

## QUARTERLY REPORT *For the Quarter Ended 30th June 2009*

### HIGHLIGHTS

#### SOUTHERN ENGLAND – WEALD BASIN - ONSHORE

- **Progress on acquisition of UK Company, which is 100% owner of Lidsey and Brockham Oilfields** – Key advanced the due diligence process in relation to the acquisition of unlisted UK company, Midmar Exploration Onshore Limited (**Midmar**), whose major assets are 2 producing onshore oilfields, “Lidsey” and “Brockham” both located in southern England. Purchase price is £2.00 million (*Approx AUD\$4.00 million*). The transaction is subject to a number of conditions, including governmental approval.

#### NYUNI BLOCK – TANZANIA

- **Kiliwani North** - Appraisal seismic operations commenced during June. Additional seismic data is required to assist in delineation of Kiliwani North gas structure and reserves. Field operations were completed at end of July 2009.

#### WEST SONGO SONGO BLOCK – TANZANIA

- **Gas Market Analysis** – A detailed review of gas market opportunities was completed to provide risked value analysis of prospects and leads.

#### SURINAME

- **Coronie** – Joint Venturers announce 5 well drilling campaign in Coronie block, expected to commence August 2009.

#### CAPITAL RAISING

- **Capital raising for up to \$4.73 Million** - Rights issue documentation issued to shareholders. Funds to be used to increase production from UK oilfields. Capital raising on a 1:2 basis and at 11 cents per share.

## ENGLAND

### ACQUISITION OF MIDMAR - OIL PRODUCTION ASSETS – ONSHORE SOUTHERN ENGLAND

#### Brockham Oilfield (PDL 235) and Lidsey Oilfield (PDL241) (Key 100%)

Key reached agreement with Midmar Energy Limited to purchase its wholly owned subsidiary, Midmar Energy Onshore Limited (Midmar), an unlisted entity that is the 100% owner and operator of the Brockham and Lidsey oilfields, both located in the Weald Basin in Southern England. The purchase price of the acquisition is £2 million (approx AUD\$4.00 Million). The agreement is subject to various conditions being met including required governmental approvals. Completion of the sale and purchase is expected to take place during the September quarter, following the completion of the due diligence process. Key has engaged the services of specialist oil and gas service providers in the UK to perform the due diligence work.

The Brockham and Lidsey oilfields were brought into production in 2004 and 2008, respectively and Key considers both fields have further development potential. Investigations to date show that that daily production rates can be increased with the drilling of what will be the first horizontal well in the Lidsey field (Lidsey #2Z) and a possible sidetracking and/or workover of the Brockham #4z well. Planning for first development drilling has already commenced and it is currently being scheduled to take place in the first quarter of 2010, once drilling programmes, required approvals and suitable drilling rig and services have been sourced and secured.

Current combined oil production is in the region of 85 barrels per day with the use of artificial lift beam pumps. Produced oil is transported by road tanker to BP's Hamble receiving terminal facility, located near Southampton, where it is sold along with oil from other fields in the Weald Basin and surrounding areas.

The south of England contains the UK's largest onshore oilfield within the country which has produced in excess of 400 million barrels of oil to date and was capable of producing 100,000 barrels of oil per day at its peak.

Based on studies, a horizontal well in the Lidsey field has the potential to increase production, potentially up to 500 bopd. Key's personnel have already commenced design work on the well.

The acquisition of these low operating cost assets is an important step in Key Petroleum's growth path. It will deliver important cash flow to the Company on day one of it taking control of the producing assets and turn Key Petroleum into a balanced oil and gas exploration and production Company. The Company is already formulating plans to build on its presence in this area and take advantage of further opportunities in the UK as they present themselves.

## EXPLORATION ACTIVITIES

### OFFSHORE TANZANIA

#### Nyuni Block ( Key 20.0% )

**Kiliwani North #1 - Commercialisation Process** – The Joint Venture continues with its plans to commercialise the Kiliwani North #1 gas discovery. A specialist negotiator was recently engaged by the Joint Venture for the process to continue and assist in efforts to negotiate terms and conditions with the various government departments and potential clients.

As an aid to the negotiators, a full market review has been completed which now provides the Joint Venture with a clearer understanding of the markets for gas, both in the growing region of Dar es Salaam but also in and around the country where there is an ever growing demand for electricity and gas. There has also been a recent announcement that funding has been approved for a feasibility study to be undertaken to determine if the gas pipeline, that currently terminates in Dar es Salaam, would be an economic option if it were extended to Mombasa in Kenya.

A 2D appraisal seismic programme was approved over part of the Songo Songo Island and adjoining areas and will increase the confidence in defining potential sales gas volumes. Shot hole drilling for the survey commenced during June, prior to the first recording of data on 1 July. The survey has now ended and results will be interpreted by the Joint Venture.

### **OFFSHORE TANZANIA**

#### **West Songo Songo Block (Key 50.0% via its subsidiary Funguo Petroleum Pty Ltd)**

Following completion of the prospectivity assessment, Key has been reviewing public documents related to gas markets in East Africa. Key believes that the West Songo Songo licence has a strategic advantage over areas further east in the greater Songo Songo area, by virtue of being closer to the head of the (larger) onshore pipeline. Gas delivery and infrastructure availability are likely to become more critical issues for the Tanzanian economy. The potential for gas market expansion has been demonstrated by the East African Community having received a recent grant to investigate the feasibility of connecting Mombasa in Kenya with the operating Songo Songo to Dar es Salaam gas pipeline.

### **ITALY**

#### **ONSHORE ITALY**

##### **Borsano Permit (Key 100%)**

The Company continued working on its Borsano drilling preparation activities. The proposed drilling location lies in a built-up industrial area and a field visit was conducted during May to ensure that the location is still suitable for a drilling location.

#### **OFFSHORE ITALY**

##### **Application Areas (Key 100%)**

Key has 4 application areas as follows:

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

Key Petroleum, via its Italian subsidiary Puma Petroleum S.r.L, is currently awaiting confirmation of the transition from application to permit status for each of these offshore areas. It is anticipated that such confirmation will be received during the current quarter.

## **SURINAME (Onshore)**

### **Uitkijk and Coronie (Key net equity 1.75% indirect)**

**Uitkijk Block** – 10 well drilling campaign now completed. The Operator has not released any updated results at the time of issuing this report.

**Coronie Block** - Drilling expected to commence in August of 5 wells in the Coronie block following statement issued by Tullow Oil.

## **CORPORATE ACTIVITY**

**Opportunity Review** - Key has continued conducting ongoing strategic review of its activities and new venture opportunities throughout the quarter. An indication of the success of this work is the acquisition of the UK onshore oilfields via the purchase of unlisted Midmar.

**Capital Raising** - Capital raising to fund the development of the Brockham and Lidsey oilfields commenced with the dispatch of the rights issue documentation to shareholders. The capital raising is based on a 1:2 issue with the intention of raising up to AUD\$4.73 million dollars

## **ENQUIRIES**

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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.