KAROON GAS AUSTRALIA LTD

ABN 53 107 001 338

INTERIM FINANCIAL REPORT FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

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DIRECTORS' REPORT
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

The Board of Directors submits herewith the Interim Financial Report of Karoon Gas Australia Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial half-year ended 31 December 2013 (the 'financial half-year').

Board of Directors

The names of the Directors of Karoon Gas Australia Ltd during the financial half-year and up to the date of this Directors' Report are set out below:

Mr Robert M. Hosking – Executive Chairman;
Mr Mark A. Smith – Executive Director;
Mr Geoff Atkins – Independent Non-Executive Director;
Mr Clark Davey – Independent Non-Executive Director;
Mr Stephen Power – Non-Executive Director; and
Mr Jose Coutinho Barbosa – Non-Executive Director.

Highlights - Group Operations

- Discovery at Proteus-1 exploration well, Browse Basin, Australia, encountered good quality gas bearing sands in the Jurassic aged section.

- Completed a 2,386 square kilometre Chrysalids marine 3D seismic survey in exploration permit WA-482-P and a 318 square kilometre Kraken marine 3D seismic survey in exploration permit WA-314-P.

- Kangaroo oil discovery, Santos Basin, Brazil, preliminary contingent resource upgrade. Pre-front end engineering and design studies on the Kangaroo oil discovery commenced by Worley Parsons.

- The Discovery Appraisal Plan application for a Phase 2 drilling campaign in Santos Basin Blocks S-M-1037, 1101, 1102, 1165 and 1166 was approved by the Agencia Nacional do Petróleo ('ANP').

- Following the farm-out deal for a 35% equity interest in Blocks S-M-1037, 1101, 1102, 1165 and 1166 to Pacific Rubiales Energy Corp ('Pacific Rubiales') during September 2012, Karoon received approval from the ANP for the assignment of Blocks S-M-1037, 1101, 1102, 1165, and 1166. The transfer of a 35% equity interest in these Blocks is now complete, with remaining completion matters for Block S-M-1166 being finalised subsequent to the end of the financial half-year.

- Following Karoon's August 2010 farm-in transaction with Petrobras for Block S-M-1352, Karoon received regulatory notification from the ANP for the final assignment of the Block.

- Prospect evaluation in Block Z-38, Tumbes Basin, Peru was completed and final drill locations are being selected.

- The Grace-1 exploration well in permit WA-314-P spudded during October 2013. Subsequent to the end of the financial half-year, the well was drilled to a total depth of 5,069 metres and was plugged and abandoned. No significant hydrocarbons were encountered.

Highlights - Corporate Activity

- Raised gross proceeds of $175.5 million via an institutional investor placement and a Share Purchase Plan to retail investors.

- Karoon engaged global investment banks to formalise the farm-out process on permits WA-315-P and WA-398-P in the Browse Basin, and on Blocks S-M-1037, 1101, 1102, 1165 and 1166 in the Santos Basin.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Financial Results

The consolidated result of the Group for the financial half-year was a loss after income tax expense of $8,089,498 (2012: $8,697,796). The loss for the financial half-year included net employee benefits expense of $6,179,817 (2012: $5,728,163), which recognised share-based payments expense of $2,366,154 (2012: $2,678,040) from the issue of employee share options and performance right incentives, which remain subject to the satisfaction of vesting conditions. The loss for the financial half-year also included exploration and evaluation expenditure expensed, in accordance with the Group's accounting policy, of $2,878,301 (2012: $531,089) from reviewing new exploration ventures predominantly in Australia and of Block S-M-1354 Quasi in Brazil.

Partially offsetting the loss for the financial half-year was interest income of $4,249,958 (2012: $4,230,742) earned on interest bearing cash assets and security deposits and net foreign currency gains of $2,098,383 (2012: net foreign currency losses of $1,614,262) on USD denominated cash and cash equivalents and security deposits held by the Group during the period. The net foreign currency gains were almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.9275 as at 30 June 2013 to AUD1:USD0.8948 as at 31 December 2013) on cash assets and security deposits held in United States dollars.

