

KEY
PETROLEUM LIMITED

Level 2
47 Stirling Highway
Nedlands WA 6009

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

investors@keypetroleum.com.au



QUARTERLY REPORT

FOR THE PERIOD ENDED 30 SEPTEMBER 2016

ACN 120 580 618

UPDATE ON PETROLEUM EXPLORATION ACTIVITIES

Highlights for the Quarter

- ☼ Key Petroleum Limited (“Key”) exercised an option to acquire a 40% interest in offshore Perth Basin Exploration Permit WA-481-P;
- ☼ Environment Plan for Care and Maintenance activities on suspended wells in R1 and L15 was approved by the Department of Mines and Petroleum (“DMP”);
- ☼ DMP approval received for Well Management Plans for suspended wells in R1 and L15;
- ☼ Care and Maintenance Safety Management System for activities on suspended wells in R1 and L15 was approved by the DMP;
- ☼ An application to carry out a geochemical survey over EP104 was prepared and lodged with the DMP together with the required Safety Management System and Environment Plan for approval;
- ☼ Renewal of R1 was offered by the DMP subject to a varied work program;
- ☼ Application for Surrender of EP448 was lodged and subsequently granted by the DMP;
- ☼ Commencement of Well Pre-planning for EP437 for Permit Year 3 (Wye Knot-1);
- ☼ Tendering for a 250 square kilometre Airborne Electromagnetic Survey in R1 in line with Year 1 work program offered in renewal by DMP; and
- ☼ Finalising approvals for the onshore Saddleback Geochemical Survey in EP104.

Subsequent to the End of the Quarter

- ☼ R1 renewal was granted from the DMP;
- ☼ Grant of Special Prospecting Authority covering six (6) graticular blocks in the Bilyana Region, Canning Basin; and
- ☼ Completion of EP347 Joint Venture meetings approving budget for drilling of Wye Knot-1 in 2017

Activities for the Coming Quarter

- ☼ Commence land access negotiations for access to the Wye Knot-1 proposed drilling location for drilling in Q1 2017;
- ☼ Commence tendering and regulatory approvals for drilling Wye Knot-1;
- ☼ Undertake wellhead maintenance work to suspended wells in R1 and L15;
- ☼ AEM-PTP airborne survey planning in R1 and SPA 0020AO for commencement in 2017; and
- ☼ Complete preliminary prospectivity review of WA-481-P.

OFFSHORE NORTHERN PERTH BASIN, WA-481-P, PERTH BASIN, WESTERN AUSTRALIA

KEY PETROLEUM LIMITED (via wholly owned subsidiary) 40%

PILOT ENERGY LIMITED (Operator) 60%

During the quarter, Key executed a cooperation agreement with Pilot Energy Limited (“Pilot”) which facilitated Key being able to exercise an option to acquire a 40% working interest in exploration permit WA-481-P located in the offshore North Perth Basin, Western Australia. Key subsequently exercised its option to acquire the 40% interest and subsequent to the end of the quarter Key officially came on to title of WA-481-P.

