



MARCH 2017 QUARTERLY REPORT AND APPENDIX 5B

Significant Events

- \$390 million cash balance as at 31 March 2017. The decrease in cash from the previous quarter was largely due to the acquisition of Pacific Exploration and Production Corp.'s ('Pacific') 35% interest in the Santos Basin Blocks (\$20 million), ongoing exploration and drilling related expenditures (\$14 million), and an unrealised foreign currency translation resulting from the movement of the United States dollar against the Australian dollar (\$23 million). Karoon currently holds approximately 98% of its cash in USD balances.
- Subsurface analysis and optimisation work on the Echidna development concept continued through the quarter. Karoon continues to refine the current development concept to reflect the most favourable economic outcome.
- Subsequent to the end of the quarter a decision was made to further progress the Santos Basin Echidna development concept planning and pre-FEED work before any further appraisal drilling is undertaken. The Olinda Star semi-submersible drilling rig will be released pending the negotiation of the final commercial terms of release with the QGOG Constellation SA Group.
- On 30 March 2017, Karoon was notified by Petróleo Brasileiro SA ('Petrobras') that the sales process relating to the Baúna and Tartaruga Verde oil projects was withdrawn. Petrobras has advised that it intends to reinstate a sales process for the assets, adhering to Petrobras' revised divestment procedures.

Comments from Mr. Robert Hosking, Managing Director:

Karoon remains committed to its acquisition strategy and capitalising on current market conditions to acquire assets that are consistent with the Company's exploration led growth strategy. During the quarter, Karoon continued to conduct due diligence reviews on number of potential acquisition opportunities.

Petrobras has advised Karoon that it intends to reinstate a sales process for Baúna and Tartaruga Verde in accordance with Petrobras' revised divestment process methodology, which has been updated to comply with the new Brazilian Federal Court of Accounts requirements.

The court proceedings and suspension of the previous process created significant uncertainty around the timing and outcome of that sales process. Reinstating a sales process under Petrobras' revised methodology is expected to reduce the risk of any future court action against a potential sale and provide greater certainty for the successful bidder.

Karoon remains engaged with potential partners interested in participating in any future process relating to these assets.

Corporate and Operational Summary

Corporate

During the quarter Karoon continued its evaluation of a number of potential acquisition opportunities predominantly focused on production and development assets.

While Karoon's acquisition strategy suffered a setback during the quarter following the withdrawal of the sales process for the Baúna and Tartaruga Verde oil projects, Karoon remains committed to participating in any future process relating to these assets.

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 through the quarter focused on optimising the Echidna development concept to reflect the most favourable economic outcome.

As a result of ongoing subsurface analysis and optimisation work on the development concept, the Echidna appraisal drilling campaign previously expected to commence during calendar year 2017 has been postponed and the Olinda Star semi-submersible drilling rig will be released pending the negotiation of final commercial terms.

During the quarter, Karoon's purchase of Pacific's 35% interest in the Santos Basin Blocks was approved by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis and settled. This resulted in a payment to Pacific of \$20 million for the interest.

Australia

Ceduna Sub-basin, Permit EPP46

100% Interest

Operator

Karoon's initial 3-year firm commitment term consists of the acquisition of 2D and 3D marine seismic surveys and geological and geophysical ('G&G') studies.

Karoon is currently considering options with respect to obtaining 2D marine seismic data during the 2017/2018 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.

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 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.

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 2017**

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 March 2017

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	(14,097)	(43,905)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(2,160)	(6,774)
(e) administration and corporate costs	(3,760)	(10,152)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	214	824
1.5 Interest and other costs of finance paid	(159)	(291)
1.6 Income taxes paid (refunds)	(49)	3
1.7 Research and development refunds	-	-
1.8 Other (GST and VAT refunds)	1,048	1,917
1.9 Net cash from/ (used in) operating activities	(18,963)	(58,378)

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	(227)	(491)
	(b) petroleum tenements	(20,031)	(20,031)
	(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)	1,851	1,975
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	(18,407)	(18,547)
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 (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	450,331	479,590
4.2	Net cash from/ (used in) operating activities (item 1.9 above)	(18,963)	(58,378)
4.3	Net cash from/ (used in) investing activities (item 2.6 above)	(18,407)	(18,547)
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	(23,324)	(12,355)
4.6	Cash and cash equivalents at end of period	389,637	389,637

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)	378,145	438,293
5.2	Call deposits (short-term bank deposits)	11,492	12,038
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)	389,637	450,331

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**

628

-

Directors' remuneration included in 1.2: \$546,269

Consulting fees included in 1.2: \$82,047

7. Payments to related entities of the entity and their associates

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

**Current quarter
A\$'000**

-

-

8. Financing facilities available		Total facility amount at quarter end A\$'000	Amount drawn at quarter end A\$'000
<i>Add notes as necessary for an understanding of the position</i>			
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	11,500
9.2	Development	-
9.3	Production	-
9.4	Staff costs (employee benefits expense-net)	2,100
9.5	Administration and corporate costs	2,300
9.6	Other (provide details if material)	-
9.7	Total estimated cash outflows	15,900

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: 28 April 2017

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 March 2017

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
EPP46	Ceduna Sub-basin, Australia	Karoon	100
WA-482-P	Carnarvon, Australia	Quadrant	50 (1)
WA-314-P	Browse, Australia	Karoon	100 (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-1166	Santos, Brazil	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (3)

- (1) Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (2) 1.5% over-riding royalty for first five years of production, going to 2% thereafter. The Group's 75% equity interest is subject to completion of farm-in obligations.