



**KAROON GAS AUSTRALIA LTD**  
**ABN 53 107 001 338**

**INTERIM FINANCIAL REPORT**  
**FOR THE FINANCIAL HALF-YEAR ENDED**  
**31 DECEMBER 2016**

---

For further information please see the Karoon website or contact:

Scott Hosking: Company Secretary  
Telephone: +613 5974 1044  
Email: [shosking@karoongas.com.au](mailto:shosking@karoongas.com.au)  
Website: [www.karoongas.com.au](http://www.karoongas.com.au)

Ian Howarth: Collins Street Media  
Telephone: +614 0782 2319  
Email: [ian@collinsstreetmedia.com.au](mailto:ian@collinsstreetmedia.com.au)

<b>Contents</b>	<b>Page</b>
<b>Directors' Report</b>	<b>2</b>
<b>Auditor's Independence Declaration</b>	<b>9</b>
<b>Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>10</b>
<b>Condensed Consolidated Statement of Financial Position</b>	<b>11</b>
<b>Condensed Consolidated Statement of Changes in Equity</b>	<b>12</b>
<b>Condensed Consolidated Statement of Cash Flows</b>	<b>13</b>
<b>Notes to the Condensed Consolidated Financial Statements</b>	
<b>Note 1. Basis of Preparation of Condensed Consolidated Financial Statements</b>	<b>14</b>
<b>Note 2. Results for Financial Half-Year</b>	<b>15</b>
<b>Note 3. Segment Information</b>	<b>15</b>
<b>Note 4. Current and Deferred Tax Liabilities</b>	<b>18</b>
<b>Note 5. Contributed Equity</b>	<b>18</b>
<b>Note 6. Dividends</b>	<b>18</b>
<b>Note 7. Financial Instruments</b>	<b>19</b>
<b>Note 8. Commitments</b>	<b>19</b>
<b>Note 9. Contingent Liabilities</b>	<b>20</b>
<b>Note 10. Subsequent Events</b>	<b>20</b>
<b>Directors' Declaration</b>	<b>21</b>
<b>Independent Auditor's Review Report to the Members of Karoon Gas Australia Ltd</b>	<b>22</b>
<b>Glossary</b>	<b>24</b>

## **DIRECTORS' REPORT FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

The Board of Directors submits its Directors' Report on Karoon Gas Australia Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial half-year ended 31 December 2016 (the 'financial half-year').

### **Board of Directors**

The names of the Directors of Karoon Gas Australia Ltd during the financial half-year and up to the date of this Directors' Report are set out below:

Dr David Klingner – Independent Non-Executive Chairman;  
Mr Robert Hosking – Managing Director;  
Mr Mark Smith – Executive Director;  
Ms Luciana Rachid – Independent Non-Executive Director (*appointed 26 August 2016*);  
Mr Geoff Atkins – Independent Non-Executive Director;  
Mr Clark Davey – Independent Non-Executive Director;  
Mr Peter Turnbull – Independent Non-Executive Director;  
Mr Jose Coutinho Barbosa – Non-Executive Director; and  
Mr Bernard Wheelahan – Independent Non-Executive Director (*resigned 30 November 2016*).

### **Highlights - Group**

- Karoon made positive progress during the financial half-year with its acquisition strategy. Karoon was awarded the right to negotiate a final agreement with Petróleo Brasileiro SA ('Petróbras') and conduct confirmatory due diligence for the acquisition of 100% of the Baúna oil project and a 50% non-operated interest in the Tartaruga Verde oil project. Subsequently an injunction was granted against the sales process, suspending negotiations.
- Karoon acquired Pacific Exploration and Production Corp.'s ('Pacific') 35% equity interest in the jointly held Santos Basin Blocks containing the Echidna, Kangaroo and Bilby oil discoveries for up to USD20.5 million.
- Pre-FEED work continued on the Echidna discovery development concept. Preliminary optimisation results support a full field development concept consisting of 3 extended reach horizontal production wells along with 2 combined water and gas injection wells for a total of 5 development wells, which is a significant reduction in well count from the previous 9 well development concept presented during September 2015.
- Karoon strengthened its exploration portfolio with the acquisition of offshore exploration permit EPP46 in the Ceduna Sub-basin South Australia and the relinquishment of onshore exploration Block 144, Marañón Basin Peru.

**DIRECTORS' REPORT (Continued)  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016****Financial Results**

The consolidated result of the Group for the financial half-year was a loss after tax income of \$8,347,501 (2015: \$83,954,943).

The loss for the financial half-year included the write-off of the carrying amount of non-current capitalised exploration and evaluation expenditure associated with Block 144 of \$6,809,685 (2015: historical Australian exploration and evaluation activities that are no longer continuing and/or considered prospective of \$149,620,842); net employee benefits expense of \$5,629,551 (2015: \$5,814,946), which included share-based payments expense of \$1,435,774 (2015: \$1,686,422); and \$3,455,861 (2015: \$Nil) on business development and other project activities that included internal time allocation of employees and consultants and associated office charges, geotechnical data and external advice relating to due diligence reviews on potential asset acquisitions. The financial half-year also included exploration and evaluation expenditure expensed of \$590,678 (2015: \$709,974) from reviewing new exploration ventures predominately in Australia and Brazil.