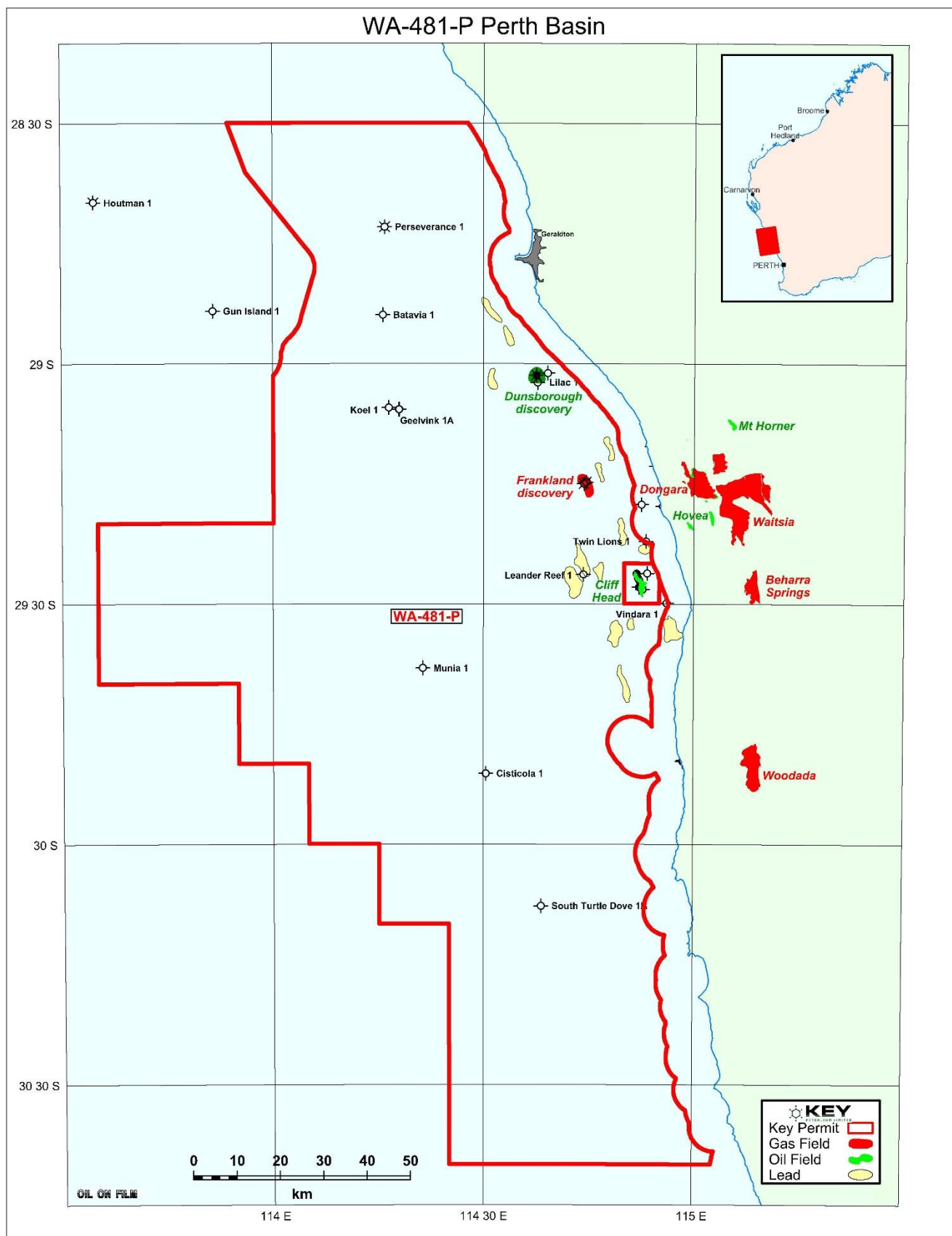
Permit WA-481-P is located in shallow waters to the west of the onshore Dongara, Beharra Springs and Waitsia Gasfields, and the Jingemia, Hovea and Cliff Head Oilfields. It covers a large part (17,475 square kilometres) of the offshore extension of the North Perth Basin and the primary petroleum plays are oil and/or gas within the Dongara Sandstone and the Irwin River Coal Measures.

The permit is the largest offshore block in Australia and contains existing discoveries with contingent resources that in previous terms were regarded as being sub-economic (Dunsborough and Frankland accumulations). Those hydrocarbon pools sit on trend with the producing Cliff Head Oil Field and it is the view of Key since the time of those initial discoveries that more work is warranted in this part of the permit, particularly as more hydrocarbon discoveries are probable. Importantly, the permit is prospective for both oil and gas and the size of the permit is significantly larger than the most prospective portion of the onshore Perth Basin. Key and Pilot were able to move quickly in securing the acreage and since the acquisition, the companies have been in a number of commercial discussions with third parties expressing interest in the permit.

