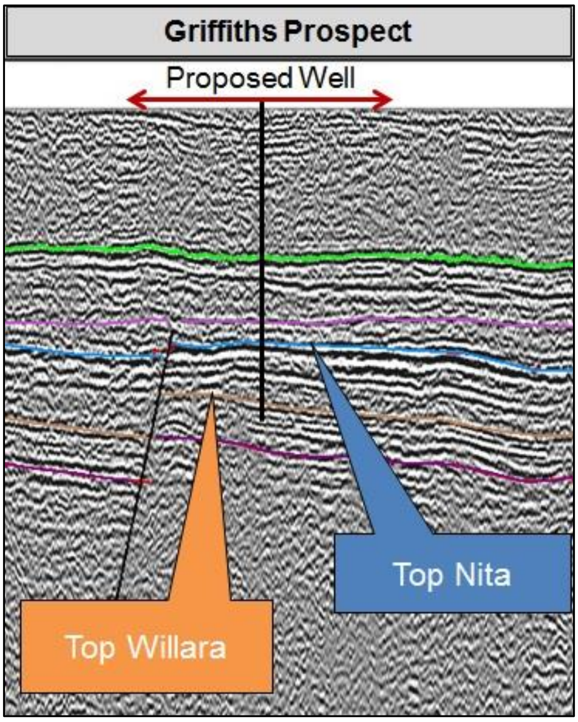
To date, the geochemical survey has assisted in defining shallow conventional oil structures in EP448 with anomalies on trend with a number of mapped prospects.

The survey has also assisted in understanding and de-risking the unconventional plays within the permit.

A number of conventional prospects are to be geologically assessed and ranked by risk and reward.



Conventional shallow oil structures (top Nita Formation depth) which have been defined from recently integrated seismic and geochemical data.



This analysis will be used in farmin discussions to progress a two well drilling campaign in the permit.

These prospects include the Patterson, Griffiths, Griffiths North and Griffiths South structures where the principal reservoir objective is the Nita Formation and the secondary objectives are the Willara, Goldwyer, Acacia Sandstone and Caribuddy Group Formations.

These prospects are located a few hours from the Great Northern Highway and any discovery can be commercialised via trucking of oil to port infrastructure located at Broome, Port Headland, Derby or Wyndham.

Due to the shallow depths of these prospects, at approximately 1,000m, development and completion costs are significantly less than exploitation of any unconventional resource.

The data acquired from the drilling of these wells will assist in de-risking the unconventional prospects.

EP104 TREND, CANNING BASIN, WESTERN AUSTRALIA

EP104 (BENEFICIAL INTEREST AFTER COMPLETION)

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

R1 (BENEFICIAL INTEREST AFTER COMPLETION)

GULLIVER PRODUCTIONS PTY LTD (KEY) (OPERATOR)	65.23%
PANCONTINENTAL OIL AND GAS NL	11.11%
FAR LIMITED	8.89%
INDIGO OIL PTY LTD	14.77%

L15

GULLIVER PRODUCTIONS PTY LTD (KEY) (OPERATOR)	61.40%
PANCONTINENTAL OIL AND GAS NL	12.00%
FAR LIMITED	12.00%
INDIGO OIL PTY LTD	14.60%

Following the asset swap Sale Agreement announced in late December 2013, Key has acquired Buru's interests in R1 and L15 and assumed Operatorship. The deal not only strengthens Key's position as Operator of all its acreage in Australia but enabled the Company to become the largest equity holder in each of these permits.