Partially offsetting the loss for the financial half-year were net foreign currency gains of \$10,727,748 (2015: \$25,977,428); interest income of \$482,854 (2015: \$1,083,459) earned on interest bearing cash assets and security deposits; and tax income of \$530,707 (2015: \$46,171,978). The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7426 as at 30 June 2016 to AUD1:USD0.7236 as at 31 December 2016) on cash assets and security deposits held in United States dollars by the Group during the financial half-year.

**Financial Position**

At the end of December 2016, the Group had a cash and cash equivalents balance of \$450,330,995 (30 June 2016: \$479,590,366) and no debt.

The Group's working capital, being current assets less current liabilities, decreased from \$475,731,658 as at 30 June 2016 to \$425,619,673 as at 31 December 2016 predominantly as a result of expenditure on exploration and evaluation assets and the Company's on-market share buy-back; partially offset by the appreciation in the United States dollar against the Australian dollar during the financial half-year on cash assets and security deposits held in United States dollars.

During the financial half-year, total assets increased from \$917,187,319 to \$938,650,364, total liabilities increased from \$59,224,572 to \$81,800,267 and total equity decreased by \$1,112,650 to \$856,850,097. The major changes in the condensed consolidated statement of financial position were largely due to the following:

- exploration and evaluation expenditure in Australia, Brazil and Peru, including the acquisition of Pacific's 35% equity interest in the Santos Basin Blocks;
- appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7426 as at 30 June 2016 to AUD1:USD0.7236 as at 31 December 2016) on cash assets and security deposits held in United States dollars;
- the positive movement in the foreign currency translation reserve as a result of the appreciation of the Brazilian REAL against the Australian dollar from AUD1:REAL2.385 as at 30 June 2016 to AUD1:REAL2.355 as at 31 December 2016; and by the positive movement in the foreign currency translation reserve as a result of the appreciation of the United States dollar against the Australian dollar from AUD1:USD0.7426 as at 30 June 2016 to AUD1:USD0.7236 as at 31 December 2016;
- the net write-off of capitalised exploration and evaluation expenditure; and
- the use of cash and cash equivalents for the Company's on-market share buy-back.

The contributed equity of the Company decreased by \$672,481 during the financial half-year through the Company's on-market share buy-back.

**DIRECTORS' REPORT (Continued)  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016****Financial Position (continued)**

Exploration and evaluation expenditure of \$44,373,987 was incurred during the financial half-year, with major expenditure in the following operating segments:

- Brazil, the Group acquired Pacific's 35% equity interest in the jointly held Santos Basin Blocks. It also continued preparatory work for the appraisal drilling campaign, along with pre-FEED and detailed geological, geophysical, reservoir modelling, and production scenario work, at a total cost of \$39,641,724; and
- Peru, the Group continued with drill planning and advanced geophysical studies (amplitude versus offset) using the existing 3D seismic data for the offshore Tumbes Basin Block Z-38, along with geotechnical, social and environmental work for the onshore Marañón Basin Block 144, at a total cost of \$3,028,086.

**Review of Corporate Activities**

During the financial half-year, Karoon confirmed it had been awarded by Petróbras the right to negotiate a final agreement and conduct confirmatory due diligence for the acquisition of 100% of concession BM-S-40, the Baúna oil project, and a 50% non-operated interest in concession BM-C-36, the Tartaruga Verde oil project.

On 25 October 2016, however, Court proceedings were initiated by Mr Jose Hualdo Nunes Santos in the Brazilian Federal Court of Sergipe against Petróbras', the Brazilian oil and gas regulator Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') and Karoon, alleging that the correct sale procedure was not followed. These proceedings remain in place, and continue to suspend negotiations.

Karoon filed its own legal defence in respect of the main court proceedings during February 2017, in addition to Petrobras' legal defence.

A total of 514,945 ordinary shares were bought back and cancelled through the on-market share buy-back program during the financial half-year. The share buy-back program lapsed on 2 September 2016.

**Review of Operations**

During the financial half-year, positive steps were taken to capitalise on the opportunity to acquire offshore exploration permit EPP46 in the Ceduna Sub-basin South Australia and relinquished onshore exploration Block 144, Marañón Basin Peru.

Karoon management's assessment of the prospectivity within exploration permit EPP46, along with operational complexities with respect to onshore acreage in Peru, strongly supported the change to the portfolio.

The firm commitments for Block 144 reflected in Karoon's exploration expenditure commitments in the 2016 Annual Report were for geological and geophysical ('G&G') studies and seismic acquisition. The initial 3-year firm commitment for EPP46 is similarly for G&G studies and the acquisition of seismic data.

**DIRECTORS' REPORT (Continued)  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016****Review of Operations (continued)****Brazil****Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166**

During the financial half-year, Karoon acquired Pacific's 35% equity interest in the jointly held Santos Basin exploration blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') in exchange for USD15.5 million in upfront cash payment and a deferred contingent payable of USD5.0 million upon first production reaching a minimum of 1 million barrels of oil equivalent from the Blocks. As a result of this transaction, Karoon now holds a 100% interest in the Blocks, including the Echidna, Kangaroo and Bilby oil discoveries.

