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PETROLEUM LIMITED

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QUARTERLY REPORT

FOR THE PERIOD ENDED 31 MARCH 2014

ACN 120 580 618

UPDATE ON PETROLEUM EXPLORATION ACTIVITIES HIGHLIGHTS IN THE QUARTER

Strategic exploration planning in the Perth and Canning Basins has continued throughout the quarter for Key Petroleum Limited (“Key” or “Company”) with the Company strengthening its corporate position following a strategic cornerstone investment via a placement to ASF Group Limited (“ASF”).

Key raised a total of \$1.47 million through the placement to ASF with the group Chairperson Ms Min Yang appointed to the Key Board. Ms Yang’s appointment strengthens the existing Board and puts Key in a strong position to access a large financial network throughout Asia which could facilitate potential future funding for Perth and Canning Basin projects.



Managing Director Kane Marshall (right) surveys and pegs drilling and airstrip locations as part of logistical surveys within the frontier Canning Basin permit, EP448.

Significant progress has been made in the planning of drilling activities in EP448 with the completion of logistical surveys.

Four shallow conventional oil prospects and several leads were identified from geophysical, geological and geochemical data acquired from the Curtly Geochemical Soil Survey. From the prospect and leads inventory, two prospects have been de-risked and defined for the Company’s 2014 Canning Basin conventional wildcat oil exploration campaign.

Environmental studies, were completed during March in order to complement the submission of environment plans as required by the WA Department of Mines and Petroleum (“DMP”) before exploration drilling activities can be carried out.

Key’s strategy as a large equity holder and operator of its permit portfolio was reinforced with the withdrawal of Empire Oil Company (WA) Limited (“Empire”) from the EP437 permit during the quarter.

The Company’s belief in the exploration potential of the Perth Basin has prompted additional technical work and prospectivity reviews in EP437 to be undertaken with a number of exploration and appraisal well locations identified in the event of any success in this year’s campaign.

Activities for the next quarter include:

- Complete all necessary land owner and regulatory approvals to allow commencement of earth works on the Dunnart-2 location;
- Complete earthworks at Dunnart-2, coordinate the mobilisation of DCA Rig 7, camp and personnel to commence drilling the Dunnart- 2 well;
- Complete farmin negotiations on Dunnart-2;
- Spud Dunnart-2;

- Coordinate the technical work-over and exploration programs in EP104, R1 and L15 areas;
- De-risk and assess additional prospects in EP437 and R1;
- Complete flora studies over Patterson-1 and Griffiths-1 well locations;
- Hold discussions with Traditional Owners and lodge Heritage Clearance requests in order to commence clearance and earth works at EP448 well locations in 2014;
- Progress farmin discussions to fund exploration wells in EP448; and
- Continue Good Faith Native Title negotiations with the DMP and Traditional Owners in the Canning Basin Discrete Area L12-10.

2014 EXPLORATION PROGRAM - CONVENTIONAL OIL PROSPECTS

Key's intent is to undertake a conventional wildcat oil exploration program during the course of 2014. The campaign will focus on shallow conventional oil prospects with two suitable wells in the EP448 Canning Basin block and one in the EP437 Perth Basin permit.



Key has acquired its own drilling camp in preparation for the 2014 Perth and Canning Basin drilling campaigns.

As part of the Company's program of increasing its exploration efforts, camp and ancillary services equipment to house drilling and operations personnel during the Perth Basin drilling campaign has been acquired. The equipment is to be mobilised to the Canning Basin for drilling activities once Perth Basin activities are completed.

EP448, CANNING BASIN

Key has continued to conduct meetings with Traditional Owners to discuss drilling locations, access and timings for both exploration and coordinated Heritage Surveys.

Fauna studies were successfully executed in March and the findings will be integrated into required reports.

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

EP437, PERTH BASIN

Bridging documents for the drilling of Dunnart2 have been approved and Key is now waiting on the grant of the Health and Safety ("H&S") Management System from the DMP and the formal execution of a Land Access Agreement. Discussions have progressed with the DMP and the Company expects positive news regarding approvals in the coming weeks.

EP437, PERTH BASIN, WESTERN AUSTRALIA

KEY PETROLEUM LIMITED (Gulliver Productions Pty Ltd) (OPERATOR)
CARACAL EXPLORATION PTY LIMITED

77.00%
23.00%

The Company's focus on its onshore potential in Western Australia continued over the quarter with increased technical evaluation activities carried out over the EP437 permit as logistics for drilling operations at Dunnart-2 continued to be formalised.

