

KEY
PETROLEUM LIMITED

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QUARTERLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2016

ACN 120 580 618

UPDATE ON PETROLEUM EXPLORATION ACTIVITIES

Highlights for the Quarter

- ⚙ EP437 Joint Venture budget approved for drilling of exploration well Wye Knot-1 in the North Perth Basin in 2017;
- ⚙ Grant of \$200,000 via the Western Australian Government Exploration Incentive Scheme (“EIS”) to EP437 Joint Venture for drilling of Wye Knot-1;
- ⚙ Scouting of well location for Wye Knot-1 in conjunction with preliminary contractor enquiries for drilling and third party services;
- ⚙ Commenced work on regulatory approvals for drilling in EP437;
- ⚙ Initiated technical studies to integrate Permian exploration potential into prospective resources in the Wye Knot prospect area;
- ⚙ Significant oil and gas prospects and leads identified in preliminary studies of WA-481-P;
- ⚙ Completion of 2016 wellhead maintenance and field activities in the Canning Basin;
- ⚙ Application made to extend EP104 Permit Year 2 due to delays in the Native Title approvals process; and
- ⚙ Grant of Special Prospecting Authority (SPA 20 AO) covering six graticular blocks in the Bilyana region, Canning Basin, Western Australia.

Activities Subsequent to the Quarter

- ⚙ WA-481-P Operator, Pilot Energy Limited, provided an update to the market on preliminary prospectivity; and
- ⚙ Department of Mines and Petroleum (“DMP”) approval of Year 2 extension to conduct geochemical survey in EP104.

Activities for the Upcoming Quarter

- ⚙ Completion of geological studies of Permian prospective resource potential of Wye Knot prospect area;
- ⚙ Finalise the drilling location of the Wye Knot-1 well, designed to optimise any significant Permian prospective resource potential in the Wye Knot prospect;
- ⚙ Commencement of tendering for drilling and third party services for drilling of Wye Knot-1;
- ⚙ Completion of due diligence on a number of potential new ventures the Company has continued to evaluate during the past year;
- ⚙ Planning of field activities and airborne surveys along the Lennard Shelf trend in the Canning Basin including, R1 and SPA-20AO; and
- ⚙ Completion of planning for the EP104 geochemical survey.

OFFSHORE NORTHERN PERTH BASIN, WA-481-P, PERTH BASIN

KEY PETROLEUM LIMITED (via wholly owned subsidiary)	40%
PILOT ENERGY LIMITED (Operator)	60%

WA 481P-

WA-481-P is operated by Pilot Energy Limited (“Pilot” or “the Operator”) and is located in shallow waters to the west of the onshore Dongara/Beharra Springs/Waitsia gasfields, and the Jingemial/Hovea/Cliff Head oilfields. During the quarter, Pilot updated the Joint Venture which is now focused on three primary areas including the Frankland gas discovery area, Cliff Head South play area and Leander reef area.

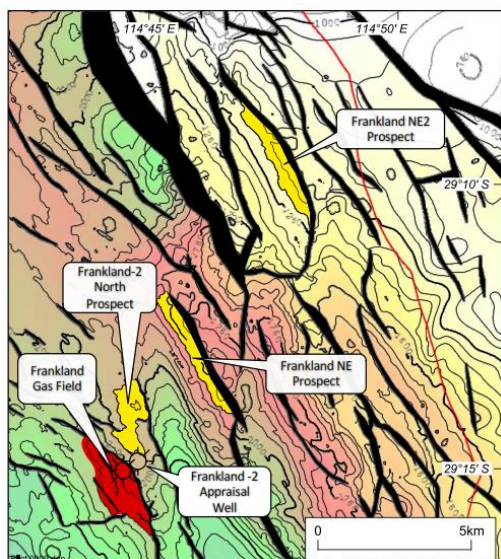
The Frankland gas play lies on trend with the Frankland-1 gas discovery, which has estimated 2C contingent resources of 39 Bcf gas. At least two robust structures are located to the northeast of Frankland-1, offering the potential to increase the resource base to above the minimum economic limit – estimated by Pilot Energy to be 60 Bcf gas at a gas sales price of A\$6.50 per mmbtu. Importantly this play has been largely de-risked by the Frankland-1 well, and the Company will consider conducting a seismic inversion study in order to further de-risk these prospects. In the event of future exploration success, commercialisation of two or more fields could occur as a hub, tied back to the onshore Dongara gas facility, located some 20km to the east.