Subsequent to the end of the financial half-year, Karoon's acquisition of Pacific's interest in the Blocks was approved by the ANP, with settlement of the cash payment occurring during February 2017.

Following the results of the preliminary optimisation work by Karoon's South American Project Development Team, the current base case Echidna oil discovery development concept consists of 3 extended reach horizontal production wells and 2 combined water and gas injection wells for a total of 5 development wells. The pre-FEED analysis, including further reservoir modelling, development optimisation and incorporating lower development costs, supports a full field development as the optimal base case development concept.

The previous Echidna development concept presented during September 2015 consisted of a total of 9 development wells and was approached in a staged manner utilising an early production system.

Detailed geological, geophysical, reservoir modelling and production scenario work continued with the results being used to position the appraisal wells in an optimum location for the next drilling program.

Appraisal drilling is expected to commence during calendar year 2017.

***Equity Interest***

Karoon Petróleo & Gas Ltda ( <i>Operator</i> )	100%
--	------

**DIRECTORS' REPORT (Continued)  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

**Review of Operations (continued)**

**Australia**

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

During the financial half-year, Karoon was awarded offshore exploration permit EPP46, located in the Ceduna Sub-basin in South Australia. The permit covers 17,649 square kilometres in one of the world's last underexplored Cretaceous basins.

The Ceduna Sub-basin hosts a massive Cretaceous delta system which Karoon believes has the potential to be a globally significant hydrocarbon province. The geology, potential target size and surrounding significant near term exploration activity make it an exciting exploration opportunity.

Karoon's initial 3-year firm commitment term consists of the acquisition of 2D and 3D marine seismic surveys and G&G studies. There is no requirement to drill a well during the firm commitment term.

Karoon is currently considering all options with respect to obtaining 2D marine seismic data over the permit, with data acquisition expected during 2018.

***Equity Interest***

Karoon Gas Browse Basin Pty Ltd	100%
---------------------------------	------

**Carnarvon Basin Permit WA-482-P**

Following the receipt of the PSDM (pre-stack depth migration) data during the previous financial year, the joint operation has high quality 3D data covering over 75% of the permit area.

Seismic interpretation, hydrocarbon charge modelling and amplitude versus offset ('AVO') analyses are being conducted to better define, risk and rank identified prospects and leads. This work is expected to be completed during the second half of calendar year 2017.

***Equity Interests***

Karoon Gas (FPSO) Pty Ltd	50%
Quadrant Northwest Pty Ltd ( <i>Operator</i> )	50%

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

Reprocessing of the acquired Kraken 3D marine seismic was ongoing during the financial half-year. This work is expected to provide better definition of plays identified, and with the support of AVO/ Quantitative Inversion analysis, to allow re-risking of the Elvie prospect.

The previous G&G studies, in addition to the Kraken 3D marine seismic survey interpretation and thermal maturation modelling, provide supporting evidence for potentially oil prone hydrocarbon systems being active in the permit area.

***Equity Interest***

Karoon Gas Browse Basin Pty Ltd	100%
---------------------------------	------

**DIRECTORS' REPORT (Continued)  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

**Review of Operations (continued)**

**Peru**

**Tumbes Basin Block Z-38**

While the Block remains in force majeure, advanced geophysical studies and drill planning continued during the financial half-year.

The results of seismic attribute and AVO analysis continue to be encouraging. They show a clear distinction between water, oil and gas signatures in reservoirs in a number of prospects in the 1,500 square kilometre 3D seismic area. These results, along with 3D marine seismic data and sea floor drop cores, enhance the case for the presence of an active hydrocarbon system in the Block.

Karoon's efforts in Peru are focused on completing a farm-out and drilling program in offshore Block Z-38.

***Equity Interests***

KEI (Peru Z38) Pty Ltd, Sucursal del Peru ( <i>Operator</i> )	75%*
Pitkin Petroleum Peru Z-38 SRL	25%

\* Karoon's 75% equity interest is subject to completion of farm-in obligations.

**Marañón Basin Block 144**

During the financial half-year, after an extended period of force majeure, Block 144 was relinquished.

**Forward-looking Statements**

This report 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 report. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Investors 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 report 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 report.

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.

**DIRECTORS' REPORT (Continued)  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

**Business Strategies and Prospects, Likely Developments and Expected Results of Operations**

The Directors' Report sets out information on the business strategies and prospects for future financial years, and refers to likely developments in operations and the expected results of those operations in future financial years. Information in the Directors' Report is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Details that could give rise to likely material detriment to Karoon, for example, information that is confidential, commercially sensitive or could give a third party a commercial advantage has not been included. Other than the matters included in this Directors' Report, information about other likely developments in the Group's operations and the expected results of those operations have not been included.

**External Auditor's Independence Declaration**

A copy of the external Auditor's Independence Declaration for the financial half-year, as required under Section 307C of the *Corporations Act 2001*, is set out on page 9.

This Directors' Report is made in accordance with a resolution of the Directors.

