

KEY
PETROLEUM LIMITED

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QUARTERLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2015

ACN 120 580 618

UPDATE ON PETROLEUM EXPLORATION ACTIVITIES

Highlights for the Quarter

- ⚙ Work program variations and voluntary relinquishments have been submitted to the Department of Mines and Petroleum (“DMP”) for each of Retention Lease R1 and Exploration Permit EP448 in the Canning Basin in order to gather further geological information and thereby encourage joint venture participation;
- ⚙ A visual inspection of suspended wells at Stokes Bay-1, Point Torment-1 and West Kora-1 was carried out by helicopter to assess potential infrastructure upgrades as part of exploration efforts in the greater Lennard Shelf area; and

Subsequent to the End of the Quarter

- ⚙ Ongoing commercial discussions with other Operators to realign exploration acreage portfolio in Western Australia including acquiring additional licences;
- ⚙ An Environment Plan for Care and Maintenance activities on suspended wells in R1 and L15 has been prepared; and
- ⚙ A review of the Company’s corporate overheads, cost structure and remuneration levels have been conducted with initiatives put in place to reduce costs given the current low crude oil price.

Activities for the Coming Quarter

- ⚙ A strategic review of Western Australian exploration assets will be undertaken to assist in maximising shareholder value; and
- ⚙ An evaluation of several domestic and international ground floor venture opportunities in both oil and gas and alternative energy exploration projects which will complement the Company’s current exploration portfolio will be undertaken.

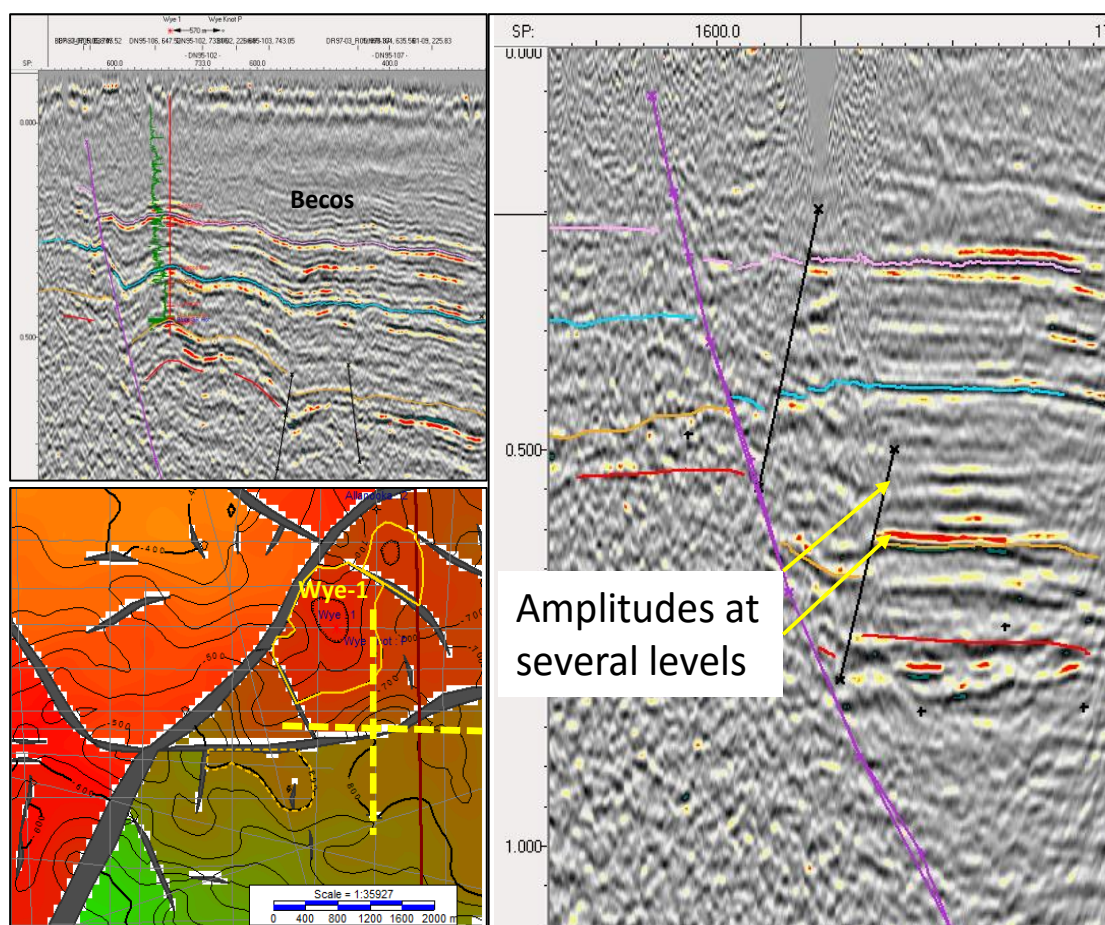
NORTHERN PERTH BASIN PROJECT, EP437, PERTH BASIN, WESTERN AUSTRALIA

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	43.47%
REY RESOURCES LIMITED (via wholly owned subsidiary)	43.47%
PILOT ENERGY LIMITED	13.06%

