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## JUNE 2016 QUARTERLY REPORT AND APPENDIX 5B

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### Highlights

- \$480 million cash balance as at 30 June 2016.
- During the quarter, pre-FEED work continued on the potential development of the Echidna discovery, including testing the market to update development costs. Completed production well costs are expected to fall by approximately 35% from previous estimates provided during September 2015.
- The final processed Capreolus 3D seismic survey data over exploration permit WA-482-P was received during the quarter. Karoon now has high quality seismic over 75% of the 13,530 square kilometre permit area.
- Due diligence reviews on asset acquisition opportunities continued throughout the quarter.
- Subsequent to the end of the quarter, a total of 514,945 ordinary shares were bought back and cancelled through the Karoon on-market share buy-back program.

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

With the average oil price for the June quarter +35% quarter on quarter, the first signs of greenshoots for the industry returned with increased merger and acquisition activity and project sanctions. This is encouraging for Karoon, particularly with respect to the existing farm-out programs underway, which have seen renewed and fresh interest during the first half of the calendar year.

Industry-wide development costs have fallen materially as capital expenditure budgets have been slashed in response to the industry grappling with the lower oil price environment. This improvement in the cost environment has been significant for projects that have received a positive final investment decision.

Specifically for Karoon in Brazil, the largest oil producer, Petrobras, has cut its planned 5 year exploration and production spend, as announced in its Business and Management Plan, by US\$74 billion over an 18 month period, i.e. from \$154 billion in June 2014 to US\$80 billion in January 2016. This dramatic reduction in its rolling 5 year capital expenditure plans is resulting in lower utilisation rates and consequently lower costs.

During the quarter, Karoon's South American Project Development Team tested the market and found that per well development costs have reduced by approximately 35% from estimates provided 9 months ago. In addition, preliminary optimisation work supports a development concept with a reduced number of wells.

## **Corporate and Operational Summary**

### **Corporate**

As at 30 June 2016, Karoon had a cash balance of \$480 million.

Subsequent to the end of the quarter a total of 514,945 ordinary shares were bought back and cancelled through the Karoon on-market share buy-back program. The current outstanding shares on issue is 244,788,468.

Consistent with Karoon's stated objective of looking to capitalise on the current weak oil price environment to supplement the Company's organic growth strategy, due diligence reviews continued throughout the quarter on a number of potential asset acquisition opportunities.

### **Operations**

#### **Brazil**

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

***65% Interest***

***Operator***

Following the preliminary optimisation work and market testing by the South American Project Development Team on the Echidna oil discovery development concept, significant reductions are expected for the capital cost for a completed production well. Costs have fallen approximately 35% from previous estimates provided in the development concept presentation announced during September 2015.

The base case development concept presented during September 2015 was a staged development approach utilising an early production system. The reservoir modelling, development optimisation and economic analysis currently supports a full field development as the optimal base case development concept.

In addition, the use of extended reach horizontal production wells and combined water and gas injection wells are expected to reduce the number of development wells required from the previous development concept.

Detailed geological, geophysical, reservoir modelling and production scenario work continued in order to position the appraisal wells in the optimum location. The objective of the planned Echidna appraisal drilling campaign is to better define the resource size and the reservoir deliverability over the area of the field in both the Paleocene and deeper Maastrichtian sections.

Karoon has a good data set over Echidna, however, with only one well drilled and the expectation of some degree of reservoir variability across the field, and an unpenetrated oil-water-contact ('OWC'), significant uncertainty remains. The planned Echidna appraisal drilling campaign is designed to address these uncertainties, following which geologic models and the development concept will be refined before considering any future development.

The 'Olinda Star' semi-submersible drilling rig was contracted during December 2015, for a 2 well Echidna appraisal drilling campaign that was previously planned to commence during the September 2016 quarter. Karoon announced during the quarter that the Echidna appraisal drilling campaign was under review and discussions with joint operation participant Pacific Exploration and Production Corp. ('Pacific') regarding the drilling campaign remain ongoing. An update will be provided in due course.

Subsequent to the end of the quarter and following default notices issued and remedied during June 2016 Karoon has issued further default notices to Pacific for failure to make payments under the Joint Operating Agreements. Both parties are working together to resolve the issue and Karoon will provide further updates as necessary.

For further information relating to Pacific and its application for protection under the *Companies' Creditors Arrangement Act* with the Superior Court of Justice in Ontario, Canada, refer to the company's website, [www.pacific.energy](http://www.pacific.energy).

## **Australia**

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

***50% Interest***

***Non-Operator***

The final processed Capreolus 3D seismic survey PSDM (pre-stack depth migration) data was received during the quarter and interpretation of the PSTM (pre-stack time migration) data was ongoing.

Following the receipt of the PSDM data, the joint operation has high quality 3D data covering over 75% of the permit area. This data will be used to interpret and better define, risk and rank identified prospects and leads.

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

***Karooon 100% Interest***

***Operator***

Reprocessing of the acquired Kraken 3D seismic is planned to commence during the next 3 months. This work is expected to provide better definition of plays identified and together with amplitude versus offset ('AVO') / Quantitative Inversion analysis will allow re-risking of the Elvie prospect.