On behalf of the Directors:



**Dr David Klingner**  
Independent Non-Executive Chairman



**Mr Robert Hosking**  
Managing Director

14 March 2017



## **Auditor's Independence Declaration**

As lead auditor for the review of Karoon Gas Australia Ltd for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Karoon Gas Australia Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Charles Christie', is written over a light blue horizontal line.

Charles Christie  
Partner  
PricewaterhouseCoopers

Melbourne  
14 March 2017

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

	Note	<b>Consolidated</b>	
		<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
		<b>\$</b>	<b>\$</b>
Revenue	2	482,854	1,083,459
Other income	2	10,727,780	29,581,241
<b>Total revenue and other income</b>		<b>11,210,634</b>	<b>30,664,700</b>
Computer support		(759,672)	(594,282)
Consulting fees		(325,860)	(371,449)
Depreciation and amortisation expense		(487,162)	(525,357)
Employee benefits expense (net)		(5,629,551)	(5,814,946)
Exploration and evaluation expenditure expensed		(590,678)	(709,974)
Exploration and evaluation expenditure written-off	2	(5,942,957)	(149,620,842)
Farm-out costs		(246,665)	(181,607)
Finance costs		(131,659)	(93,568)
Insurance expense		(175,200)	(140,276)
Investor relation costs		(20,000)	(17,600)
Legal fees		(236,214)	(82,003)
Business development and other project costs		(3,455,861)	-
Property costs		(1,126,152)	(1,104,176)
Share registry and listing fees		(98,776)	(105,037)
Telephone and communication expenses		(163,325)	(180,025)
Travel and accommodation expenses		(208,691)	(543,977)
Other expenses		(490,419)	(706,502)
<b>Total expenses</b>		<b>(20,088,842)</b>	<b>(160,791,621)</b>
Loss before income tax		(8,878,208)	(130,126,921)
Tax income	4	530,707	46,171,978
<b>Loss for financial half-year attributable to equity holders of the Company</b>		<b>(8,347,501)</b>	<b>(83,954,943)</b>
<b>Other comprehensive income (loss), net of income tax:</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		6,471,558	(36,202,214)
<b>Other comprehensive income (loss) for financial half-year, net of income tax</b>		<b>6,471,558</b>	<b>(36,202,214)</b>
<b>Total comprehensive loss for financial half-year attributable to equity holders of the Company, net of income tax</b>		<b>(1,875,943)</b>	<b>(120,157,157)</b>
<b>Loss per share attributable to equity holders of the Company:</b>			
Basic loss per ordinary share		(0.0341)	(0.3608)
Diluted loss per ordinary share		(0.0341)	(0.3608)

The accompanying notes form an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Note	Consolidated 31 Dec 2016 \$	30 June 2016 \$
<b>Current assets</b>			
Cash and cash equivalents		450,330,995	479,590,366
Receivables		2,249,021	3,672,007
Inventories		5,274,311	3,361,581
Security deposits		2,119,375	421,318
Current tax asset		515,175	431,059
Other assets		2,180,891	2,055,438
<b>Total current assets</b>		<b>462,669,768</b>	<b>489,531,769</b>
<b>Non-current assets</b>			
Inventories		45,769,580	38,487,405
Plant and equipment		1,436,355	1,603,216
Intangible assets		1,070,711	1,116,739
Exploration and evaluation expenditure carried forward		419,509,942	376,766,598
Security deposits		8,194,008	9,681,592
<b>Total non-current assets</b>		<b>475,980,596</b>	<b>427,655,550</b>
<b>Total assets</b>		<b>938,650,364</b>	<b>917,187,319</b>
<b>Current liabilities</b>			
Trade and other payables		36,793,415	13,512,663
Provisions		256,680	287,448
<b>Total current liabilities</b>		<b>37,050,095</b>	<b>13,800,111</b>
<b>Non-current liabilities</b>			
Trade and other payables		204,236	504,771
Deferred tax liabilities		44,255,411	44,655,826
Provisions		290,525	263,864
<b>Total non-current liabilities</b>		<b>44,750,172</b>	<b>45,424,461</b>
<b>Total liabilities</b>		<b>81,800,267</b>	<b>59,224,572</b>
<b>Net assets</b>		<b>856,850,097</b>	<b>857,962,747</b>
<b>Equity</b>			
Contributed equity	5	802,295,334	802,967,815
Retained earnings		40,231,108	48,578,609
Share-based payments reserve		41,625,650	40,189,876
Foreign currency translation reserve		(27,301,995)	(33,773,553)
<b>Total equity</b>		<b>856,850,097</b>	<b>857,962,747</b>

*The accompanying notes form an integral part of these condensed consolidated financial statements.*