Financial Position

At the end of December 2013, the Group had a cash and cash equivalents balance of $180,530,350 (30 June 2013: $204,519,641) and no debt. Included in this balance were short-term bank deposits of $129,423,494 (30 June 2013: $93,297,136) and the Group's share of joint operation cash balances of $8,010,157 (30 June 2013 $2,648,027).

The Group's working capital, being current assets less current liabilities, decreased from $181,192,483 as at 30 June 2013 to $157,549,156 as at 31 December 2013 predominantly as a result of expenditure on exploration and evaluation assets.

During the financial half-year year, total assets decreased from $945,943,931 to $850,784,382, total liabilities decreased from $346,103,034 to $88,701,094 and total equity increased by $162,242,391 to $762,083,288. The major changes in the condensed consolidated statement of financial position were largely due to the following:

- a capital raising;
- exploration and evaluation expenditure;
- long lead inventory items purchased for Brazil and Peru; and
- the effect of the completion of the farm-out of the 35% equity interest in each of Blocks S-M-1037, 1101, 1102, 1165 and 1166 in the Santos Basin, Brazil.

On 7 August 2013, Karoon announced a capital raising via an institutional investor placement and a Share Purchase Plan to retail investors. The capital raising was priced at $5.10 per ordinary share representing an 8.9% discount to Karoon's closing price on 6 August 2013. Gross proceeds of $175.5 million were raised from the capital raising.

The capital raising was a necessary measure to strengthen Karoon's balance sheet and provide Karoon with the financial flexibility to achieve the best possible outcome from current farm-out negotiations, continue to facilitate drilling activity in the Browse Basin and progress drilling planning to commence the Santos Basin and Tumbes Basin drilling campaigns on schedule.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Review of Operations

Karoon is a global oil and gas exploration company, which looks for high equity interest, early stage exploration opportunities with large potential targets in proven petroleum systems. Karoon strives to create shareholder value through the geotechnical work-up of the acreage, leveraging its high equity interests to explore these opportunities to ultimately achieve commercialisation.

Karoon has a portfolio of oil and gas exploration and appraisal assets across offshore basins in Australia, Brazil and Peru and an on-shore Block in Peru. Karoon has applied its geotechnical expertise to underexplored prospective acreage, which has resulted in the discovery of hydrocarbons in Australia and Brazil.

Karoon's long term strategy is to retain equity interests in the assets as they move into production.

Australia

Browse Basin Permits WA-314-P, WA-315-P and WA-398-P

During 2004, Karoon acquired exploration permits WA-314-P and WA-315-P in the Browse Basin and was subsequently awarded exploration permit WA-398-P during 2007. The permits are located 350 kilometres offshore from the north-western Australian coast and have a combined gross area of 7,828 square kilometres.

Drilling

During the financial half-year, the 'Transocean Legend' rig drilled the Proteus-1 exploration well located in WA-398-P to a total vertical depth of 5,250 metres on 26 August 2013. An 87 metre gross interval with high net pay was intersected in good quality Jurassic reservoir. Drill stem testing was conducted in a 4-1/8 inch wellbore over an open hole section including the Plover and Montara formations. The well flowed condensate bearing gas to surface at a maximum flow rate of 7.3 mmscf/d measure through a 16/64 inch choke with a flowing well head pressure of 4,457 psia. A condensate/gas ratio in the range of 19-22 bbls/mmscf was measured at the surface along with a 12% CO2 content taken from the gas flow on a volume basis. The measured condensate ratio was the highest yet recorded and the CO2 level was among the lowest level found to date in the Greater Poseidon area. Proteus-1 is located on a large tilted fault block approximately 14 kilometres south-east of the Poseidon-1 gas discovery location.