The Cliff Head South play incorporates two structural prospects, both of which lie to the south and west of the Cliff Head oil field. These prospects are of a comparable size to Cliff Head itself (18 Mmbbls) and are situated between Cliff Head and the hydrocarbon source kitchen to the west. The oil within Cliff Head would have potentially migrated directly through this area, resulting in a high probability for oil charge in to the prospects. While the prospects are large, even a small discovery could likely be developed, by tying back to the Cliff Head offshore facility approximately 10km to the northeast.

The Leander Reef play area offers potential for very large accumulations of oil. Three large structures exist to the west of Cliff Head, each of which is expected to offer potential in the region of 100 Mmbbls oil. While the Leander Reef-1 well was drilled in the area in 1984, the structures remain untested. This is due to the fact that the well intersected a fault at a location where the Dongara reservoir target has been “faulted out” and the reservoir was absent due to movement on the fault. While currently higher risk than the Frankland and Cliff Head plays, the Leander Reef area warrants further study as a possible future drilling target due to the huge upside potential. In addition to the Frankland, Cliff Head and Leander Reef plays previously announced, a fourth play has been identified in the vicinity of the Dunsborough oil discovery and the Operator is presently finalising its estimate of prospective resources for each prospect, and anticipates announcing the results by end January 2017.

As announced on 16 November 2016, Pilot received a transfer of Petroleum Resource Rent Tax (“PRRT”) credits, as the final step in completion of the acquisition of exploration permit WA-481-P. The undeducted exploration expenditure of \$65,518,292 represents the previous titleholder’s net exploration cost during the primary term, 40% of this sum will be assigned to Key in accordance with the permit interest held.

The PRRT credit greatly increases the value of any commercial discovery in WA-481-P due to the fact that the undeducted expenditure is uplifted on an annual basis and available as a deduction against assessable petroleum sales income for PRRT. PRRT is levied at a rate of 40% and the liability associated with development of any future discoveries in the permit is reduced by over \$75 million.

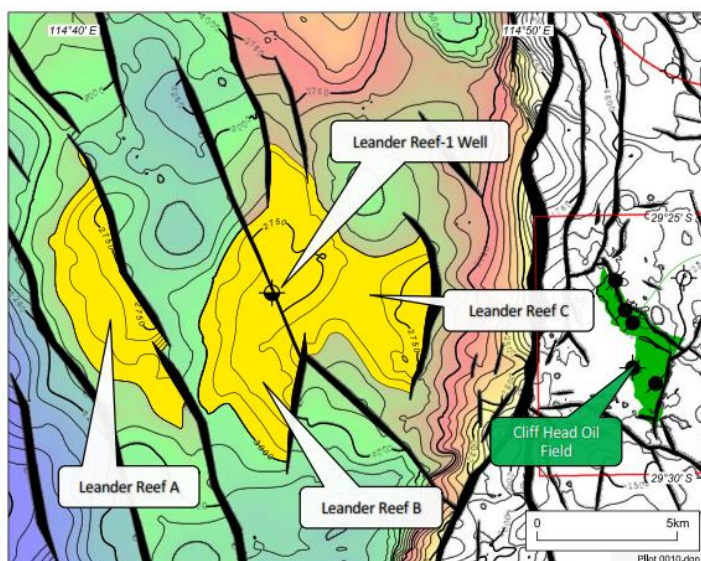
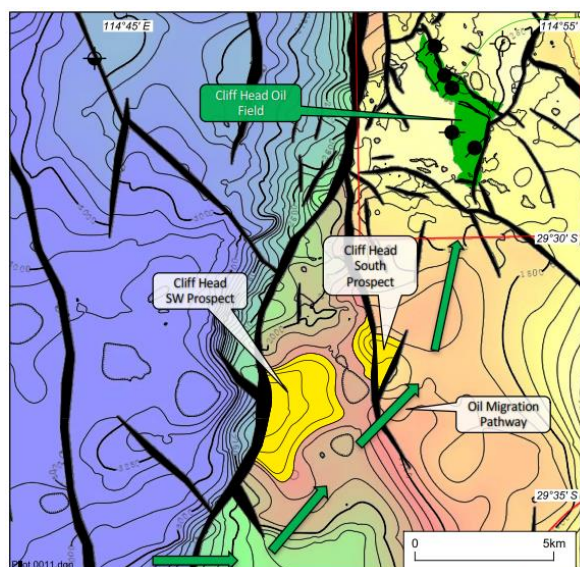


Frankland Trend Prospects

- ☼ Frankland-1 gas discovery contains 2C contingent resources of 39Bcf.
- ☼ Minimum economic field size estimated at 60 Bcf, assuming gas sales price of A\$6.50 per mmbtu.
- ☼ Frankland-2 appraisal well was drilled in structurally low position.
- ☼ Three additional structures mapped on trend.
- ☼ Hydrocarbon play already de-risked by Frankland-1 well.
- ☼ Discovery of additional gas resources would likely result in commercial development.
- ☼ Dongara gas facilities located just 20 km to east.