EP437

During the quarter the Operator, Key Petroleum Australia Pty Ltd, prepared joint venture budgets and held preliminary discussions with new EP437 Joint Venture participant Pilot Energy (ASX:PGY). In the next quarter the Operator will present the currently mapped prospects with a view to progressing the possibility of conducting an exploration drilling campaign in 2016.

The Operator's current mapping highlights that the early Permian section, such as the High Cliff Sandstone and sealing Holmwood Shales, exist beneath stacked sequences of Cattamarra, Aranoo and Bookara Sandstones in all prospects in the eastern part of EP437 including the Wye Knot and Becos prospects. The Becos prospect also demonstrates seismic amplitudes at both the Aranoo and Bookara levels. Seismic amplitudes can, in instances, be representative of hydrocarbon effects.



The Becos Prospect – north–south seismic line (top left) and east–west with seismic amplitudes at the interpreted Aranoo and Bookara sandstone intervals

SOUTHERN CANNING PROJECT, CANNING BASIN, WESTERN AUSTRALIA

EP448

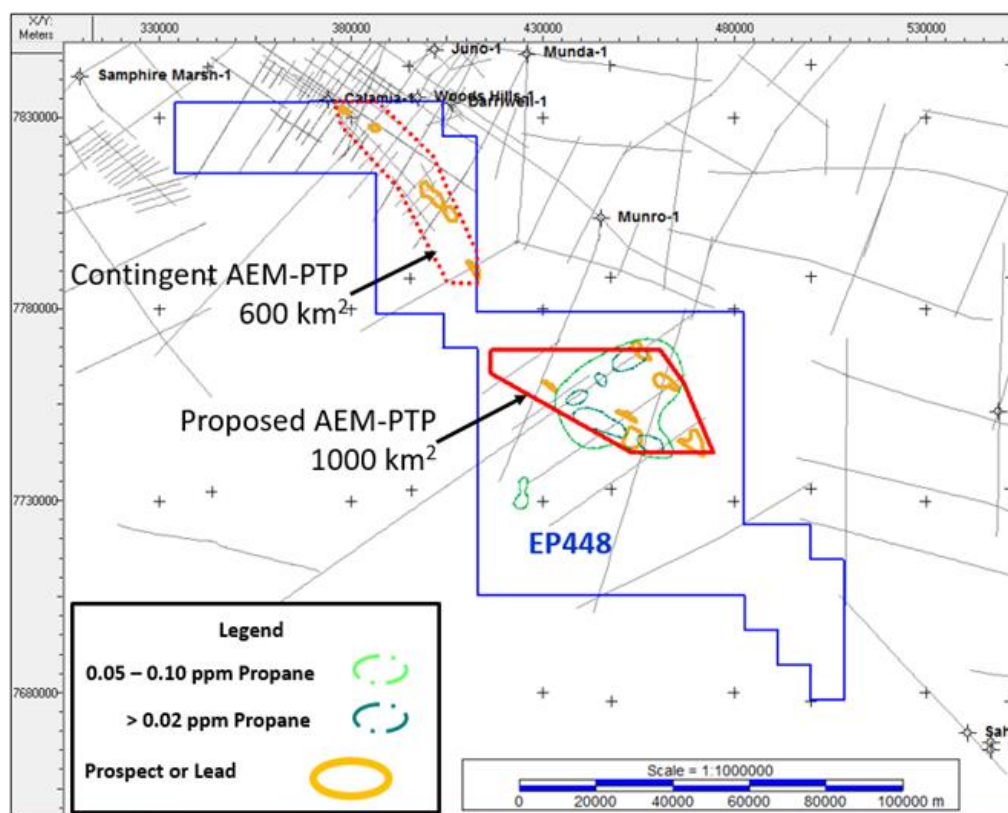
KEY PETROLEUM LIMITED (via wholly owned subsidiary (OPERATOR)

78.00%

INDIGO OIL PTY LTD

22.00%

Exploration personnel have identified two areas of prospectivity on which to focus future exploration activities in EP448 and have now formally submitted work program variations to the DMP proposing an aerial electromagnetic survey (AEM) over both areas (see below) as part of this year's work program commitments. As part of this application the Operator has also applied to have 20% of the block relinquished to enable the EP448 Joint Venture to focus on the most prospective areas of the acreage.