Following Proteus-1, the 'Transocean Legend' was towed to the Grace-1 well location in exploration permit WA-314-P. Grace-1 was the fourth exploration well in the Browse Basin Phase 2 drilling campaign and was spudded on 3 October 2013. Subsequent to financial half-year end, Grace-1 reached total vertical depth at 5,069 metres during January 2014. A wireline logging program was performed over a zone of interest in a Jurassic aged volcanic formation. No significant hydrocarbons were encountered and Grace-1 was plugged and abandoned.

Poseidon North-1, the fifth well location in the Browse Basin Phase 2 drilling program, received joint operation approval during the financial half-year. The Poseidon North-1 exploration well is located 6.5 kilometres north-east of Poseidon-1, in a crestal position on a large tilted fault block. The primary target is the Plover formation and the secondary target is the Montara formation.

The Browse Basin Phase 2 drilling campaign, consisting of six wells, is expected to continue through calendar year 2014. The 'Transocean Legend' semi-submersible rig is being used for the entire drilling campaign. The drilling campaign is designed to more precisely define the size and quality of the contingent gas resource base, allowing the joint operation to move forward with selection of a development concept and progress to more in-depth project design and planning.

3D Seismic Processing and Interpretation

During the financial half-year, Karoon completed the 318 square kilometre Kraken marine 3D seismic survey over the Elvie lead in exploration permit WA-314-P using the CGG Veritas vessel, the 'Geo Caspian'.

Processing and initial interpretation is underway and preliminary results are expected in the coming months.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Review of Operations (continued)

Browse Basin Permits WA-314-P, WA-315-P and WA-398-P (continued)

Equity Interests

Equity interests of the participants in WA-315-P and WA-398-P are:

Karoon Gas Browse Basin Pty Ltd	40%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	40%
Chinese National Petroleum Corporation	20%

Equity interests of the participants in WA-314-P are:

Karoon Gas Browse Basin Pty Ltd	90%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	10%

North Carnarvon Basin Permit WA-482-P

During September 2012, Karoon entered into a farm-in agreement to acquire 100% of exploration permit WA-482-P. The permit is located 300 kilometres off-shore from the north-western Australian Coast and covers an area of 13,630 square kilometres.

Seismic Acquisition, Processing and Interpretation

During the financial half-year, Karoon completed the 2,386 square kilometre Chrysalids marine 3D seismic survey over the western section of the permit using the CGG Veritas vessel, the 'Geo Caspian'. This survey will be used to delineate leads identified on 2D seismic and will append to other prospects identified on existing 2D and 3D seismic data

During the financial half-year, processing and interpretation of the new seismic was on-going.

Subsequent to the end of the financial half-year, initial fast track cube data was received. Preliminary interpretation is very encouraging, highlighting significant additional prospects with a total of 14 prospects and leads mapped to date.

Equity Interest

Equity interest of the participant in WA-482-P is:

Karoon Gas (FPSO) Pty Ltd	100%*

* Subject to completion of first and second permit year work program commitments to satisfy farm-in obligations. Following completion of the second year of the permit term, Karoon has withdrawal rights under the farm-in agreement before the third permit year well commitment is entered into.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Review of Operations (continued)

Brazil

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

During March 2008, Karoon was awarded 100% participation in 5 offshore exploration blocks in the Santos Basin, located approximately 112 kilometres off the coast of the State of Santa Catarina, Brazil. The Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') have an average water depth of approximately 400 metres and following the approval of the Appraisal Development Plan, cover 549 square kilometres.

Karoon signed agreements during September 2012 to farm-out a 35% equity interest to Pacific Rubiales. During the financial half-year Karoon received approval from the ANP for the assignment of Blocks S-M-1037, 1101, 1102, 1165, and 1166. The transfer of a 35% equity interest in these Blocks is now complete, with remaining completion matters for Block S-M-1166 being finalised subsequent to the end of the financial half-year.

Contingent Resource Upgrade

Following the preliminary contingent resource announcement for the Kangaroo oil discovery on 11 April 2013 in Blocks S-M-1102 and S-M-1165, Karoon received new core analysis and reservoir fluid data during the financial half-year which, when integrated into the Kangaroo geological model, significantly increased the contingent resource range for the Kangaroo discovery. The new core analysis and reservoir fluid data indicated that the reservoir encountered better permeability than previously estimated resulting in a higher net-to-gross ratio and a larger oil column due to 40 degree gravity API oil recovered from a sample taken below the previously estimated oil-water contact. The result is the gross oil column has been extended from 25 metres to 76 metres.