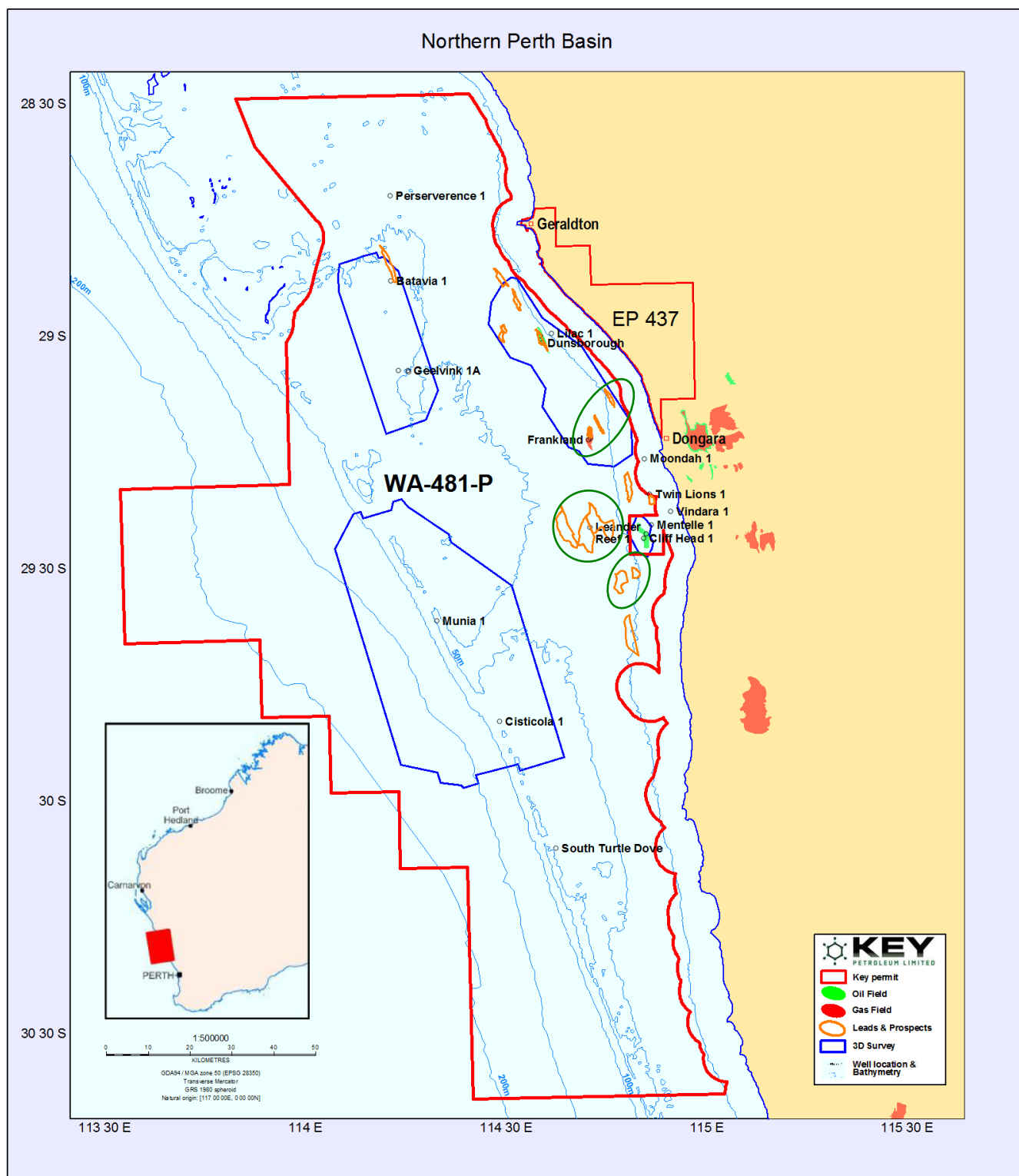
Cliff Head South Prospects

- ☼ Two prospects located to south of Cliff Head oil field (18 Mmbbls).
- ☼ Located directly on oil migration path source kitchen to Cliff Head.
- ☼ Good potential for large discoveries, comparable to Cliff Head in size.
- ☼ Small discoveries in the order of 5 Mmbbls could be commercialised via Cliff Head facilities just 10 km to the north east.



