

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

### **HIGHLIGHTS**

#### **KEY PETROLEUM PRODUCES FIRST OIL**

##### **Southern England – Weald Basin - Onshore**

- **Oil Producer Status** - Purchase of Midmar Energy Onshore Limited completed on 30<sup>th</sup> September 2009 giving Key 100% ownership of two (2) onshore producing oilfields at Lidsey and Brockham.
- **First export of crude from new oilfields** – Road tanker movements of oil under Key Petroleum's name has provided immediate revenue stream from the new acquisition.

#### **POTENTIAL 7 MILLION BARRELS OF OIL**

##### **Suriname**

- **Uitkijk – 7 million barrels of oil in block** – State owned exploration and production company Staatsolie Maatschappij Suriname N.V. (Staatsolie) announced a total of ten (10) wells have been drilled within the recent programme. All ten (10) wells showed good oil indications and preliminary estimates indicated a potential field of seven (7) million barrels reserves.
- **Coronie** – Five (5) well drilling campaign, now expected to commence during November following delays in receiving the drilling rig from current location. Staatsolie has announced that if initial Coronie results are promising a second phase will commence with a minimum of ten (10) wells.

## **CAPITAL RAISING**

- **Capital Raising - AUD\$4.73 MM** – Successfully completed

## **ENGLAND**

### **KEY PETROLEUM WEALD BASIN LTD - ONSHORE SOUTHERN ENGLAND**

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

Completion of the purchase of 100% of Midmar Energy Onshore Limited (MEOL), took place on 30<sup>th</sup> September 2009. Following the transfer of ownership MEOL's name has been changed to Key Petroleum Weald Basin Ltd..

The acquisition cost of £2 million (approx AUD\$4.00 MM) was paid out of Keys cash reserves at that time and provides immediate production revenue to Key. The acquisition included additional production equipment and drilling equipment.

A small number of personnel have joined Key as part of this acquisition ensuring a smooth and effective transition to Key.

The Brockham and Lidsey oilfields were brought into production in 2004 and 2008 respectively. The combined production rate from both oilfields at Key's assumption of control was approximately 85 barrels per day. Key believes both fields have further development potential and planning has already commenced for the first development drilling at Lidsey currently scheduled to take place in the first quarter of 2010.

A drilling programme is being prepared and discussions with the relevant authorities, drilling rig and drilling services providers have commenced.

Importantly for Key shareholders, shipments of oil from the oilfields have started under Key Petroleum's name.