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

Consolidated	Contributed Equity	Retained Earnings	Share- based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
	\$	\$	\$	\$	\$
<b>Balance as at 1 July 2015</b>	805,529,759	153,704,954	36,936,683	(37,665,756)	958,505,640
Loss for financial half-year	-	(83,954,943)	-	-	(83,954,943)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(36,202,214)	(36,202,214)
<b>Total comprehensive loss for financial half-year</b>	-	(83,954,943)	-	(36,202,214)	(120,157,157)
<b>Transactions with owners in their capacity as owners:</b>					
Ordinary shares bought back (on-market) and cancelled	(1,941,814)	-	-	-	(1,941,814)
Share buy-back transaction costs	(1,741)	-	-	-	(1,741)
Share-based payments expense	-	-	1,686,422	-	1,686,422
	(1,943,555)	-	1,686,422	-	(257,133)
<b>Balance as at 31 December 2015</b>	<b>803,586,204</b>	<b>69,750,011</b>	<b>38,623,105</b>	<b>(73,867,970)</b>	<b>838,091,350</b>
<b>Balance as at 1 July 2016</b>	802,967,815	48,578,609	40,189,876	(33,773,553)	857,962,747
Loss for financial half-year	-	(8,347,501)	-	-	(8,347,501)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	6,471,558	6,471,558
<b>Total comprehensive loss for financial half-year</b>	-	(8,347,501)	-	6,471,558	(1,875,943)
<b>Transactions with owners in their capacity as owners:</b>					
Ordinary shares bought back (on-market) and cancelled	(671,998)	-	-	-	(671,998)
Share buy-back transaction costs, net of tax	(483)	-	-	-	(483)
Share-based payments expense	-	-	1,435,774	-	1,435,774
	(672,481)	-	1,435,774	-	763,293
<b>Balance as at 31 December 2016</b>	<b>802,295,334</b>	<b>40,231,108</b>	<b>41,625,650</b>	<b>(27,301,995)</b>	<b>856,850,097</b>

*The accompanying notes form an integral part of these condensed consolidated financial statements.*

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

	<b>Consolidated</b>	
	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST refunds)	869,470	874,537
Payments to suppliers and employees (inclusive of GST)	(11,005,660)	(9,100,560)
Payments for exploration and evaluation expenditure expensed	(648,878)	(709,974)
Interest received	610,158	763,823
Interest and other costs of finance paid	(131,659)	(93,568)
Income taxes refund (paid)	51,800	(124,438)
<b>Net cash flows used in operating activities</b>	<b>(10,254,769)</b>	<b>(8,390,180)</b>
<b>Cash flows from investing activities</b>		
Purchase of plant and equipment and computer software	(264,274)	(632,173)
Payments for exploration and evaluation expenditure capitalised	(29,160,292)	(39,380,158)
Repayment of security deposits	123,862	20,750
<b>Net cash flows used in investing activities</b>	<b>(29,300,704)</b>	<b>(39,991,581)</b>
<b>Cash flows from financing activities</b>		
Share buy-back (on-market)	(672,687)	(1,943,554)
<b>Net cash flows used in financing activities</b>	<b>(672,687)</b>	<b>(1,943,554)</b>
Net decrease in cash and cash equivalents	(40,228,160)	(50,325,315)
Cash and cash equivalents at beginning of financial half-year	479,590,366	553,091,340
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	10,968,789	20,699,085
<b>Cash and cash equivalents at end of financial half-year</b>	<b>450,330,995</b>	<b>523,465,110</b>

*The accompanying notes form an integral part of these condensed consolidated financial statements.*

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016****Note 1. Basis of Preparation of the Condensed Consolidated Financial Statements**

This Interim Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*.

The condensed consolidated financial statements do not include all the notes of the type normally included in an Annual Report and should be read in conjunction with the Company's Annual Report for the financial year ended 30 June 2016.

The condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as disclosed in the Company's Annual Report for the financial year ended 30 June 2016, except for the impact of the Standards and Interpretations as described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The condensed consolidated financial statements are presented in Australian dollars.

**New or Revised Australian Accounting Standards and Interpretations that are First Effective in the Current Reporting Period**

The Group has adopted all of the new and/ or revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') that are relevant to its operations and effective for the financial half-year ended 31 December 2016. The Group has not elected to apply any new or revised Australian Accounting Standards before their operative dates during the financial half-year.

Significant new and/ or revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial half-year that are relevant to the Group include:

(i) *AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'*

AASB 2014-3 amends AASB 11 *'Joint Arrangements'* to clarify the accounting for an acquisition of an interest in a joint operation that constitutes a 'business'. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' as defined in AASB 3 *'Business Combinations'*. The Group will apply the amendments to the revised standard prospectively to relevant acquisitions occurring on or after 1 July 2016. Transactions before that date are grand fathered.

The adoption of all of the relevant new and/ or revised Australian Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on either the amounts reported for the current or previous financial half-years.

**Statement of Compliance**

Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 *'Interim Financial Reporting'*.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016

### Note 2. Results for Financial Half-Year

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$	\$
The results for the financial half-year include the following revenue and expense items which are unusual because of their nature, size or incidence:		
<b>Revenue</b>		
Interest income from unrelated entities	482,854	1,083,459
Total revenue	482,854	1,083,459
Net foreign currency gains	10,727,748	25,977,428
Reversal of provision for restoration	-	3,452,572
Services revenue from joint operations	-	151,241
Net gain on disposal of non-current assets	32	-
Total other income	10,727,780	29,581,241
<b>Expense</b>		
Share-based payments expense	(1,435,774)	(1,686,422)
Exploration and evaluation expenditure written-off (refer (a) below)	(5,942,957)	(149,620,842)

(a) Exploration and evaluation expenditure carried forward associated with Block 144 has been written-off, as the block was relinquished during the financial half-year (2015: exploration and evaluation expenditure carried forward associated with historical Australian exploration and evaluation activities that were no longer continuing and not considered prospective had been written off).