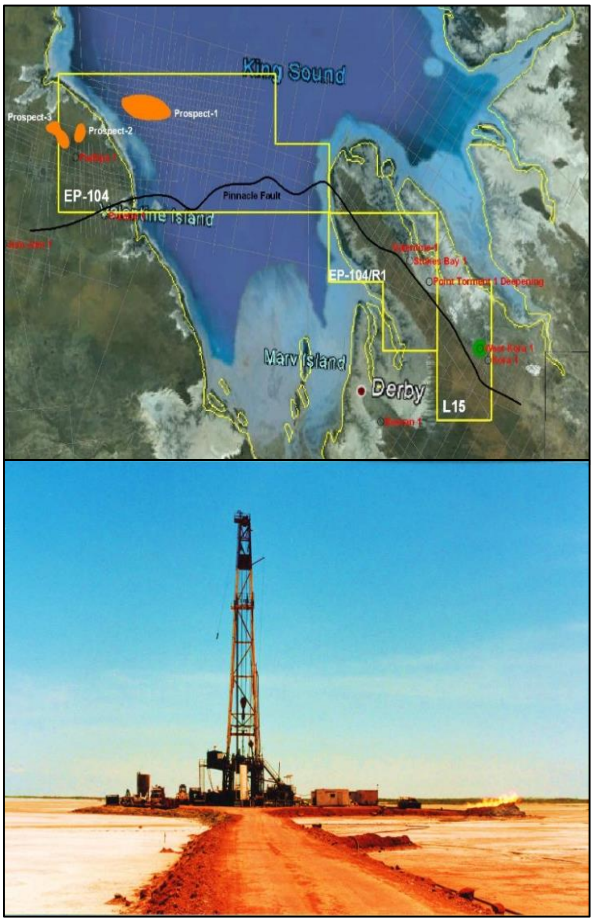
The transaction allowed Key with Indigo Oil Pty Ltd ("Indigo") to acquire Buru's 15.50% in L15 and 43.28% in R1. In exchange, both Key and Indigo sold their interests in the EP438 permit with Key to receive a cash payment of $400,000 and Indigo $100,000 upon completion of all Sale Agreement obligations.

Key's increased equity within the EP104 trend was reinforced by the Sale Agreement with Emerald announced in July 2013 where Key acquired a 24.98% interest in EP104 and a 14.17% interest in R1 in which all completion obligations in the Sale Agreement have now been fulfilled.

Technical work over the EP104 permit has continued during the quarter. Areas are to be re-mapped and a five year renewal application lodged with the DMP.

The EP104, R1 and L15 permit areas hold the West Kora oilfield, the gas accumulation at Point Torment and untested Stokes Bay prospect.

Key will discuss with the relevant joint ventures proposed work programs to facilitate additional drilling in these permits and potential work-overs for both Point Torment-1 and Stokes Bay-1 in 2015.



Key has increased its interest in the EP104 trend to become the largest equity holder.

L12-10, CANNING BASIN, WESTERN AUSTRALIA

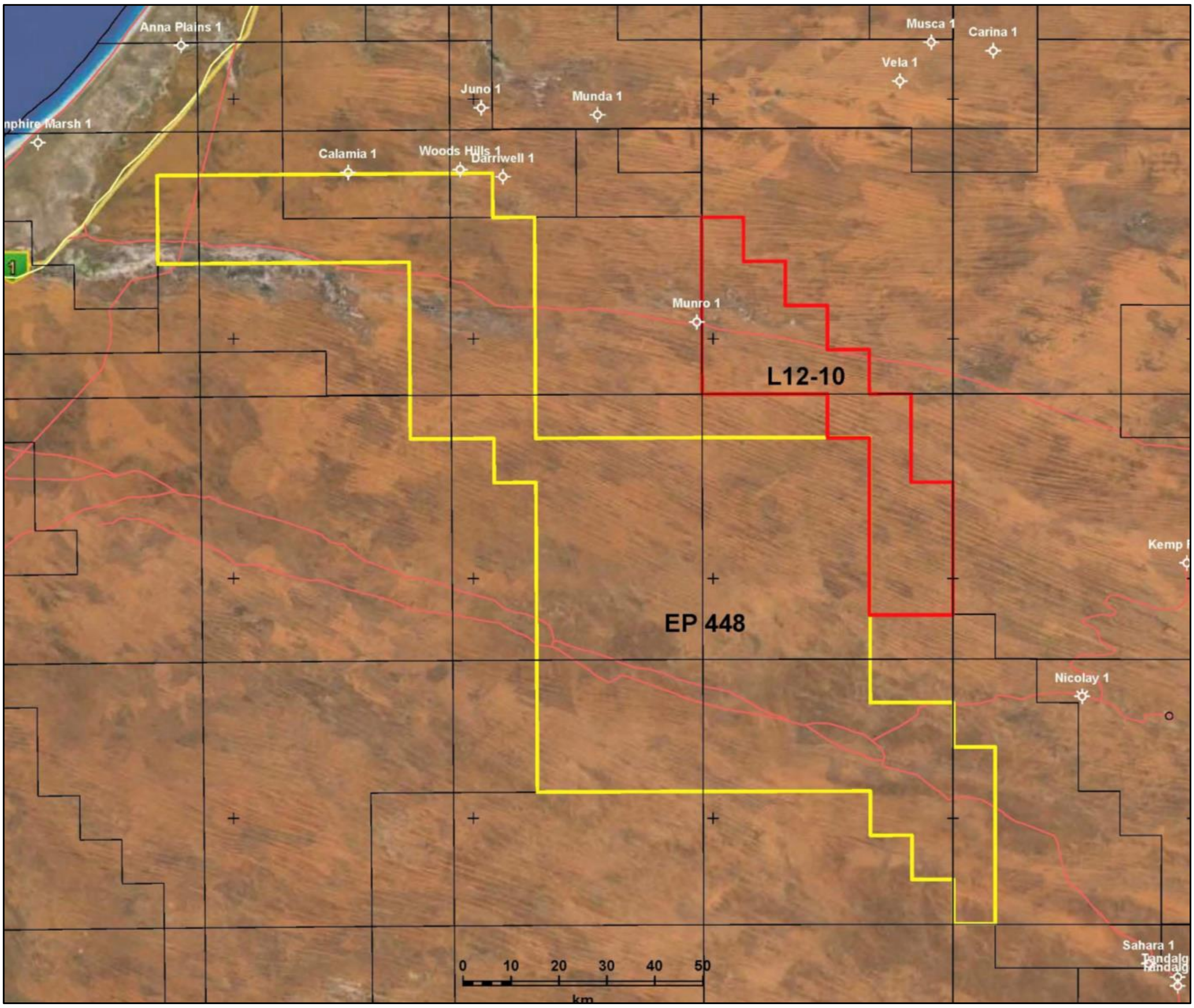
GULLIVER PRODUCTIONS PTY LTD (KEY) (OPERATOR)	100.00%

