



JUNE 2018 QUARTERLY REPORT AND APPENDIX 5B

Significant Events

- During the quarter, the Final Discovery Evaluation Report ('RFAD') relating to Santos Basin offshore Brazil Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 was approved and the Declaration of Commerciality ('DoC') relating to the Echidna and Kangaroo light oil accumulations was accepted by Brazilian oil and gas regulator, Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP').
- Updated internal management estimates of contingent and prospective resource volumes disclosed in Karoon's ASX announcement on 8 May 2018, "Resource Update", summarised as follows:
 - Santos Basin, Brazil: Net 2C contingent resource for both the Echidna and Kangaroo light oil discoveries of 82 mmbbls¹;
 - Tumbes Basin, Peru: Net unrisks prospective resource best estimate of 549 mmbbls¹ (1,373 mmbbls at 100%) from 20 leads and prospects announced, including the addition of shallower La Cruz and Mal Pelo formations; and
 - Northern Carnarvon Basin, Australia: Net unrisks prospective resource best estimate of 1,398 mmbbls¹ (2,795 mmbbls at 100%) from 10 prospects.
- During the quarter, Karoon continued to advance towards its stated strategy of purchasing a quality oil or gas production asset.
- \$333.6 million cash balance as at 30 June 2018. Karoon currently holds almost all its cash in United States dollars.

Comments from Mr. Robert Hosking, Managing Director:

"During the quarter, Karoon continued to dedicate significant resources to pursuing its production acquisition strategy and working on a development plan for the Echidna and Kangaroo oil accumulations, offshore Brazil.

The step change in the oil price forward curve was significant during the quarter, particularly in the long-term which was approximately 10% higher than where it has been for the previous 9 months. This is a very positive shift in sentiment and for financing any potential acquisition.

We have also been working to provide updated estimated contingent and prospective resource volumes, announced during the quarter. Success on acquiring a quality oil or gas producing asset would be transformational for Karoon and complement Karoon's prospective exploration portfolio and existing discovered resources."

¹ Refer to cautionary statement on page 5

Corporate and Operational Summary

Corporate

Karoon continued its evaluation of production and development acquisition opportunities, along with new strategic exploration acreage 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 currently a number of acquisition opportunities as a result of the Petrobras asset divestment program, along with divestments from other non- Petrobras companies.

Petrobras announced during the 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 would provide the possibility for significant operational synergies.

Karoon is currently in advanced discussions with oil and gas companies relating to jointly evaluating opportunities in the southern Santos Basin.

During the quarter the joint bidding agreement with DEA Deutsche Erdoel AG ended.

Operations

Brazil

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

100% Equity Interest

Operator

During the quarter the RFAD for the Blocks was approved and the DoC relating to the Echidna and Kangaroo light oil discoveries was accepted by the ANP. The approval of the RFAD marks the end of the Exploratory Phase and commencement of the Development and Production Phase, however, this does not constitute a final investment decision.

As part of the RFAD process, Karoon relinquished Block S-M-1166 and retained two distinct areas encompassing the Echidna and Kangaroo discoveries along with some near field prospective resource opportunities. The Echidna and Kangaroo discoveries have also been renamed for local convention. As each accumulation straddles two blocks, they have two corresponding names. Echidna has been renamed Neon and Neo Sul ('Neon') and Kangaroo has been renamed Goiás and Goiás Sul ('Goiá').

Karoon has been working on a development plan for both Neon and Goiás, which is due for submission to the ANP during the December quarter 2018.

Karoon is currently in advanced discussions with interested companies relating to jointly evaluating all opportunities in the southern Santos Basin. Karoon is working with these companies to optimise the proposals.

The internal management estimate of contingent resource volumes for Neon and Goiás were completed during the quarter and announced 8 May 2018, "Resources Update". The contingent resources were prepared on a probabilistic statistical aggregation basis for the difference formations.

Net Contingent Resource (mmbbls)						
Accumulation	Block	Interest	Type	1C	2C	3C
Neon	S-M-1037, S-M-1102	100%	Oil	30	55	92
Goiá	S-M-1101, S-M-1165	100%	Oil	16	27	46
TOTAL		100%	Oil	46	82	138

Refer to Prospective Resource Cautionary Statement on page 5

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 comprising Oligocene turbidite sands expected to have very high porosity and permeability, as seen in the producing Baúna and Piracaba fields.

Peru

Tumbes Basin, Block Z-38
40% Equity Interest^{1 2}
Operator

Following the farm-out to Tullow Oil plc ('Tullow'), work has focused on the Marina Prospect, the most likely drilling candidate, in preparation for the necessary planning and documentation required for Government and joint operation approvals.

