

11 March 2019

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

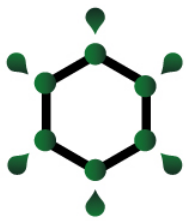
MEMORANDUM OF UNDERSTANDING EXECUTED WITH SANTOS FOR GAS PROCESSING

Key Petroleum Limited attaches herewith ASX Announcement pertaining to a Memorandum of Understanding (“MoU”) executed between Key Cooper Basin Pty Ltd (“Key” or “The Company”) with Santos Limited and its relevant subsidiaries (“Santos”) and subsidiaries of Beach Energy Limited (“Beach Energy”) for the processing of gas from Key’s Tanbar Gas Project in ATP 924.

Regards



IAN GREGORY
Company Secretary
Key Petroleum Limited



ASX Announcement

11 March 2019

MEMORANDUM OF UNDERSTANDING EXECUTED WITH SANTOS FOR GAS PROCESSING

Key Highlights of Memorandum of Understanding (“MoU”)

- Non-binding MOU executed between Key, Santos and Beach Energy to cover proposed terms for connection and transport into the Cooper Basin gas gathering network, and gas processing at the Santos-operated Moomba Gas Processing Facility;
- Key terms outlined for raw gas processing service;
- Assumes connection from future discoveries and delivery of raw gas delivery into the Cooper Basin gas gathering network for subsequent processing at Moomba; and
- Another significant step in Key’s efforts to commercialise future conventional gas discoveries and become a major east coast gas supplier.

Key Cooper Basin Pty Ltd (“Key” or “The Company”), a wholly owned subsidiary of Key Petroleum Limited, is pleased to advise that it has now executed a non-binding gas processing Memorandum of Understanding (“MoU”) with Santos Limited and its relevant subsidiaries (“Santos”) (ASX:STO) and wholly owned subsidiaries of Beach Energy Limited (“Beach Energy”) (ASX: BPT). The gas processing MoU forms the basis for the negotiation of a future formal processing and transportation agreement allowing raw gas from Key’s Tanbar Gas Project located in ATP 924 to be processed into sales gas to supply the east coast Australian gas market.

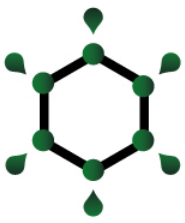
Santos and its joint venture partner Beach Energy own gas processing facilities at Moomba in South Australia. Key, Santos, as Operator of the Moomba Gas Plant, and Beach Energy have agreed non-binding indicative terms for gas processing and transportation services. These commercial terms are confidential and will form the basis for the negotiation of a binding agreement to be executed between the parties at a later date. Key’s Board is pleased with the terms of the MoU, which will support potential economic developments of gas discoveries within Key’s Tanbar Gas Project in ATP 924 going forward.

Current gross un-risked prospective resources for ATP 924¹ are 150 Bcf (1U) - 500 Bcf (2U) – 950 Bcf (3U) with the Tanbar Gas Project being the Triassic and Permian gas fairway component of the ATP 924 permit. Prospective Resource Estimates to date have been based on mapped structural closures but now include stratigraphic components of the Permian Toolachee Formation. These canyons are analogous to producing Toolachee intervals in the nearby Barrolka Gas Field.

