
MARCH 2019 QUARTERLY REPORT AND APPENDIX 5B

Significant Events

- During the quarter Karoon's Board of Directors conducted a strategic review of the Group's assets and forward strategy. Based on the results of the review the Board has adopted a balanced strategy with a clear hierarchy for priority uses of capital.
- Peru Block Z-38, Marina-1 exploration well drill preparations continued during the quarter with strong interest received from rig operators. Proposals are currently being assessed.
- Drafting the Development Plan for the Neon light oil discovery, due for submission during July 2019 to the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP'), continued during the quarter.
- The WA-482-P Joint Operation has applied to renew the permit, after relinquishing 50% of the area, with a work program of seismic reprocessing and technical studies in the firm three-year term.
- During the quarter Karoon continued to evaluate critical field information and work with counterparties to deliver the Group's stated near-term strategy of purchasing a quality oil and gas production asset.
- A\$322 million cash balance as at 31 March 2019. Karoon currently holds almost all its cash in United States dollars.

Comments from Mr. Robert Hosking, Managing Director:

"The results of the strategic review undertaken by the Board during the quarter provide Management a clear near-term mandate to continue to pursue its 3-pillar growth strategy. This strategy includes pursuing the completion of the acquisition of a foundation production asset, progression of the Southern Santos Basin Growth Strategy and kickstarting the high impact exploration in Peru.

We are all working very hard to deliver on the Group's acquisition ambitions and high impact exploration is back on the agenda in the short to medium term, while also working toward a lower cost operating environment.

In addition, there are some key activity milestones relating to the Southern Santos Basin Growth Strategy expected during calendar year 2019."

Corporate and Operational Summary

Corporate

Karooon's new Independent Non-Executive Chairman, Mr. Bruce Phillips, was appointed effective 1 January 2019. Following Mr. Phillips' appointment, during the quarter the Board of Directors conducted a strategic review of the Group's assets and forward strategy assessing various strategic alternatives based on their potential to drive shareholder returns.

The review identified clear hierarchy for priority uses of capital. These are in descending order:

- The acquisition of a high-quality, long-life production asset;
- Pursuing the Southern Santos Basin Growth Strategy focused on Karooon's Neon (formerly Echidna) light oil discovery;
- Getting back to high impact exploration;
- Capital management initiatives; and
- Corporate M&A activity.

Any capital management initiatives (e.g. share buybacks) will only be implemented after considering the scale and timing of any successful acquisition of a production asset.

As part of the strategic review undertaken by the Board during the quarter, the Board has mandated a further 20% reduction in corporate costs. This includes reducing staff and consulting time costs and relocating office premises to cheaper office space.

Overall net cash outflows during the quarter were \$7.9 million, \$1.5 million less than previously forecast. The full impact of cost reductions will take effect during the 2020 financial year as budget reductions are implemented to suit the most efficient needs of the business.

Karooon continued its evaluation of production and development acquisition opportunities, along with new strategic exploration opportunities in Brazil.

Karooon's production and development acquisition strategy is focused on (but not limited to) offshore opportunities in Brazil where Karooon has an operational presence. Karooon remains in discussions with oil and gas companies with respect 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

Work on the Greater Neon Project continued during the quarter. The initial focus of the project is the preparation of a Development Plan for the Neon light oil field for submission to the ANP during the September 2019 quarter. The Development Plan is part of the Declaration of Commerciality process, however it does not represent a final investment decision.

Negotiations with suppliers and service providers remained ongoing during the quarter. As a result of these negotiations, Karooon is currently assessing the benefits of drilling a control well on the Neon light oil field. The well would have two objectives. The first, to delineate the southern region of the field to reduce the range of uncertainty in the contingent resource. The second, to assist with the planning and design of the production wells to reduce development risk.

During the quarter, a renewed farm-out process was initiated with updated geotechnical materials made available to a number of parties via a virtual data room process. Karoon has also hosted several companies as part of a Management presentation and physical data room process.

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

Santos Basin, 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, Block Z-38

40% Equity Interest^{1 2}

Operator

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

The rig tender process brought strong interest from rig owners, and a number of proposals were received. Karoon is currently working through each of the proposals.

In addition, Karoon is continuing discussions with regulators to clear final approvals. 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 the Marina-1 exploration well. This will be the first well drilled in Block Z-38.