Proposed AEM survey areas in EP448 with currently mapped prospects and leads as well as soil gas

NORTHERN CANNING PROJECT, CANNING BASIN, WESTERN AUSTRALIA

EP104

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	89.23%
INDIGO OIL PTY LTD	10.77%

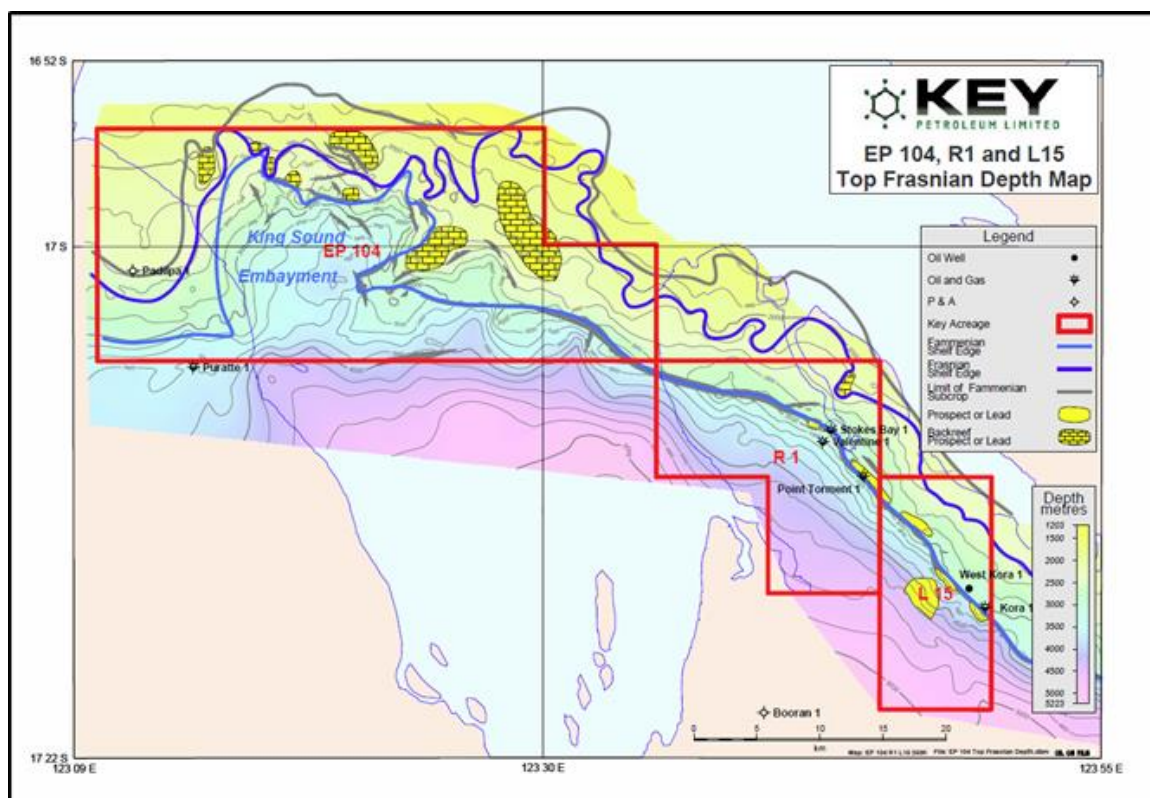
R1

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	85.23%
INDIGO OIL PTY LTD	14.77%

L15

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	85.40%
INDIGO OIL PTY LTD	14.60%

During the quarter mapping efforts have focused on the Northern Canning project with acreage located on the margins of an under-explored basin along the Lennard Shelf adjacent to the Fitzroy Trough. To date the focus of exploration activities in the area has been on the western side of the trough as conducted by Operator Buru Energy Limited during the Quarter. Key seismic lines over EP104 have been the focus of efforts and will be reprocessed to enable better resolution and geological understanding of the prospects in the King Sound Embayment. Application has also been made to vary work program commitments in R1 to an airborne survey and a geochemical survey in place of an exploration well. The acreage held by Key has proven discoveries in West Kora-1 (L15) and Point Torment-1 (R1).