In November, Gulliver was nominated as the preferred applicant for the Permit Application STP-EPA-0102 for Discrete Area L12-10 located adjacent to Key's EP448 permit within the Canning Basin.

The area covers 19 graticular blocks and is located south of the Admiral Bay Fault Zone area where several wells encountered significant oil shows.

The area lies adjacent to the up-dip conventional leads in EP448 and on the margin of the Kidson Sub-basin. These existing leads in EP448 are consistent with high geochemical anomalies which are indicative of an active petroleum system.

The Company has now confirmed the work commitment obligations with the DMP and notified them that Key will adhere to the Native Title Act in good faith negotiations prior to a formal grant of an exploration permit.



OTHER BUSINESS

During the Quarter, Mr Ian Paton resigned as Chairman of the Board of Key. Non-Executive Director Rex Turkington has subsequently been appointed as Non-Executive Chairman. Mr Turkington has participated in numerous corporate initial public offerings and capital raisings for listed exploration and mining corporations. Additionally, he is a highly experienced corporate advisor and economist who has extensive experience in financial services, stockbroking, fund management and has specialised in the exploration and mining sectors for over 20 years.

As the Company is expanding and ramping up exploration activities, Key has secured a number of experienced professionals. These include the appointment of previous Sydney Oil Company Managing Director and Rawson Resources Executive Chairman Dr John Conolly, who was instrumental in the recent Curtly Geochemical Survey conducted within the prospective EP448 permit. Dr David Bennett who was previously CEO of TAG Oil, Transorient Petroleum, Austral Pacific Energy and Exploration Manager for New Zealand Oil and Gas as well as Mr Paul Adams who has held directorships and technical roles at oil companies in the UK and Australia. The team brings industry, corporate and technical experience in petroleum geology, geochemistry, geophysics and executive management.

Key is continuing to finalise remaining legal and accounting work on its legacy international interests. Legal advice has been sought in relation to the non-payment by Angus Energy with regards to the disposal of its UK assets in 2012.

Additionally, correspondence has been forwarded to the Italian Ministry of Economic Development to waive all work commitments. Key continues to seek a formal withdrawal from the Italian Government of all permits.

The Company has now made significant updates to its website including video footage of the recently completed Curtly Geochemical Soil Survey, permit information, a photo gallery, links to media articles and information regarding the Company's technical capabilities. For further information please visit www.keypetroleum.com.au.

CURRENT OUTLOOK FOR KEY PETROLEUM

Key maintains a strong cash position at the end of the quarter with $2.6 million. This amount will increase to approximately $4 million in the following quarter as a result of a recently announced placement with further funds to be received from Sale Agreement transactions and receivables from joint ventures. This cash will be used to meet work commitments, drilling operations and to pursue further acreage opportunities.

