

DECEMBER 2007 QUARTERLY REPORT

HIGHLIGHTS

TANZANIA

- The handover of the Caroil #6 rig to the Nyuni joint venture for the company's initial two well drilling programme took place on the 2nd November 2007. Key Petroleum's first well, Kiliwani #1, commenced drilling (*spud*) on 15th November after a relocation from Songo Songo Island. Keys "back to back" two well drilling programme in Tanzania is testing two different hydrocarbon systems within the southern edge of the Mafia Basin.
- Drilling progress on Kiliwani #1 has been steady, although progress was slower than anticipated, partly due to a number of operational shutdowns of the rig for mechanical (mud pumps) and electrical (generator) issues.
- At the time of writing this report Kiliwani #1 was milling on drill bit debris prior to drilling towards the expected reservoir target.
- Site preparation for the second well in the drilling programme, Kiliwani North #1, has been completed.

ITALY

- The company has been actively working on both its onshore and offshore areas in Italy. Environmental studies have been completed and submitted to the governmental authorities as is required for the company's offshore application areas and they are now being subjected to detailed review.
- Ongoing technical studies of the Lampedusa offshore areas have identified several leads with both sandstone and carbonate objectives. Further work is being carried out on these.

SURINAME

- The initial drilling campaign commenced in the Uitkijk block in July. Five wells have been drilled in the Uitkijk block to date. Of these, three have encountered hydrocarbons. The project participants are currently undertaking a number of technical studies to determine where the next wells will be drilled.

NEW PROJECTS

- A number of new opportunities for the company have been reviewed during the quarter. The company is constantly looking at possible growth opportunities in areas similar to those in which it currently has activities.

EXPLORATION ACTIVITY

OFFSHORE TANZANIA

Nyuni Block (Key 20.0%)

The handover of the Caroil #6 drilling rig to the Nyuni joint venture for the current two well drilling programme took place on the 2nd November 2007. The first well, Kiliwani #1, commenced drilling (*spud*) on 15th November 2007 following dismantling, relocation and then reassembly of the rig at the drilling location that had been prepared on Kiliwani Island. The location is approximately 4 km from the producing Songo Songo Gas Field. The relocation went without major incident and took less time than originally planned. It did require considerable movement of equipment from the rigs location on Songo Songo Island and additional mobilisation of support services and equipment from the port of Mombasa using a number of flat top barges.

Early stages of the drilling of Kiliwani #1 were frustrated by a number of mechanical issues surrounding the rigs mud pumps and electrical generation system, however, drilling of the 26" hole section was completed after some delays. The 20" casing was run and set on 23rd November. A 12-1/4" pilot hole followed and was drilled at an approximate angle of 40 degrees to the 13 -3/8" casing depth by the 2nd December. The hole section was then opened up with a 17-1/2" hole opener prior to setting 13-3/8" casing. Again, frustratingly, during hole opening operations there was significant downtime experienced, which was attributable to continuing mechanical issues with the rig's mud pumps. Hole opening operations were completed by the 15th December and the 13-3/8" casing was set in place by the 21st December.

Further drilling of a 12-1/4" hole section from the 13-3/8" casing point has been carried out after the close of this report period, although slower than anticipated progress was made. Again, the delays were experienced largely on account of several shutdowns for mechanical (mud pump) and electrical (generator) issues experienced by the drilling rig. The 9-5/8" casing point was reached on the 18th January 2008 and with the hole in good condition allowing the 9-5/8" casing to be run and cemented into the well.

The rig is currently milling on bit debris prior to drilling towards the expected reservoir target.

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 Pty Ltd , which has a 3.5% free carried interest through an agreement with Hardman Oil and Gas Pty Ltd., a company now wholly owned by Tullow Oil Plc. Both areas are located adjacent to Suriname's main producing oil fields, Tambaredjo and Calcutta.

The first phase of the drilling campaign, consisting of up to 10 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 made until the conclusion of the ongoing technical studies being carried out by the operator at this time.

ONSHORE ITALY

Borsano (Key 100%)

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

A drilling proposal has been prepared and is currently being reviewed by the company's Italian operations team and is also being translated into Italian before being lodged with the necessary governmental and regional authorities. Subject to the necessary approvals being received from the various government and local authorities, the first well is planned to be drilled towards the end of the first half of 2008.

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 finalized the preparation and subsequently submitted to the Ministry of the Environment a number of Environmental Impact Assessment studies (EIA) for each area during the quarter. The Ministry is currently evaluating these and the company is awaiting their response. Technical evaluation work has continued in parallel with the environmental studies and the company's technical department has concentrated on compiling and evaluating geological and geophysical data together with its Italian technical specialists.

Initial evaluation of data available to the company for the Lampedusa area has identified several geological structures which may represent valid sandstone and/or carbonate leads. Some of these features have been identified by a previous Operator of the area in the early 1980's so they can be represented as valid exploration plays, but importantly, with proven reservoir objectives.

The focus now for this area will be to undertake detailed geophysical mapping in preparation for acquisition of new 2D seismic data. The company believes that some additional, modern seismic is required to accurately map the areas to further mature the identified leads into drillable prospects.

Please direct any queries to:

Ken Russell - Managing Director / CEO;

Phone Direct : + 61 8 9327 3500
Fax. : + 61 8 9327 3510
E-mail : info@keypetroleum.com

or

Media
Ian Howarth – Farrington National

Phone Direct : + 61 3 9223 2465

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")

31 December 2007

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 and evaluation	(2,064)	(2,427)
(b) development	-	-
(c) production	-	-
(d) administration	(394)	(773)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	216	445
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	(2,242)	(2,755)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(32)	(65)
(c) other fixed assets	(1)	(24)
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	(33)	(89)
1.13 Total operating and investing cash flows (carried forward)	(2,275)	(2,844)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,275)	(2,844)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	5	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	5	220
	Net increase (decrease) in cash held	(2,270)	(2,624)
1.20	Cash at beginning of quarter/year to date	14,702	15,056
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	12,432	12,432

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	184
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	3,500
4.2 Development	-
Total	3,500

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	274	270
5.2 Deposits at call	12,158	14,432
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	12,432	14,702

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

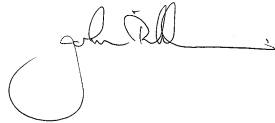
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	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>	44,000,002	44,000,002	<i>Exercise price</i> 35 cents	<i>Expiry date</i> 31 March 2009
	225,000	Nil	35 cents	31 March 2009
7.8 Issued during quarter	1,000,000	1,000,000	35 cents	31 March 2009
	225,000	Nil	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:

(Company secretary)

Date: **30 January 2008**

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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