The revised contingent resource estimates, as represented in Karoon's 16 December 2013 ASX announcement, 'Brazil's ANP Approves Karoon's Appraisal Work Program', for the Kangaroo oil discovery are:

Contingent Resource Category	Revised Contingent Resource Estimate (mmbbls)*#	Previous Contingent Resource Estimate (mmbbls)*#	Increase
1C	11	2	450%
2C	135	73	85%
3C	487	337	45%

** Contingent resource assessments are estimated in accordance with SPE PRMS standards.*

 # Contingent Resources: those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality).

1C- Denotes low estimate scenario of contingent resources.
2C- Denotes best estimate scenario of contingent resources.
3C- Denotes high estimate scenario of contingent resources.

Karoon is not aware of any new information or data that may have materially impacted the contingent resource estimates.

Karoon has prioritised the appraisal of the Kangaroo discovery as the primary focus of the Santos Basin Phase 2 drilling campaign due to its favourable contingent resource size, oil quality and water depth. Pre-front end engineering and design studies on the Kangaroo discovery commenced with Worley Parsons during the financial half-year and are expected to be conducted in parallel with the Santos Basin Phase 2 drilling campaign in an effort to fast track any potential development decision.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Review of Operations (continued)

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

Appraisal Development Plan

During the financial half-year, Karoon received written notification from the ANP approving the Discovery Appraisal Plan (Plano de Avaliação de Descobertas or the 'PAD') for the Blocks. The PAD governs the next stage of the Concession Agreements and outlines the forward appraisal work program commitments on the Blocks. As part of the PAD, and consistent with normal Block licencing practices, Karoon was required to relinquish part of the Blocks.

The PAD consolidates the Blocks into one work program. The work program comprises of a number of firm commitments to be completed by 31 December 2014 and contingent commitments, to be completed by 31 December 2016.

Karoon has a firm commitment to drill both the Kangaroo-2 appraisal and the Kangaroo West-1 exploration wells. Additional commitments include seismic reprocessing, quantitative inversion ('QI') studies and further basin modelling studies. Karoon has made a contingent commitment to drill up to 4 additional wells and undertake further QI studies, which will be determined following the integration and analysis of the results from the firm commitments.

3D Seismic Processing and Interpretation

Seismic processing and interpretation and QI studies remains on-going in the lead up to the commencement of the Santos Basin Phase 2 drilling campaign.

Equity Interests

Equity interests of the participants in Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 are:

Karoon Petróleo & Gas Ltda (Operator)	65%
Pacific Rubiales	35%*

Santos Basin Block S-M-1352

During August 2010, Karoon signed a farm-in agreement to acquire a 20% participation in Block S-M-1352, with the remaining 80% equity interest held by Petróleo Brasileiro S.A. ('Petrobras').

Subsequent to Karoon's August 2010 farm-in transaction with Petrobras for Block S-M-1352, Karoon received regulatory notification from the ANP during the financial half-year that the final assignment of the Block was approved and is now complete.

The Operator, Petrobras, is continuing its technical and commercial assessment of the Maruja discovery and is currently finalising the PAD with the ANP.

The Maruja discovery has subsequently been renamed Bauna Sul.

Equity Interests

Equity interests of the participants in Block S-M-1352 are:

Karoon Petróleo & Gas Ltda	20%
Petróleo (Operator)	80%

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Review of Operations (continued)

Peru

Tumbes Basin Block Z-38

During January 2008, Karoon signed a farm-in agreement to acquire a 20% participating interest in Block Z-38, a 4,750 square kilometre offshore block, located in the Tumbes Basin, 10 kilometres off the north-west coast of Peru. Karoon was approved as Operator during October 2009 and subsequently increased its equity interest to 75%, subject to completion of final farm-in obligations.