Karoon commenced ocean state modelling during the quarter with the installation of 10 buoys around the Marina Prospect. This marks the beginning of formal operational preparations for drilling.

Karoon is working with the regulators and Tullow to obtain the relevant regulatory approvals for their entry into the Block.

Following the ongoing geological and geophysical interpretation and analysis, updated internal management estimates of prospective resource volumes were announced during the quarter which includes the addition of the shallower La Cruz and Mal Pelo formations. Prospective resource volumes are presented in the table below.

Un-Risked Prospective Resources (mmbbls)					
Prospect / Block	Interest	Type	Low	Best	High
Marina Prospect	40%*	Oil	42	102	247
Z-38 TOTAL (incl. Marina Prospect)	40%*	Oil	223	549	1,350

* Subject to completion of farm-out to Tullow

Refer to Prospective Resource Cautionary Statement on page 5

The Block is currently in force majeure.

¹ Karoon's 40% equity interest remains subject to completion of farm-in obligations

² Tullow's 35% equity interest remains subject to certain conditions and regulatory approvals

Australia

Ceduna Sub-basin, Great Australian Bight, Permit EPP46

100% Equity Interest

Operator

Karoon's initial 3-year firm commitment term consists of the acquisition of 2D and 3D marine seismic surveys and geological and geophysical studies.

Karoon has engaged with stakeholders in preparation for the seismic acquisition. Karoon is currently considering revised timing to acquire the seismic data given the current lack of Government approvals obtained to progress work by other permit operators in the recent period.

During the quarter Karoon initiated discussions with interested parties on the possibility of farming out an interest in the permit.

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 Karoon now 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.

Karoon is encouraged by the nearby Dorado oil discovery. The Triassic source rocks that underlie the Dorado, Phoenix and Roc oil and gas discoveries are also interpreted beneath WA-482-P. Karoon is working to understand the implications of the Dorado oil discovery on the prospectivity of WA-482-P.

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

An internal management estimate of prospective resource volumes was completed during the quarter, announced 8 May 2018, "Resource Update". The prospective resource volumes are tabled below.

Un-Risked Prospective Resources (mmbbls)					
Permit	Interest	Type	Low	Best	High
WA-482-P	50%	Oil	445	1,398	3,727

Refer to Prospective Resource Cautionary Statement on page 5

Browse Basin, Permit WA-314-P

100% Equity Interest

Operator

Preparations commenced during the quarter to farm-out an interest in the permit, utilising the results of reprocessing on the Kraken 3D dataset and previously acquired 2D datasets.

Montara level prospectivity has been enhanced by this new work. Karoon's continued presence in the permit remains subject to industry interest in progressing exploration.

A decision on whether to proceed into the next period will be made during the 2018 December half-year.

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 June 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 June 2018

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (12 months) A\$'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(1,914)	(23,296)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,562)	(7,600)
(e) administration and corporate costs	(3,916)	(14,282)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	319	560
1.5 Interest and other costs of finance paid	(28)	(223)
1.6 Income taxes (paid)/ refund	51	229
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	428	1,691
1.9 Net cash from/ (used in) operating activities	(6,622)	(42,921)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (12 months) A\$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(50)	(250)
	(b) petroleum tenements (see item 10)	-	(7,744)
	(c) investments	-	-
	(d) other non-current assets (security deposits)	13	(2,423)
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	(37)	(10,417)

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)	(24)	(179)
3.10	Net cash from/ (used in) financing activities	(24)	(179)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (12 months) A\$'000
4.	Net increase/ (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	329,130	375,069
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(6,622)	(42,921)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(37)	(10,417)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(24)	(179)
4.5	Effect of movement in exchange rates on cash held	11,126	12,021
4.6	Cash and cash equivalents at end of period	333,573	333,573

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)	325,113	321,227
5.2	Call deposits (short-term bank deposits)	8,460	7,903
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)	333,573	329,130

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
628
-

Directors' remuneration included in 1.2: \$548,132
Consulting fees included in 1.2: \$79,608

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter A\$'000
-
-

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end A\$'000	Amount drawn at quarter end A\$'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	A\$'000
9.1 Exploration and evaluation	4,000
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	1,300
9.5 Administration and corporate costs	4,700
9.6 Other	-
9.7 Total estimated cash outflows	10,000

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	Block S-M-1166, Santos Basin (offshore Brazil)	Exploration	100	-
10.2	Interests in petroleum tenements acquired or increased	-	-	-	-

Compliance statement

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

Sign here:
(Company Secretary)

Date: 31 July 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 June 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.