

23 December 2014

The Manager
The Australian Securities Exchange
The Announcements Officer
Level 4/20 Bridge Street
SYDNEY NSW 2000

Dear Sir

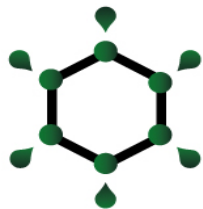
COMPANY AND MARKET UPDATE

We attach herewith an ASX Announcement for Investors regarding exploration activities and a corporate update for Key Petroleum Limited.

Regards



IAN GREGORY
Company Secretary
KEY PETROLEUM LIMITED



ASX RELEASE

COMPANY AND MARKET UPDATE

Exploration Update

Perth Basin - EP437

Joint Venture participants in EP437 are:

| | |
|---|---------------|
| <i>Key Petroleum Limited (Key Petroleum (Australia) Pty Ltd) (Operator)</i> | <i>43.47%</i> |
| <i>Rey Resources Limited (Rey Oil and Gas Perth Pty Ltd)</i> | <i>43.47%</i> |
| <i>Caracal Exploration Pty Limited</i> | <i>13.06%</i> |

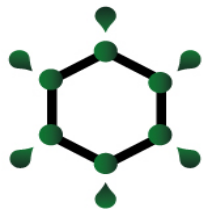
The Company has now gone to tender for all wireline, completion, perforating, wellhead and rig contracting services for the production testing of Dunnart-2 in EP437. At the present time three completion rigs have been identified as being cost effective and suitable to run a simple production completion inside the suspended Dunnart-2 well.

Designs for production test programs are in the process of being completed and the testing will comprise 3 ½" tubing, a packer and a suitable xmas tree. The completion design is flexible so as to enable the installation of an artificial lift system in the future for any extended production testing ("EPT") should the initial testing phase prove successful. Any additional phase of EPT will result in the installation of a production facility under an application for a Production Licence.

The testing operation is expected to take place over a week and timing is dependent on regulatory approvals. This includes bridging of Environment Plan, Health and Safety Management system and formal approval of the completion and testing programs.

Further petrophysical evaluations since the AGM have evaluated approximately 5 metres of net pay which will be perforated during the production testing. This pay is interpreted to have a good quality Bookara Sandstone unit where the upper part of the sandstone was invaded with drilling fluids during the open hole drill stem test operations with less invasion at the basal part of this unit. The basal part of the unit has microspherical resistivity of 70 ohm m⁻¹ indicative of oil that has not been flushed away during fluid invasion into this main sandstone unit.

These insights have provided the Company with confidence to proceed with mapping additional prospects and conducting the test program as soon as regulatory approvals have been obtained. The Company is aiming for the execution of this test towards the end of February 2015.



Canning Basin Exploration Permits

Due to increased interest from potential farminee partners, Key will be in Houston attending several private meetings with independent operating oil companies in the week prior to the North American Prospect Expo (“NAPE”) in February 2015. The Company will have its own dedicated booth at NAPE and Managing Director Kane Marshall will presenting to the conference on the prospects and the commercial terms for farminees.

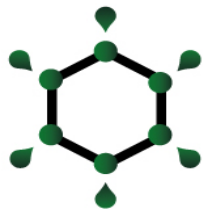
Corporate

Key Petroleum Limited (“Key” or ‘Company’) notes the recent material volatilities and decline in the price of the main crude commodities, West Texas Intermediate (“WTI”) and Brent together with the generic volatility in market capitalisation of peers on the Australian Securities Exchange.

Key notes the following:

- Key’s project economics are based on the prices of Brent in the Perth Basin and not WTI and with the modest offset in the decline of the current AUD/USD exchange rate these oil prices are well above breakeven price for the majority of the Company’s exploration projects;
- Key’s Perth Basin projects are located some four hours from the Kwinana Refinery, where prices for crude oil discovered are based on Brent;
- Any discovery and subsequent production of crude oil in the Perth Basin is subject to spot prices of Brent and cannot be hedged, consequently the Company is averse to being exposed to any debt facility to fund any future developments;
- Key’s exploration portfolio comprises more than 75% conventional oil prospects, including both the Perth and Canning Basin assets; and
- Key notes that its Canning Basin prospects, despite having a higher breakeven oil price on a project economic basis than its Perth Basin projects, has the vast majority of its prospects located only a few hours from coastal ports where crude can be exported to Singapore sold at a premium based on Tapis prices and not Brent or WTI.

The Company would also like to point out that it is debt free and as at the end of the September quarter had approximately \$3 million in cash at bank as compared to many of Key’s peers who find themselves facing difficult times, are in a worse predicament in terms of adequate working capital or repayment of debt facilities. Key has sufficient capital to fulfill its current work commitments, including its upcoming Perth Basin campaign, and is in the enviable position of being able to ride out any further market volatility and to act quickly on any commercial opportunities which may arise as a result of the current market conditions.



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Commenting on the period heading into 2015, Key Managing Director Kane Marshall said:

“The recent material declines in commodity prices have significantly impacted market confidence and sentiment, however, from the point of view of Key, where we are already a low cost operator with low overheads and sufficient capital to meet immediate work commitments, we view these periods as times of opportunity. All of our projects have economics with breakeven prices that are well below that which market prices are currently trading at for Brent and Tapis. We are not perturbed by the current conditions when we can still materially affect shareholder value in a positive way through these projects as well as move on any future commercial opportunities that other peers may consider as being peripheral to their business during these times of volatility. The next twelve months are still going to be a positive period and we intend to remain an active junior oil explorer in this space”.

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Ian Gregory

Company Secretary

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