### Note 3. Segment Information

#### (a) Description of Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and Executive Director/Exploration Director (identified as the 'chief operating decision maker') in assessing performance and in determining the allocation of resources.

The operating segments are based on the Group's geographical location of its operations.

The Group has identified operating segments based on the following three geographic locations:

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in three offshore exploration permit areas: EPP46, WA-314-P and WA-482-P. Exploration permit EPP46 was acquired during the financial half-year;
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in five offshore exploration blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, and Block S-M-1166; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in offshore exploration Block Z-38. Onshore exploration Block 144 was relinquished during the financial half-year.

All other segments' include amounts not specifically attributable to an operating segment.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016

### Note 3. Segment Information (continued)

#### (a) Description of Segments (continued)

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

Segment revenues and results do not include transfers between segments as intercompany balances are eliminated on consolidation.

Employee benefits expenses and other operating expenses, that are associated with exploration and evaluation activities and specifically relate to an area of interest, are allocated to the area of interest and are capitalised as exploration and evaluation assets.

Reportable segment assets and segment liabilities are equal to consolidated total assets and total liabilities respectively. These assets and liabilities are allocated on the operations of the segment.

#### (b) Operating Segments

Segment performance	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
<b>Result for financial half-year 31 December 2016</b>					
Revenue (interest income from unrelated entities)	72,190	410,664	-	-	482,854
Other income	10,791,546	18,149	(81,915)	-	10,727,780
Depreciation and amortisation expense	(214,387)	(163,908)	(108,867)	-	(487,162)
Employee benefits expense (net)	(3,907,271)	(1,105,203)	(617,077)	-	(5,629,551)
Exploration and evaluation expenditure expensed	(208,496)	(264,436)	(7,660)	(110,086)	(590,678)
Exploration and evaluation expenditure written-off	866,728	-	(6,809,685)	-	(5,942,957)
Business development and other project costs	(133,609)	(3,322,252)	-	-	(3,455,861)
Finance costs	(43,592)	(80,203)	(7,864)	-	(131,659)
Property costs	(382,326)	(577,609)	(166,217)	-	(1,126,152)
Administration and other operating expenses	(1,492,451)	(610,502)	(621,869)	-	(2,724,822)
Loss (profit) before income tax	5,348,332	(5,695,300)	(8,421,154)	(110,086)	(8,878,208)
Tax income	530,707	-	-	-	530,707
Loss (profit) for financial half-year	5,879,039	(5,695,300)	(8,421,154)	(110,086)	(8,347,501)
<b>Result for financial half-year 31 December 2015</b>					
Revenue (interest income from unrelated entities)	98,572	984,588	299	-	1,083,459
Other income	26,355,220	3,490,363	(264,342)	-	29,581,241
Depreciation and amortisation expense	(194,165)	(215,184)	(116,008)	-	(525,357)
Employee benefits expense (net)	(4,274,313)	(873,775)	(666,858)	-	(5,814,946)
Exploration and evaluation expenditure expensed	(481,048)	(191,163)	(1,245)	(36,518)	(709,974)
Exploration and evaluation expenditure written-off	(149,620,842)	-	-	-	(149,620,842)
Finance costs	(8,768)	(77,650)	(7,150)	-	(93,568)
Property costs	(375,850)	(557,082)	(171,244)	-	(1,104,176)
Administration and other operating expenses	(2,106,391)	(443,972)	(372,395)	-	(2,922,758)
Loss (profit) before income tax	(130,607,585)	2,116,125	(1,598,943)	(36,518)	(130,126,921)
Tax income	46,171,978	-	-	-	46,171,978
Loss (profit) for financial half-year	(84,435,607)	2,116,125	(1,598,943)	(36,518)	(83,954,943)

