

KEY

PETROLEUM LIMITED

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30 June 2017

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

Dear Sir/Madam

Agreement of Binding Terms for the Acquisition of L7 (R1), Onshore Perth Basin with an Option to Farm Out
WA-481-P, Offshore Perth Basin to AWE Perth Pty Ltd

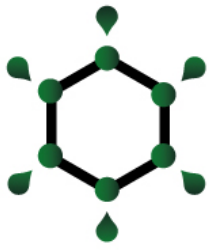
We attach herewith an ASX Announcement for Investors pertaining to the agreement of binding terms between Key Petroleum (Australia) Pty Ltd and AWE Perth Pty Ltd ("AWE"), which is the first step towards Key's acquisition of Production Licence L7, containing the Mount Horner Oil Field in the onshore Perth Basin, together with a 12 month Option Agreement for AWE to earn 50% of Key Petroleum Limited's 40% equity interest in offshore Perth Basin permit WA-481-P.

Regards

IAN GREGORY
Company Secretary
KEY PETROLEUM LIMITED



ACN 120 580 618



ASX Announcement

ASX:KEY

Agreement of Binding Terms for the Acquisition of L7 (R1), Onshore Perth Basin with an Option to Farm Out WA-481-P, Offshore Perth Basin to AWE Perth Pty Ltd

Key Petroleum Limited ("Key") is pleased to announce that it has agreed binding terms for the acquisition of AWE Perth Pty Ltd's ("AWE") 100% interest in Production Licence L7 (R1) via its wholly owned subsidiary, Key Petroleum (Australia) Pty Ltd ("Key Australia"), together with an option for AWE to farm into 50% of Key's 40% interest in WA-481-P permit.

The terms of the acquisition of L7 include:

- ◆ An upfront payment to Key of \$0.38m;
- ◆ Up to AU\$1.9m will be made available for reimbursement to Key for Rehabilitation cost; and
- ◆ Key Australia will assume operatorship and all liabilities associated post completion of the transaction.

The Option Agreement ("Agreement") will give AWE the right to acquire 50% of Key's 40% interest in WA-481-P, exercisable at any time for a period of 12 months from the date of execution of the Agreement:

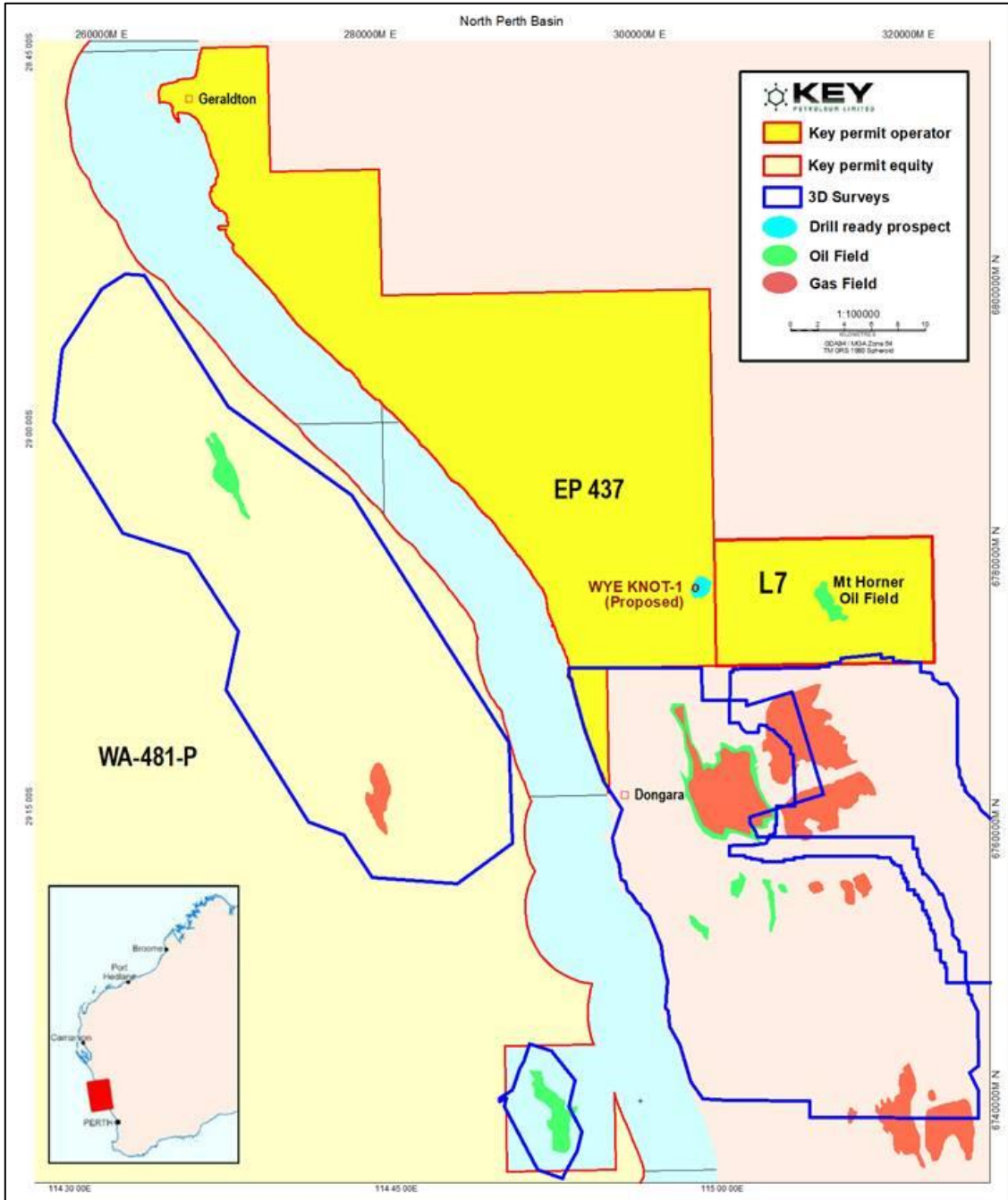
- ◆ AWE will pay an AU\$0.075m option fee to Key and AWE will be granted access to all WA-481-P data;
- ◆ The 12-month option to earn 20% interest in WA-481-P the offshore Perth Basin by farming into Key's current 40% holding; and
- ◆ Should AWE exercise its option, then AWE will carry Key in its remaining equity or reimburse them for up to AU\$0.15m for the Year 5 work program and up to AU\$0.1m for Year 6 Work Program.

Commenting on the transaction, Managing Director Kane Marshall said, "Key is delighted to have entered into this transaction with AWE and is very much looking forward to working with them going forward. This transaction will expand Key's Australian portfolio of assets including lower risk oil prospects in the Perth Basin, with no immediate work program, proven oil reserves and infrastructure lying adjacent to the mapped prospects we have in EP437 and the upcoming Wye Knot-1 drilling program.

Any discoveries in EP437 and/or L7 could potentially be fast tracked to development via the Mount Horner infrastructure in conjunction with the possible reactivation of Mount Horner oil production subject to regulatory and government approvals.

This transaction could also facilitate the participation of AWE in WA-481-P, bringing a high level of expertise in the Permian to the joint venture with their success in the Waitisia onshore discovery and their geological insights in the Houtman Sub-basin located offshore to the north of WA-481-P.

Key is of the opinion that there is significant Permian oil and gas potential that remains undiscovered in WA-481-P and will welcome any future participation from AWE should the option be exercised. We are pleased to deliver more positive news to our shareholders after recent transactions involving Murphy Oil Corporation and Beach Energy Limited as we continue to acquire assets near known discoveries where value can be unlocked via our low-cost operating model”.



Location of L7 (R1) in the onshore Perth Basin including the known Mt Horner Oil Field and associated infrastructure

IAN GREGORY
COMPANY SECRETARY

Dated: 30 June 2017
Perth, Western Australia