Structurally the permit contains the north-south trending Turtle Dove Ridge to the west where the previous Operator, Murphy Petroleum, drilled three exploration wells, all of which encountered oil and gas shows. The main hydrocarbon source “kitchen” extends through the centre of the block, with hydrocarbons thought to have migrated eastwards up to the Beagle Ridge in the east. This is where the Cliff Head, Frankland and Dunsborough discoveries are located and where the Joint Venture is currently focusing its efforts based on better regional geological understanding from new data, particularly in relation to the outboard wells and seismic recently completed by the previous joint venture.

Based upon a review of existing 2D and 3D seismic data, Key and Pilot have identified a number of leads in the north-eastern part of the permit which are regarded as highly prospective for discoveries in the range of 5 to 20 MMbbls oil, or 50 to 100 Bcf gas. Preliminary work was initiated during the quarter in the form of play fairway maps and preliminary work is expected to be completed on leads identified in the inboard area (green circle on map).

The acquisition is in line with the Company’s exploration strategy, utilising experience in the North Perth Basin and expanding its position from EP437 to encompass both oil and gas plays to the offshore precinct.



Location of Offshore North Perth Basin Permit WA-481-P indicating discovered fields and currently mapped prospects and leads

ONSHORE 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, held discussions with the EP437 Joint Venture around work that has been carried out in the current permit and subsequent to the quarter presented budgets for long lead items and for drilling of the Year 3 commitment well and work supportive of the drilling of the Wye Knot prospect.

Timing of the Year 3 commitment well is subject to commercial discussions around participation by joint venture partners and the initiation of stakeholder engagement, specifically around landowners. Optimal drilling times are generally regarded as being between cropping and seeding times on rural farmland.

