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QUARTERLY REPORT

For the Quarter Ended 30th June 2010

HIGHLIGHTS

Australia

CAPITAL RAISING COMPLETED AND NEW VENTURE UNDERWAY IN NORTHERN PERTH BASIN

- Capital Raising - \$1.033 million dollars raised through share placing to institutional and sophisticated investors.
- 2 Well Drilling Programme - Key has entered into 2 well onshore drilling programme scheduled for Q3/Q4 2010, in northern Perth Basin and will earn 45% interest in Block EP 437 and any oil discoveries therein.

Southern England – Weald Basin - Onshore

OILFIELD PRODUCTION DECLINE ARRESTED, FLOW RATES STABILIZE AS OPERATIONAL CHANGES TAKE EFFECT.

- Oil sales of over \$500,000 achieved for Quarter.
- Stability in field production and decline rate of fields curtailed as modifications undertaken since acquisition by Key start to provide improvement in production operations.

UNITED KINGDOM

KEY PETROLEUM WEALD BASIN LTD - ONSHORE SOUTHERN ENGLAND

Brockham Oilfield (PL 235) and Lidsey Oilfield (PL 241) (Key 100%)

PRODUCTION OPERATIONS –

SALES COMPARISON – LAST 3 MONTHS

MONTH	LIDSEY SALES BBLs	BROCKHAM SALES BBLs	TOTAL SALES BBLs	CUMULATIVE PRODUCTION SOLD
JUNE	834	1267	2101	12,820
MAY	639	1272	1911	10,719
APRIL	426	1429	1855	8,808

Oil sales for the June Quarter were approximately AUD\$505,000. Prices received for oil were in the range of US\$75 per barrel. A softening of US\$ vs AUD\$ exchange rates was observed during the quarter.

In previous Quarterly reports the Company has announced that it had been making various changes to improve the way the fields were operated and that mechanical modifications were being made to the production process. It is now clearly being seen by the Company from trend analysis of production rates, prior to and post Key's ownership of these fields that production optimization measures have been effective. These measures have arrested the previously observed field decline, thereby potentially extending the producing life of the fields. Analysis of the production performance is ongoing and will continue in the months ahead. Further technical work and chemical treatments will be applied to maintain and improve production rates.

Production levels rose during the Quarter although June oil sales do not reflect total current production potential as one well was offline, awaiting equipment spares from overseas. This well has now recently been repaired and put back on line. Production rates from this well are being optimized at this time.

DRILLING OPERATIONS –

Preparations continued during the Quarter for the first development well drilling at the Lidsey oil field. One major step in this process, namely UK's Environmental Agency approval, has recently been achieved. Another required approval, consent of the local shire council planning authority is also being sought. In view of the anticipated time to gain this approval and drilling rig availability, the drilling of Lidsey #2z will likely be deferred until the December Quarter.

EXPLORATION ACTIVITIES

AUSTRALIA

NORTH PERTH BASIN

EP437 (Key Earning 45%)

Key Petroleum recently announced that it is entering into a farm-in agreement with CalEnergy Resources (Australia) Limited whereby Key will earn a 45% interest in the northern Perth block EP 437 by funding 60% (capped at AUD\$1.35 million) of the cost of a two well drilling programme, with a dry hole cost estimated to be \$2.25 million dollars.

Drilling is scheduled for the end of the September Quarter, beginning of December Quarter. The two wells, Dunnart #1 and Dibbler #1 have respective total depths of 750 and 550m and will be drilled 7 and 14km north of the Dongara oil and gas field respectively, the largest producing field in the northern Perth Basin. Twelve oil or gas fields have historic or ongoing production operations in this part of the basin by various operators over the years and a resurgence in exploration took place in the last decade after significant oil discoveries were achieved at Cliff Head and Hovea.

Easy access and their proximity to a large market and oil refinery ensure that even modest oil and gas fields can be profitable in the northern Perth Basin. The area has enjoyed some of the best operating netbacks in Australia adding to its attractiveness.

The exploration concept being applied by the joint venture in EP437 is to explore for traps where oil will have been displaced along what is referred to by geologists as “the spill chain” which in this case is leading updip from the Dongara and Mount Horner fields. Both Dunnart and Dibbler are classed as drill-ready targets and are regarded as oil prospects. Their shallow depth means that they can be drilled and tested by a light weight drilling unit, enhancing potential field economics. Several additional leads have been identified east and north of the Dibbler-Dunnart structural trend and will be reviewed further by the Joint Venture exploration teams.

CalEnergy will be the Operator in this Joint Venture. They are a Perth based, unlisted company and a MidAmerican Energy Holdings Company affiliate, which is part of the Berkshire Hathaway group.

OFFSHORE TANZANIA

Asset Divestment

Following a strategic review of its asset portfolio Key Petroleum commenced the process of divesting its offshore Tanzania assets of West Songo Songo (50% and Operator) and Nyuni (20%) during the Quarter. Despite the size of gas potential in the Tanzanian prospects in its portfolio and current industry interest in East Africa, Key made this decision after careful consideration with a view to allowing the Company to focus on its other assets that have potential for oil and a potentially quicker return on investment.

To facilitate the divestment, Key appointed a consultancy experienced in international asset sales with a mandate to prepare an Information Memorandum clearly describing the assets in detail and also to promote the assets to a range of prospective customers. The Company also opened an online virtual data room in support of this process to allow prospective customers access to a range of data and correspondence on the assets. This combined method of delivery of information to prospective customers has proven efficient and cost effective and a range of companies, both large and small have been provided with access capabilities. The Company is now working together with its advisers to gain expressions of interest from interested parties with a view to closing out the process.

