



JUNE 2017 QUARTERLY REPORT AND APPENDIX 5B

Significant Events

- \$375 million cash balance as at 30 June 2017. Karoon currently holds almost all cash in USD.
- The Santos Basin, Brazil Echidna light oil discovery subsurface evaluation and development optimisation work (pre-FEED) was completed during the quarter.
- Subsequent to the end of the quarter, the Board approved the Echidna development concept utilising 2 extended reach horizontal production wells and one gas injection well to progress to Front-End Engineering and Design ('FEED').
- Karoon continued its evaluation of the opportunities in Brazil.
- Subsequent to the end of the quarter, Karoon entered into a framework co-operation agreement with DEA Deutsche Erdoel AG ('DEA') to review and evaluate and, if thought appropriate, jointly bid for oil and gas assets in selected areas offshore Brazil.

Comments from Mr. Robert Hosking, Managing Director:

The June quarter represented a significant operational milestone for Karoon. The subsurface evaluation and development optimisation work was completed for Echidna, positioning the discovery for the decision to progress into FEED during July 2017.

Over the last 18 months Karoon's South American Development Team has been working hard to complete the Echidna reservoir modelling, production scenario analysis, well construction feasibility studies and optimisation work. The objective of this work was to deliver a capital efficient, risk-weighted development concept that can work in the current oil price environment.

To this end, market conditions are supportive with suppliers showing a willingness to consider development solutions which substantially reduce upfront capital commitments. Potential solutions include deferred payment structures, equipment financing, subsurface risk reward sharing and/ or equity ownership.

In addition to advancing Karoon's organic growth ambitions, the Company remains committed to its acquisition strategy and capitalising on current market conditions to acquire development and production assets along with opportunities that are consistent with the Company's exploration led growth strategy. The framework co-operation agreement with DEA is significant in the context of realising Karoon's strategic ambitions to acquire meaningful oil production in Brazil. Having such a high quality, well capitalised partner in our corner will significantly assist the Company to achieve this goal.

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 exploration and appraisal opportunities that provide strategic synergies.

With respect to the Baúna and Tartaruga Verde oil projects that were included in the Petróbras asset divestment program, Karoon was advised at the time that the previous sales process was withdrawn but that Petróbras intends to reinstate the sales process relating to these assets. Karoon has no reason to believe the sales process will not be reinstated and Karoon remains committed to participating in any future process relating to these assets.

During the quarter, the Brazilian oil and gas regulator Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') announced new acreage opportunities in Brazil with the launch of Bid Round 14, and the 2nd and 3rd PSC Bid Rounds. Key regulatory changes have been implemented (with others pending) to boost the attractiveness of these bid rounds, which include lowering and improving minimum local content requirements and ending Petróbras' mandatory operatorship of pre-salt acreage.

Karoon has a competitive advantage in evaluating opportunities with a significant geological knowledge base and an operational track record in the Santos Basin.

Subsequent to the end of 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. The commercial terms bid for any particular asset will be agreed and finalised at the appropriate time as part of a joint bidding process. As part of these arrangements, an exclusive option has been granted to DEA for the acquisition of a non-operated equity interest of up to 50% in Karoon's five Santos Basin offshore exploration blocks, including the Echidna and Kangaroo discoveries. The exercise of this option is subject to satisfactory due diligence and agreement of terms.

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

During the quarter detailed reservoir modelling, production scenario analysis, well construction feasibility studies and development optimisation for the Echidna development was completed in preparation for the Board to consider concept select. The optimisation work was focused on delivering a capital efficient, risk-weighted development concept for the Echidna oil discovery that is economically robust in the current oil price environment.

During July 2017, the Board approved the current Echidna development concept to progress to the next phase, being FEED.

The Echidna development concept consists of:

- a leased floating production, storage, and offloading facility;
- 2 extended horizontal production wells and 1 gas injection well; and
- expected peak production approximately 28,000 bbl/day (14,000 bbl/day per production well).

FEED is expected to take approximately 9 months and cost less than \$10 million, with completion planned during the March 2018 quarter. A final investment decision ('FID') is targeted for the June 2018 quarter.

During FEED, Karoon will issue a Request for Tender to select suppliers with the intention of contracting an Engineering Procurement Construction and Installation work package for the Echidna development. The dramatic oil industry pull-back over the past 3 years has led to lower vessel utilisation rates and higher equipment inventory levels, globally and in Brazil. This cyclical downturn has presented a window of opportunity in which Karoon expects to receive tenders that provide significant funding flexibility.