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

**Note 3. Segment Information (continued)**

**(b) Operating Segments (continued)**

	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
<b>Segment assets</b>					
<b>As at 31 December 2016</b>					
<b>Segment asset information</b>					
Cash and cash equivalents	443,487,586	5,310,975	1,532,434	-	450,330,995
Exploration and evaluation expenditure carried forward	51,730,944	303,122,522	64,656,476	-	419,509,942
Security deposits	375,335	53,830	9,884,218	-	10,313,383
Inventories	11,294	24,219,671	26,812,926	-	51,043,891
Other	1,322,528	3,085,529	3,044,096	-	7,452,153
<b>Segment assets</b>	<b>496,927,687</b>	<b>335,792,527</b>	<b>105,930,150</b>	<b>-</b>	<b>938,650,364</b>
<b>As at 30 June 2016</b>					
<b>Segment asset information</b>					
Cash and cash equivalents	466,316,880	11,558,411	1,715,075	-	479,590,366
Exploration and evaluation expenditure carried forward	49,160,039	260,521,706	67,084,853	-	376,766,598
Security deposits	375,335	50,185	9,677,390	-	10,102,910
Inventories	15,197	15,706,892	26,126,897	-	41,848,986
Other	1,858,827	3,529,032	3,490,600	-	8,878,459
<b>Segment assets</b>	<b>517,726,278</b>	<b>291,366,226</b>	<b>108,094,815</b>	<b>-</b>	<b>917,187,319</b>
<b>Segment liabilities</b>					
	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
<b>As at 31 December 2016</b>					
<b>Segment liability information</b>					
Trade and other payables	3,649,477	32,120,324	1,227,850	-	36,997,651
Deferred tax liabilities	44,255,411	-	-	-	44,255,411
Provisions	547,205	-	-	-	547,205
<b>Segment liabilities</b>	<b>48,452,093</b>	<b>32,120,324</b>	<b>1,227,850</b>	<b>-</b>	<b>81,800,267</b>
<b>As at 30 June 2016</b>					
<b>Segment liability information</b>					
Trade and other payables	7,466,521	5,604,969	945,944	-	14,017,434
Deferred tax liabilities	44,655,826	-	-	-	44,655,826
Provisions	551,312	-	-	-	551,312
<b>Segment liabilities</b>	<b>52,673,659</b>	<b>5,604,969</b>	<b>945,944</b>	<b>-</b>	<b>59,224,572</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016

### Note 4. Current and Deferred Tax Liabilities

During the financial year ended 30 June 2016, current tax income included significant deferred tax income associated predominately to the de-recognition of a deferred tax liability in relation to Australian capitalised exploration and evaluation expenditure written-off, which did not occur during the financial half-year ended 31 December 2016.

### Note 5. Contributed Equity

	Consolidated	
	31 Dec 2016	30 June 2016
<b>(a) Contributed Equity</b>	<b>\$</b>	<b>\$</b>
Ordinary shares, fully paid	802,295,334	802,967,815
Total contributed equity	802,295,334	802,967,815

### (b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares	\$
1 July 2015	Opening balance in previous financial year	246,655,739	805,529,759
	Performance rights conversion	264,704	-
	Ordinary shares bought back (on-market) and cancelled	(1,660,319)	(2,564,577)
	Share buy-back transaction costs		(2,378)
	Deferred tax credit recognised directly in equity		5,011
30 June 2016	Balance at end of previous financial year	245,260,124	802,967,815
	Performance rights conversion	193,626	-
	Ordinary shares bought back (on-market) and cancelled	(514,945)	(671,998)
	Share buy-back transaction costs		(689)
	Deferred tax credit recognised directly in equity		206
31 December 2016	Balance at end of financial half-year	244,938,805	802,295,334

### Note 6. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2015: \$Nil).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016

### Note 7. Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables. The fair values of financial assets and financial liabilities are represented by their carrying values as disclosed in the condensed consolidated statement of financial position.

### Note 8. Commitments

	Consolidated	
	31 Dec 2016	30 June 2016
	\$	\$
<b>(a) Capital Expenditure Commitments</b>		
Contracts and/or signed Authorities for Expenditure for capital expenditure in relation to assets not provided for in the condensed consolidated financial statements and payable:		
<b>Drilling operations</b>		
Not later than one year	24,366,668	16,123,176
<b>Total capital expenditure commitments</b>	<b>24,366,668</b>	<b>16,123,176</b>

### (b) Exploration Expenditure Commitments

The Group has commitments for exploration expenditure arising from obligations to governments to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenements EPP46, WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166 and Block Z-38 (30 June 2016: WA-314-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144) not provided for in the condensed consolidated financial statements and payable. Included in exploration expenditure commitments are \$454,897,706 (30 June 2016: \$253,472,031) of commitments that relate to the non-guaranteed work commitments:

Not later than one year	250,000	-
Later than one year but not later than five years	802,968,412	556,673,149
<b>Total exploration expenditure commitments</b>	<b>803,218,412</b>	<b>556,673,149</b>

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are organised, and are determined in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties.

The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group.

Where exploration and evaluation expenditure included in this category relates to an existing contract for expenditure and/or signed Authorities for Expenditure, the amount will be included in both categories (a) and (b) above.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016****Note 9. Contingent Liabilities**

As at 31 December 2016, the Group had contingent liabilities in the form of performance guarantees, bank guarantees, bonds and Brazilian local content, for which there have not been any significant changes from the 30 June 2016 Annual Report.

There are also legal claims and exposures, which arise from the Group's ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these legal claims and exposures. No material loss to the Group is expected to result.

**Block acquisition**

As part of the acquisition of Pacific's equity interest of the Santos Basin exploration blocks during the financial half-year, the Group has agreed to pay Pacific a deferred contingent consideration of USD5 million payable upon first production reaching a minimum of 1 million barrels of oil equivalent from the Blocks. The deferred contingent obligation has not been provided for at the reporting date as it is dependent upon uncertain future events not wholly within the Group's control.

**Note 10. Subsequent Events**

Since 31 December 2016, there have been no material events that have occurred.

The Interim Financial Report was authorised for issue by the Board of Directors on 14 March 2017. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements and notes.

