

QUARTERLY REPORT For the Quarter Ended 30th June 2008

HIGHLIGHTS

NYUNI BLOCK – TANZANIA

- The **40 mmscf/day stabilised gas flow rate** with strong flowing wellhead pressures through a 72/64” fixed choke obtained during a multi rate well test of Kiliwani North #1 was confirmed and led to a declaration of commercial viability for the discovered gas field.
- The **commercialisation process** for Kiliwani North continues with the Joint Venture reviewing a number of production options.
- **Acquisition of additional 2D seismic data**, to mature a portfolio of high impact exploration opportunities and further delineate the Kiliwani North structure, approved by Nyuni Joint Venture participants.

NEW SONGO SONGO WEST LICENCE – TANZANIA

- New Production Sharing Agreement **Songo Songo West** awarded to Key in a formal ceremony held at the Ministry of Energy and Minerals in Dar es Salaam on 29th May 2008. The new block is located to the west and adjacent to the producing Songo Songo Gas Field.

NAMIBIA

- Consortium agreement signed with Pancontinental Oil & Gas NL (ASX Code: PCL) for joint petroleum exploration activities within Reconnaissance License RL-1/2007, offshore Namibia.

SURINAME

- Joint Venture confirmed recommencement of onshore drilling program with five wells currently planned in Coronie block, located to the west of the Tambaredjo field.

CORPORATE

- New financial and technical staff appointed for Key’s Perth office.

EXPLORATION ACTIVITIES

OFFSHORE TANZANIA

Nyuni Block (Key 20.0%)

Kiliwani North #1

Multi rate production testing of the Kiliwani North #1 gas discovery well was conducted, commencing on 1st June 2008. This resulted in a stabilised gas flow rate of 40mmscf/day combined with strong flowing wellhead pressures being recorded through a 72/64" fixed choke. The well also produced condensate at a rate of 1 bbl /mmscf. Sampling of the produced gas showed that it contained no CO₂ or H₂S, indicating that the gas in Kiliwani North #1 is compatible with the gas now being produced from the nearby Songo Songo gas field.

The sustainability of the flow rate was also confirmed by lack of depletion of bottom hole pressure (bhp) whilst flowing the well. A gas water contact (GWC) indicated that the gas column appears to extend deeper than seen at the nearby Songo Songo Gas Field. Additionally, the northern part of the field appears poorly defined and requires additional seismic. These factors, plus other pressure data and laboratory analyses, have satisfied Key that the Kiliwani North #1 well and the discovered gas field are a commercially viable venture.

The Kiliwani North #1 well is some 3.5 km south east of the Songo Songo gas processing facilities and pipeline entry point, allowing the Joint Venture participants a number of production options for early development of the gas with a view to generating income revenue quickly.

The Joint Venture Operator has also commenced discussions with parties involved in the transportation, purchase and sale of gas within Tanzania.

Key now considers that the Nyuni block, containing Kiliwani North, has substantial upside potential for gas, having identified a number of additional prospects and leads in the immediate vicinity of the new discovery. The knowledge obtained from the Kiliwani drilling campaign, combined with a review of nearby prospects, has led Key to conclude that the area contains a number of leads and prospects ranging in size up to 500 billion cubic foot (BCF) of gas in place. Key estimates that the total potential undiscovered gas within the Nyuni block could be in excess of 2 trillion cubic feet (TCF).

During the quarter the Joint Venture participants met to discuss the acquisition of 2D seismic data in the Nyuni block. This is required to allow the Joint Venture to mature its portfolio of high impact exploration opportunities as well as the recording of appraisal transitional seismic over Kiliwani North. This acquisition of further seismic was agreed and a work programme is now being prepared. It is planned to commence in late 2008.

OFFSHORE TANZANIA

Songo Songo West Block (Key 50.0%)

Key has expanded its oil and gas interests during the quarter by signing a new Production Sharing Agreement (PSA) with the Government of the United Republic of Tanzania in a formal ceremony held at the Ministry of Energy and Minerals in Dar es Salaam. The offshore area, designated "Songo Songo West" by the Tanzanian Petroleum Development Corporation (TPDC) lies between the producing gas field at Songo Songo Island and the coast. The PSA area is undrilled but contains a large amount of pre-existing seismic data, much of it being high quality seismic acquired in

2005. The Company and TPDC have each been working on the interpretation of the area and have identified a number of large structures and other leads at various stratigraphical levels with potential to be significant oil and gas bearing prospects.

Funguo Petroleum Pty Ltd, (a wholly owned subsidiary of Key) will hold a 50% interest in the Songo Songo West PSA and be the Operator, with the remaining 50% interest to be assigned to Aminex/Ndovu, the Company's Joint Venture partner and Operator of the nearby Nyuni block where Key Petroleum Ltd holds a 20% interest.