In March, Key gained an additional 27% interest following Empire's withdrawal from the EP437 joint venture. This change puts Key in a strategic position, not only by increasing its equity to 77% within the permit, but by enabling the Company to have the flexibility to farm down and reduce the cost exposure for the exploration campaign.

Currently, the formal grant for the H&S Management System for Dunnart-2 is pending final assessment by the DMP. The Company expects this to be granted within the coming weeks following the provision of additional information and responses to queries. Preliminary terms for the Land Access Agreement have been negotiated between relevant parties and the Company is in the process of legally finalising these documents.

It is expected that Dunnart-2 drilling operations will commence once the formal access agreement has been signed and the DMP grants the final approval.

Shire approvals have been granted for access to water facilities required for drilling. Contractors have been sourced to facilitate civil engineering earthworks. These earthworks are expected to commence in upcoming weeks upon the grant of land access.

EP437 EXPLORATION AND PROSPECTIVITY REVIEW

During the quarter Key's technical team has continued exploration studies of the permit and evaluated additional prospects upon both the successful drilling of Dunnart-2 and the renewal of the permit. The renewal for EP437 has been lodged with the DMP.

The Company's strategy and philosophy of drilling wildcat wells in prospective acreage and operating all of its acreage is reflected in drilling contract terms being agreed with Drilling Contractors Australia ("DCA").

The contract is currently being formalised based on a flexible five slot turnkey drilling program for the use of DCA Rig 7 from June 2014.

The contract provides for one well to be drilled with the option of an additional four wells. All are subject to the DMP approval process and, where appropriate, a successful farm in to the relevant permit.

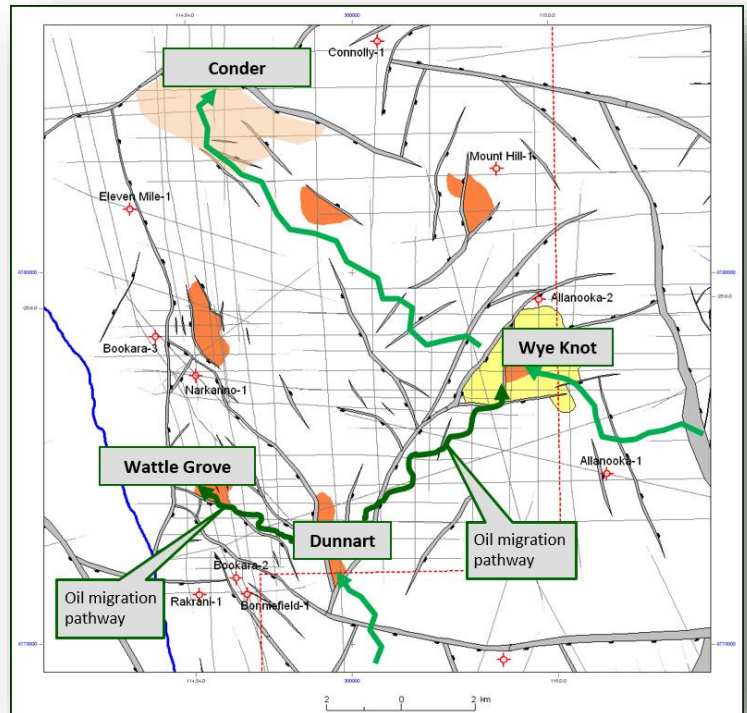


The agreed terms state that if relevant drilling approvals are not granted for the optional wells, DCA can take on other work during the period of the contract. However, if Key secures approvals then the wells will be drilled on the turnkey terms. These terms are to be agreed in a formal contract shortly.

The additional follow up wells within EP437 include Dunnart-3 and Wye-Knot-1, with a number of other potential prospects undergoing a Prospectivity Review. This review will identify further structures to accelerate exploration drilling should Dunnart-2 be successful. Two structures being matured to drill status include the Conder South and Wattle Grove leads.

At present, bridging documentation for the Dunnart-3 appraisal well is being prepared for lodgement in the event of a discovery at Dunnart-2.

The preparation of these documents allows Key and its joint venture partners to avoid delays with the DMP approval process prior to the end of the year.



