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## DECEMBER 2015 QUARTERLY REPORT AND APPENDIX 5B

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### Group Operation Highlights

- The Olinda Star semi-submersible drilling rig was contracted during December 2015 to appraise the Echidna light oil discovery in the Santos Basin, Brazil. The rig contract consists of 2 firm wells and 2 optional wells, with drilling scheduled to commence during the September 2016 quarter.
- Brazil geoscience work progressing well and on schedule for upcoming drilling campaign.
- Australia WA-482-P new seismic processing and interpretation progressing to schedule showing indications of significant additional prospectivity in central and eastern areas of the permit.

### Corporate Highlights

- The Karoon Annual General Meeting was held on 22 October 2015. All resolutions were voted in accordance with Board recommendations.
- During the quarter, a total of 1,214,282 ordinary shares were bought back through the Karoon on-market share buy-back program.

## **Operational Summary**

### **Brazil**

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

##### ***KAR 65% Interest, Operator***

Karoon's exploration blocks in the Santos Basin are located approximately 200 kilometres off the coast of the State of Santa Catarina, Brazil in an average water depth of approximately 400 metres. The Blocks cover an area of 549 square kilometres.

To date a total of 6 wells have been drilled across two campaigns in these Blocks. The first drilling campaign during 2013 delivered the Kangaroo and Bilby oil discoveries. The second drilling campaign was completed during 2015. This added an additional light oil discovery at the Echidna-1 exploration well, which was flow tested, confirming good reservoir productivity. Appraisal of the Kangaroo oil discovery was also further advanced with the Kangaroo-2 appraisal well, which was flow tested confirming the presence of a material oil resource with good reservoir productivity.

During September 2015, Karoon announced an updated contingent resource volume estimate for the Blocks. The Echidna light oil discovery is estimated to have a net unrisksed 2C contingent resource volume of 49 mmbbls (75 mmbbls gross) and the updated Kangaroo light oil discovery net unrisksed 2C contingent resource volume estimate was revised to 35 mmbbls (54 mmbbls gross).<sup>1</sup>

The current firm work program commitments approved by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') includes the drilling of 2 wells, the acquisition and processing of a new 3D seismic survey and other geological and geophysical studies. The firm commitments are required to be completed by 31 December 2018.

Due to the size of the resource, strong production test results and lower reservoir complexity, the Echidna resource is the focus of the forward work program.

##### ***Forward Work Program***

During December 2015, the Olinda Star semi-submersible drilling rig was contracted for up to 4 wells. The 2 firm well commitments, scheduled to commence drilling during the September 2016 quarter, are planned for the appraisal drilling of the Echidna light oil discovery.

The 2 firm wells will satisfy Karoon's Santos Basin drilling commitments required under the current firm work program approved by the ANP.

At the end of the next drilling campaign, Karoon expects to be in a position to consider a final investment decision on the Echidna oil discovery with respect to an early production system.

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<sup>1</sup> Note, the Kangaroo and Echidna contingent resource volumes were prepared on a probabilistic basis and have previously been disclosed in Karoon's announcement 'Contingent Resource Volume Update: Santos Basin Brazil' dated 17 September 2015. Karoon is not aware of any new information or data that materially affects the resource estimates and all material assumptions and technical parameters underpinning these estimates continue to apply and have not materially changed.

The Santos Basin contingent resource volumes represent Karoon's internal management estimates and have not necessarily been validated or agreed by joint operation partner Pacific Exploration and Production Corp.

### **Santos Basin Block S-M-1352**

#### ***KAR 20% Interest, Non-Operator***

Block S-M-1352, Santos Basin, is located approximately 200 kilometres off the coast of the State of Santa Catarina, Brazil.

As at the end of the quarter, approval from the ANP to relinquish the block remains outstanding, however, Karoon has no reason to believe approval to relinquish the block will be withheld.

### **Australia**

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

#### ***KAR 50% Interest, Non-Operator***

Exploration permit WA-482-P is located in the Carnarvon Basin, approximately 300 kilometres offshore from the north Western Australian Coast in a water depth of between 400 and 2,000 metres. The permit covers an area of 13,539 square kilometres.

The permit covers a very large area with significant prospectivity across numerous prospects and leads. The Levitt-1 and regional drilling results, along with new 3D seismic survey information, will be incorporated into the basin modelling studies and used to high grade future drilling targets.

#### ***3D Seismic Acquisition, Processing and Interpretation***

##### *Chrysalids 3D Seismic Survey*

PSDM (pre-stack depth migration) interpretation of the data continued during the quarter.

##### *Capreolus 3D Seismic Survey*

The multi-client Capreolus high resolution broadband 3D seismic survey over the eastern part of WA-482-P was completed during the quarter. The joint operation is licencing 5,256 square kilometres of the survey data being acquired over the permit.

PSTM (pre-stack time migration) data has been received and interpretation is ongoing. The processed PSDM data is expected during the June 2016 quarter.

