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## SEPTEMBER 2017 QUARTERLY REPORT AND APPENDIX 5B

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### Significant Events

- The Board approved the Echidna light oil discovery to progress into Front End Engineering and Design ('FEED'), moving the project a step closer to a possible development.
- Karoon was awarded southern Santos Basin exploration Block S-M-1537, located in the state of Santa Catarina, offshore Brazil, as part of the Brazilian oil and gas regulator Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') Bid Round 14.
- The Operator of exploration permit WA-482-P, Quadrant, received regulatory approval for a variation of the Year 6 work program, replacing an exploration well commitment with low cost pre-stack depth migration ('PSDM') seismic reprocessing and geological and geophysical ('G&G') work.
- \$352 million cash balance as at 30 September 2017. Karoon currently holds almost all its cash in United States dollars.
- Evaluation of a number of potential production and development acquisition opportunities continued during the quarter.

### Comments from Mr. Robert Hosking, Managing Director:

*The last few months have seen a shift in short-term sentiment for oil prices. The September quarter saw the Brent price close +20%, the 2018 forward curve close +10% and US oil inventories fall 8%. In fact, at the time of writing, the Brent price is trading back above US\$60 per barrel for the first time since July 2015.*

*These data points give Karoon confidence that market sentiment is more constructive on the oil price. Karoon expects the industry will consider ways to deploy additional capital into exploration, appraisal and development opportunities over the short to medium-term.*

*Karoon continues to execute on the Company's exploration led growth strategy, along with advancing its acquisition ambitions for material oil production. The September quarter saw Karoon advance the Echidna light oil discovery into FEED, secure new low risk exploration acreage in the southern Santos Basin and sign a strategic partnership agreement for new opportunities in Brazil.*

## **Corporate and Operational Summary**

### **Corporate**

During the quarter, Karoon continued its evaluation of a number of potential production and development acquisition opportunities, along with new strategic exploration acreage opportunities.

During the June 2017 quarter, the ANP launched Bid Round 14 opening up new acreage opportunities in the southern Santos Basin, offshore Brazil.

Karoon was awarded southern Santos Basin exploration Block S-M-1537 during September 2017. The Block is located in an existing oil and gas producing province, which includes the Bauna and Piracaba oil fields. The Block lies offshore in the state of Santa Catarina, to the south of Rio de Janeiro, covering 171 sq km with a water depth of approximately 400m.

Karoon has a significant competitive advantage in the evaluation of new exploration opportunities in the southern part of the Santos Basin, gained from over a decade of technical and operational experience in the area. In addition, Karoon would likely benefit from operational and logistical synergies with its existing Blocks and any potential development of the Echidna light oil discovery.

Karoon believes Block S-M-1537 provides an exciting exploration opportunity, with the potential for hundreds of millions of barrels of oil. The main lead is targeting Oligocene turbidite sands with excellent reservoir porosity and permeability as seen in the producing Oligocene reservoirs of the Bauna and Piracaba oil fields. Seismic analysis shows encouraging Amplitude versus Offset anomaly supportive of the presence of trapped oil. More geoscience work is required to define the target size and risk ahead of future operational decisions.

Karoon expects to complete the acquisition of Block S-M-1537 during the December 2017 quarter upon execution of a concession agreement in Brazil, at which time Karoon will pay a total of \$8 million in a non-refundable bid bonus and will provide a refundable Work Program guarantee bond to the ANP of \$2.5 million. The work program Karoon will undertake consists of seismic acquisition and geological studies.

During the quarter, Karoon entered into agreements with DEA to review and evaluate and, if thought appropriate, jointly bid for oil and gas assets in selected areas offshore Brazil. As part of these arrangements, an exclusive option (subject to satisfactory due diligence and agreement of terms) has been granted to DEA for the acquisition of a non-operated equity interest of up to 50% in Karoon's five Santos Basin Blocks, including the Echidna and Kangaroo light oil discoveries.

### **Operations**

#### **Brazil**

***Santos Basin, Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166***

***100% Equity Interest***

***Operator***

Following the completion of pre-FEED for the Echidna light oil discovery, the Board approved an Echidna development concept during July 2017 progressing the project to the next phase in the development, being FEED.

The proposed development concept consists of a leased floating production, storage and off-loading facility with 2 extended horizontal production wells and 1 gas injection well. Peak oil production is expected to reach a total of approximately 28,000 bbl/day.

Tender documents were prepared and finalised during the quarter, in preparation for issuing a Request for Tender to select suppliers for the proposed development of Echidna. It remains Karoon's intention to contract an Engineering Procurement Construction Installation work package for the Echidna development.

Based on discussions with suppliers, Karoon expects to receive tenders that substantially reduce upfront capital commitments. The tenders are expected to include deferred payment structures, equipment financing solutions, subsurface risk reward sharing and/or equity ownership.

Karoon remains committed to farming down its 100% equity interest in these Blocks prior to a Final Investment Decision.

#### **Australia**

##### ***Ceduna Sub-basin, Great Australian Bight, Permit EPP46***

***100% Equity Interest***

***Operator***

Karoon's initial 3-year firm commitment term consists of the acquisition of 2D and 3D marine seismic surveys and geological and geophysical studies.

Karoon is planning to acquire 2D marine seismic data via a multi-client 2D seismic survey over the permit. Tenders received during the September 2017 quarter have been evaluated and a final decision is expected during the December 2017 quarter.

##### ***Northern Carnarvon Basin, Permit WA-482-P***

***50% Equity Interest***

***Non-Operator***

During the quarter, Quadrant (as Operator of the exploration permit) received regulatory approval for a variation of the Year 6 work program.

