
DECEMBER 2018 QUARTERLY REPORT AND APPENDIX 5B

Highlights

- The Board of Directors appointed a new Independent Non-Executive Chairman, Mr Bruce Phillips.
- Shareholders approved the change of name from Karoon Gas Australia Ltd to Karoon Energy Ltd.
- Karoon was awarded an 18-month Technical Evaluation Agreement (“TEA”) with Perupetro (the Peruvian oil and gas regulator) to evaluate Area 73 (previously Block Z-34, adjacent to Karoon’s Block Z-38), Tumbes Basin offshore Peru, potentially giving Karoon a larger strategic interest in a highly prospective frontier basin. The TEA carries an option to enter into a Hydrocarbon Concession Agreement with Perupetro.
- Drill preparations for the Marina-1 exploration well in Block Z-38, Tumbes Basin offshore Peru continued during the quarter.
- During the quarter, Karoon continued to advance towards its stated strategic objective of purchasing a quality oil and gas production asset.
- \$330 million cash balance as at 31 December 2018. Karoon currently holds almost all its cash in United States dollars.

Comments from Mr Robert Hosking, Managing Director:

“The appointment of Mr Phillips brings a great wealth of industry, boardroom and governance experience to Karoon. His extensive career has covered technical, financial and commercial areas in ASX listed companies, and he has true global experience through involvement in projects in Australasia, Africa, Europe and the Americas. Importantly Mr Phillips has a deep understanding of operating in South America which is an exceptional fit with Karoon’s current activities and ambitions in Brazil and Peru.”

We welcome Mr Phillips’ experience and fresh perspective into the Group and look forward to his input in refining the strategy going forward.

Karoon’s DNA is exploration led growth and putting high impact exploration back on the agenda is important. Planning for the Marina-1 exploration well in the Tumbes Basin, offshore Peru has commenced in earnest and will continue through the calendar year with drilling expected early 2020.

With the addition of the Area 73 Technical Evaluation Agreement, Karoon now has an additional potential strategic acreage position in Peru. Exploration success at Marina-1, would significantly enhance the prospects for the region and potentially open the deeper water areas of the Tumbes Basin to further activity.”

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 several acquisition opportunities as a result of the Petrobras asset divestment program, along with divestments from other non-Brazilian entities that are of significant interest.

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

As part of the Declaration of Commerciality process, during January 2019 the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') approved the annexation for the Neon and Goiás light oil discoveries.

As part of this process, the Block S-M-1166 relinquishment has also been approved by the ANP.

Karoon is working with third party tenderers on refining the technical and commercial aspects of development proposals received during 2018 for drilling and completion services and materials, subsea infrastructure and FPSO leasing.

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

Santos Basin, Exploration Block S-M-1537

100% Equity Interest

Operator

Low cost internal geological and geophysical studies and mapping work 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, Area 73

