

QUARTERLY REPORT For the Quarter Ended 30th September 2007

HIGHLIGHTS

TANZANIA

- The Company has been advised that handover of the rig to the Nyuni joint venture for the forthcoming two well drilling programme will take place towards the end of October 2007. The first well is currently scheduled to commence drilling (*spud*) mid November following dismantling, relocation and then reassembly of the rig at the drilling location on Kiliwani Island.
- The Company and its JV partners have made use of the slippage in the rig arrival to renegotiate various contracts and agreements for services, supplies and personnel. This has allowed a number of cost savings to be secured.
- Key's "back to back" two well drilling program in Tanzania will be testing two different hydrocarbon systems within the southern edge of the Mafia basin.
- Extensive road and site preparation has been completed for the first well.

ITALY

- Environmental Impact Assessments for the Company's four offshore Italian Applications have been filed with the Ministry of Environment.

SURINAME

- The initial drilling campaign commenced in the Uitkijk block in July. Three wells have encountered hydrocarbons.

EXPLORATION ACTIVITY

OFFSHORE TANZANIA

Nyuni Block (Key 20.0%)

The Company has continued to focus much of its exploration activity in this Block during the quarter in preparation for the forthcoming drilling programme. Key has been working closely with the Operator, to develop new play concepts. Two valid prospects have now been identified.

The first well, Kiliwani # 1, will test a structural play on the southern flank of the Songo Songo Gas Field. It will test the same reservoir system that is producing gas in the adjacent gas field. This well is considered as a moderate risk exploration opportunity to test a proven gas play in the basin. This well will be drilled from a small island close to the Songo Songo Gas Field. The close proximity of the Kiliwani well to nearby pipeline and processing infrastructure could result in the commercialisation of a discovery in the short term, pending a successful flow test.

The second well, Kiliwani North #1 will test a new play type for the basin. The well will be the first valid exploration test of a shallower Tertiary structure, on the flank of the Songo Songo Gas Field. The shallower objective is considered a potential oil target compared to deeper gas targets in the first well. No commercial oil has been identified in the basin to date and a successful oil discovery at Kiliwani North #1 will be the first for Tanzania. Potential reservoir sands that were intersected in an adjacent well have been mapped and found to be significantly up-dip across structure to the north of the Kiliwani Prospect. Wells on the Songo Songo Gas Field did not intersect the objective sands as they are predicted to be present on the flank of the field.

ONSHORE SURINAME

Uitkijk and Coronie (Key 1.75%)

The Company is participating in a multi-well drilling programme in the Uitkijk and Coronie Blocks onshore Suriname through its 50% shareholding in Portsea Oil & Gas NL which has a 3.5% free carried interest through an agreement with Tullow Oil plc. Both areas are located adjacent to Suriname's main producing oil fields, Tambaredjo and Calcutta.

The first phase of drilling, consisting of up to ten shallow wells, commenced in the Uitkijk Block in late July 2007. To date five wells have been drilled and while three have encountered hydrocarbons, no decisions on development or future activities will be possible until the conclusion of the full programme. Drilling in the Coronie Block is currently scheduled for later in the fourth quarter, 2007.

ONSHORE ITALY

Borsano (Key 100%)

The Company has continued to perform in-house technical studies and evaluation of available information provided by the previous owners of the permit interest and from public domain information.

The first draft of a drilling proposal has been prepared and is currently being translated into Italian before being lodged with the authorities. The first well is planned for first half 2008, subject to the necessary approvals from the various government and local authorities.

OFFSHORE ITALY
Application Areas (Key 100%)

The Company has interest in four application areas as follows:

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

The Company completed Environmental Impact Assessment studies (EIA) for all areas during the quarter and the reports have been lodged with the Ministry of the Environment. Work on these areas has concentrated on compiling available geological and geophysical data in preparation for detailed technical evaluation. Geological evaluation of wells previously drilled and analysis of regional production and successful hydrocarbon discoveries has confirmed the hydrocarbon prospectivity of the sedimentary sequence in these areas.

The initial focus for these areas will be geophysical mapping in preparation for acquisition of 2D seismic data. New modern seismic will be required to accurately map the application areas for possible drillable structures.

ENQUIRIES

Please direct any queries to:

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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 September 2007

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(363)	(363)
(b) development	-	-
(c) production	-	-
(d) administration	(379)	(379)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	229	229
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	(513)	(513)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(33)	(33)
(c) other fixed assets	(23)	(23)
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	(56)	(56)
1.13 Total operating and investing cash flows (carried forward)	(569)	(569)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(569)	(569)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	215	215
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	215	215
	Net increase (decrease) in cash held	(354)	(354)
1.20	Cash at beginning of quarter/year to date	15,056	15,056
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	14,702	14,702

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	186
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	3,600
4.2 Development	-
Total	3,600

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	270	120
5.2 Deposits at call	14,432	14,936
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	14,702	15,056

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

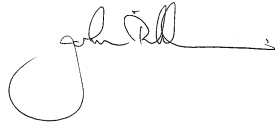
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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	68,266,672		
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>	43,000,002	43,000,002	<i>Exercise price</i> 35 cents	<i>Expiry date</i> 31 March 2009
7.8 Issued during quarter	43,000,002	43,000,002	35 cents	31 March 2009
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: **29 October 2007**

(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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