



DECEMBER 2016 QUARTERLY REPORT AND APPENDIX 5B

Highlights

- \$450 million cash balance as at 31 December 2016.
- Karoon was awarded the right to negotiate a final agreement with Petróleo Brasileiro SA ('Petrobras') and conduct confirmatory due diligence for the acquisition of 100% of the Baúna oil project and a 50% non-operated interest in the Tartaruga Verde oil project. An injunction is currently in place against the sales process, suspending negotiations.
- Karoon strengthened its exploration portfolio with the acquisition of exploration permit EPP46 in the offshore Ceduna Sub-basin Australia and relinquishment of onshore exploration Block 144, Marañón Basin Peru.
- The Karoon Annual General Meeting was held on 30 November 2016. All resolutions were voted in accordance with Board recommendations.

Comments from Mr Robert Hosking, Managing Director:

During the quarter Karoon made meaningful progress with respect to the Company's acquisition strategy, being awarded the right to negotiate a final agreement for the acquisition of the Baúna and Tartaruga Verde oil projects, offshore Brazil. However, court proceedings were brought against the sales process and negotiations are currently suspended.

The court proceedings were initiated during October 2016 against Petrobras, the Brazilian oil and gas regulator Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') and Karoon alleging that the correct sale procedure was not followed. Subsequently an injunction was granted, suspending the potential sale of the Baúna and Tartaruga Verde oil projects.

Karoon remains committed to its acquisition strategy and capitalising on current market conditions to acquire a producing asset. It should be noted that the aforementioned assets are being considered and evaluated alongside other potential acquisition opportunities.

Corporate and Operational Summary

Corporate

As at 31 December 2016, Karoon had a cash balance of \$450 million.

During the quarter, Karoon confirmed it had been awarded by Petrobras the right to negotiate a final agreement and conduct confirmatory due diligence for the acquisition of concession BM-S-40, the Baúna oil project, and a 50% non-operated interest in concession BM-C-36, the Tartaruga Verde oil project.

On 25 October 2016, Court proceedings were initiated in the Brazilian Federal Court of Sergipe against Petrobras, the ANP and Karoon alleging that the correct sale procedure was not followed.

In response to these proceedings, Petrobras disputed the allegations and stated that the sales process was conducted in compliance with the stages laid down in Petrobras' Divestment System and guaranteed extensive competition among potential interested parties.

During November 2016, an injunction was granted suspending the potential sale of 100% of Petrobras's interest in the Baúna oil project and 50% of its interest in the Tartaruga Verde oil project. On 21 November 2016, Petrobras filed an appeal against the injunction which was rejected during December 2016. As a result, the sales process relating to the Baúna and Tartaruga oil projects currently remains suspended.

Following appeals to the Federal Court of Sergipe during November 2016, Petrobras made a request to the Brazilian Superior Court of Justice ('STJ'), the second highest court in Brazil, to stay the injunction issued by the Federal District Court in Sergipe that had suspended the potential sale of the Baúna and Tartaruga Verde oil projects. Karoon has been informed that the STJ made a preliminary ruling denying Petrobras' request to stay the injunction. The underlying proceeding to determine if Petrobras will be able to proceed with the transaction, as well as the injunction itself, is yet to be ruled by the Federal Court of Sergipe.

Karoon is required to file its defense in respect of the main court proceedings during February 2017.

During the quarter, positive steps were taken to strengthen the exploration portfolio. Karoon acquired offshore exploration permit EPP46 in the Ceduna Sub-basin South Australia and relinquished onshore exploration Block 144, Marañón Basin Peru.

Management's assessment of the prospectivity within exploration permit EPP46, along with operational complexities with respect to onshore acreage in the Amazon, strongly supported the change to the portfolio.

The firm commitment for Block 144 that was reflected in Karoon's exploration expenditure commitments in the 2016 Annual Report were for geological and geophysical ('G&G') studies and seismic acquisition only. The initial 3-year firm commitment for EPP46 is for G&G studies and the acquisition of seismic data.

Operations

Brazil

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

100% Interest

Operator

Detailed geological, geophysical, reservoir modelling and production scenario work continued with the results being used to position the appraisal wells in an optimum location for the next drilling program.

Appraisal drilling is expected to commence during calendar year 2017.

Subsequent to the end of the quarter, Karoon's purchase of Pacific Exploration and Production Corp.'s 35% interest in the Blocks was approved by the ANP, with settlement expected during the March 2017 quarter.