3D Seismic Interpretation

Interpretation of previously acquired 1,500 square kilometres of 3D seismic data over Block Z-38 indicates the presence of 16 oil and gas prospects and leads. Combining the 3D seismic work with drop core results and offset well information from surrounding fields has resulted in the development of a geological model that is supportive of a diverse range of potentially large oil and gas prospects. The model suggests all the required petroleum system elements are in place.

The internal prospect evaluation is now complete.

Drill Planning

Pre-drill planning was on-going through the financial half-year for a minimum 2 well exploration drilling campaign and final drill location assessment is nearing completion. The Phase 1 drilling campaign is expected to commence during the second half of calendar year 2014.

Equity Interests

Equity interests in Block Z-38 are:

KEI (Peru Z38) Pty Ltd, Sucursal del Peru (Operator)	75%*
Pitkin Petroleum Peru Z-38 SRL	25%

* Karoon's 75% equity interest is subject to completion of farm-in obligations.

Maranon Basin Block 144

During April 2009, Karoon was awarded Block 144, located within the onshore Maranon Basin, on the eastern side of the Andes mountain range.

Seismic Reprocessing and Interpretation

In preparation for stratigraphic studies, geological and geophysical studies using 1,000 kilometres of existing reprocessed 2D seismic data and off-set well information were on-going through the financial half-year. Karoon is continuing the Environmental Impact Assessment studies for acquiring 300 kilometres of 2D seismic.

The permit is currently in force majeure while social programs and government introductions to the indigenous communities are completed.

Equity Interest

KEI (Peru 112) Pty Ltd, Sucursal del Peru has a 100% equity interest in Peru Block 144.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Farm-out Status

During the financial half-year, Karoon engaged two global investment banks to formally manage the farm-out process over exploration permits WA-315-P and WA-398-P in the Browse Basin and Blocks S-M-1037, 1101, 1102, 1165 and 1166 in the Santos Basin.

Subsequent to the end of the financial half-year, Karoon engaged a global investment back to formally manage the farm-out process over Block Z-38 in the Tumbes Basin, Peru. Discussions to sell down part of Karoon's 75% equity interest in the Block remain on-going.

Interest remains strong in all of the farm-out processes across the Browse, Santos, Tumbes and Carnarvon Basin assets. Karoon continues to work with all interested parties.
Karoon remains committed to and confident of completing the processes in a timely and successful manner.

Business Strategies and Prospects, Likely Developments and Expected Results of Operations

The Directors' Report sets out information on the business strategies and prospects for future financial years, and refers to likely developments in operations and the expected results of those operations in future financial years. Information in the Directors' Report is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Details that could give rise to likely material detriment to Karoon, for example, information that is confidential, commercially sensitive or could give a third party a commercial advantage has not been included. Other than the matters included in this Directors' Report, information about other likely developments in the Group's operations and the expected results of those operations have not been included.

External Auditor's Independence Declaration

A copy of the external Auditor's Independence Declaration for the financial half-year, as required under Section 307C of the *Corporations Act 2001*, is set out on page 10.

This Directors' Report is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors:

Mr Robert Hosking
Executive Chairman

14 March 2014
Melbourne

pwc

Auditor's Independence Declaration

As lead auditor for the review of Karoon Gas Australia Ltd for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Karoon Gas Australia Ltd and the entities it controlled during the period.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
14 March 2014