Technical Evaluation Agreement

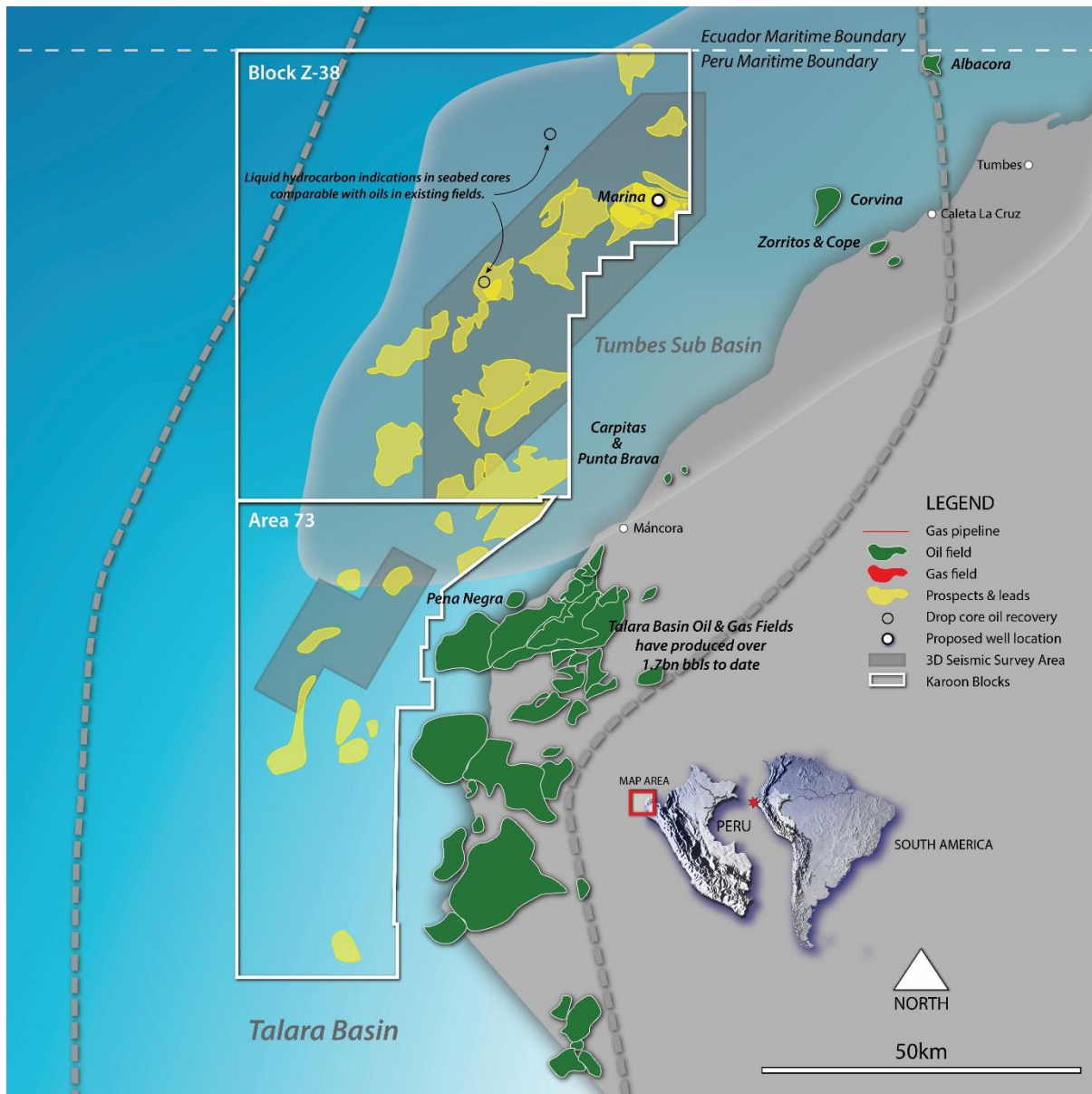
Operator

During the quarter, Karoon entered into a TEA with Perupetro to evaluate Area 73 Tumbes Basin, offshore Peru. The Area lies immediately south of Karoon's existing operated Block Z-38 and immediately adjacent to the prolific onshore Talara Basin that has produced over 1.7 billion bbls since the mid 1800's.

The TEA was signed during December 2018 and is effective for 18 months from 1 January 2019. The work obligations are for seismic reprocessing, interpretation and geological studies. There are no external costs associated with the TEA, as the work obligations will be undertaken in-house by current staff.

The TEA provides a right to negotiate a block contract with Perupetro in respect of the whole area or one portion of the Area for a reference minimum work program, and once agreed an option to enter into a Hydrocarbon Concession Agreement.

The Area shows a continuation of the Tumbes Basin and several prospects have already been identified. Success in drilling at Block Z-38 will provide additional running room for similar plays in Area 73. Karoon will be able to utilise the results from the Marina-1 exploration well to better delineate prospectivity in the Area.