Based on recent supplier discussions, Karoon expects to receive tenders that substantially reduce upfront capital commitments including deferred payment structures, equipment financing solutions, subsurface risk reward sharing and/or equity ownership.

Karoon remains committed to farming down equity in the 100% owned Santos Basin Blocks prior to FID.

The Olinda Star semi-submersible drilling rig has been released, subject to the negotiation of the final commercial terms with the QGOG Constellation SA Group.

Australia

Ceduna Sub-basin, 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 during the first half of calendar year 2018. Tenders have been received and are currently being evaluated.

In nearby GAB permits, Chevron has a commitment to drill 4 exploration wells before November 2018 in the 2 blocks immediately to the west of Karoon's exploration permit EPP46. In permit EPP39, Statoil has a 1 well exploration drilling commitment due to be completed before November 2019.

Carnarvon Basin, Permit WA-482-P

50% Equity Interest

Non-Operator

During the quarter, charge modelling studies over the permit were completed. The purpose of this work was to better understand the risks associated with effective hydrocarbon charge for the mapped structures. The charge modelling results, along with the ongoing analysis of the extensive high quality seismic dataset across over 75% of the permit and the Levitt-1 well results being integrated into the geological model. This work will underpin a further risk analysis and ranking of the prospects in the permit.

Further geological and geophysical studies are required to better understand these prospects prior to any further consideration of exploration drilling.

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

Reprocessing of the Kraken 3D marine PSDM seismic data was ongoing during the quarter. The final reprocessed data is expected to be received during the September 2017 quarter with interpretation work to follow. Further interpretation work, along with support of AVO/ Quantitative Inversion analysis, will allow re-risking of the Elvie prospect.

Peru
Tumbes Basin, Block Z-38
75% Equity Interest¹
Operator

During the quarter drilling preparations were ongoing. The Marina-1 exploration well location was reviewed to incorporate the additional younger reservoir targets identified in the seismic attribute analysis in the well plan.

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.

¹ Karoon’s 75% equity interest remains subject to completion of farm-in obligations



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

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (12 months) A\$'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(8,149)	(52,055)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,726)	(8,500)
(e) administration and corporate costs	(2,884)	(13,036)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	232	1,056
1.5 Interest and other costs of finance paid	(32)	(323)
1.6 Income taxes (paid)/ refund	141	144
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	92	2,010
1.9 Net cash from/ (used in) operating activities	(12,326)	(70,704)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (12 months) A\$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	74	(418)
	(b) petroleum tenements (see item 10)	-	(20,031)
	(c) investments	-	-
	(d) other non-current assets (security deposits)	-	-
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)	(28)	1,947
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from/ (used in) investing activities	46	(18,502)

3.	Cash flows from financing activities		
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 -(Karoon share buy-back on-market)	-	(673)
	Other -(Payment of finance lease liabilities)	(66)	(66)
3.10	Net cash from/ (used in) financing activities	(66)	(739)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (12 months) A\$'000
4.	Net increase/ (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	389,637	479,590
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(12,326)	(70,704)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	46	(18,502)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(66)	(739)
4.5	Effect of movement in exchange rates on cash held	(2,222)	(14,576)
4.6	Cash and cash equivalents at end of period	375,069	375,069

5.	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	Current quarter A\$'000	Previous quarter A\$'000
5.1	Bank balances (cash at banks and on hand)	368,390	378,145
5.2	Call deposits (short-term bank deposits)	6,679	11,492
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	375,069	389,637

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

Current quarter A\$'000
632
-

Directors' remuneration included in 1.2: \$550,114
Consulting fees included in 1.2: \$81,991

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

Current quarter A\$'000
-
-

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end A\$'000	Amount drawn at quarter end A\$'000
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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9. Estimated cash outflows for next quarter	A\$'000
9.1 Exploration and evaluation	8,000
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	2,200
9.5 Administration and corporate costs	3,100
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	13,300

10.	Changes in petroleum tenements (items 2.1(b) and 2.2(b) above)	Petroleum tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
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 July 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 June 2017

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Equity Interest Held</u>
EPP46	Ceduna Sub-basin, Australia	Karoon	100
WA-482-P	Carnarvon, Australia	Quadrant	50 (1)
WA-314-P	Browse, Australia	Karoon	100 (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) Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (2) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (3) The Group's 75% equity interest is subject to completion of farm-in obligations.