**DIRECTORS' DECLARATION  
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2016**

The Directors declare that:

1. in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 10 to 20, are in accordance with the *Corporations Act 2001*, including:
  - a) complying with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Regulations 2001*; and
  - b) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
2. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:



**Dr David Klingner**  
Independent Non-Executive Chairman



**Mr Robert Hosking**  
Managing Director

14 March 2017  
Melbourne



## **Independent auditor's review report to the members of Karoon Gas Australia Ltd**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Karoon Gas Australia Ltd (the "Company"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit and loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Karoon Gas Australia Ltd Group (the "consolidated entity"). The consolidated entity comprises the Company and the entities it controlled during the half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Karoon Gas Australia Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Karoon Gas Australia Ltd is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Charles Christie'.

Charles Christie  
Partner

Melbourne  
14 March 2017

## GLOSSARY

Term	Definition
<b>\$ or cents</b>	Units of Australian currency.
<b>AASB</b>	Australian Accounting Standards Board.
<b>ANP</b>	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
<b>API</b>	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
<b>appraisal well</b>	A well drilled to confirm the size or quality of a hydrocarbon discovery.
<b>ASX</b>	Australian Limited (ACN 008 624 691), trading as Australian Securities Exchange.
<b>block</b>	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
<b>boe</b>	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 standard cubic feet per barrel and not price equivalence at the time.
<b>Company</b>	Karoon Gas Australia Ltd.
<b>condensate</b>	Hydrocarbons which are predominantly pentane and heavier compounds which are in a gas phase in the reservoir and which separate out from natural gas at the well head and condense to liquid at lower pressures and temperatures.
<b>contingent resources</b>	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality). 1C- Denotes low estimate scenario of contingent resources. 2C- Denotes best estimate scenario of contingent resources. 3C- Denotes high estimate scenario of contingent resources.
<b>Director</b>	A Director of Karoon Gas Australia Ltd.
<b>discovery well</b>	The first successful well on a new prospect.
<b>DST</b>	Drill stem test.
<b>exploration</b>	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
<b>farm-in and farm-out</b>	A commercial agreement in which an incoming joint operation participant (the 'farmee') earns an interest in an exploration permit by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration permit (the 'farmor') pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
<b>FEED</b>	Front End Engineering and Design.
<b>FID</b>	Final Investment Decision.
<b>field</b>	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.

**GLOSSARY (Continued)**

<b>Term</b>	<b>Definition</b>
<b>financial half-year</b>	Financial half-year ended 31 December 2016.
<b>FPSO</b>	Floating production, storage and off-loading facility.
<b>G&amp;G</b>	Geological and geophysical
<b>GOR</b>	Gas to oil ratio.
<b>hydrocarbon</b>	A chemical compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
<b>Karoon or Group</b>	Karoon Gas Australia Ltd and its subsidiaries.
<b>lead</b>	A potential hydrocarbon target which has been identified but requires further evaluation before it can be classified as a prospect.
<b>LNG</b>	Liquefied natural gas.
<b>m</b>	Metres.
<b>mm</b>	Million.
<b>mmbbls</b>	Millions of barrels (1,000,000 barrels).
<b>mmscf</b>	Millions of standard cubic feet.
<b>mmscf/d</b>	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.
<b>Monte Carlo simulation</b>	Where there is uncertainty in the variables used in the calculation of economically recoverable reserves, the ranges of possible values of each variable can be incorporated in a Monte Carlo simulation calculation to produce a range of probabilistic outcomes that reflect that uncertainty. The 'mean' is the expected outcome. The P10 (probability greater than 10%) is often used as the maximum case, the P50 (probability of 50%) the mid case and the P90 (probability greater than 90%) the minimum case.
<b>mRT</b>	Metres Rotary Table.
<b>Operator</b>	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
<b>ordinary shares</b>	The ordinary shares in the capital of Karoon Gas Australia Ltd.
<b>Pacific</b>	Pacific Exploration and Production Corp.
<b>permit</b>	A hydrocarbon tenement, lease, licence, concession or Block.
<b>Petróbras</b>	Petróleo Brasileiro SA.
<b>play</b>	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
<b>prospect</b>	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.

**GLOSSARY (Continued)**

Term	Definition
<b>prospective resource</b>	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Median estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded.
<b>psia</b>	Pounds per square inch absolute.
<b>Quadrant</b>	Quadrant Northwest Pty Ltd.
<b>REAL</b>	Brazilian currency.
<b>reservoir</b>	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
<b>Rotary Table</b>	A flat plate in the drill floor which is turned mechanically at varying speeds and directions imparting the rotary action to the drill string which passes through its centre.
<b>seismic survey</b>	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths to form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
<b>SPE PRMS standards</b>	Society of Petroleum Engineers Petroleum Resource Management System Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet to be discovered accumulations, resource evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resource management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.
<b>spud</b>	To start drilling a new well.
<b>Tcf</b>	Trillion cubic feet (1,000,000,000,000 cubic feet).
<b>trap</b>	A formation in the earth's subsurface which prevents the onward migration of hydrocarbons.
<b>unrisked</b>	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
<b>USD</b>	United States dollars.