With Block Z-38 and the potential addition of Area 73, Karoon believes it has a high-quality strategic acreage footprint and looks forward to testing the Tumbes Basin's prospectivity with the drill bit early calendar year 2020. Exploration success at Marina-1 would significantly enhance the prospects for the region and potentially open the deeper water areas of the Tumbes Basin to further activity.

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

During the quarter, Karoon continued its preparations to drill the offshore Marina-1 exploration well. Current planning and approvals are being sought for drilling early calendar year 2020.

As part of the preparations, Karoon is currently tendering for a drilling rig and services, continuing discussions with regulators to clear final approvals and discussing a rig sharing opportunity in the region. This final stream of works will pave the way for Karoon and its new farm-in partner (subject to regulatory approval), Tullow Peru Limited ('Tullow'), to progress plans to drill Marina-1.

The Marina Prospect has an un-risked best estimate gross prospective resource of 256 mmbbls (102 mmbbls net to Karoon). This will be the first well drilled in Block Z-38.

Australia
Ceduna Sub-basin, Great Australian Bight, Exploration Permit EPP46
100% Equity Interest
Operator

Karoon remains in discussions with seismic contractors and stakeholders regarding the acquisition of 2D and 3D seismic data over the permit, although timing of this acquisition remains uncertain.

Karoon does not plan on committing any further resources to the permit until further clarity is obtained on the government approvals for operational activities.

Northern Carnarvon Basin, Exploration Permit WA-482-P
50% Equity Interest
Non-Operator

Results of the evaluation of the newly reprocessed data over a 400sq km subset of the Capreolus 3D marine seismic survey were received and showed some significant improvements in data quality used to assess fault seal risk. It highlights the requirement for more significant seismic reprocessing in the permit over all prospects. Analysis of an anomalous amplitude versus offset response at the top Legendre Formation has identified new potential at this play level requiring further consideration of seismic reprocessing. The nearby Dorado discovery, billed as the largest oil discovery in Australia for 30 years, has highlighted the potential for oil in this otherwise gas prone region. Karoon is engaged in discussions with several potential farminees.

Browse Basin, Permit WA-314-P
100% Equity Interest
Operator

During the quarter, geological and geophysical in-house studies on the Montara level play continued.

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

² 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.

Investors 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 31 December 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

Karoon Energy Ltd

ABN

53 107 001 338

Quarter ended ('current quarter')

31 December 2018

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (6 months) A\$'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(4,080)	(6,409)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,853)	(3,627)
(e) administration and corporate costs	(4,054)	(8,473)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	190	268
1.5 Interest and other costs of finance paid	(39)	(75)
1.6 Income taxes (paid)/ refund	26	78
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	95	267
1.9 Net cash from/ (used in) operating activities	(9,715)	(17,971)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (6 months) A\$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(187)	(295)
	(b) petroleum tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets (security deposits)	(214)	(218)
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	(401)	(513)
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)	(39)	(49)
3.10	Net cash from/ (used in) financing activities	(39)	(49)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (6 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	332,736	333,573
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(9,715)	(17,971)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(401)	(513)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(39)	(49)
4.5	Effect of movement in exchange rates on cash held	7,451	14,992
4.6	Cash and cash equivalents at end of period	330,032	330,032

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)	321,848	324,519
5.2	Call deposits (short-term bank deposits)	8,184	8,217
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)	330,032	332,736

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

562

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Directors' remuneration included in 1.2: \$475,082
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Consulting fees included in 1.2: \$86,674

7. Payments to related entities of the entity and their associates	Current quarter A\$'000
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	

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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	4,300
9.2 Development	-
9.3 Production	-
9.4 Staff costs (employee benefits expense-net)	1,700
9.5 Administration and corporate costs	3,400
9.6 Other	-
9.7 Total estimated cash outflows	9,400

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 January 2019

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 Energy Ltd Group (the 'Group')

As at 31 December 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.