Leander Reef Prospects

- ☼ Three very large untested structures.
- ☼ Each exhibits structural closure over an area of more than 20 km².
- ☼ Leander Reef-1 well was drilled in 1984.
- ☼ Encountered oil and gas shows.
- ☼ Drilled into fault missing the target reservoir horizon.
- ☼ Prospects could each be in the order of 100 Mmbbls.
- ☼ Located between oil source kitchen and Cliff Head oil field.



Location of WA-481-P, Offshore Perth Basin, Western Australia including the three current areas of focus (green circles)

ONSHORE NORTHERN PERTH BASIN PROJECT, EP437, PERTH BASIN

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	43.47%
REY RESOURCES LIMITED (via wholly owned subsidiary)	43.47%
PILOT ENERGY LIMITED	13.06%

EP437

During the quarter, Key Petroleum Limited (“Key” or the “Company”) received budget approval from its Joint Venture partners Rey Oil and Gas Perth Pty Ltd and Pilot Energy Limited for the EP437 Permit Year 3 work program and budget which includes drilling of the Wye Knot commitment well.

The Joint Venture has also received notification from the DMP that it has been successful in its application for a \$200,000 EIS grant which will be applied against the cost of the exploration well. The anticipated budget for the well, inclusive of a contingency amount, is \$1.9 million before applying the amount from the EIS grant.

Study work undertaken during the quarter involved a comprehensive review of wells near the Wye area and an updated geophysical mapping study of the Wye area (eastern part of the permit).

Gas encountered in the Wye-1 discovery well is dry, and compares well to the dry gas at the Dongara oil and gas field directly south which is not in equilibrium with the Dongara oil. The gas is likely generated largely from the Irwin River Coal measures, and the oil is likely sourced from the Lower Triassic Kockatea Shale or Irwin River Coal Measures.