Australia

Ceduna Sub-basin, Permit EPP46

100% Interest

Operator

During the quarter, Karoon was awarded offshore exploration permit EPP46, located in the Ceduna Sub-basin South Australia. The permit covers 17,649 square kilometres in one of the world's last underexplored Cretaceous basins.

The Ceduna Sub-basin hosts a massive Cretaceous delta system which Karoon believes has the potential to be a globally significant hydrocarbon province. The geology, potential target size and surrounding significant near term exploration activity make it an exciting exploration opportunity.

Karoon's initial 3-year firm commitment term consists of the acquisition of 2D and 3D marine seismic surveys and G&G studies. There is no requirement to drill a well in the firm commitment term.

Karoon is currently considering all options with respect to obtaining 2D marine seismic data either during the 2017 or the 2018 summer months.

Carnarvon Basin, Permit WA-482-P

50% Interest

Non-Operator

The joint operation has high quality 3D data covering over 75% of the permit area. Seismic interpretation, hydrocarbon charge modelling and amplitude versus offset ('AVO') analyses are being conducted to better define, risk and rank identified prospects and leads. This work is expected to be completed during the second half of calendar year 2017.

Browse Basin, Permit WA-314-P

100% Interest

Operator

Reprocessing of the acquired Kraken 3D marine seismic was ongoing during the quarter. This work is expected to provide better definition of plays identified, and with the support of AVO/ Quantitative Inversion analysis, to allow re-risking of the Elvie prospect.

The previous G&G studies, in addition to the Kraken 3D marine seismic survey interpretation and thermal maturation modelling, provide supporting evidence for potentially oil prone hydrocarbon systems being active in the permit area.

Peru

Tumbes Basin, Block Z-38

75% Interest

Operator

While the Block remains in force majeure, advanced geophysical studies continued during the quarter.

The results of seismic attribute and AVO analysis continue to be encouraging. They show a clear distinction between water, oil and gas signatures in reservoirs in a number of prospects in the 1,500 square kilometre 3D seismic area. These results, along with 3D marine seismic data and sea floor drop cores, enhance the case for the presence of an active hydrocarbon system in the Block.

Drilling preparations are ongoing.

Marañón Basin, Block 144

During the quarter, after an extended period of force majeure, Block 144 was relinquished. Karoon will focus its efforts in Peru on completing a farm-out and drilling program in offshore Block Z-38.

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 December 2016**

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

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ('current quarter')

31 December 2016

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	(16,794)	(29,809)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(2,432)	(4,614)
(e) administration and corporate costs	(3,994)	(6,391)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	227	610
1.5 Interest and other costs of finance paid	(77)	(132)
1.6 Income taxes paid	228	52
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	(32)	869
1.9 Net cash from/ (used in) operating activities	(22,874)	(39,415)

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	(131)	(264)
(b) petroleum tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets (security deposits)	-	-
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)	83	124
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	(48)	(140)

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 (Karooon share buy-back on-market)	-	(673)
3.10 Net cash from/ (used in) financing activities	-	(673)

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	449,360	479,590
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(22,874)	(39,415)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(48)	(140)
4.4	Net cash from/ (used in) financing activities (item 3.10 above)	-	(673)
4.5	Effect of movement in exchange rates on cash held	23,892	10,968
4.6	Cash and cash equivalents at end of period	450,330	450,330

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)	438,293	442,645
5.2	Call deposits (short-term bank deposits)	12,037	6,715
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)	450,330	449,360

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
659
-

Directors' remuneration included in 1.2: \$578,065
Consulting fees included in 1.2: \$80,941

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	19,000
9.2	Development	-
9.3	Production	-
9.4	Staff costs (employee benefits expense-net)	2,300
9.5	Administration and corporate costs	3,200
9.6	Other (payment for remaining 35% equity interest in Santos Basin Blocks)	20,500
9.7	Total estimated cash outflows	45,000

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	Block 144, Marañón Basin, Peru	Exploration permit, relinquished	100%	-
10.2	Interests in petroleum tenements acquired or increased	EPP46, Ceduna sub-basin, Australia	Exploration permit, acquired	-	100

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: Date: 31 January 2017
(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 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 Gas Australia Ltd Group (the 'Group')

As at 31 December 2016

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	Karoon	100 ⁽¹⁾
WA-482-P	Carnarvon, Australia	Quadrant	50 ⁽²⁾
EPP46	Ceduna sub-basin, Australia	Karoon	100
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-1166	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) The Group's 75% equity interest is subject to completion of farm-in obligations.