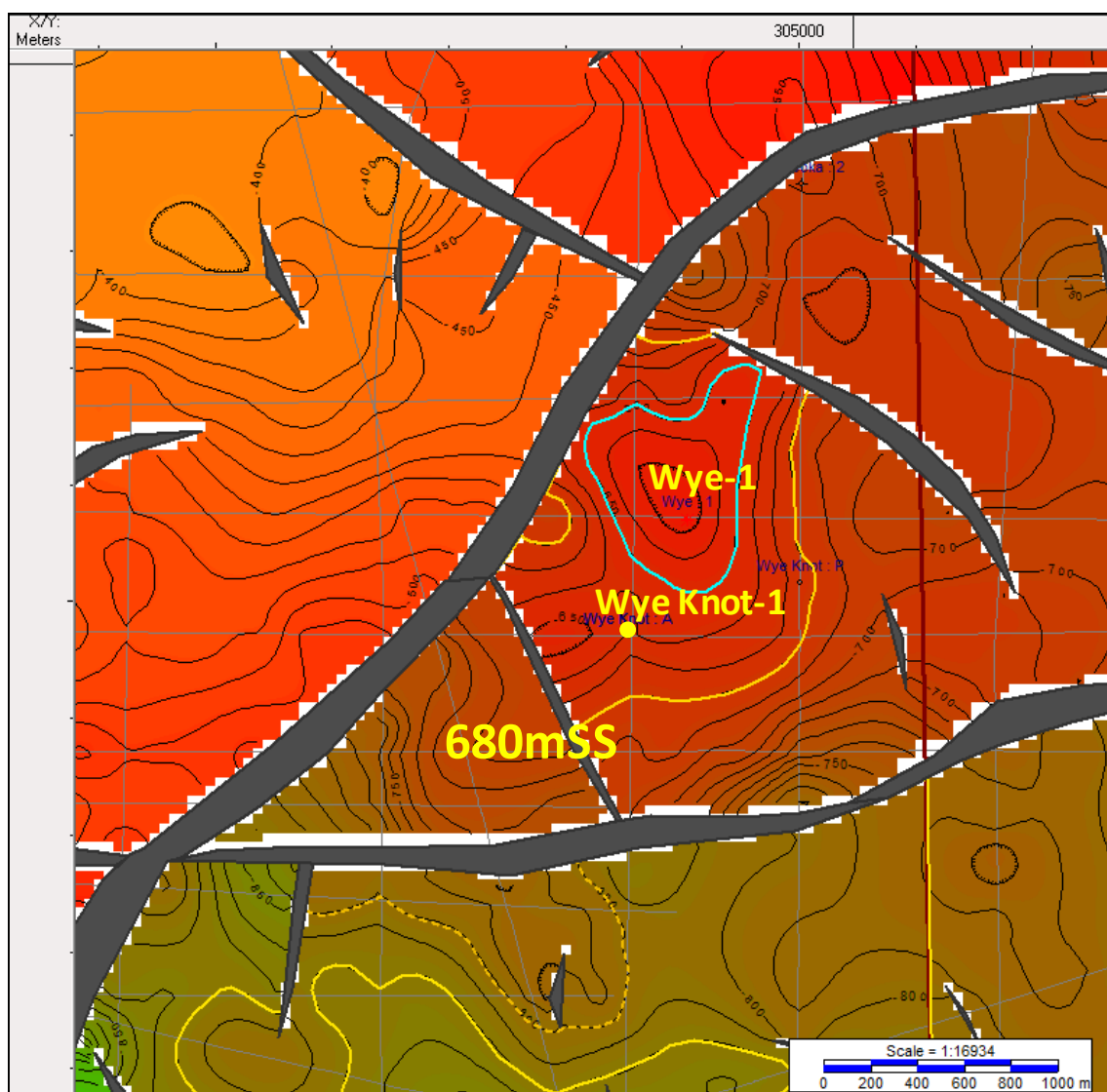
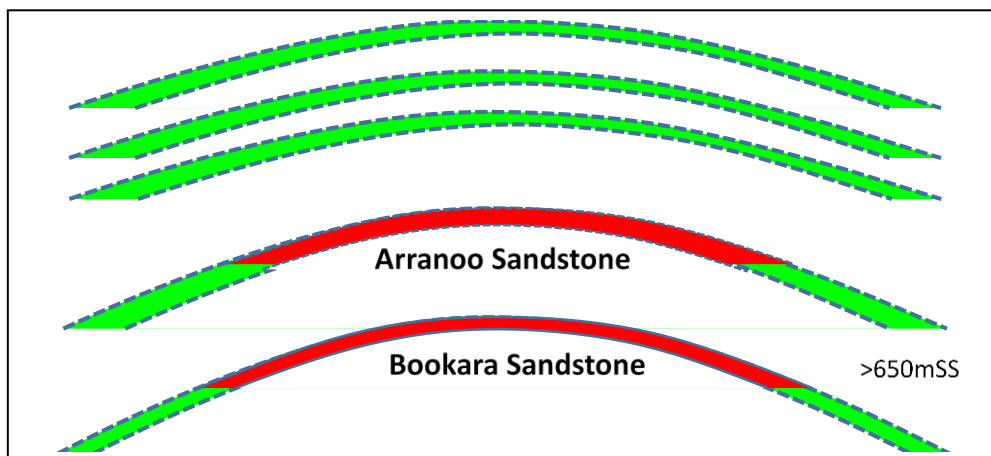
Studies during and subsequent to the quarter, involved a comprehensive review of wells in the vicinity of the Wye area and updated geophysical mapping study of the Wye area (eastern part of the permit).

Gas encountered in the Wye-1 discovery well is dry, and compares well to the dry gas at the Dongara oil and gas field directly south which is not in equilibrium with the Dongara oil. The gas is likely generated largely from the Irwin River Coal measures, and the oil is likely sourced from the Lower Triassic Kockatea Shale. In the Dongara Field, an oil leg was eventually found in the Dongara-8 well which flowed at 800 barrels of oil per day, some 3 years after the initial gas was flowed at 10 mmscf/d. The Dongara oil column was established with a height of 22 metres below a gas cap of 122 metres.

