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## DECEMBER 2017 QUARTERLY REPORT AND APPENDIX 5B

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### Significant Events

- Karoon executed the concession agreement for Block S-M-1537, Santos Basin Brazil to further strengthen its exploration portfolio.
- Subsequent to the end of the quarter, Karoon successfully completed a farm-out of a 35% equity interest in Block Z-38, Tumbes Basin Peru to Tullow Oil plc ('Tullow'), completing negotiations that were ongoing through the December quarter.
- Evaluation of a number of potential production and development acquisition opportunities continued during the quarter.
- \$333.9 million cash balance as at 31 December 2017. Karoon currently holds almost all its cash in United States dollars.

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

*"Karooon continues to execute on the Company's exploration led growth strategy, along with advancing its acquisition ambitions for material oil production.*

*The Company is pleased to successfully conclude months of negotiations and deliver the farm-out of a 35% equity interest in Block Z-38 to Tullow. Karoon is excited to be joined by Tullow, a company with a long and successful exploration track record.*

*While offshore Peru has historically had only limited exploration drilling, 2017 saw industry capital returning into Peru. The farm-out of an equity interest to Tullow is an important milestone in Karoon's plans to test Block Z-38's potential.*

*More broadly, the quarter saw a step change in short to medium-term sentiment for oil prices following the continued fall in US inventories, robust demand and extension of OPEC's active market management policy to the end of 2018. Brent rallied 16% over the quarter to US\$67/bbl, up 40% from mid-year.*

*These higher oil prices are expected to translate to increased confidence from potential industry and financial partners on the sustainability of stronger short to medium-term oil prices and ultimately attract capital back into the industry."*

## **Corporate and Operational Summary**

### **Corporate**

Karoon continued its evaluation of production and development acquisition opportunities, along with new strategic exploration acreage opportunities.

With respect to Karoon's existing Peruvian acreage, following months of negotiations Karoon successfully completed the farm-out of a 35% equity interest in offshore exploration Block Z-38, Tumbes Basin Peru to Tullow.

Pursuant to the Farm-out Agreement (the 'Agreement'), Tullow will acquire a 35% equity interest in the Block on the following terms:

1. fund 43.75% of the cost of the first exploration well, capped at US\$27.5 million (at 100%), beyond which Tullow will pay its 35% share; and
2. pay US\$2 million upon completion, with a further US\$7 million payable upon declaration of commercial discovery and submission of a development plan to Perupetro SA (the Peruvian oil and gas regulator).

The Agreement remains subject to the satisfaction of certain licencing conditions and regulatory approvals. Following completion of the farm-out well, Tullow will have an option to assume operatorship of the Block.

### **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***

Front End Engineering and Design work continued during the quarter.

A Request for Tender was issued to select suppliers for the proposed Echidna development. It remains Karoon's intention to contract an Engineering Procurement Construction Installation work package.

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

***Santos Basin, Block S-M-1537***

***100% Equity Interest***

***Operator***

Following the award of Block S-M-1537 from Bid Round 14, a concession agreement was executed during the quarter and a non-refundable bid bonus and refundable work program guarantee bond were paid to the Brazilian oil and gas regulator. The work program for the Block consists of seismic acquisition and geological studies.

#### **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.

The decision was made not to proceed with the acquisition of 2D marine seismic data via a multi-client 2D seismic survey during the first half of calendar year 2018. Karoon is currently considering revised timing to acquire the seismic data.

**Northern Carnarvon Basin, Permit WA-482-P**  
**50% Equity Interest**  
**Non-Operator**

Following commencement of the Year 6 work program (consisting of geophysical and geological studies) during September 2017, there are no further significant operational updates.

Karoon will assess its forward plans for the permit once the Year 6 work program results have been received from the Operator and evaluated.

**Browse Basin, Permit WA-314-P**  
**100% Equity Interest**  
**Operator**

Following receipt of the final reprocessed Kraken 3D marine PSDM seismic data during the September quarter, interpretation has commenced which will allow a more accurate evaluation of the Elvie prospect.

**Peru**  
**Tumbes Basin, Block Z-38**  
**40% Equity Interest<sup>1 2</sup>**  
**Operator**

Refer to the Corporate section above.

There are no further operational updates. The Block is currently in force majeure.

**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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<sup>1</sup> Karoon’s 40% equity interest remains subject to completion of farm-in obligations

<sup>2</sup> Tullow’s 35% equity interest remains subject to certain conditions and regulatory approvals



**Appendix 5B  
(Unaudited)  
ASX Quarterly Financial Report  
For the Quarter Ended 31 December 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')**

31 December 2017

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (6 months) A\$'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(4,730)	(16,440)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(2,407)	(4,347)
(e) administration and corporate costs	(3,029)	(6,098)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	54	126
1.5 Interest and other costs of finance paid	(76)	(149)
1.6 Income taxes (paid)/ refund	44	72
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	108	951
<b>1.9 Net cash from/ (used in) operating activities</b>	<b>(10,036)</b>	<b>(25,885)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$'000</b>	<b>Year to date (6 months) A\$'000</b>
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(128)	(132)
	(b) petroleum tenements (see item 10)	(7,744)	(7,744)
	(c) investments	-	-
	(d) other non-current assets (security deposits)	(2,204)	(2,566)
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>(10,076)</b>	<b>(10,442)</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)	(86)	(120)
<b>3.10</b>	<b>Net cash from/ (used in) financing activities</b>	<b>(86)</b>	<b>(120)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$'000</b>	<b>Year to date (6 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	351,810	375,069
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(10,036)	(25,885)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(10,076)	(10,442)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(86)	(120)
4.5	Effect of movement in exchange rates on cash held	2,277	(4,733)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>333,889</b>	<b>333,889</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)	326,834	343,865
5.2	Call deposits (short-term bank deposits)	7,055	7,945
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>333,889</b>	<b>351,810</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>
621
-

Directors' remuneration included in 1.2: \$541,213  
Consulting fees included in 1.2: \$79,643

**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	6,000
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	2,100
9.5 Administration and corporate costs	4,000
9.6 Other	-
<b>9.7 Total estimated cash outflows</b>	<b>12,100</b>

<b>10.</b>	<b>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	Block S-M-1537, Santos Basin (Brazil)	Exploration	-	100

**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 January 2018

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 31 December 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 S-M-1537	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. Subsequent to the end of the quarter, the Group reduced its equity interest to 40% following a farm-out to Tullow Oil plc during January 2018. The farm-out remains subject to the satisfaction of certain licencing conditions and regulatory approvals. Karoon's remaining interest of 40% is still subject to completion of farm-in obligations.