



SEPTEMBER 2018 QUARTERLY REPORT AND APPENDIX 5B

Significant Events

- Force majeure was lifted during the quarter on Block Z-38 Tumbes Basin, Peru allowing the Karoon, Tullow and Pitkin joint venture to advance exploration drilling plans for the gross unrisked best estimate prospective resource 256¹ mmbbls Marina prospect (102 mmbbls net to Karoon), currently anticipated for early 2020.
- The request for a variation of the work program for the Browse Basin Australia exploration permit WA-314-P Years 4 and 5 was approved by the National Offshore Petroleum Titles Administrator ('NOPTA') during October 2018 with the Year 4 well commitment being replaced by geological and geophysical studies.
- During the quarter, Karoon continued to advance towards the Company's stated strategy of purchasing a quality oil and gas production asset.
- A\$333 million cash balance as at 30 September 2018. Karoon currently holds almost all its cash in United States dollars.

Comments from Mr. Robert Hosking, Managing Director:

"It was with great sadness that Karoon announced the passing of its Chairman, Dr. David Klingner, during August 2018 after a short illness. David was an integral and much valued member of the Karoon team since 2014 and his energy, wisdom, knowledge and guidance will be very much missed by all at Karoon.

He was a key supporter of Karoon's exploration strategy and ambition to acquire a transformational production asset.

Following the unfortunate passing of David, Mr Peter Turnbull was appointed as Interim Chairman. This gives the Board time to conduct a thorough process, which is well underway, to appoint a permanent replacement. Peter remains committed to completing Karoon's ongoing strategic goals.

During the quarter Karoon continued to dedicate significant resources to pursuing its acquisition strategy. Karoon has made real progress during 2018. The company is involved in two processes with one in ongoing advanced negotiations."

¹ The prospective resource volume estimates presented was disclosed 8 May 2018 in ASX announcement 'Resources Update'. Karoon is not aware of any new information or data that materially affects this resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

Refer to Prospective Resources Cautionary Statement on page 4

Corporate and Operational Summary

Corporate

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

Karoon's production and development acquisition strategy is focused on (but not limited to) offshore opportunities in Brazil where Karoon has an operational presence. There are a number of acquisition opportunities as a result of the Petrobras asset divestment program, along with divestments from other non-Petrobras companies that are of significant interest.

Petrobras announced during the June 2018 quarter the relaunch of the Baúna oil field sales process. The asset remains an opportunity of interest for Karoon and, due to the proximity to Karoon's existing acreage position, is expected to provide the possibility for material operational synergies.

Karoon remains in discussions with oil and gas companies relating to jointly evaluating acquisition and development opportunities in Brazil.

Operations

Brazil

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

100% Equity Interest

Operator

Following the submission of the Final Discovery Evaluation Report ('RFAD') for the blocks and Declaration of Commerciality ('DoC') relating to the Echidna (Neon) and Kangaroo (Goiá) light oil discoveries, Karoon has been preparing the Development Plans for the discoveries for submission to the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis following the DoC.

As part of the RFAD process, Karoon applied to relinquish Block S-M-1166. Karoon has no reason to believe approval to relinquish the block will not be forthcoming.

Development proposals were received during the June quarter 2018, which included multiple FPSO's that could be available to support first production from Neon in the early 2020's. The process included obtaining bids for drilling and completion services and materials, subsea infrastructure and FPSO leasing.

Following the receipt of interest from tenderers, Karoon is now working with interested parties to refine the technical and commercial aspects of the proposals.

Karoon remains committed to farming down equity in the 100% owned Santos Basin blocks prior to any final investment decision.

Santos Basin, Block S-M-1537

100% Equity Interest

Operator

Following the award of Block S-M-1537 from Bid Round 14 during September 2017, Karoon has undertaken geological and geophysical studies of the block. Mapping work of the area was ongoing during the quarter.

The Block contains one main prospect with the reservoir expected to comprise Oligocene turbidite sands with high porosity and permeability as seen in the nearby producing Baúna and Piracaba fields.

Peru

Tumbes Basin, Block Z-38

40% Equity Interest^{2 3}

Operator

During the quarter force majeure was lifted from Block Z-38. The removal of force majeure paves the way for Karoon and its new farm-in partner (subject to regulatory approval), Tullow Oil Peru Limited ('Tullow'), to progress plans to drill the Marina-1 exploration well during early 2020.