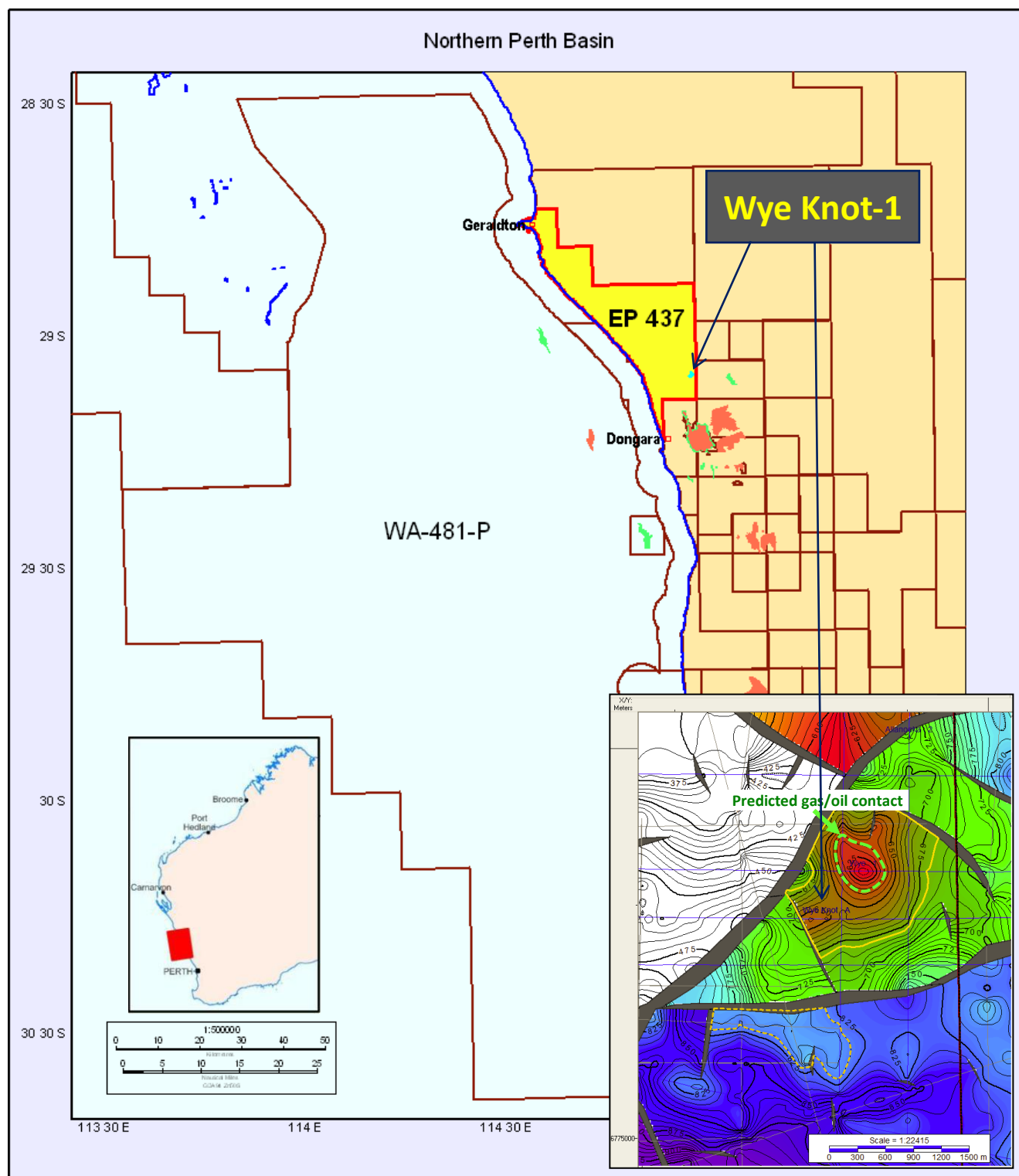
In the Dongara Field, an oil leg was eventually found in the Dongara-8 well which flowed at 800 barrels of oil per day, some 3 years after the initial gas was flowed at 10 mmscf/d. The Dongara oil column was established with a height of 22 metres below a gas cap of 122 metres.

This and later exploration successes, including the Hovea field establish a dual charge model (oil charge first then later gas charge) for the North Perth Basin area. Similar (Kockatea sourced) oils have been found in wells with shows to the north (Connolly-1 and Condor-1), updip from the Wye-1 migration path.

The combined results of the work supported drilling of the Wye Knot Prospect, which is positioned a step out distance sufficient enough to investigate the potential for an oil leg below the gas pay encountered in Wye-1 in the Triassic Bookara and Arranoo sands but also sufficiently test the potential of the Permian sequence which was not intersected at Wye-1. This step out location is at a distance which suggests the gas cap does not extend outward from Wye-1 at a depth greater than 650 metres subsea.

The rig availability, DMP approvals, well planning, land access and procurement process will determine the schedule for the drilling of Wye Knot-1, however Key will provide the market with an update on an estimated spud date as activities progress.

Both during and after the quarter, Key conducted preliminary field and desktop work in preparation for drilling. This work included preliminary scouting of well locations (refer below), Key Dongara field camp works, servicing of generators, earthworks equipment and vehicles and the sourcing of cellar and water well fittings.



EP437 Permit with location of Wye Knot Prospect

Key confirms the base case prospective resources for the Triassic interval, incorporating Arranoo potential is 1.4 Mmbbls gross unrisked as per below. Please note the below resources do not include any Permian reservoir section which is currently being assessed and to be disclosed to the market in due course.

Reservoir	Gross (100%) Mmbbls			Net to Key (43.47%) Mmbbls		
	Low	Best	High	Low	Best	High
¹ Triassic	0.16	1.4	6.1	0.07	0.61	2.65



Key personnel conducting field work in the Perth Basin in preparation for drilling



Key operations and accommodation base in Dongara from where Perth Basin operations will be coordinated

¹ Refer Key Petroleum Limited (ASX: KEY) EP437 Work Programme and Budget Approved Announcement released to the ASX on 19 December 2016.