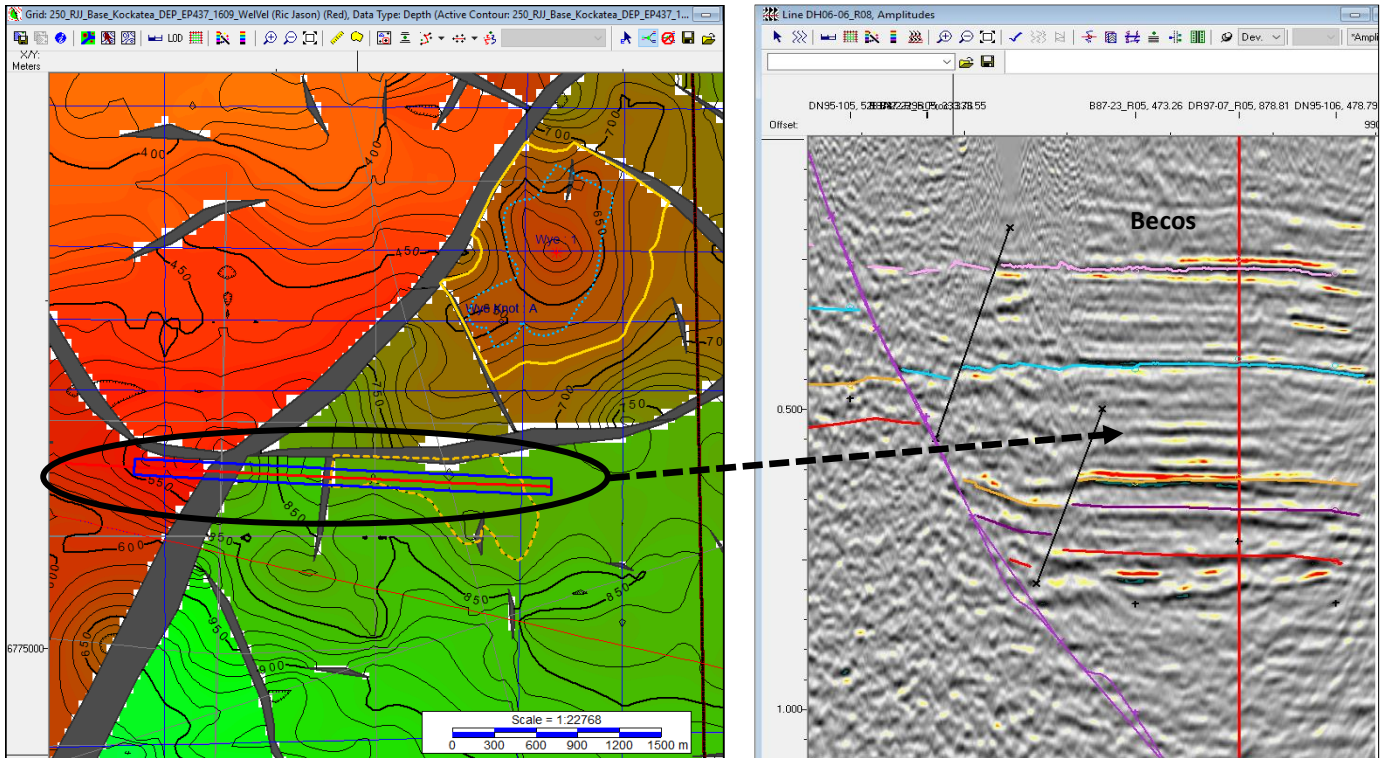
This and later exploration successes, including the Hovea field, establish a dual charge model (oil charge first then later gas charge) for the North Perth Basin area. Similar (Kockatea sourced) oils have been found in wells with shows to the north (Connolly-1 and Condor-1), updip from the Wye-1 migration path.

The combined results of the work support drilling of the Wye Knot Prospect, which is positioned a step out distance sufficient enough to investigate the potential for an oil leg below the gas play encountered in Wye-1 in the Triassic Bookara and Arranoo Sands in addition to testing the potential of the Permian sequence which was not intersected at Wye-1. This step out location is at a distance which suggests the gas cap does not extend outward from Wye-1 at a depth greater than 650 metres subsea (650mSS).