Nyuni Block (Key 20.0%)

KILIWANI NORTH GAS DISCOVERY -

The commercialisation process has continued with further developments waiting on the Tanzanian government in relation to approval for Songas to expand gas processing facilities on Songo Songo Island and the environmental approval for the gas pipeline between the Kiliwani North #1 well and the Songo Songo gas plant. Other discussions on the commercialisation are being held between the Joint Venture Operator and Tanzanian parties.

The Kiliwani North #1 well tested gas at a rate of 40 mmscfd in June 2008 and since that time the Nyuni Joint Venture has, as part of its ongoing evaluation process, completed "in fill" seismic over Songo Songo Island during July 2009 to obtain a better understanding of the structure size. From the mapping of that seismic data and a number of reservoir engineering simulations, the Operator has concluded that the field has a mean probabilistic gas in place resource volume of 40 BCF with a high recovery factor.

NYUNI EXPLORATION PROSPECTS -

Following a TCM/OCM held in June, the Nyuni Joint Venture has decided to drill the Nyuni #2 exploration well during December 2010. It is planned that this well will be directionally drilled from Nyuni Island, in the North east of the Nyuni block, to a subsurface target location some 1.47 kilometres to the east, beyond the edge of the continental shelf. The well will crestally test a very large anticlinal closure that was drilled in 2003 / 04 by the Nyuni #1 well which discovered a 15m gas column in an Albian-Aptian sandstone body. At that time the gas bearing zone was not flow tested for operational reasons.

The deeper Neocomian sand unit which hosts the Kiliwani North and Songo Songo gas reservoirs was found to be water bearing in Nyuni #1 and represents the primary objective for the forthcoming well. A hydrocarbon / water contact was not established in Nyuni #1 and the Joint Venture Operator has estimated a mean resource potential of some 1 Tcf gas in the Nyuni Anticline.

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

EXPLORATION PROSPECTS -

Current activities in this licence area included a seismic reprocessing project to help better define known leads in the area such as Chocha and Afisi and others that are emerging following geological reviews as substantial prospects.

ITALY

ONSHORE ITALY

Borsano Permit (Key 100%)

The company does not have anything of substance to report on this permit at this time.

OFFSHORE ITALY

Application & Exploration Areas (Key 100%)

Key has three application areas and one exploration Permit as follows:

Lampedusa	d 341 C.R-.PU	Application
Lampedusa	d 342 C.R-.PU	Application
Elba	d 91 E.R-.PU	Application
West Sardinia	E.R54.PU – (Now Exploration, formerly d 90 E.R-.PU Application)	

The first exploration licence over these longstanding application areas, namely that of West Sardinia, was granted to Key's 100% owned subsidiary company, Puma Petroleum S.r.L, on 20th April 2010.

It had been anticipated that the award of the West Sardinia permit would soon be followed by the award of the Lampedusa blocks and then finally the South Elba area. However, minor permit border changes were requested by the Ministry for both Lampedusa blocks which have now been agreed. However, as a consequence of BP's oil spill incident in the Gulf of Mexico, the Company has been advised by the Italian Ministry of Economics that a moratorium on the award of offshore exploration areas has been imposed whilst a government committee investigates the implications of the GoM disaster. This moratorium will last until the Government has received a report from this committee and determined what actions, if any, it will take before reopening the award process. The Company has been advised that this committee could provide its findings in August or September 2010.

In addition, Key has recently been made aware of reports in the Italian media that have picked up on statements by various government ministers concerning proposed offshore limitations for drilling following the GoM disaster. It is the Company's view that most of these proposals are what can be described as "knee jerk" reactions to the USA well disaster. However, the Company is mindful of these concerns being expressed and that these proposals could adversely affect Key's offshore interests.

Key therefore has, through its representatives in Italy, requested clarification on these issues with the Ministry of Economics, the Ministry that handles all issues relating to Key's offshore interests in Italy.

Key has commenced a prospectivity evaluation of the western continental shelf of Sardinia and the E.R54.PU licence area. No seismic has been recorded in this region for over 20 years and existing seismic coverage is very sparse. Extrapolation from the regional geology and the onshore geological history has concluded that at least four play types may be developed in E.R54.PU. These include a deep gas play sourced by the Eocene coal measures that have been mined onshore in Sardinia since the 19th century. The presence of a younger oil prone play sourced from Miocene marine sediments is supported by "significant quantities of gasoline-range light hydrocarbons" cored during 1970 at shallow depth in a Miocene marl in DSDP hole 134, located at the foot of the Sardinia continental slope. This hydrocarbon manifestation is related to active seeps and oil slicks that have been widely known further west over large areas of the Gulf of Lyon.

SURINAME (Onshore)

Uitkijk and Coronie (Key net equity 1.75% indirect)

EXPLORATION PROSPECTS –

Key awaits information as to commencement of Coronie drilling activities and therefore has no further update at this time.

CORPORATE ACTIVITY

Capital Raising – A successful raising was undertaken and completed in July 2010 with an amount of approximately \$1.033 million raised at a price of 5.3cents per share from Institutional and sophisticated investors under the Company's 15% capacity through the ASX listing rule 7.1.. Pursuit Capital Pty Ltd was contracted to act as Lead Managers for this raising. As an incentive, in a very difficult market, those investors who subscribed to 4 million shares or more are to be allocated unlisted options in the Company on a 1 for 2 basis, with an excise price of \$0.075 per option. Expiry of the options will be on 30th November 2011. These options are subject to shareholder approval being granted. The funds are to be used for general working capital and in relation to the drilling of the two new wells in the northern Perth Basin.

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 35 years experience in the sector. He consents to that information in the form and context in which it appears.