The current geological and geophysical studies, in addition to the Kraken 3D seismic survey interpretation and thermal maturation modelling, continue to provide supporting evidence for potentially oil prone hydrocarbon systems being active in the permit area.

## **Peru**

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

***Karooon 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 over the 1,500 square kilometre 3D seismic area.

The AVO results, along with 3D seismic data and sea floor drop cores, continue to support the presence of an active hydrocarbon system in the block.

Drilling preparations are ongoing.

### ***Marañón Basin, Block 144***

***Karooon 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.



## ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2016

### Appendix 5B (Unaudited)

Introduced 1/7/96. Origin: Appendix 8. Amended 1/07/97, 1/07/98, 30/09/01, 01/06/10, 17/12/10, 1/05/13.

Name of entity

**Karoon Gas Australia Ltd**

ABN

53 107 001 338

Quarter ended ('Current Quarter')

**30 June 2016**

#### Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	72	270
1.2 Payments for:		
(a) exploration and evaluation	(10,356)	(56,053)
(b) development	-	-
(c) production	-	-
(d) administration	(3,287)	(17,768)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	451	1,624
1.5 Interest and other costs of finance paid	(83)	(210)
1.6 Income taxes (paid)/ refund	(4)	(13,387)
1.7 Other – GST/VAT refunds/ (payments)	210	1,516
<b>Net operating cash flows</b>	<b>(12,997)</b>	<b>(84,008)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(10)	11
(c) other fixed assets	(275)	(1,177)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	3
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
<b>Net investing cash flows</b>	<b>(285)</b>	<b>(1,163)</b>
1.13 Total operating and investing cash flows (carried forward)	(13,282)	(85,171)

	Current Quarter \$A'000	Year to date (12 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(13,282)	(85,171)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	-	(2,567)
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	-	-
<b>Net financing cash flows</b>	-	<b>(2,567)</b>
<b>Net increase (decrease) in cash held</b>		
1.20 Cash as at beginning of Current Quarter/ year to date	476,894	553,091
1.21 Exchange rate adjustments to item 1.20	15,978	14,237
1.22 <b>Cash as at end of Current Quarter</b>	<b>479,590</b>	<b>479,590</b>

**Payments to directors of the entity and associates of the directors, related entities of the entity and associates of the related entities**

	Current Quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	631
1.24 Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors' remuneration included in 1.23: \$549,395

Consulting fees included in 1.23: \$81,352

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

### Estimated cash outflows for the next quarter

	\$A'000
4.1 Exploration and evaluation expenditure	23,000
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,500
<b>Total</b>	<b>27,500</b>

### Reconciliation of cash

Reconciliation of cash as at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows	Current Quarter \$A'000	Previous quarter \$A'000
5.1 Cash at banks and on hand	468,190	473,452
5.2 Short-term bank deposits	11,400	3,442
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: Cash as at end of Current Quarter (item 1.22)</b>	<b>479,590</b>	<b>476,894</b>

### Changes in interests in petroleum tenements

	Petroleum tenement reference	Nature of interest (note (2))	Interest as at beginning of Current Quarter	Interest as at end of Current Quarter
6.1 Interests in petroleum tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in petroleum tenements acquired or increased	-	-	-	-

### Issued and quoted securities as at end of Current Quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid-up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>Ordinary shares (fully paid)</b>	245,260,124	245,260,124		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	52,346 -	52,346 -		
7.5 <b>Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options and Performance Rights</b> <i>(description and conversion factor)</i>	<u>Options</u> 895,304 2,871,632 56,604 2,048,570  <u>Performance Rights ('PER')</u> 585,463 597,104 609,831		<i>Exercise price</i>  674 cents 406 cents 406 cents 304 cents  Zero Zero Zero	<i>Expiry date</i>  30 June 2017 30 June 2018 30 December 2018 30 June 2019  30 June 2017 30 June 2018 30 June 2019
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter	<u>PER</u> 52,346		Zero	
7.10 Expired/cancelled during Current Quarter	<u>Options</u> 400,000		1098 cents	
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				



## Compliance statement

- A. This statement has been prepared under accounting policies which comply with accounting standards as defined in the *Corporations Act 2001* or other standards acceptable to ASX (see note 5).
- B. This statement does give a true and fair view of the matters disclosed.

Signed: ..... Date: 29 July 2016  
(Company Secretary)

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint operating agreement and there are conditions precedent which will change its percentage interest in a petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 Accounting Standards ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

## Appendix 1

### Schedule of Interests in Petroleum Tenements

Held by Karoon Gas Australia Ltd Group

As at 30 June 2016

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	Karoon	100 <sup>(1)</sup>
WA-482-P	Carnarvon, Australia	Quadrant	50 <sup>(2)</sup>
Block S-M-1037	Santos, Brazil	Karoon	65
Block S-M-1101	Santos, Brazil	Karoon	65
Block S-M-1102	Santos, Brazil	Karoon	65
Block S-M-1165	Santos, Brazil	Karoon	65
Block S-M-1166	Santos, Brazil	Karoon	65
Block 144	Marañón, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 <sup>(3)</sup>

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