Key's prospects and leads in the North Canning Basin Project

CORPORATE

Given the current low oil price environment, directors, management and staff have agreed to reduce their respective director fees and salaries by 25%. These changes will take effect from 1 February 2016.

The Company would like to address recent media speculation in various online forums that the Company is currently looking to secure concessions in Eastern Europe. The Board advises that this commentary is highly speculative in nature and that while the Company is in discussions with a number of parties regarding commercial opportunities and other government agencies regarding concessions, at this point in time there has been no agreement reached and as such the Company does not have any relevant information to disclose at this stage.

CURRENT OUTLOOK FOR KEY PETROLEUM

At the end of the quarter the Company had \$1.57 million cash on hand.

Exploration spend for the quarter was \$0.38 million which related to Key's share of geological work carried out in the Canning Basin assets, shire and annual permit fees in respect of the Company's acreage holdings and the assessment of several new venture opportunities. Overhead expenditure of \$0.24 million for the quarter was marginally higher than the previous quarter as a result of the expiry of a six month rent free period associated with Key's new office premises.

Forecast overhead expenditure for the coming quarter is expected to be lower due to the reduction in Director Fees and salaries as noted above.

Forecast exploration expenditure for the coming quarter is anticipated to be in line with the current quarter and includes 2D seismic reprocessing in EP104 and continued assessment of new venture opportunities. Planned geological work will continue in the Perth and Canning Basin acreage.

PETROLEUM PERMIT SCHEDULE

Petroleum Permit	Type	Location	Interest at Beginning of Quarter	Interest at End of Quarter	Acquired during Quarter	Disposed during Quarter
L12-10	Discrete Area	Canning Basin, WA	100%	100%	-	-
EP448	Exploration Permit	Canning Basin, WA	78%	78%	-	-
EP104	Exploration Permit	Canning Basin, WA	89.23%	89.23%	-	-
R1	Retention Lease	Canning Basin, WA	85.23%	85.23%	-	-
L15	Production Licence	Canning Basin, WA	85.40%	85.40%	-	-
EP437	Exploration Permit	Perth Basin, WA	43.47%	43.47%	-	-

ASX Listing Rule 5.4.3

IAN GREGORY
COMPANY SECRETARY



Dated: 29 January 2015
Perth, Western Australia

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

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 report were compiled by Mr Kane Marshall (Member SPE, AAPG, SPWLA, FESAus and PESGB) and Mr Len Diekman (Member SPE, AAPG and FFin) of Energetica Consulting, who are qualified persons as defined under the ASX Listing Rule 5.11 and have 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 Practising Petroleum Engineer and Geoscientist who is a member of the SPE, AAPG, PESGB, FesAus and SPWLA and Mr Len Diekman from Energetica Consulting who is an Independent Adviser to Key Petroleum Limited. Len Diekman is a practicing Petroleum Geophysicist and Resource Financial Analyst who is a member of SPE, AAPG and FFin.

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 Practising Petroleum Engineer and Geoscientist who consents to the release of the information. The Company is compliant with reporting of estimates as defined in Chapter 5 of the ASX Listing Rules.

The information contained in this report 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 December 2015

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	(388)	(772)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(242)	(420)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	14	30
1.5	Interest and other costs of finance paid	(1)	(2)
1.6	Income taxes paid	-	-
1.7	Other (Research and Development Grant)	-	88
Net Operating Cash Flows		(617)	(1,076)
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)	(617)	(1,076)

+ 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)	(617)	(1,076)
	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) Share issue transaction costs	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(617)	(1,076)
1.20	Cash at beginning of quarter/year to date	2,189	2,648
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,572	1,572

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	107
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	380
4.2 Development	-
4.3 Production	-
4.4 Administration	190
Total	570

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	9	241
5.2 Deposits at call	1,563	1,948
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,572	2,189

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.

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	722,358,441	722,358,441		
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)	500,000 2,000,000 2,000,000 7,000,000 2,000,000 7,000,000 7,000,000 6,000,000	- - - - - - - -	Exercise price 2.5 cents 4.4 cents 5.2 cents 5.5 cents 5.9 cents 6.4 cents 7.4 cents 1.287 cents	Expiry date 12 March 2017 6 August 2017 6 August 2017 6 August 2017 6 August 2017 6 August 2017 6 August 2017 9 March 2019
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Performance Rights	2,000,000 2,000,000	- -	Classification Performance Rights A Performance Rights B	

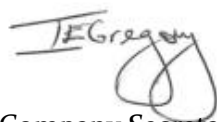
+ See chapter 19 for defined terms.

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 January 2016

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.