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

		Consolidated Half-year ended	
	Note	31 Dec 2013 $	31 Dec 2012 $
Revenue	2	4,249,958	4,230,742
Other income	2	3,096,949	-
Total revenue and other income		7,346,907	4,230,742
Computer support		(663,270)	(506,721)
Consulting fees		(395,810)	(218,277)
Depreciation and amortisation expense		(523,854)	(469,967)
Employee benefits expense (net)		(6,179,817)	(5,728,163)
Exploration and evaluation expenditure expensed		(2,878,301)	(531,089)
Farm-out costs		(836,730)	(611,150)
Finance costs		(140,002)	(101,444)
Insurance expense		(481,699)	(900,087)
Legal fees		(236,948)	(153,396)
Net foreign currency losses	2	-	(1,614,262)
Property costs		(981,978)	(556,093)
Share registry and listing fees		(110,077)	(142,579)
Telephone and communication expenses		(177,886)	(180,946)
Travel and accommodation expenses		(729,622)	(488,719)
Other expenses		(1,100,411)	(725,645)
Total expenses		(15,436,405)	(12,928,538)
Loss before income tax		(8,089,498)	(8,697,796)
Income tax expense		-	-
Loss for financial half-year attributable to equity holders of the Company		**(8,089,498)**	**(8,697,796)**
Other comprehensive income (loss), net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(1,632,994)	(3,224,829)
Other comprehensive loss for financial half-year, net of income tax		**(1,632,994)**	**(3,224,829)**
Total comprehensive loss for financial half-year attributable to equity holders of the Company, net of income tax		**(9,722,492)**	**(11,922,625)**
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share		(0.0328)	(0.0393)
Diluted loss per ordinary share		(0.0328)	(0.0393)

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	Consolidated 31 Dec 2013 $	Consolidated 30 June 2013 $
Current assets			
Cash and cash equivalents		180,530,350	204,519,641
Receivables		11,959,283	4,893,287
Inventories		47,114,288	28,793,537
Security deposits		53,689	15,908,100
Current tax asset		1,050,288	1,029,238
Assets classified as held for sale	5	-	267,219,136
Other assets		2,057,535	4,621,975
Total current assets		242,765,433	526,984,914
Non-current assets			
Plant and equipment		3,068,162	1,981,339
Intangible assets		455,368	418,610
Exploration and evaluation expenditure carried forward		596,062,193	408,319,787
Security deposits		8,433,226	8,239,281
Total non-current assets		608,018,949	418,959,017
Total assets		850,784,382	945,943,931
Current liabilities			
Trade and other payables		85,216,277	76,804,541
Financial liabilities	6	-	15,204,315
Other liabilities	7	-	253,783,575
Total current liabilities		85,216,277	345,792,431
Non-current liabilities			
Provisions	8	3,484,817	310,603
Total non-current liabilities		3,484,817	310,603
Total liabilities		88,701,094	346,103,034
Net assets		**762,083,288**	**599,840,897**
Equity			
Contributed equity	9	834,493,064	664,894,335
Accumulated losses		(80,322,637)	(72,233,139)
Share-based payments reserve		31,801,826	29,435,672
Foreign currency translation reserve		(23,888,965)	(22,255,971)
Total equity		**762,083,288**	**599,840,897**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Consolidated	Contributed Equity	Accumulated Losses	Share-based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$	$
Balance as at 1 July 2012	664,894,335	(61,302,736)	24,318,052	(27,309,730)	600,599,921
Loss for previous financial half-year	-	(8,697,796)	-	-	(8,697,796)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(3,224,829)	(3,224,829)
Total comprehensive loss for financial half-year	-	(8,697,796)	-	(3,224,829)	(11,922,625)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Transaction costs arising on ordinary shares issued	-	-	-	-	-
Share-based payments expense	-	-	2,678,040	-	2,678,040
	-	-	2,678,040	-	2,678,040
Balance as at 31 December 2012	**664,894,335**	**(70,000,532)**	**26,996,092**	**(30,534,559)**	**591,355,336**
Balance as at 1 July 2013	664,894,335	(72,233,139)	29,435,672	(22,255,971)	599,840,897
Loss for financial half-year	-	(8,089,498)	-	-	(8,089,498)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(1,632,994)	(1,632,994)
Total comprehensive loss for financial half-year	-	(8,089,498)	-	(1,632,994)	(9,722,492)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	175,546,141	-	-	-	175,546,141
Transaction costs arising on ordinary shares issued	(5,947,412)	-	-	-	(5,947,412)
Share-based payments expense	-	-	2,366,154	-	2,366,154
	169,598,729	-	2,366,154	-	171,964,883
Balance as at 31 December 2013	**834,493,064**	**(80,322,637)**	**31,801,826**	**(23,888,965)**	**762,083,288**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

