

QUARTERLY REPORT *For the Quarter Ended 30th September 2008*

HIGHLIGHTS

NYUNI BLOCK – TANZANIA

- **Work programmes and budgets for 2009** - OCM and ACM meetings held to formalise work programs and budgets for 2009
- **Kiliwani North Commercialisation Process** - The Operator has advised Key that it is awaiting formal responses from TPDC (Tanzanian Petroleum Development Corporation) / Ministry of Energy on a number of issues relating to commercialisation process and declaration of licence areas.
- **Environmental Impact Assessments (EIA's)** - being undertaken for Nyuni PSA area and KN #1 infill 2D seismic surveys.
- **Jack-up rig – East coast Africa – Rig/Cost sharing opportunities** - reviewed with other explorers in Tanzania.

WEST SONGO SONGO BLOCK – TANZANIA

- **Geological Interpretation** – Additional seismic data loaded for lead generation.

NAMIBIA

- **Consortium awaiting Ministry of Energy responses** - on an Exploration Licence over part of the RL area. The Ministry has acknowledged the application and the Consortium awaits an invitation to negotiate the Exploration Licence with the Ministry.

SURINAME

- **5 Additional wells** - Operator announced that an additional 5 wells are to be drilled in last quarter 2008 in the onshore Uitkijk block.

CORPORATE

- **2008 Annual Report** and notice of Annual General Meeting issued.
- **US\$ vs AUD\$** - Hedge in place.

EXPLORATION ACTIVITIES

OFFSHORE TANZANIA

Nyuni Block (Key 20.0%)

Kiliwani North Commercialisation Process

The joint venture Operator held discussions throughout the quarter with various parties within Tanzania involved in the transportation, purchase and sale of gas as well as utilities. At the same time, proposals for a production gas transmission line from the KN #1 well head to the Songo Songo plant were being investigated. Options such as a stand-alone production plant are also being reviewed by the Operators technical team and consultants. This work is ongoing.

A TCM (Technical Committee Meeting) was held in London where the participants' technical specialists met to discuss the proposed programme for the acquisition of 2D infill seismic line data over KN#1 in the Nyuni block. A review of an assortment of leads and prospects that have been generated by the joint venture participants' geological teams, as a way to define drilling targets for 2009/2010, was also performed. As a consequence of this meeting, Environmental Impact Assessment (EIA) is now underway in the Nyuni PSA and KN #1 areas in preparation for 2D seismic surveys.

General

2009 work programmes and budgets for the block were presented to the TPDC / Ministry during a recent ACM (Activities Committee Meeting)

OFFSHORE TANZANIA

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

Additional pre-existing seismic data, much of it being high quality seismic acquired in 2005, has been loaded into workstations during the quarter. The Company's geological team has continued to map and conduct interpretation of the area, identifying structures and other leads at various stratigraphical levels.

A presentation of the work carried out on the block to date was recently made to TPDC in a formal ACM meeting held in Dar es Salaam by Key's Management and senior personnel. It was an important step in the operation of the permit as it was the first meeting that allowed Key to present to the governmental body an overview of the quality of work currently being undertaken by the Company. During this meeting Key presented information on various leads being generated and also discussed the proposed 2009 budget and work programme for the area. A favourable response was received from the TPDC, acknowledging the large amount of work that had been undertaken by the Company's personnel to date.

TANZANIA GENERAL

On a commercial basis, various administrative requirements have also been completed in Dar es Salaam relating to the operational requirements of the Company's wholly-owned Tanzanian subsidiary, Funguo Petroleum Pty Ltd.

Rig sharing opportunities have been discussed with a number of companies who are designated Operators in Tanzania and although the benefits of conducting such operations could be seen, the indicative commercial terms at this time were not acceptable to the majority. It was, however, agreed that propositions such as this would be reviewed in the future.

NAMIBIA - NEW VENTURE

Reconnaissance Licence No. 1 of 2007 - Offshore Walvis Basin

Application - Exploration Licence and Petroleum Agreement (Key 50%)

NAMIBIA

The Namibian Ministry of Energy has been notified of the desire to convert part of the area of the existing Reconnaissance Licence into an Exploration Licence. The Ministry has acknowledged the application and the Consortium now awaits an invitation to negotiate the Exploration Licence with the Ministry. While the consortium, awaits this invitation, a number of prospective offshore trends and leads have been mapped.

ONSHORE ITALY

Borsano Permit (Key 100%)

Key personnel visited ENI in Milan and undertook reviews of various additional seismic lines relating to the Borsano area. The drilling programme for Borsano has now been agreed by Key's Perth based and Italian drilling teams and the documentation is being translated into Italian for submission to the Ministry.

OFFSHORE ITALY

Application Areas (Key 100%)

Key has four application areas as follows:

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

The Company is still awaiting response from the Ministry of Environment as to the progress of its applications and the review of the Environmental Impact Assessment studies (EIA) previously submitted for each area. Indications are that Key will be formally informed in the near future on this matter.

ONSHORE SURINAME

Uitkijk and Coronie (Key indirect 1.75%)

Key is participating in a multi-well drilling programme in 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 owned by Tullow Oil Plc. Both areas are located adjacent to Suriname's main producing oil fields, Tambaredjo and Calcutta.

Following the initial drilling campaign in the Uitkijk block, east of Tambaredjo, where 3 of the 5 wells drilled encountered hydrocarbons drilling is now expected to recommence in this current fourth quarter with a further 5 well exploration campaign in the Uitkijk block and 5 wells in the Coronie Block, to the west of Tambaredjo.

CORPORATE ACTIVITY

During the quarter, management and senior personnel travelled to Tanzania, Dubai, Cape Town and London partaking in various technical and commercial meetings as well as making a number of presentations to government bodies. All meetings were either required or organised to progress the Company's projects and source new potential growth opportunities.

Concerns earlier in the quarter with negative sentiment developing in some financial markets towards the Australian dollar, the Company's management hedged against a fall in the Australian dollar against the American dollar by purchasing additional US currency, sufficient to cover the Company's exploration budget for 2008/09. This has proven to be a wise decision based on the subsequent deterioration in value of the Australian dollar.

The 2008 Annual Report and notice of Annual General Meeting have been circulated to shareholders and posted on the Company's website at www.keypetroleum.com

ENQUIRIES

Please direct any queries to:

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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.*

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 2008

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 (b) development (c) production (d) administration	(1,209) - - (184)	(1,209) - - (184)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	185	185
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	(1,208)	(1,208)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (48)	- - (48)
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	(48)	(48)
1.13 Total operating and investing cash flows (carried forward)	(1,256)	(1,256)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,256)	(1,256)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
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	-	-
	Net increase (decrease) in cash held	(1,256)	(1,256)
1.20	Cash at beginning of quarter/year to date	8,778	8,778
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	7,522	7,522

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	205
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	1,000
4.2 Development	-
Total	1,000

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	547	143
5.2 Deposits at call	6,975	8,635
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	7,522	8,778

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	74,971,672		
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>	44,000,002 225,000	44,000,002 Nil	<i>Exercise price</i> 35 cents 35 cents	<i>Expiry date</i> 31 March 2009 31 March 2009
7.8 Issued during quarter				
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: **31 October 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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