EP448, CANNING BASIN, WESTERN AUSTRALIA

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

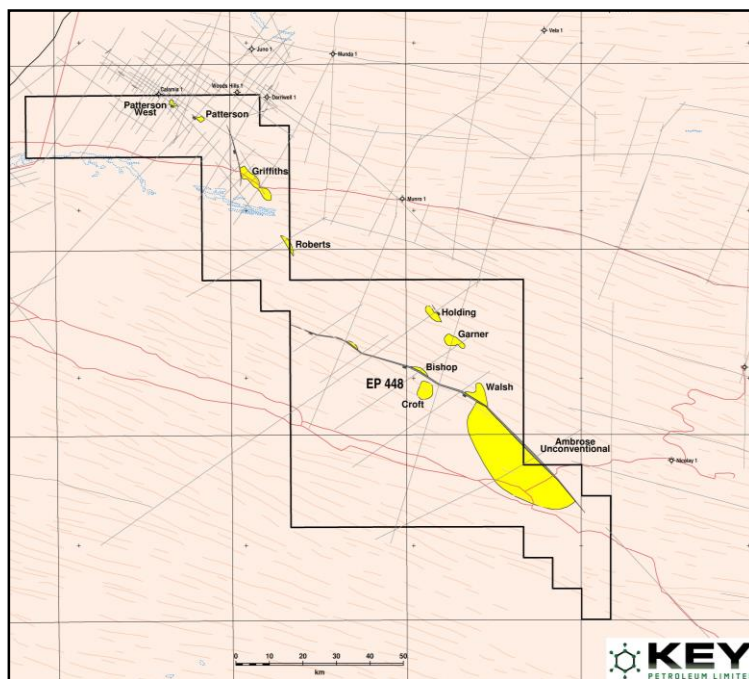
78.00%
22.00%

Utilising results from the Curtly Geochemical Soil Survey conducted last October with the integration of existing well and seismic data, Key's technical team has identified four conventional shallow oil structures: Patterson, Griffiths, Griffiths North and Griffiths South (extension of Griffiths).

Of these four, two prospects, Patterson and Griffiths, have been geologically assessed and ranked by risk as suitable for a two well drilling campaign to commence in 2014. Key will aim to secure a suitable farmin partner for this campaign to preserve the current working capital.

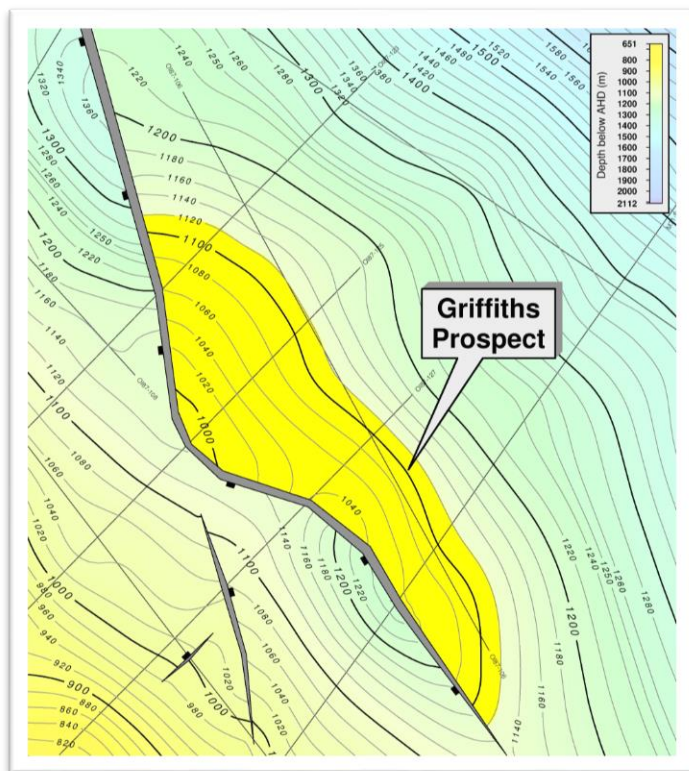
During the quarter drilling pad locations for these prospects were surveyed and materials for drilling operations, including gravel, were located in proximity to the Anna Plains Road which runs close to Griffiths-1.

In addition to logistics planning, environmental fauna studies have been conducted over proposed areas where proposed drilling activities are planned.



Environmental surveys including a Fauna Survey was carried out over areas where proposed infrastructure may be located in the upcoming 2014 drilling program.

EP448 TECHNICAL REVIEW



Technical and source rock maturation work on the Nita and Goldwyer has been completed with confirmation that these source rocks are believed to be in the peak oil window.

An independent consultant's carbonate report on the Nita reservoir is expected to be completed during the next quarter.

The Griffiths and Patterson prospects have an estimated Un-risked Prospective Resource of recoverable oil in a Best Estimate of 30 and 14 million barrels respectively¹.