The eastern part of WA-482-P covered by Capreolus is an area of significant interest with a number of interesting structures within the depocentre of the oil mature Wigmore sub-basin identified from historical 2D seismic data in this relatively underexplored part of the north-west shelf. The Capreolus 3D survey will provide high quality 3D seismic data to better define, risk and rank these identified leads.

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

#### ***KAR 100% Interest, Operator***

Exploration permit WA-314-P is located in the Browse Basin, approximately 350 kilometres offshore from the north Western Australian coast in an average water depth of 500 metres. The permit covers an area of 1,953 square kilometres.

Following interpretation of the Kraken 3D seismic data and thermal maturation modelling, evidence of hydrocarbons generating from a source kitchen to the northwest of the Elvie structure suggests that the kitchen is oil prone. Previous expectations were the Elvie prospect was wet gas only.

The current firm work program commitments are to be completed by calendar year 2018 and consist of geological and geophysical studies. Geological and geophysical studies remain ongoing.

### **Peru**

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

#### ***KAR 75% Interest, Operator***

Exploration Block Z-38 is located in the Tumbes Basin, approximately 10 kilometres offshore from the northwest coast of Peru in a water depth of between 300 and 3,000 metres. The block covers an area of 4,750 square kilometres.

Block Z-38 is currently in force majeure. The third period term has approximately 22 months remaining once force majeure is lifted.

#### ***Seismic Reprocessing and Interpretation***

Advanced geophysical studies (amplitude versus offset) continued during the quarter.

#### **Marañón Basin Block 144**

#### ***KAR 100% Interest, Operator***

Exploration Block 144, Marañón Basin, is located onshore Peru on the eastern side of the Andes mountain range. The block covers an area of 6,836 square kilometres.

The block is currently in force majeure until social programs and government introductions to the indigenous communities are completed. Block 144 work program commitments will resume once force majeure is lifted.

During the quarter, Karoon continued its geotechnical, social and environmental work in the block.



**ASX QUARTERLY FINANCIAL REPORT  
FOR THE QUARTER ENDED 31 DECEMBER 2015**

**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')

**31 December 2015**

**Consolidated statement of cash flows**

	Current Quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	60	151
1.2 Payments for:		
(a) exploration and evaluation	(9,812)	(40,090)
(b) development	-	-
(c) production	-	-
(d) administration	(4,056)	(9,096)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	469	764
1.5 Interest and other costs of finance paid	(23)	(99)
1.6 Income taxes (paid)/ refund	(85)	(124)
1.7 Other – GST/VAT refunds/ (payments)	139	723
<b>Net operating cash flows</b>	<b>(13,308)</b>	<b>(47,771)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	4	21
(c) other fixed assets	(525)	(632)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
<b>Net investing cash flows</b>	<b>(521)</b>	<b>(611)</b>
1.13 Total operating and investing cash flows (carried forward)	(13,829)	(48,382)

	Current Quarter \$A'000	Year to date (6 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(13,829)	(48,382)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	(1,944)	(1,944)
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>(1,944)</b>	<b>(1,944)</b>
<b>Net increase (decrease) in cash held</b>		
1.20 Cash as at beginning of Current Quarter/ year to date	562,762	553,091
1.21 Exchange rate adjustments to item 1.20	(23,524)	20,700
1.22 <b>Cash as at end of Current Quarter</b>	<b>523,465</b>	<b>523,465</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	611
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: \$553,354  
Consulting fees included in 1.23: \$57,908

**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	11,000
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,000
4.5 Income tax	13,200
4.6 Share buy-back (on-market)	623
<b>Total</b>	<b>28,823</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	516,583	548,624
5.2 Short-term bank deposits	6,882	14,138
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: Cash as at end of Current Quarter (item 1.22)</b>	<b>523,465</b>	<b>562,762</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>	245,653,815	245,653,815		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	14,736 (1,214,282)	14,736 (1,214,282)		
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> 400,000 895,304 2,871,632 56,604 2,048,570  <u>Performance Rights ('PER')</u> 52,346 585,463 597,104 609,831		<i>Exercise price</i>  1098 cents 674 cents 406 cents 406 cents 304 cents  Zero Zero Zero Zero	<i>Expiry date</i>  1 May 2016 30 June 2017 30 June 2018 30 December 2018 30 June 2019  30 June 2016 30 June 2017 30 June 2018 30 June 2019
7.8 Issued during Current Quarter	<u>Options</u> 2,048,570  <u>PER</u> 1,792,398		304 cents  Zero	
7.9 Exercised during Current Quarter	<u>PER</u> 14,736		Zero	
7.10 Expired/cancelled during Current Quarter	<u>Options</u> 1,800,000 4,958 30,394  <u>PER</u> 44,601		730 cents 674 cents 406 cents  Zero	
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 January 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 the Karoon Gas Australia Ltd Group

As at 31 December 2015

<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	Apache	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 S-M-1352	Santos, Brazil	Petrobras	20 <sup>(3)</sup>
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 <sup>(4)</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) An application was made during the June 2015 quarter by the Operator, to the ANP, to relinquish the block.
- (4) The Group's 75% equity interest is subject to completion of farm-in obligations.