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## MARCH 2016 QUARTERLY REPORT AND APPENDIX 5B

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### Highlights

- \$477 million cash balance as at 31 March 2016.
- Preparations for the upcoming Echidna light oil discovery appraisal campaign continued. The 'Olinda Star' semi-submersible drilling rig was contracted during December 2015 to complete the campaign.
- Echidna oil discovery reservoir modelling and development optimisation work continued during the quarter. Significant capex reductions are expected as result of this optimisation work. Preliminary results are anticipated to be available during the June 2016 quarter.
- In addition to the optimisation work on Echidna, due diligence reviews were undertaken on a number of assets globally as the divestment cycle broadens the opportunities available to Karoon. Karoon is looking to capitalise on the current environment and potentially supplement its organic growth strategy.
- A total of 446,037 ordinary shares were bought back and cancelled through the Karoon on-market share buy-back program.

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

In the absence of a demand shock, it is likely the March 2016 quarter marks the low in the current oil market cycle, with Brent touching a low of just under US\$28/bbl on 20 January 2016. Brent has subsequently rallied, closing the quarter above US\$40/bbl on improved sentiment, moderating US supply and signs of increasing willingness between some OPEC and non-OPEC nations on freezing production.

While it is still too early to predict a recovery, the recent firming oil price and reducing volatility are positive developments that should help with any potential farm-out of Karoon's exploration and appraisal assets. The level of engagement with respect to farm-outs has improved with the number of interested parties and level of data room activity during the quarter significantly higher than the previous 18 months where oil prices were falling and volatility increasing.

## **Corporate and Operational Summary**

### **Corporate**

As at 31 March 2016, Karoon had a cash balance of \$477 million. This represents a decrease of \$46.6 million from the December 2015 quarter. This decrease was predominantly due to a \$22.4 million unrealised net foreign exchange rate loss attributable mainly to the depreciation in the United States dollar against the Australian dollar, and a \$13.2 million Australian income tax payment attributable to the gain from Karoon's divestment of its 40% equity interest in exploration permits WA-315-P and WA-398-P.

During the quarter, a total of 446,037 ordinary shares were bought back through the Karoon on-market share buy-back program and cancelled.

### **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 contracting of the 'Olinda Star' semi-submersible drilling rig during December 2015, preparations are under way to commence the 2 well Echidna appraisal drilling campaign during the September 2016 quarter.

Karoon expects to commence contracting support vessels and other necessary drilling service related companies during the June 2016 quarter.

During the quarter, the South American project development team continued its comprehensive analysis of the Echidna project development concepts along with economic analysis. Early indications are that, through optimised well design and subsea architecture, significant capex savings are expected. Karoon expects to provide a further update during the June 2016 quarter.

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

Subsequent to the end of the quarter, Karoon notes the developments of its joint operation partner's parent company (35% interest), Pacific Exploration and Production Corp. ('Pacific'). The company announced on 27 April 2016 that it had filed an application for protection under the Companies' Creditors Arrangement Act with the Superior Court of Justice in Ontario, Canada. The application for protection allows Pacific the opportunity to proceed with a comprehensive financial restructuring agreement ('restructuring transaction') with The Catalyst Capital Group Inc., certain senior unsecured noteholders and certain lenders under its credit facilities.

*Pacific has announced: "All operations of the company's subsidiaries (the 'Pacific Group') are expected to continue as normal throughout this process. Importantly, the company expects regular payments will be made to all of the Pacific Group's suppliers, trade partners, and contractors across the jurisdictions in which it operates in accordance with local regulations. Additionally, employees will continue to be paid throughout this process, without disruption."*

At this stage, Karoon has no reason to believe the current joint operation work program in the Santos Basin, Brazil will be impacted.

For further information relating to Pacific, refer to the company's website, [www.pacific.energy](http://www.pacific.energy).

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

**20% Interest**

**Non-Operator**

As announced in the December 2015 Financial Results, during the quarter the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis approved the joint operation's application to relinquish the block.

**Australia**

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

**50% Interest**

**Non-Operator**

Interpretation of the Capreolus 3D Seismic Survey PSTM (pre-stack time migration) data was ongoing during the quarter. Delivery of the final processed PSDM (pre-stack depth migration) data is expected during the June 2016 quarter.

Following the receipt of the final processed Capreolus 3D seismic data, the joint operation will have fully processed high quality 3D data covering over 75% of the permit area, which will be interpreted and used to better define, risk and rank identified prospects and leads.

Basin modelling studies incorporating the results from the Levitt-1 exploration well, along with the 3D seismic data, strengthens support for a working hydrocarbon system in the permit.

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

**Karooon 100% Interest**

**Operator**

The exploration licence for the permit was renewed during the September 2015 quarter for a further 3 year initial term consisting of geological and geophysical studies, which remained ongoing during the quarter.

Reprocessing of the acquired Kraken 3D seismic is planned to commence during the next 6 months. This additional work is expected to provide better definition of plays identified and supported by amplitude versus offset / Quantitative Inversion analysis allowing 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 the new seismic attribute analysis, amplitude versus offset ('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.

**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 31 MARCH 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

**Karooon Gas Australia Ltd**

ABN

53 107 001 338

Quarter ended ('Current Quarter')

**31 March 2016**

#### Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	47	198
1.2 Payments for:		
(a) exploration and evaluation	(5,607)	(45,697)
(b) development	-	-
(c) production	-	-
(d) administration	(5,385)	(14,481)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	409	1,173
1.5 Interest and other costs of finance paid	(28)	(127)
1.6 Income taxes (paid)/ refund	(13,258)	(13,383)
1.7 Other – GST/VAT refunds/ (payments)	582	1,306
<b>Net operating cash flows</b>	<b>(23,240)</b>	<b>(71,011)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	-	21
(c) other fixed assets	(270)	(902)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	3	3
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
<b>Net investing cash flows</b>	<b>(267)</b>	<b>(878)</b>
1.13 Total operating and investing cash flows (carried forward)	(23,507)	(71,889)

	Current Quarter \$A'000	Year to date (9 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(23,507)	(71,889)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	(623)	(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>(623)</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	523,465	553,091
1.21 Exchange rate adjustments to item 1.20	(22,441)	(1,741)
1.22 <b>Cash as at end of Current Quarter</b>	<b>476,894</b>	<b>476,894</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	669
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: \$552,434  
Consulting fees included in 1.23: \$116,305

**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	14,000
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,200
<b>Total</b>	<b>18,200</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	473,452	516,583
5.2 Short-term bank deposits	3,442	6,882
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: Cash as at end of Current Quarter (item 1.22)</b>	<b>476,894</b>	<b>523,465</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	Block S-M-1352	Exploration permit	20	-
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>	245,207,778	245,207,778		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	- (446,037)	- (446,037)		
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>			<i>Exercise price</i>	<i>Expiry date</i>
	<u>Options</u>			
	400,000		1098 cents	1 May 2016
	895,304		674 cents	30 June 2017
	2,871,632		406 cents	30 June 2018
	56,604		406 cents	30 December 2018
	2,048,570		304 cents	30 June 2019
	<u>Performance Rights ('PER')</u>			
	52,346		Zero	30 June 2016
	585,463		Zero	30 June 2017
	597,104		Zero	30 June 2018
	609,831		Zero	30 June 2019
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter				
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 April 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 March 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	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 144	Maranon, 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.