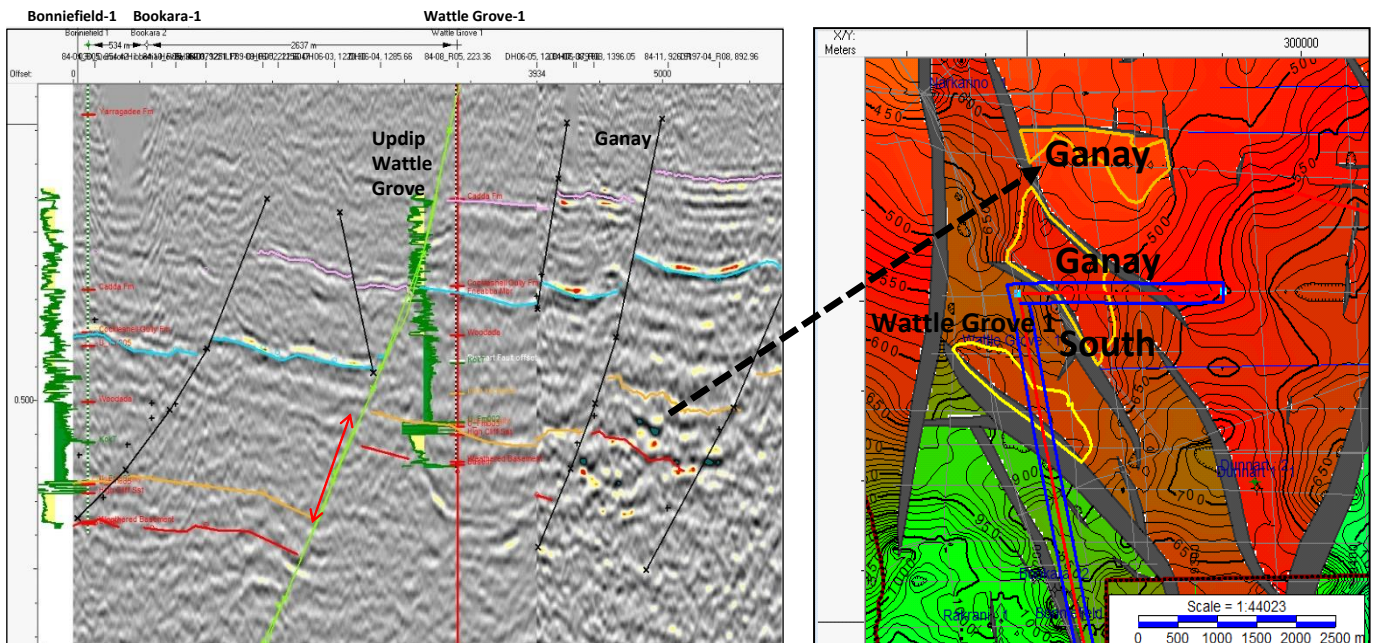
In the event of success at Wye Knot-1, follow up drilling prospects include the down-dip extent of Wye Knot on the downthrown fault block at Becos in addition to the up-dip Wattle Grove and Ganay leads.



A depiction of the Wye Knot prospect – Wye-1 encountered gas in Arranoo and Bookara Sandstones (red in top figure) and Key has modelled a proposed well location that will have sufficient step out distance from Wye-1 to penetrate Bookara Sands at a depth greater than 650 metres subsea (blue contour circle in bottom figure).



Down-dip Becos prospect south-west of Wye Knot-1 drilling location (left) and west-east cross section of Becos prospect supported by amplitudes which could be as a result of hydrocarbon charge. Amplitudes at Becos suggest additional sandier intervals, possibly hydrocarbon charged with greater potential situated between Wye-1 and the Dongara Oil and Gas Field.



A seismic cross section (left) of Bonniefield-1 to Bookara to Wattle Grove-1 (based blue linkage on right) showing the Wattle Grove, Ganay South and Ganay leads (yellow polygons) as follow up prospect potential in EP437.

SOUTHERN CANNING PROJECT, CANNING BASIN, WESTERN AUSTRALIA

EP448

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	78.00%
INDIGO OIL PTY LTD	22.00%

Subsequent to the Company's request to surrender EP448 due to the high cost of holding the frontier exploration acreage the DMP granted approval of same during the quarter.