A united Board with a highly experienced technical team are well placed to engage in expanding acreage potential and investigating further prospective leads and plays across the Company's current portfolio. The ultimate goal is to have a portfolio of assets ranging from low to high risk and prospect size with the majority of exploration costs funded by strategic partners and alliances.

PETROLEUM PERMIT SCHEDULE

Petroleum Permit	Location	Interest at Beginning of Quarter	Interest at End of Quarter	Acquired during Quarter	Disposed during Quarter	Joint Venture Partner/Farmin Party
L12-10	Canning Basin, WA	0%	100%	-	-	
EP438	Canning Basin, WA	20%	0%	-	20%	Sale Agreement with Buru Energy Limited*
EP448	Canning Basin, WA	78%	78%	-	-	
EP104	Canning Basin, WA	53.97%+	53.97%	-	-	
R1	Canning Basin, WA	30.61%+	65.23%*	34.62%	-	Sale Agreement with Buru Energy Limited*
L15	Canning Basin, WA	49.00%	61.40%*	12.4%	-	Sale Agreement with Buru Energy Limited*
EP437	Perth Basin, WA	50%	50%	-	-	

ASX Listing Rule 5.4.3

** Sale Agreement with Buru Energy Limited*

Key entered into an assets swap Sale Agreement announced to the ASX on 23 December 2013. The Agreement entered into between Gulliver, Indigo and Buru saw the acquisition and disposal of certain Canning Basin interests. As part of the Agreement, both Key and Indigo acquired Buru's 15.5% in L15 and 43.28% in R1, which was distributed accordingly and in return Key and Indigo disposed of their combined 25% interest in EP438 to Buru.

+ Key has a beneficial interest in the permit as a result of a transaction between Emerald Oil and Gas NL and Key in which the completion obligations were fulfilled during the quarter

IAN GREGORY
COMPANY SECRETARY

Dated: 31 January, 2014
Perth, Western Australia

GLOSSARY

EP	Environment Plan
H&S	Health and Safety
HPA	Heritage Protection Agreement
JOA	Joint Operating Agreement
LNG	Liquefied Natural Gas
STOIIP	Stock Tank Oil Initially In Place
TOC	Total Organic Content

DISCLAIMER

The information in this report 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 Marshall has compiled the information in this release as a Practicing Petroleum Engineer and Geoscientist who consents 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.

COMPETENT PERSON'S STATEMENT

The 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. Kane Marshall is a Practicing Petroleum Engineer and Geoscientist who is a member of the SPE, AAPG, PESGB, FesAus and SPWLA.

Rule 5.5

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	Quarter ended ("current quarter")
50 120 580 618	31 December 2013

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	(425)	(544)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(201)	(444)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	31	63
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	(595)	(925)
	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	-	-
	(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	-	-
1.13	Total operating and investing cash flows (carried forward)	(595)	(925)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(595)	(925)
	Cash flows related to financing activities		
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)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(595)	(925)
1.20	Cash at beginning of quarter/year to date	3,235	3,565
1.21	Exchange rate adjustments to item 1.20	1	1
1.22	**Cash at end of quarter**	2,641	2,641

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	158
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

4,000,000 ordinary shares with a total deemed value of $39,200 were issued as part consideration for the acquisition of further interests in prospects.

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	500
4.2	Development	-
4.3	Production	-
4.4	Administration	180
	Total	**680**

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	254	378
5.2	Deposits at call	2,387	2,857
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	2,641	3,235

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	EP104 R1	Purchase of Interest Purchase of Interest	28.99% 16.44%	53.97% 30.61%

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**	454,509,417	454,509,417		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	4,000,000	4,000,000		
7.5	**+Convertible debt securities** *(description)*				

+ See chapter 19 for defined terms.

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	500,000 2,000,000 2,000,000 7,000,000 2,000,000 7,000,000 7,000,000	- - - - - - -	*Exercise price* 2.5 cents 4.4 cents 5.2 cents 5.5 cents 5.9 cents 6.4 cents 7.4 cents	*Expiry date* 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	**Performance Rights**	3,250,000 3,250,000	- -	*Classification* Performance Rights A Performance Rights B	
7.12	**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 /~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: IEGregory
Company Secretary Date: 31 January 2014

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 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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+ See chapter 19 for defined terms.