NORTHERN CANNING PROJECT, CANNING BASIN

EP104

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	89.23%
INDIGO OIL PTY LTD	10.77%

R1

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	85.23%
INDIGO OIL PTY LTD	14.77%

L15

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	85.40%
INDIGO OIL PTY LTD	14.60%

SPA 20 AO

KEY PETROLEUM LIMITED (via wholly owned subsidiary) (OPERATOR)	100.00%
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After receiving all relevant approvals required during the last quarter Key attempted to carry out the required care and maintenance activities to the three suspended wells located in L15 and R1 but due to wet weather and high tides were only able to conduct field maintenance in L15. All work was completed on time, under budget and with no safety or environmental incidents.

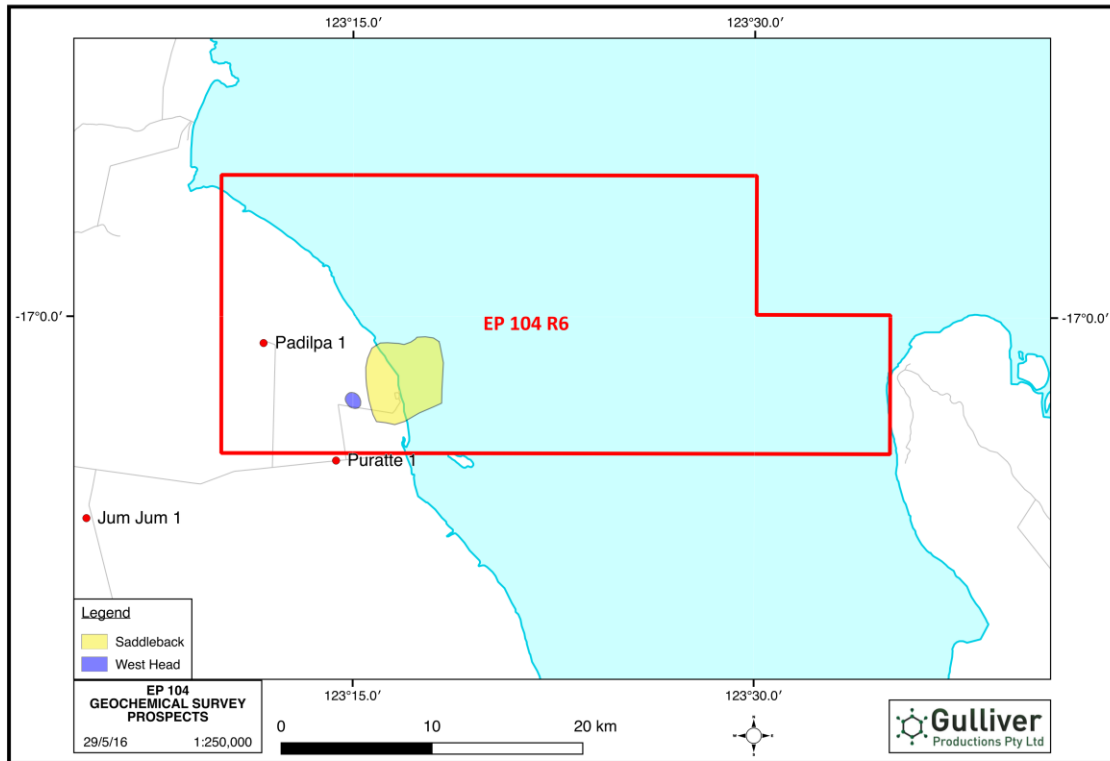
The planned 4.5 kilometre Saddleback Geochemical Survey over the onshore south western part of EP104 has been delayed due to the current stakeholder liaisons with relevant Native Title Parties. Our current advice is that these discussions will not proceed until the end of January 2017 at the earliest and given these circumstances Key has applied for, and now received, a six month suspension of the EP104 Year 2 Work Program.

The Company has been granted a Special Prospecting Authority (SPA 20 AO) ("SPA") covering six (6) graticular blocks adjacent to the productive oil trend in the Bilyana Region in the northern Canning Basin, Western Australia. These blocks border Retention Lease R1 ("R1") to the north, Production Licence L15 ("L15"), also to the north, and Exploration Permit EP104 ("EP104"), an exploration permit which is mainly on an offshore extension of this trend.