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%

SPA 20 AO

KEY PETROLEUM LIMITED	100.00%
-----------------------	---------

Key received all relevant approvals required to carry out care and maintenance activities to the three suspended wells located in L15 and R1, with work expected to commence within the next two weeks.

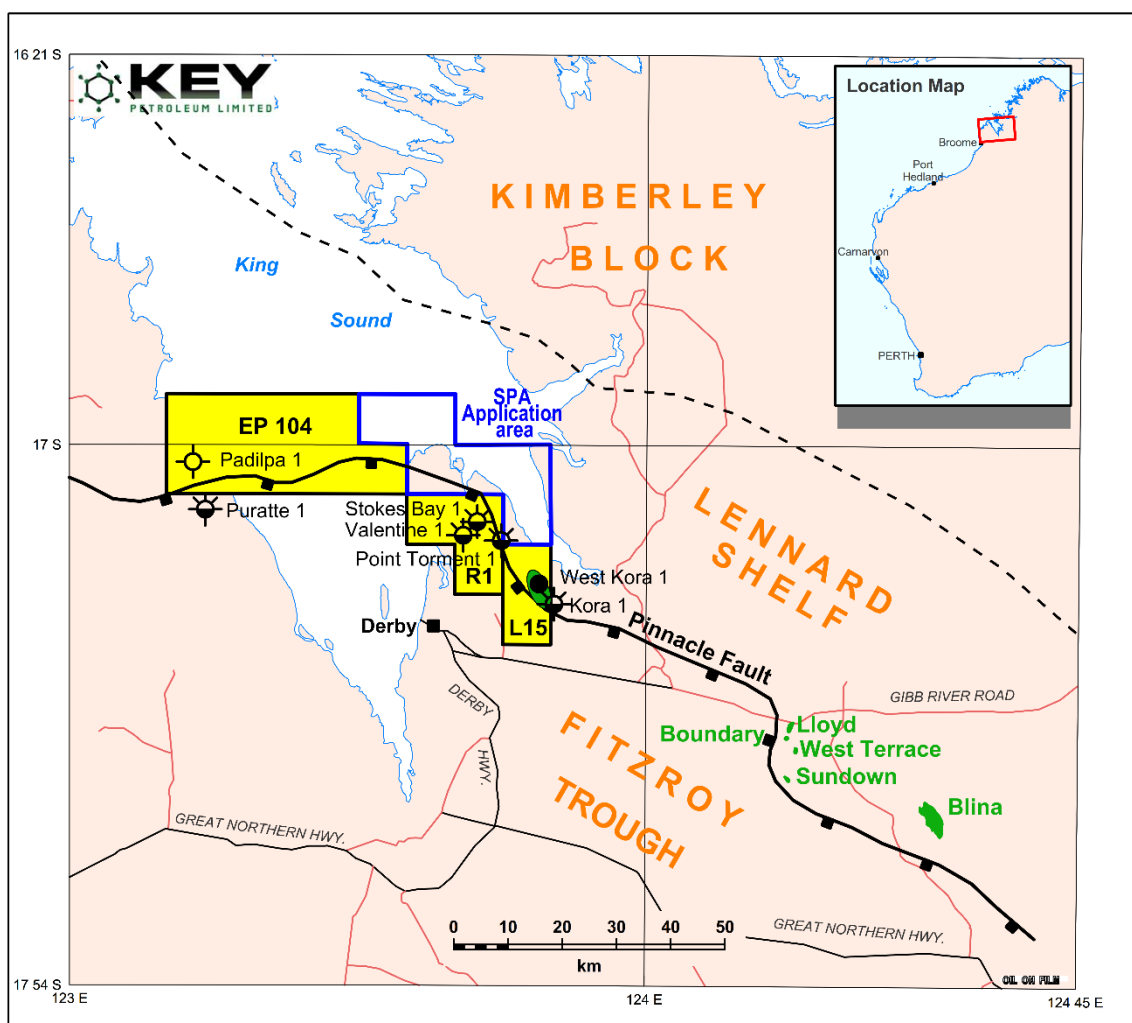
Key secured the DMP approvals for the Safety Management System, Environment Plan and Application to Survey pertaining to the planned 4.5 kilometre Saddleback Geochemical Survey. Key is awaiting approval to access the area from the relevant native title parties which is required prior to any activities being undertaken.