## **EXPLORATION ACTIVITIES**

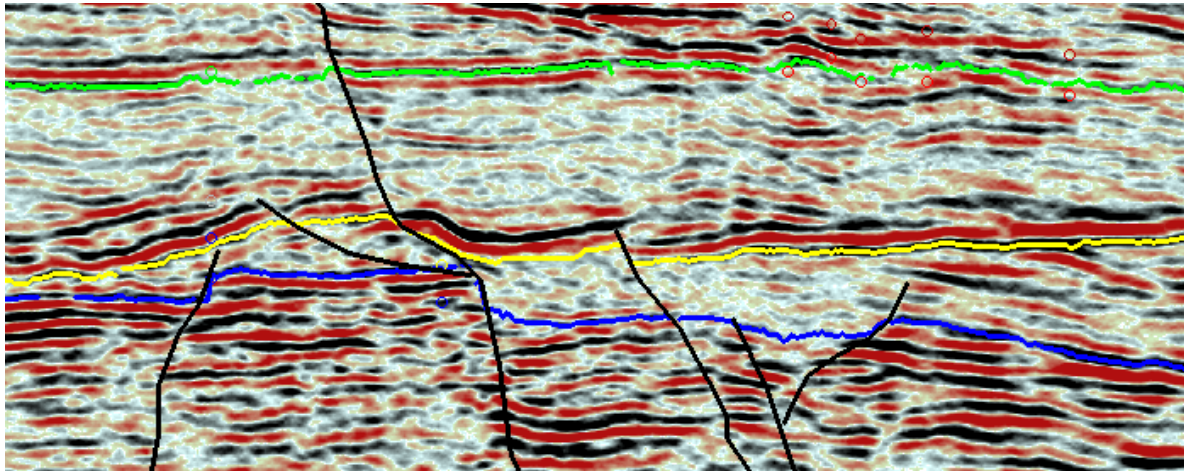
### **OFFSHORE TANZANIA**

#### **Nyuni Block ( Key 20.0% )**

**Kiliwani North** – The commercialisation process has continued but further developments are waiting on the Tanzanian government to grant permission to Songas to allow expansion of the gas plant on Songo Songo Island. The gas discovery at Kiliwani North is at the end of a major pipeline and development is a relatively straightforward process if the joint venture tie back the Kiliwani North field to the Songo Songo gas plant. This is an option as there are a growing number of potential customers for Kiliwani gas, however, until this approval process is completed the present restrictions in the system will curtail field development progressing.

The Kiliwani North #1 well was tested and declared a discovery well at 40 mmcf/d gas 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 the middle of 2009 to obtain a better understanding of the structure size. The joint venture continues its evaluation of reserves utilizing this recently obtained seismic with the operator recently stating that the closure is larger than anticipated. Below is an example of the new seismic which is helping the joint venture engineers and geoscientist get a clearer understanding of the Kiliwani North structure.

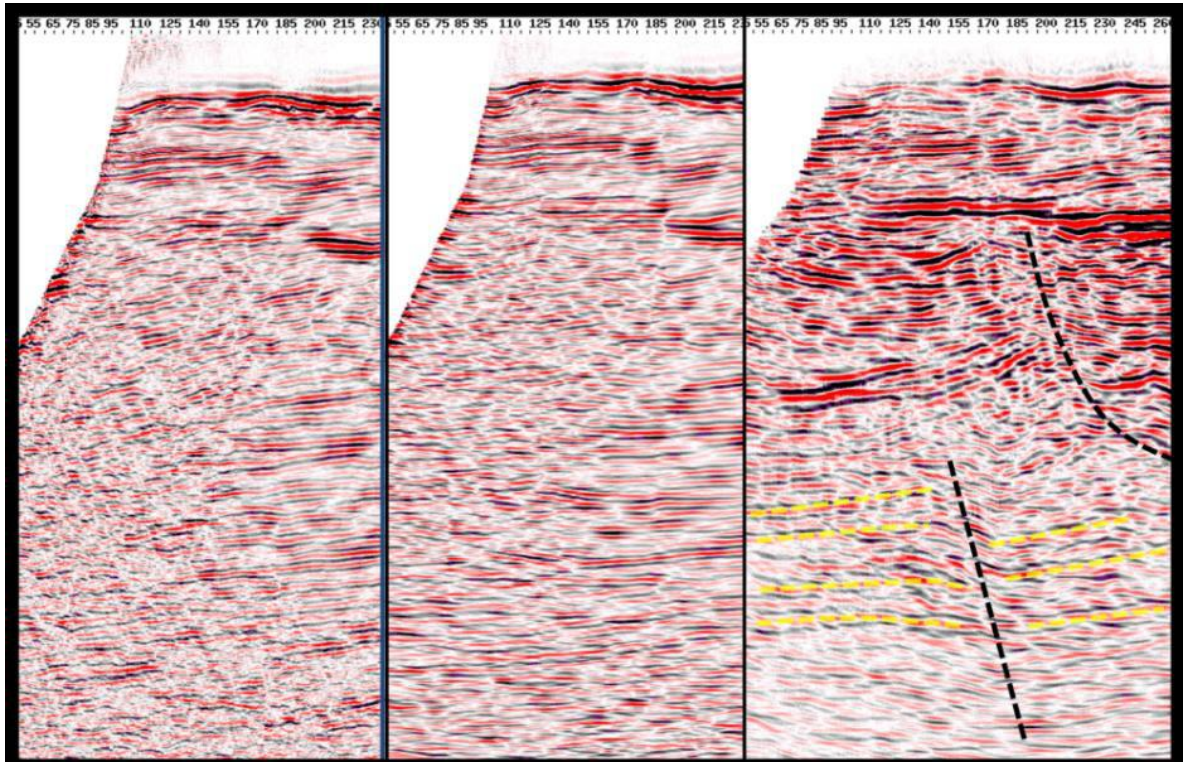
## KILIWANI NORTH DISCOVERY



*Example of the New 2009 Transition Zone Seismic Profile Through the Kiliwani North Structure*

