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## SEPTEMBER 2016 QUARTERLY REPORT AND APPENDIX 5B

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### Highlights

- \$449 million cash balance as at 30 September 2016.
- Subsequent to the end of the quarter, Karoon confirmed the award of 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 (producing at a rate of approximately 45 kbpd<sup>1</sup>) and a 50% non-operated interest in the Tartaruga Verde oil development project.
- During September 2016, Karoon announced the purchase of Pacific's 35% equity interest in the jointly held Santos Basin Blocks containing the Echidna, Kangaroo and Bilby oil discoveries for up to US\$20.5 million.
- During the quarter, pre-FEED work continued on the Echidna discovery development concept. Preliminary optimisation results to date support a full field development concept consisting of 3 extended reach horizontal production wells along with 2 combined water and gas injection wells.
- Subsequent to the end of the quarter, Karoon announced the award of exploration permit EPP46 in the Ceduna Sub-basin, the Great Australian Bight, offshore South Australia.
- During September 2016, Ms Luciana Rachid was appointed an Independent Non-Executive Director of Karoon effective 26 August 2016.

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

During October 2014, Karoon announced it was looking to capitalise on the falling oil price environment and consider acquisition opportunities as a priority use of capital. As the oil price continued to decline through 2015 Karoon's efforts to acquire a production asset increased, resulting in the award of the right to negotiate a final agreement for the acquisition of the Baúna oil and Tartaruga Verde oil development projects in the Santos Basin, offshore Brazil.

It is encouraging, that after approximately 18 months of technical work, due diligence and competitive negotiations Karoon has been able to announce some real progress with respect to its acquisition strategy.

The potential acquisition of an interest in the Baúna and Tartaruga oil projects is considered by the Board and Management to be a transformational opportunity for the Company. This would provide material and immediate low cost oil production and also offer obvious logistical synergies with Karoon's existing Echidna and Kangaroo oil discoveries.

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<sup>1</sup> As announced by Petróbras' on 6 October 2016, "Sale of Baúna and Tartaruga Verde fields" .

## **Corporate and Operational Summary**

### **Corporate**

As at 30 September 2016, Karoon had a cash balance of \$449 million.

During the quarter, a total of 514,945 ordinary shares were bought back and cancelled through the on-market share buy-back program. The current outstanding ordinary shares on issue is 244,938,805. The share buy-back program was allowed to lapse on 2 September 2016.

Consistent with Karoon's strategy of looking to capitalise on the current oil price environment to supplement the Company's organic growth strategy and acquire current production, subsequent to the end of the quarter, Karoon confirmed the Company had been awarded the right to negotiate a final agreement with Petróbras and conduct confirmatory due diligence for the acquisition of the following oil projects:

- a 100% operated interest in concession BM-S-40, the Baúna oil project, and
- a 50% non-operated interest in concession BM-C-36, the Tartaruga Verde oil development project.

This next stage of negotiation follows almost 12 months of a competitive bidding process. Any acquisition remains conditional upon, among other things, the outcome of these negotiations, satisfactory due diligence, approval by the Karoon Board of Directors, approval by the Petróbras Board of Directors and relevant regulatory approvals.

The Company was pleased to appoint Ms Luciana Rachid as an Independent Non-Executive Director of Karoon effective 26 August 2016. Ms Rachid will join the Nomination and Risk & Governance Committees. Mr Bernard Wheelahan has notified the Board that he will not stand for re-election at the 2016 Karoon Annual General Meeting.

### **Operations**

#### **Brazil**

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

#### ***100%<sup>2</sup> Interest***

#### ***Operator***

During the quarter, Karoon acquired Pacific Exploration and Production Corp.'s 35% interest in the Blocks for up to US\$20.5 million consisting of US\$15.5 million in upfront cash and a contingent US\$5.0 million amount payable on first production reaching 1 million boe from the Blocks.

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.

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<sup>2</sup> Subject to approval from the Petroleum Regulator

## **Australia**

### ***Ceduna Sub-basin, Permit EPP46***

***100% Interest***

***Operator***

Subsequent to the end of the quarter, Karoon was awarded exploration permit EPP46, located in the Ceduna Sub-basin, offshore South Australia. The permit covers 17,793 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 with world class asset potential. 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 geological and geophysical ('G&G') studies. There is no requirement to drill a well in the 3-year firm commitment term.