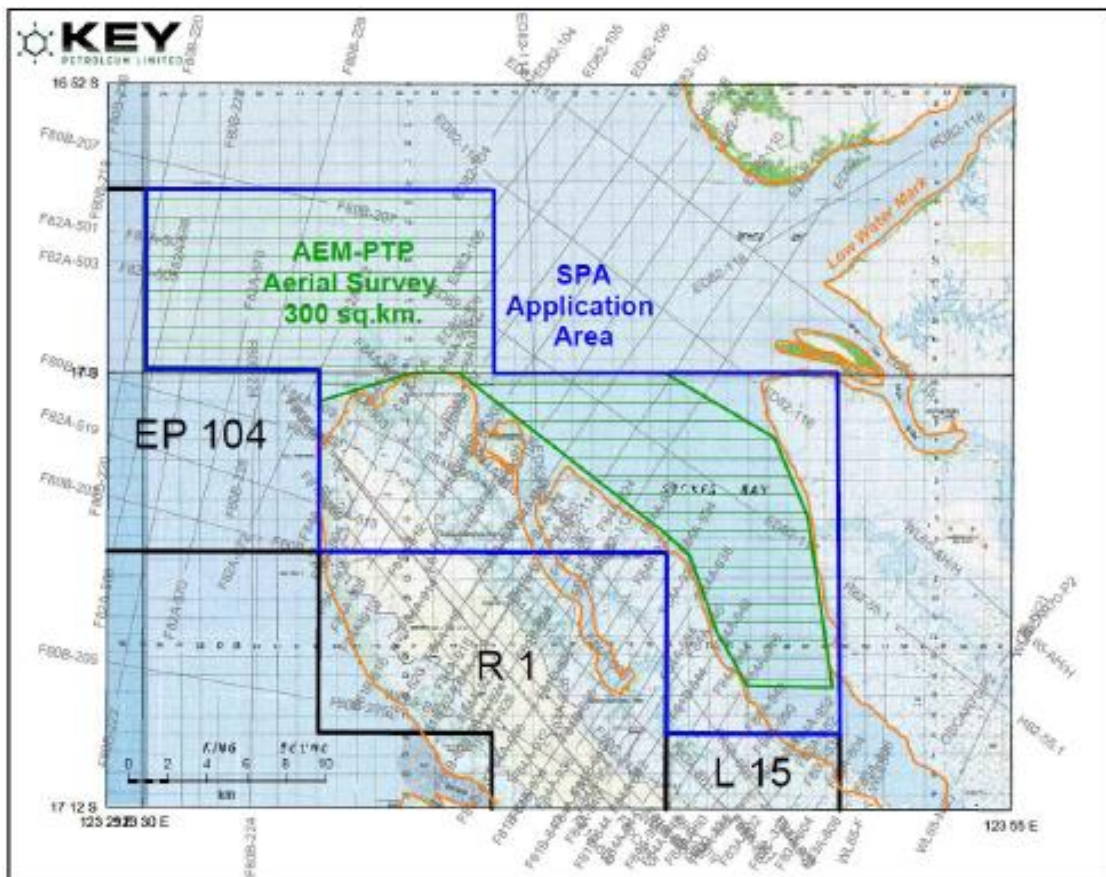
Mapping on vintage seismic has shown potential Devonian-age source rocks which are interpreted to exist in the southern parts of the SPA area and are thought to be within the oil window. In addition to those already mapped prospects and leads from vintage 2D seismic, and in relation to large carbonate build up and reefal geometrical plays identified in the offshore components of EP104, an airborne electromagnetic survey ("AEM-PTP") is planned to be acquired over the offshore component of the Point Torment Peninsular encompassing the SPA. The purpose of the survey is to identify additional prospects and leads in the back reef complex which are not delineated by the current vintage 2D seismic.

The SPA remains in force for a period of six (6) months after which time the Company is authorised to applied for a petroleum permit in respect of 100% of the SPA area up to October 2017.

The next quarter's activities will be focused on planning of EM-PTP surveys within R1 and SPA 20 AO and the geochemical ground survey over the Saddleback prospect within the onshore component of EP104.



EP104 Location of Saddleback Prospects (yellow and purple) to be de-risked by geochemical survey



Location of AEM-PTP survey in SPA 20 AO

CURRENT OUTLOOK FOR KEY PETROLEUM

At the end of the quarter the Company had \$0.76 million cash on hand.

Exploration spend for the quarter was \$0.15 million which related to well pre-planning for the upcoming Wye Knot 1 exploration well, geological work carried out in WA-481-P and care and maintenance work on the suspended West Kora-1 well in L15. There were also costs incurred in assessing new venture opportunities. Offsetting the expenditure for the quarter was a partial refund of the EP448 annual permit fee following the surrender of the permit in the previous quarter.

Forecast expenditure for next quarter is anticipated to be \$0.18 million comprising of well pre-planning and long lead items for Wye-Knot-1 and completion of assessment of new ventures.