## Nyuni Exploration Prospects –

Seismic reprocessing of legacy 2D data (1978-2007) by Spectrum Geo Ltd is resulting in significantly improved imaging of the Neocomian and Upper Cretaceous section. This data was previously severely degraded, particularly in the north of the PSA. The new processing is enabling the recognition of potential new structural prospects as well as a new prospective play type as the schematic below shows.



The joint venture continues with reprocessing of all relevant seismic lines. Reprocessing is expected to be completed by year end. Existing mapping by the seismic interpretation company ISIS for the joint venture includes potential for in excess of 1 tcf of gas in place

The reprocessing exercise is expected to upgrade the potential of this PSA.

## **OFFSHORE TANZANIA**

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

The West Songo Songo location 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. With this in mind the company contracted the engineering group, AGR to study the feasibility and cost of constructing production facilities and undertaking well tie back to take advantage of the permit location. The scope of work for this was based around maintaining minimal cost and an ability to fast track development. The report has provided the joint venture with a number of scenarios for producing and transporting produced gas or oil which it is now reviewing.

The company has also been reviewing the liquids potential of the permit as it believes a successful oil find in the area would prove to be very beneficial to the local economy as well as joint venture partners.

## **ITALY**

### **ONSHORE ITALY**

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

The company continued working on its Borsano drilling preparation activities however as the proposed drilling location lies in a built-up area various environmental issues are causing the company some concern. Discussions are ongoing.

### **OFFSHORE ITALY**

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

Key has four (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, via its Italian subsidiary Puma Petroleum S.r.L, held meetings with the Ministry of Economics in Rome during the quarter in an effort to expedite the process for completing the change over from application to granted permit status. The Ministry has been helpful in this matter however Key continues to await confirmation of the transfer from application to granted permit status for its offshore areas.

### **SURINAME (Onshore)**

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

In its 2009 half year report the state owned exploration and production company, Staatsolie Maatschappij Suriname N.V. (Staatsolie), which is the parent company of Paradise Oil, announced that the drilling undertaken in the Uitkijk block to the east of the 1 million barrel Tambaredjo field has found significant oil reserves. These are currently estimated by Staatsolie to be 7 million barrels. Drilling is being undertaken in Suriname by Tullow Oil in conjunction with Paradise Oil. Key holds an indirect interest through an agreement with Hardman Oil and Gas Pty Ltd, now a wholly owned subsidiary of Tullow Oil plc.

In its announcement Staatsolie stated that a total of ten (10) wells had been drilled during this current drilling programme. All ten (10) wells showed good oil indications.

The announcement also stated that the five (5) well drilling campaign in the Coronie block, was on track but Key has since been advised that operations are now expected to commence during November. This slippage is believed to be due to delays in receiving the drilling rig from its current location.

Staatsolie has also announced that if the results from these first five (5) Coronie wells are promising then a second phase will commence with a minimum of ten (10) wells to be drilled.

## **CORPORATE ACTIVITY**

**Capital Raising** – The company raised approximately AUD\$4.73 Million in the quarter through a 1 for 2 renounceable entitlement offer of Key Petroleum Limited fully paid ordinary shares at an offer price of \$0.11 per share.

The offer closed on 5th August 2009 with the company raising over \$3.6 million dollars from new and existing shareholders. The remaining shortfall of approximately \$1.1 million dollars was later allocated to sophisticated investors. Securities now quoted on the ASX total approximately 129 million shares.

These funds are being used for development of the Brockham and Lidsey oilfields, which has already commenced and to provide working capital.

## **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.