The well will test the Marina Prospect which has a gross unrisked best estimate prospective resource of 256 mmbbls at 100% interest (102 mmbbls net to Karoon). This will be the first well drilled in Block Z-38.

Australia

Ceduna Sub-basin, Great Australian Bight, Permit EPP46

100% Equity Interest

Operator

Karoon remains in discussions with seismic contractors and stakeholders regarding the acquisition of 2D and 3D seismic data. Given the current lack of government approvals to progress work by other permit operators, the timing of the acquisition of seismic data over Karoon's permit remains uncertain.

Northern Carnarvon Basin, Permit WA-482-P

50% Equity Interest

Non-Operator

Following the acquisition and interpretation of the Capreolus 3D marine seismic survey data, the joint venture operation has a high-quality 3D data set covering 82% of the permit area which has been used to better define, risk and rank 10 significant prospects.

Evaluation of the newly reprocessed data over a 400sq km subset of the Capreolus 3D marine seismic survey began during the quarter.

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

Browse Basin, Permit WA-314-P

100% Equity Interest

Operator

During the quarter, technical work continued on developing a new Montara level play identified on analysis of reprocessed 2D seismic data. Large gas discoveries in the area made in recent years have established the Montara Formation as a gas and condensate target with high deliverability. Montara Formation leads have been identified on the reprocessed 2D seismic data

Preparations have commenced to engage potential interested parties in the permit.

Subsequent to the end of the quarter, the request for a variation of the Year 4 and Year 5 work program commitments was approved by NOPTA. The Year 4 well commitment was replaced with geological and geophysical studies.

² Karoon's 40% equity interest remains subject to completion of farm-in obligations

³ Tullow's 35% equity interest remains subject to certain conditions and regulatory approvals

Prospective Resources Cautionary Statement

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. There is no certainty that any portion of the prospective resource estimated on behalf of Karoon will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources evaluated.

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 2018**

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 September 2018

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (3 months) A\$'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(2,332)	(2,332)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,774)	(1,774)
(e) administration and corporate costs	(4,415)	(4,415)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	78	78
1.5 Interest and other costs of finance paid	(36)	(36)
1.6 Income taxes (paid)/ refund	52	52
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	171	171
1.9 Net cash from/ (used in) operating activities	(8,256)	(8,256)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (3 months) A\$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(108)	(108)
	(b) petroleum tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets (security deposits)	(4)	(4)
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) petroleum tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets (security deposits)	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from/ (used in) investing activities	(112)	(112)
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 (Payments for finance lease)	(11)	(11)
3.10	Net cash from/ (used in) financing activities	(11)	(11)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (3 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	333,573	333,573
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(8,256)	(8,256)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(112)	(112)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(11)	(11)
4.5	Effect of movement in exchange rates on cash held	7,542	7,542
4.6	Cash and cash equivalents at end of period	332,736	332,736

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)	324,519	325,113
5.2	Call deposits (short-term bank deposits)	8,217	8,460
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)	332,736	333,573

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
594
-

Directors' remuneration included in 1.2: \$509,476

Consulting fees included in 1.2: \$84,256

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
-
-

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	4,900
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	1,500
9.5 Administration and corporate costs	4,000
9.6 Other	-
9.7 Total estimated cash outflows	10,400

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 October 2018

Print name: Scott Hosking

Notes

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

Appendix 1

Schedule of Interests in Petroleum Tenements

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

As at 30 September 2018

<u>Exploration Permit/ Block</u>	<u>Basin</u>	<u>Operator</u>	<u>% Equity Interest Held</u>
EPP46	Ceduna Sub-basin, Australia	Karoon	100
WA-314-P	Browse, Australia	Karoon	100 (1)
WA-482-P	Northern Carnarvon, Australia	Quadrant	50 (2)
Block S-M-1037	Santos, Brazil	Karoon	100
Block S-M-1101	Santos, Brazil	Karoon	100
Block S-M-1102	Santos, Brazil	Karoon	100
Block S-M-1165	Santos, Brazil	Karoon	100
Block S-M-1537	Santos, Brazil	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (3)

- (1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (2) Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (3) During January 2018 the Group entered into a Farm-out Agreement with Tullow Oil plc to reduce its equity interest to 40%, subject to conditions including regulatory approvals. Karoon's farm-in obligations to Pitkin Petroleum are also still to be completed.