Tumbes Basin, Area 73

Technical Evaluation Agreement

Operator

The Technical Evaluation Agreement ('TEA') Karoon entered into with Perupetro during December 2018 is effective from 1 January 2019 for a period of 18 months.

The TEA is to evaluate Area 73 Tumbes Basin offshore Peru, which 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 BOE since the mid 1800's.

The work obligations are for low cost seismic reprocessing, interpretation and geological studies, which will be predominantly undertaken in-house. The TEA provides a right to negotiate a block contract with Perupetro over the area for a reference minimum work program, and once agreed an option to enter into a Hydrocarbon Concession Agreement.

Area 73 is part of the Tumbes Basin and several prospects have already been identified. With Block Z-38 and the addition of Area 73, Karoon believes it now has a high-quality strategic acreage position and looks forward to testing the basin's prospectivity with the drill bit in the next twelve months.

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

² Tullow's 35% equity interest remains subject to satisfying certain conditions, including regulatory approvals

Exploration success at Marina-1 would significantly enhance the prospects for the region and open the deeper water areas of the Tumbes Basin to further activity.

Australia

Ceduna Sub-basin, Great Australian Bight ('GAB'), 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.

During the quarter, Equinor submitted a draft Environmental Plan ('EP') for drilling an exploration well in the GAB for public comment. Under Equinor's current plans, drilling is expected during the 2020/2021 summer period. Karoon and other industry stakeholders will be watching Equinor's EP process with interest to see if there is a mandate from the National Offshore Petroleum Safety and Environmental Management Authority ('NOPSEMA') for exploration drilling activities in the GAB.

Karoon does not plan to commit any further resources to EPP46 until there is a clear pathway support from NOPSEMA to safely and commercially pursue exploration drilling activities.

Northern Carnarvon Basin, Permit WA-482-P

50% Equity Interest

Non-Operator

A 'Renewal Application' was lodged with the National Offshore Petroleum Titles Administrator ('NOPTA') by the Operator on 8 March 2019. As part of the renewal process there was a mandatory requirement to relinquish 50% of the area. The Joint Operation is proposing to retain the structural high areas identified by 3D seismic surveys thereby retaining the most prospective areas identified by the work conducted to date. The proposed renewal work program application is for a firm three-year program of seismic reprocessing of existing 3D data and geoscience studies. NOPTA is evaluating this proposal.

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 continues 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.

Unless the Montara play proves attractive, it is likely Karoon will relinquish the permit.

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 31 March 2019**

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 March 2019

Consolidated statement of cash flows	Current quarter A\$'000	Year to date (9 months) A\$'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for:		
(a) exploration and evaluation	(3,109)	(9,518)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,795)	(5,422)
(e) administration and corporate costs	(2,913)	(11,387)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	624	892
1.5 Interest and other costs of finance paid	(42)	(117)
1.6 Income taxes (paid)/ refund	36	114
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	175	442
1.9 Net cash from/ (used in) operating activities	(7,024)	(24,996)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (9 months) A\$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(41)	(337)
	(b) petroleum tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets (security deposits)	-	(217)
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	(41)	(554)

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)	(73)
3.10	Net cash from/ (used in) financing activities	(24)	(73)

Consolidated statement of cash flows		Current quarter A\$'000	Year to date (9 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	330,032	333,573
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(7,024)	(24,996)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(41)	(554)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	(24)	(73)
4.5	Effect of movement in exchange rates on cash held	(1,365)	13,628
4.6	Cash and cash equivalents at end of period	321,578	321,578

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)	313,522	321,848
5.2	Call deposits (short-term bank deposits)	8,056	8,184
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)	321,578	330,032

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**

635

-

Directors' remuneration included in 1.2: \$548,770

Consulting fees included in 1.2: \$86,568

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	4,400
9.2	Development	-
9.3	Production	-
9.4	Staff costs (employee benefits expense-net)	1,600
9.5	Administration and corporate costs	2,800
9.6	Other	-
9.7	Total estimated cash outflows	8,800

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: 30 April 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 March 2019

<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 Peru Limited (a subsidiary of Tullow Oil plc) to reduce its equity interest to 40%, subject to satisfying certain farm-out conditions including regulatory approvals that are still outstanding. Karoon's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are also still to be completed.