Special Prospecting Authority SPA 20 AO ("SPA") covering six (6) graticular blocks and bordering Key's current R1, L15 and EP140 permits was awarded subsequent to the end of the quarter. The SPA is located in the Bilyana region of the Canning Basin, Western Australia and runs along a productive oil trend.

Mapping on historic seismic has shown potential Devonian-age source rocks which are interpreted to exist in the southern parts of the SPA area and are thought to be within the oil window. Work in the adjacent EP104, R1 and L15 permit areas has helped identify several leads of which at least two (2) lie on the Point Torment Peninsular.

In addition to those already mapped prospects and leads from historic 2D seismic, and in relation to large carbonate build up and reefal geometrical plays identified in the offshore components of EP104, an airborne electromagnetic survey ("AEM-PTP") is planned to be acquired over the offshore component of the Point Torment Peninsular encompassing the SPA in conjunction with the first year of the renewed period of R1 which also includes AEM-PTP survey work. The purpose of the surveys is to identify additional prospects and leads in the back reef complex in the SPA area which are not delineated by the current historic 2D seismic and benchmark this acquired data against known hydrocarbon pools in R1.

The SPA remains in force for a period of six (6) months after which time Gulliver Productions Pty Ltd, which is wholly owned by Key, is authorised to apply for a petroleum permit in respect of 100% of the SPA area up to October 2017.



Location of Special Prospecting Authority Area

CURRENT OUTLOOK FOR KEY PETROLEUM

At the end of the quarter the Company had \$1.10 million cash on hand.

Exploration spend for the quarter was \$0.25 million which related to Key's share of petrophysical interpretation and geological work carried out in EP437, interpretation of the recently acquired WA-481-P, assessment of new ventures, and the payment of the annual permit fee for EP448. As EP448 was relinquished during the quarter a partial refund of the annual permit fee will be received in the December quarter. Costs associated with the acquisition of WA-481-P were also incurred during the period.

Forecast expenditure for the next quarter is anticipated to be approximately \$0.15 million which includes well pre-planning and long lead items for the Wye Knot-1 exploration well, care and maintenance work in the three (3) suspended wells in R1 and L15 and geological work in WA-481-P.

Overhead expenditure of \$0.19 million was in line with the previous quarter and given the footprint of acreage the Company has in both onshore and offshore Western Australia, the administrative costs are extremely low when compared to other operating oil companies in Australia. Forecast overhead expenditure for the coming quarter is expected to be marginally lower than the current quarter.

PETROLEUM PERMIT SCHEDULE

Petroleum Permit	Type	Location	Interest at Beginning of Quarter	Interest at End of Quarter	Acquired during Quarter	Disposed during Quarter
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%	-	-
WA-481-P	Exploration Permit	Offshore Perth Basin, WA	0%	40.00%*	40.00%	

ASX Listing Rule 5.4.3

* Came on title subsequent to the end of the quarter

IAN GREGORY
COMPANY SECRETARY



Dated: 28 October 2016
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 practising 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 Limited'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, 01/05/13, 01/09/16

Name of entity

Key Petroleum Limited

ABN

50 120 580 618

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(252)	(252)
(b) development	-	-
(c) production	-	-
(d) staff costs	(105)	(105)
(e) administration and corporate costs	(89)	(89)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9	9
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	4	4
1.9 Net cash from / (used in) operating activities	(434)	(434)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	(30)	(30)
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(30)	(30)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,573	1,573
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(434)	(434)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(30)	(30)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,109	1,109

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	94	91
5.2	Call deposits	1,015	1,482
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,109	1,573

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

89

-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

--

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	130
9.2 Development	-
9.3 Production	-
9.4 Staff costs	107
9.5 Administration and corporate costs	75
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	312

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	EP448	Equity Interest	78%	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	WA-481-P	Equity Interest * Subject to NOPTA approval	-	40%

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:


.....
(Company secretary)

Date: 28 October 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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.