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

***50% Interest***

***Non-Operator***

Following the receipt of the PSDM (pre-stack depth migration) data during the June 2016 quarter, 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') analysis are all being conducted in parallel 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.

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

***100% Interest***

***Operator***

Reprocessing of the acquired Kraken 3D marine seismic commenced during the quarter. This work is expected to provide better definition of plays identified, and with the support of AVO/ Quantitative Inversion analysis, will 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.

## **Peru**

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

***75% Interest***

***Operator***

While the block remains in force majeure, advanced geophysical studies continued during the quarter.

The results of new seismic attribute and AVO analysis are encouraging. The results 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.

The AVO results, along with 3D marine seismic data and sea floor drop cores enhances the case for the presence of an active hydrocarbon system in the block.

Drilling preparations are ongoing.

***Marañón Basin, Block 144***  
***100% Interest***  
***Operator***

While the block remains in force majeure, Karoon continued its geotechnical, social and environmental work during the quarter.

**Forward-looking statements**

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

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

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



**Appendix 5B  
(Unaudited)  
ASX Quarterly Financial Report  
For the Quarter Ended 30 September 2016**

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**

<b>Karooon Gas Australia Ltd</b>	
<b>ABN</b>	<b>Quarter ended ('current quarter')</b>
53 107 001 338	30 September 2016

<b>Consolidated statement of cash flows</b>	<b>Current quarter A\$'000</b>	<b>Year to date (3 months) A\$'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(13,015)	(13,015)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(2,182)	(2,182)
(e) administration and corporate costs	(2,398)	(2,398)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	383	383
1.5 Interest and other costs of finance paid	(55)	(55)
1.6 Income taxes paid	(176)	(176)
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	902	902
<b>1.9 Net cash from/ (used in) operating activities</b>	<b>(16,541)</b>	<b>(16,541)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$'000</b>	<b>Year to date (3 months) A\$'000</b>
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(134)	(134)
	(b) petroleum tenements (see item 10)	-	-
	(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)	41	41
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>(93)</b>	<b>(93)</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 (Karooon share buy-back on-market)	(673)	(673)
<b>3.10</b>	<b>Net cash from/ (used in) financing activities</b>	<b>(673)</b>	<b>(673)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$'000</b>	<b>Year to date (3 months) A\$'000</b>
<b>4.</b>	<b>Net increase/ (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	479,590	479,590
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(16,541)	(16,541)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(93)	(93)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(673)	(673)
4.5	Effect of movement in exchange rates on cash held	(12,923)	(12,923)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>449,360</b>	<b>449,360</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)	442,645	468,190
5.2	Call deposits (short-term bank deposits)	6,715	11,400
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>449,360</b>	<b>479,590</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>
654
-

Directors' remuneration included in 1.2: \$543,833  
Consulting fees included in 1.2: \$110,498

**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	18,000
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	2,000
9.5 Administration and corporate costs	5,000
9.6 Other (provide details if material)	-
<b>9.7 Total estimated cash outflows</b>	<b>25,000</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	Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166: Santos Basin, Brazil	Exploration permits	65%	100% <sup>(1)</sup>

(1) The Group has entered into a binding Sale and Purchase Agreement (the 'Agreement') for Pacific Exploration and Production Corp.'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 Agreement remains conditional upon, among other things, approval from the Petroleum Regulator, the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.



**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....  
(Company Secretary)

Date: 31 October 2016

Print name: Scott Hosking

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6 '*Exploration for and Evaluation of Mineral Resources*' and AASB 107 '*Statement of Cash Flows*' apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

## Appendix 1

### Schedule of Interests in Petroleum Tenements

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

As at 30 September 2016

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	Karoon	100 (1)
WA-482-P	Carnarvon, Australia	Quadrant	50 (2)
Block S-M-1037	Santos, Brazil	Karoon	100 (3)
Block S-M-1101	Santos, Brazil	Karoon	100 (3)
Block S-M-1102	Santos, Brazil	Karoon	100 (3)
Block S-M-1165	Santos, Brazil	Karoon	100 (3)
Block S-M-1166	Santos, Brazil	Karoon	100 (3)
Block 144	Marañón, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (4)

- (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 has entered into a binding Sale and Purchase Agreement (the 'Agreement') for Pacific Exploration and Production Corp.'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 Agreement remains conditional upon, among other things, approval from the Petroleum Regulator, the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
- (4) The Group's 75% equity interest is subject to completion of farm-in obligations.