The new PSA consolidates Key's acreage position to maximize the potential of the region. Being in shallow waters and quite under explored, Key considers the Songo Songo West PSA area will provide it with a number of highly prospective drilling opportunities.

NAMIBIA - NEW VENTURE

Reconnaissance Licence No. 1 of 2007 - Offshore Walvis Basin

Application - Exploration Licence and Petroleum Agreement (Key 50%)

Key signed a Consortium Agreement with Pancontinental Oil and Gas NL in April 2008 for joint petroleum exploration activities offshore Namibia. Pancontinental subsequently submitted an Application for an Exploration Licence and a Petroleum Agreement ("EL / PA") for part of the area held under the RL. Since the original application was lodged, Mr Ken Russell (CEO&MD) and Mr Ted Ellyard (Chairman) from Key visited the Ministry of Mines and Energy in Namibia. Negotiations are ongoing with the Ministry.

Key is now working with its Joint Venture partner Pancontinental and they have been conducting a number of studies of existing data from the area. The Joint Venture believes that the area holds a significant exploration opportunity.

ONSHORE ITALY

Borsano Permit (Key 100%)

Key has continued to perform technical studies and undertake evaluation of the area. A drilling proposal has now been prepared by the Company's Italian operations team and is currently being reviewed by its Australian team before finalizing for submission.

OFFSHORE ITALY

Application Areas (Key 100%)

Key has four application areas as follows:

Lampedusa	d 341 C.R-.PU Application
Lampedusa	d 342 C.R-.PU Application
West Sardinia	d 90 E.R-.PU Application
Elba	d 91 E.R-.PU Application

The Company is awaiting response from the Ministry of Environment as to the progress of its applications and the review of the Environmental Impact Assessment studies (EIA) submitted during the quarter for each area. However, the Ministry is undergoing a number of changes following the last government election that took place in Italy and the Company is now awaiting clarification as to the new structure that is being created within the Ministry.

ONSHORE SURINAME

Uitkijk and Coronie (Key indirect 1.75%)

Key is participating in a multi-well drilling programme in Suriname, through its 50% shareholding in Portsea Oil & Gas Pty Ltd, which has a 3.5% free carried interest through an agreement with Hardman Oil and Gas Pty Ltd, a company owned by Tullow Oil Plc. Both areas are located adjacent to Suriname's main producing oil fields, Tambaredjo and Calcutta.

The Joint Venture is to recommence drilling with a five well exploration campaign in the Coronie Block, to the west of Tambaredjo, now approved for the fourth quarter. This follows on from the initial drilling campaign in the Uitkijk block, east of Tambaredjo, where three of the five wells drilled encountered hydrocarbons.

CORPORATE ACTIVITY

Increasing activities of the Company and resultant work load have necessitated an increase in personnel levels. The Company has recently engaged an "Asset Manager" whose role is the administration of the Company's international portfolio of assets and projects. To provide additional financial management skills for the administration of the Company's assets, a Chief Financial Officer has also joined the Company. In the early part of the next quarter a Senior Geologist will be joining the Company and another is currently being sourced.

Industry Terminology Note:

bbbl	=	Barrel
mmscf	=	1,000,000 standard cubic feet
/d	=	per day
CO ₂	=	Carbon Dioxide
H ₂ S	=	Hydrogen Sulphide

ENQUIRIES

Please direct any queries to:

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NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr. Ken Russell, Managing Director/CEO of Key Petroleum Ltd, who has at least 5 years experience in the sector. He consents to that information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Key Petroleum Limited

ACN

120 580 618

Quarter ended ("current quarter")

30 June 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(1,484)	(5,472)
(b) development	-	-
(c) production	-	-
(d) administration	(510)	(1,684)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	203	831
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	(1,791)	(6,325)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	(24)
(c) other fixed assets	(5)	(34)
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	(5)	(58)
1.13 Total operating and investing cash flows (carried forward)	(1,796)	(6,383)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,796)	(6,383)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	220
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 costs	-	-
	Net financing cash flows	-	220
	Net increase (decrease) in cash held	(1,796)	(6,163)
1.20	Cash at beginning of quarter/year to date	10,689	15,056
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	8,893	8,893

Payments to directors of the entity and associates of the directors

Payments to 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	208
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	1,000
4.2 Development	-
Total	1,000

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	150	906
5.2 Deposits at call	8,743	9,783
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	8,893	10,689

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

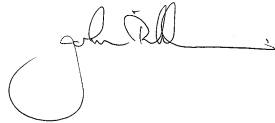
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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 <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	86,000,005	74,971,672		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	44,000,002 225,000	44,000,002 Nil	<i>Exercise price</i> 35 cents 35 cents	<i>Expiry date</i> 31 March 2009 31 March 2009
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

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 4).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

Date: **31 July 2008**

(Company secretary)

Print name: **John Ribbons**

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 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, 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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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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