

## ASX Announcement

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### Corporate Update

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#### Santos Basin Development Strategy

Karoon is continuing to work with the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') (the Brazilian oil and gas regulator) and service providers following the Declaration of Commerciality ('DoC') approval for the Neon (Echidna) and Goiás (Kangaroo) light oil discoveries by the ANP. The May 2018 DoC approval marked the end of the Exploratory Phase and commencement of the Development and Production Phase for both of these assets.

The current development strategy for Neon and Goiás is for a sequential development, with Neon being the more economic and developed first. Neon is designed to include two producers and one gas injector in the primary plan. These wells will be produced through a Floating Production Storage and Offloading unit ('FPSO'). Karoon currently has multiple proposals for FPSO's that could be available for first production in the early 2020's.

As Goiás is likely to be developed as a second phased development strategy and would be largely dependent on a successful development of Neon and future associated economic evaluation, Karoon has reassessed the discovery's standalone economics. This followed the reassessment during May 2018 of Goiás's 2C (best estimate) contingent resources to 27 mmbbls. Karoon advises, based on these factors, that its full year results will provide for a non-cash impairment charge of \$140 million for exploration Blocks S-M-1101 and S-M-1165, which includes the Goiás discovery. The non-cash impairment is an accounting adjustment relating to historical book value of capitalised exploration expenditure. Karoon will continue to assess the appropriateness of the carrying value of Goiás and depending upon future oil prices, resource updates and development strategies, the value of the asset may increase and hence part or all of this impairment charge could be reversed at a future date. This impairment does not impact Karoon's contingent resource estimates for Goiás.

#### Current Santos Basin Activities

Karoon is currently preparing the development plans for Neon and Goiás. This process includes obtaining bids for drilling and completion services, sub-surface infrastructure and FPSO leasing. Karoon has received interest from tenderers, and is now working with several providers to refine and prepare the development plans for submission to the ANP.

The development plans will follow an overall strategic development timeline, and therefore applications will be submitted separately, with Neon expected to be submitted before the end of 2018 and Goiás expected to be submitted after.

#### Removal of Force Majeure, Block Z-38, Peru

Karoon has been positively impacted by recent changes to the hydrocarbon law in Peru, which has resulted in force majeure being lifted from Block Z-38. Karoon has been actively working with the Peruvian authorities with this outcome in mind, and considers these changes as a step forward for exploration in Peru.

Karoon and its new farm-in partner (subject to regulatory approval), Tullow Oil Peru Limited ('Tullow'), are moving forward to drill the Marina-1 exploration well during early 2020. The well will test the Marina Prospect which has a best case gross prospective contingent resource of 256 mmbbls at 100% interest (102 mmbbls net to Karoon). This will be the first well drilled in Block Z-38. The block sits in the heart of the Tumbes Basin, adjacent to the prolific oil producing Talara Basin which has produced 1.7 billion bbls to date. The Tumbes Basin has a proven working petroleum system and evidence suggests the prospects in Block Z-38 are accessing the same source rocks as the giant onshore Talara Basin fields.

Tullow has a long established track record for exploration and both Karoon and Tullow recognise the high impact of the Marina-1 exploration well in opening up offshore exploration in the Tumbes Basin. As announced in the Resource Update on 8 May 2018, there is a best case gross unrisks prospective resource of 1,373 mmbbls at 100% (549 mmbbls net to Karoon) in 20 leads and prospects in the block. Key to the revision in the resource estimates in these leads and prospects were the addition of the shallower La Cruz Formation and Mal Pelo Formation prospects. Many of these are now identified with clear seismic anomalies (previously held as leads). Seismic anomalies potentially identifying oil columns and oil-water contacts is the main element that has reduced risks on these prospects.

### **Competent Persons Statement**

Any petroleum reserves, contingent resources and prospective resources information contained in this announcement is based on, and fairly represents, information and supporting documents prepared by, or under the supervision of, Mr Lino Barro, Karoon Gas Australia Ltd's Engineering Manager. Mr Barro has the following qualifications B.Eng. (Chemical), MBA. Mr Barro is a member of the Society of Petroleum Engineers. Mr Barro has consented in writing to the inclusion of this information in the format and context in which it appears.

### **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.

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**About Karoon Gas Australia Ltd**

Karoon Gas Australia Ltd is an international oil and gas exploration company with projects in Australia, Brazil and Peru.

Karoon looks for high equity interests in early stage exploration opportunities containing large potential targets in basins with proven Petroleum Systems. Karoon strives to create shareholder value through the geotechnical work-up of the acreage, leveraging its high equity interests to explore and appraise these opportunities to achieve commercialisation.

While the company's core strategy is identifying off-shore early stage exploration opportunities, Karoon's longer-term strategy is to retain residual equity interests in the assets as they go into production.