Overhead expenditure of \$0.21 million was marginally higher than the previous quarter and expenditure for the coming quarter is expected to be lower than this quarter with a forecast \$0.16 million.

PETROLEUM PERMIT SCHEDULE

Petroleum Permit	Type	Location	Interest at Beginning of Quarter	Interest at End of Quarter	Acquired during Quarter	Disposed during Quarter
EP104	Exploration Permit	Canning Basin, WA	89.23%	89.23%	-	-
R1	Retention Lease	Canning Basin, WA	85.23%	85.23%	-	-
L15	Production Licence	Canning Basin, WA	85.40%	85.40%	-	-
EP437	Exploration Permit	Perth Basin, WA	43.47%	43.47%	-	-
WA-481-P	Exploration Permit	Offshore Perth Basin, WA	0%	40.00%	40.00%	-
SPA 20 AO	Special Prospecting Authority	Canning Basin, WA	0%	100.00%	100.00%	-

ASX Listing Rule 5.4.3

IAN GREGORY

COMPANY SECRETARY



Dated: 24 January 2017
Perth, Western Australia

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

The Resources assessment follows guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The Resource estimates used in this report were compiled by Mr Kane Marshall (Member SPE, AAPG, SPWLA, FESAus and PESGB) who is a qualified person as defined under the ASX Listing Rule 5.11 and has consented to the use of Resource figures in the form and context in which they appear in this presentation.

COMPETENT PERSON'S STATEMENT

Except where otherwise noted, information in this release related to exploration and production results and petroleum resources is based on information completed by Mr JL Kane Marshall who is an employee of Key Petroleum Limited. Mr Marshall is a Practising Petroleum Engineer and Petroleum Geologist and holds a BSc (Geology), a BCom (Inv & Corp Fin) and a Masters in Petroleum Engineering. He is a member of the Society of Petroleum Engineers (SPE), American Associate of Petroleum Geologists (AAPG), Petroleum Exploration Society of Great Britain (PESGB), Formation Evaluation Society of Australia (FESAus) and Society of Petrophysicists and Well Log Analysts (SPWLA) and has over 15 years of relevant experience. Mr Marshall consents to the inclusion of the information in this document.

DISCLAIMER

The information in this report is an overview and does not contain all information necessary for investment decisions. In making investment decisions, investors should rely on their own examination of Key Petroleum Ltd and consult with their own legal, tax, business and/or financial advisors in connection with any acquisition of securities.

Prospective oil in place and recoverable reserve estimates have been made under the Society of Petroleum Engineers Petroleum Resources Management System (SPE-PRMS). Mr Marshall has compiled the information in this release as a Practising Petroleum Engineer and Geoscientist who consents to the release of the information. The Company is compliant with reporting of estimates as defined in Chapter 5 of the ASX Listing Rules.

The information contained in this report has been prepared in good faith by Key Petroleum Ltd. However, no representation or warranty, expressed or implied, is made as to the accuracy, correctness, completeness or adequacy of any statement, estimates, opinions or other information contained in this document.

Certain information in this document refers to the intentions of Key Petroleum Ltd, but these are not intended to be forecasts, forward looking statements, or statements about future matters for the purposes of the Corporations Act or any other applicable law. The occurrence of events in the future are subject to risks, uncertainties, and other factors that may cause Key Petroleum Limited's actual results, performance or achievements to differ from those referred to in this document. Accordingly, Key Petroleum Ltd, its directors, officers, employees and agents do not give any assurance or guarantee that the occurrence of events referred to in this presentation will occur as contemplated.



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Key Petroleum Limited

ABN

50 120 580 618

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(152)	(404)
(b) development	-	-
(c) production	-	-
(d) staff costs	(109)	(214)
(e) administration and corporate costs	(100)	(189)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	16
1.5 Interest and other costs of finance paid	(1)	(2)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	1	5
1.9 Net cash from / (used in) operating activities	(354)	(788)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	(30)
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(30)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,109	1,573
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(354)	(788)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(30)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	755	755

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	84	94
5.2 Call deposits	671	1,015
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	755	1,109

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

74

-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	180
9.2 Development	-
9.3 Production	-
9.4 Staff costs	80
9.5 Administration and corporate costs	85
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	345

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced			-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased			-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Company secretary)

Date: 24 January 2017

Print name: Ian Gregory

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.