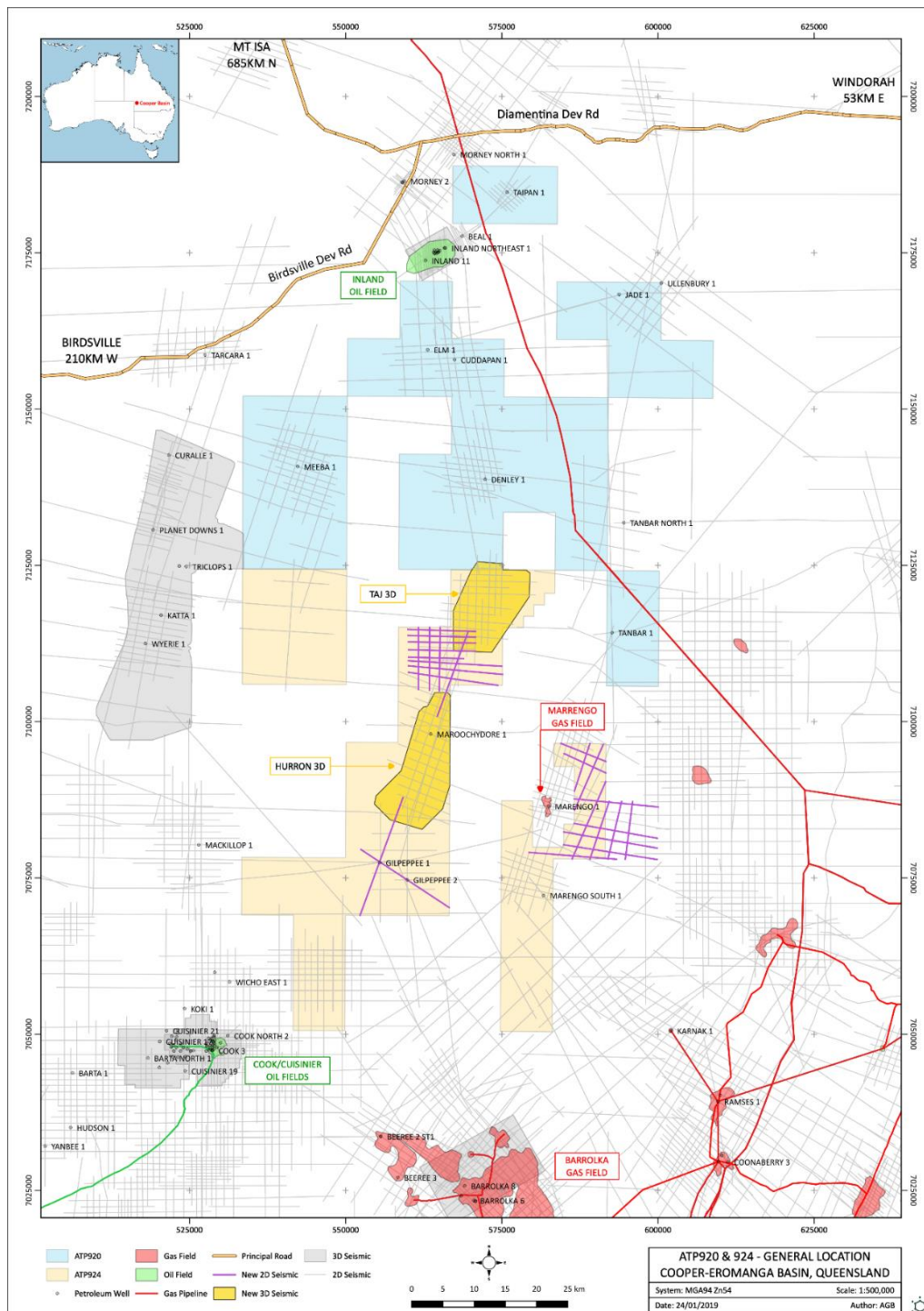
Gas prices have been surging above A\$10.00 per GJ in Sydney and between A\$9.00 and A\$10.00 per GJ in Victoria and Brisbane². As the current gas shortage is likely to continue the gas price should remain high and drive gas exploration projects on the east coast of Australia.

¹ Prospective Resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) and relate to undiscovered accumulations. These estimates have both an associated risk of discovery and development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. See Prospective resource notes on the last page for resource estimate determination for the Tanbar Gas Project that are prospects that have been probabilistically determined for each prospect and then arithmetically summed for the Tanbar Gas Project.

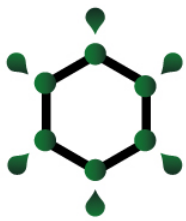
² From AEMO website



Managing Director, Kane Marshall, said, "We are delighted to be working with Santos and Beach Energy and this MoU demonstrates a clear pathway to commercialisation of future gas discoveries within our Tanbar Gas Project, subject to final binding terms being agreed. Importantly, there is flexibility for financing of future developments whereby capex intensive gas processing infrastructure may not be required if it can be processed and transported via Santos-operated infrastructure in the manner contemplated by this MoU. 2019 looks set to be a busy year for Key and we look forward to providing our shareholders updates of further developments in relation to each of our Perth Basin and Cooper Basin projects."



Map showing ATP 920 and ATP 924 updated permit outlines



Prospective Resources

Notes:

- Prospective Resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) and relate to undiscovered accumulations. These estimates have both an associated risk of discovery and development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
- The estimate of Prospective Resources included in the announcement have been prepared in accordance with the definitions and guidelines set forth in the Petroleum Resources Management System ("PRMS") as revised in June 2018 by the Society of Petroleum Engineers. The PRMS defines prospective resources as those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.
- All prospective resources were estimated with ATP 924 by mapping the extent of the prospect using the seismic data and applying ranges of volumetric parameters based on regional data. Recovery efficiencies were estimated using generalised recovery factors which Key assessed as reasonable. The parameters were then combined probabilistically. For the Tanbar Gas Project the volumes for each prospect were determined probabilistically and then summed arithmetically.
- Gross Prospective Resources are 100% of the on-block volumes are estimated to be recoverable from the Prospect in the event that a discovery is made and subsequently developed.
- The volumes reported are "Unrisked" in the sense that the Geological Chance of Success (GCoS) factor has not been applied to the designated volumes. The Operator has estimated various GCoS for each of the prospects.

For more information please contact:

IAN GREGORY

Company Secretary

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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 and is a qualified petroleum reserves and resources evaluator. Resources reported in this announcement are based on representative information and supporting documentation. Mr Marshall is a Practising Petroleum Engineer and Petroleum Geologist and holds a BSc (Geology), a BCom (Investment and Corporate Finance) and a Masters in Petroleum Engineering. He is a member of the Society of Petroleum Engineers (SPE), American Association of Petroleum Geologists (AAPG), The Geophysical Society of Houston (GSH), 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.