Due to the shallow depths of these prospects, at approximately 1,200m true vertical depth, development and completion costs are significantly lower than exploitation of any unconventional resource.

These prospects are located just hours from the Great Northern Highway and any discovery can be commercialised via trucking

of oil to port infrastructure located at Broome, Port Hedland, Derby or Wyndham.

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

¹ From ASX Announcement dated 28 April 2014 and in accordance with definitions using the SPE-PRMS guidelines under ASX Listing Rules Guidance Note 32

EP104 TREND, CANNING BASIN, WESTERN AUSTRALIA

EP104

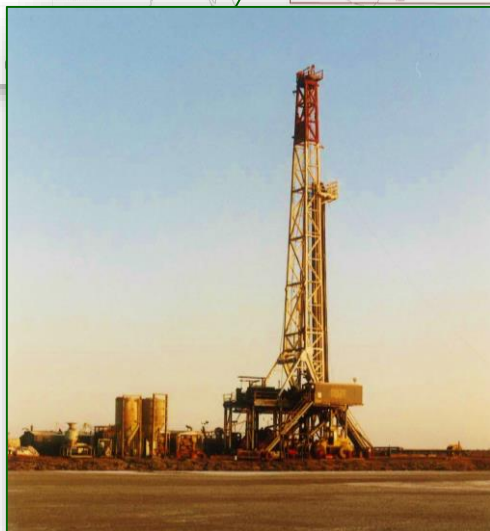
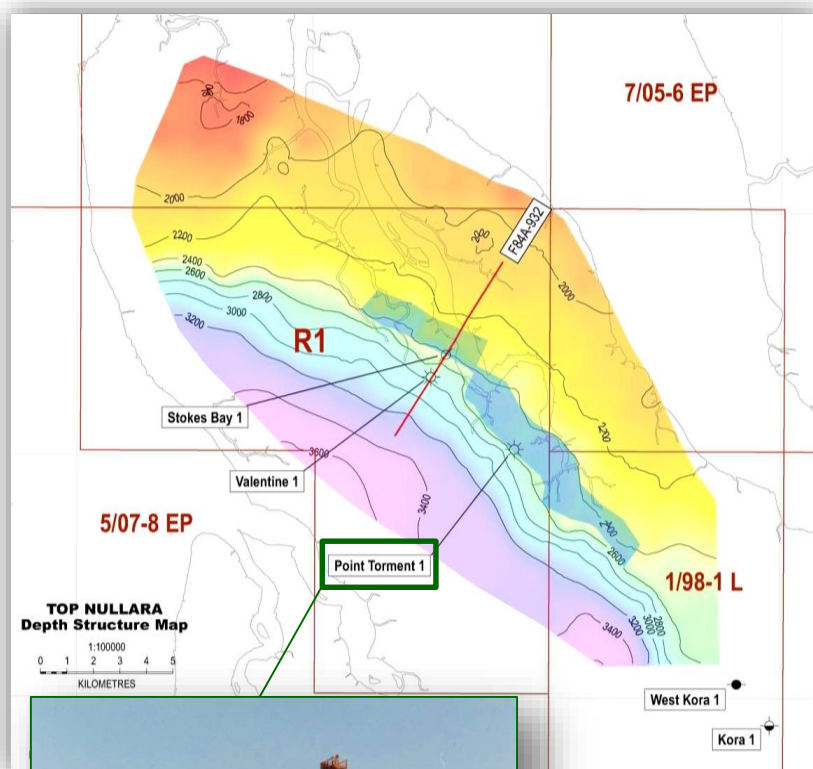
GULLIVER PRODUCTIONS PTY LTD (KEY) (OPERATOR)	53.97%
PANCONTINENTAL OIL AND GAS NL	19.59%
FAR LIMITED	15.67%
INDIGO OIL PTY LTD	10.77%

R1

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%



As the largest equity holder in all EP104 trend permits, Key held joint venture meetings during the quarter to discuss plans to carry out potential work-overs, abandonment and exploration activities at the Point Torment-1, West Kora-1 and Stokes Bay-1 well locations during the 2015 dry season.

In the next quarter Key personnel will survey the state of the causeway at the Point Torment-1 and Stokes Bay-1 well sites and whether any upgrades in early 2015 will be required to mobilise equipment and personnel.

Additionally, the condition of the tank farm, wellhead and bean-bump facilities, still on location at West Kora-1, will be inspected to gain an understanding of any capital works required to restore any future oil production.