The Year 6 exploration well commitment was replaced with a work program that is expected to cost less than \$500,000 net to Karoon, consisting of 400 sq km full waveform inversion PSDM seismic reprocessing, Quantitative Interpretation/Inversion studies on the reprocessed seismic, fault seal analysis and G&G studies including seismic interpretation.

##### ***Browse Basin, Permit WA-314-P***

***100% Equity Interest***

***Operator***

During the quarter, the final reprocessed Kraken 3D marine PSDM seismic data was received. The reprocessed data shows a considerable improvement in the quality of data.

The interpretation of the new data has commenced and will allow a more accurate evaluation of the Elvie prospect.

#### **Peru**

##### ***Tumbes Basin, Block Z-38***

***75% Equity Interest<sup>1</sup>***

***Operator***

During the quarter, Karoon was in discussions with the Peruvian oil and gas regulator, Perupetro, and its joint operation partner with respect to refining the third period term work program obligations. Discussions to date have been encouraging.

Karoon remains committed to farming out an equity interest in the Block prior to drilling.

The Block is currently in force majeure.

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<sup>1</sup> Karoon's 75% equity interest remains subject to completion of farm-in obligations

### **Forward-looking statements**

This announcement may contain certain “forward-looking statements” with respect to the financial condition, results of operations and business of Karoon and certain plans and objectives of the management of Karoon. Forward-looking statements can generally be identified by words such as ‘may’, ‘could’, ‘believes’, ‘plan’, ‘will’, ‘likely’, ‘estimates’, ‘targets’, ‘expects’, or ‘intends’ and other similar words that involve risks and uncertainties, which may include, but are not limited to, the outcome and effects of the subject matter of this announcement. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

You are cautioned not to place undue reliance on forward-looking statements as actual outcomes may differ materially from forward-looking statements. Any forward-looking statements, opinions and estimates provided in this announcement necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, many of which are outside the control of Karoon. Such statements may cause the actual results or performance of Karoon to be materially different from any future results or performance expressed or implied by such forward-looking statements. Forward-looking statements including, without limitation, guidance on future plans, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward-looking statements speak only as of the date of this announcement.

Karoon disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.



**Appendix 5B  
(Unaudited)  
ASX Quarterly Financial Report  
For the Quarter Ended 30 September 2017**

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**

Karooon Gas Australia Ltd

**ABN**

53 107 001 338

**Quarter ended ('current quarter')**

30 September 2017

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (3 months) A\$'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(11,711)	(11,711)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,940)	(1,940)
(e) administration and corporate costs	(3,069)	(3,069)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	71	71
1.5 Interest and other costs of finance paid	(73)	(73)
1.6 Income taxes (paid)/ refund	28	28
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	842	842
<b>1.9 Net cash from/ (used in) operating activities</b>	<b>(15,852)</b>	<b>(15,852)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$'000</b>	<b>Year to date (3 months) A\$'000</b>
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(4)	(4)
	(b) petroleum tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets (security deposits)	(362)	(362)
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) petroleum tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets (security deposits)	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from/ (used in) investing activities</b>	<b>(366)</b>	<b>(366)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
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 (Payments for finance lease)	(34)	(34)
<b>3.10</b>	<b>Net cash from/ (used in) financing activities</b>	<b>(34)</b>	<b>(34)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$'000</b>	<b>Year to date (3 months) A\$'000</b>
<b>4.</b>	<b>Net increase/ (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	375,069	375,069
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(15,852)	(15,852)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(366)	(366)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(34)	(34)
4.5	Effect of movement in exchange rates on cash held	(7,007)	(7,007)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>351,810</b>	<b>351,810</b>

<b>5.</b>	<b>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</b>	<b>Current quarter A\$'000</b>	<b>Previous quarter A\$'000</b>
5.1	Bank balances (cash at banks and on hand)	343,865	368,390
5.2	Call deposits (short-term bank deposits)	7,945	6,679
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>351,810</b>	<b>375,069</b>

**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

<b>Current quarter A\$'000</b>
606
-

Directors' remuneration included in 1.2: \$527,374  
Consulting fees included in 1.2: \$78,583

**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

<b>Current quarter A\$'000</b>
-
-

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<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end A\$'000</b>	<b>Amount drawn at quarter end A\$'000</b>
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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<b>9. Estimated cash outflows for next quarter</b>	<b>A\$'000</b>
9.1 Exploration and evaluation	6,600
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	2,500
9.5 Administration and corporate costs	2,500
9.6 Other (bid bonus and refundable bond to acquire tenement)	10,500
<b>9.7 Total estimated cash outflows</b>	<b>22,100</b>

<b>10. Changes in petroleum tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Petroleum tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1 Interests in petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2 Interests in 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: 31 October 2017

Print name: Scott Hosking

**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.

## Appendix 1

### Schedule of Interests in Petroleum Tenements

Held by Karoon Gas Australia Ltd Group (the 'Group')

As at 30 September 2017

<u>Exploration Permit/ Block</u>	<u>Basin</u>	<u>Operator</u>	<u>% Equity Interest Held</u>
EPP46	Ceduna Sub-basin, Australia	Karoon	100
WA-314-P	Browse, Australia	Karoon	100 (1)
WA-482-P	Northern Carnarvon, Australia	Quadrant	50 (2)
Block S-M-1037	Santos, Brazil	Karoon	100
Block S-M-1101	Santos, Brazil	Karoon	100
Block S-M-1102	Santos, Brazil	Karoon	100
Block S-M-1165	Santos, Brazil	Karoon	100
Block S-M-1166	Santos, Brazil	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (3)

- (1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (2) Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (3) The Group's 75% equity interest is subject to completion of farm-in obligations.