These inspections will also be necessary to understand the needs for studies required for regulatory approvals and access for work-over rigs in 2015.

OTHER BUSINESS

During the quarter, matters in relation to the sale of UK assets to Angus Energy Limited were resolved by settlement. The settlement will result in the payment of £70,000 GBP to the Company in the next quarter.

Key continues to liaise with the Italian Ministry of Economic Development while pursuing a waiver for all its work commitments whilst seeking a formal withdrawal from all its permits from the Italian Government. It is the Company's understanding that a formal waiver of the last permit is to be granted to the Company in the next quarter. The waiver will trigger the wind-up process and cessation of activities of Key's subsidiary Puma Petroleum Srl. The liquidation will remove a significant overhead cost from the Company's cash flow forecasts.

CURRENT OUTLOOK FOR KEY PETROLEUM

Funds from the strategic cornerstone placement to ASF Group Limited put Key's cash position at the end of the quarter at approximately \$4 million.

The acquisition of vehicles, generators and a drilling camp enable the Company to make significant savings on future exploration work by avoiding paying high overheads and mobilisation fees.

With the significant progress the Company has made in respect of the required regulatory exploration approvals, in addition to the commitment of its strong technical team, Key has a positive outlook and is looking to ramp up exploration efforts where other companies, including peers, are struggling for working capital and project financing.

The Company encourage shareholders to visit Key's website www.keypetroleum.com.au which is frequently updated with media articles and other relevant news on the Company's exploration activities.

Managing Director Kane Marshall stated significant progress had been made during the quarter on both its exploration and corporate activities:

"Key is a dynamic wildcat exploration company that can move fast with a dedicated technical team and a forward strategy in its onshore exploration acreage. Of the small cap exploration companies Key is one of the very few genuine wildcat exploration companies with a healthy cash position and the drive to explore and drill in a hostile yet prospective environment," Mr Marshall said.

"With our progress on approvals, rig negotiations and our access to capital markets and financing arrangements in Asia, due to the securing of ASF as a cornerstone investor, the Company is in an enviable position heading into its 2014 conventional wildcat oil exploration program.

"We encourage investors to visit our website and follow the Company's wildcatting activities both in the Perth and Canning Basins".

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	100%	100%	-	-	
EP448	Canning Basin, WA	78%	78%	-	-	
EP104	Canning Basin, WA	53.97%	53.97%	-	-	
R1	Canning Basin, WA	65.23%	65.23%	-	-	
L15	Canning Basin, WA	61.40%	61.40%	-	-	
EP437	Perth Basin, WA	77%	50%	27%	-	Empire Oil & Gas NL withdrawal from the Joint Venture

ASX Listing Rule 5.4.3

IAN GREGORY
COMPANY SECRETARY



Dated: 29 April, 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
STOIP	Stock Tank Oil Initially In Place
TOC	Total Organic Content

The Resources assessment follows guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The Resource estimates used in this presentation were compiled by Mr Kane Marshall (Member SPE, AAPG, SPWLA, FESAus and PESGB), who is a qualified person as defined under the ASX Listing Rule 5.11 and has consented to the use of Resource figures in the form and context in which they appear in this presentation.

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.

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.

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")

31 March 2014

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	58	58
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(112) - - (281)	(656) - - (725)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	25	88
1.5 Interest and other costs of finance paid	(3)	(3)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(313)	(1,238)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (253)	- - (253)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	400 - -	400 - -
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	147	147
1.13 Total operating and investing cash flows (carried forward)	(166)	(1,091)

+ 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)	(166)	(1,091)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	1,468	1,468
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 transaction costs	(10)	(10)
Net financing cash flows		1,458	1,458
Net increase (decrease) in cash held		1,292	367
1.20	Cash at beginning of quarter/year to date	2,641	3,565
1.21	Exchange rate adjustments to item 1.20	(1)	-
1.22	Cash at end of quarter	3,932	3,932

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	119
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	1,200
4.2 Development	-
4.3 Production	-
4.4 Administration	230
Total	1,430

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	352	254
5.2 Deposits at call	3,580	2,387
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	3,932	2,641

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	EP437	26.92% acquired as a result of Empire Oil company (WA) Limited withdrawing from EP437 Joint Venture	50% 76.92%

+ 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 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	567,427,487	567,427,487		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	112,918,070	112,918,070		
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)	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 Performance Rights	3,250,000 3,250,000	- -	<i>Classification</i> Performance Rights A Performance Rights B	

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)			
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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: • 29 April 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.