	Consolidated	
	Half-year ended	
	31 Dec 2013 $	31 Dec 2012 $
Cash flows from operating activities		
Receipts from customers (inclusive of GST refunds)	3,666,472	163,867
Payments to suppliers and employees (inclusive of GST)	(11,504,539)	(7,264,493)
Payments for exploration and evaluation expenditure expensed	(358,355)	(540,633)
Interest received	2,151,482	4,509,330
Interest and other costs of finance paid	(140,002)	(101,444)
Income taxes refund/ (paid)	(51,520)	326,842
Net cash flows provided by/ (used in) operating activities	(6,236,462)	(2,906,531)
Cash flows from investing activities		
Purchase of plant and equipment and computer software	(1,584,613)	(354,470)
Payments for exploration and evaluation expenditure capitalised	(194,653,907)	(71,821,337)
Repayment (payment) of security deposits	15,470,042	(3,883,054)
Advance payments (Brazilian farm-out)	8,043,616	66,257,213
Receipt (payment) of refundable share of insurance bond	(15,371,404)	14,798,836
Net cash flows provided by/ (used in) investing activities	(188,096,266)	4,997,188
Cash flows from financing activities		
Proceeds from issue of ordinary shares	175,546,141	-
Payments for transaction costs arising on ordinary shares issued	(5,947,412)	-
Net cash flows provided by financing activities	169,598,729	-
Net increase (decrease) in cash and cash equivalents	(24,733,999)	2,090,657
Cash and cash equivalents at beginning of financial half-year	204,519,641	227,802,316
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	744,708	(1,641,450)
Cash and cash equivalents at end of financial half-year	**180,530,350**	**228,251,523**

The accompanying notes form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 1. Basis of Preparation of Condensed Consolidated Financial Statements

This Interim Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standard *AASB 134 'Interim Financial Reporting'* and the *Corporations Act 2001*.

The condensed consolidated financial statements do not include all the notes of the type normally included in an Annual Report and shall be read in conjunction with the Annual Report for the financial year ended 30 June 2013.

The condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as disclosed in the Company's Annual Report for the financial year ended 30 June 2013, except for the impact of the Standards and Interpretations as described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Statement of Compliance

Compliance with AASB 134 ensures compliance with International Financial Reporting Standard *IAS 134 'Interim Financial Reporting'.*

New or Revised Australian Accounting Standards and Interpretations that are First Effective in the Current Reporting Period

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the 'AASB') that are relevant to its operations and effective for the financial half-year ended 31 December 2013.

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial half-year that are relevant to the Group included:

- *AASB 10 'Consolidated Financial Statements'*. AASB 10 replaced the guidance on control and consolidation in *AASB 127 'Consolidated and Separate Financial Statements'* and in *Interpretation 112 'Consolidation – Special Purpose Entities'*. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reviewed its investments in subsidiaries to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the condensed consolidated financial statements was required as a result of the adoption of AASB 10.
- *AASB 11 'Joint Arrangements'*. Under AASB 11, joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations rather than the legal structure of the joint arrangement. The Group assessed the nature of its joint arrangements and determined them to be joint operations. The accounting for the Group's joint operations has not changed as a result of the adoption of AASB 11. The Group continues to recognise its direct right to the, and its share of, jointly held assets, liabilities, revenues and expenses of joint operations.

The adoption of all of the relevant new and revised Australian Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on either the amounts reported for the current or previous financial half-years.

Other new Australian Accounting Standards that are applicable for the first time for this Interim Financial Report are *AASB 13 'Fair Value Measurement', AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'* and *AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'*. These standards have introduced new disclosures for this Interim Financial Report but did not affect the Group's accounting policies or any of the amounts recognised in the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 1. Basis of Preparation of Condensed Consolidated Financial Statements (continued)

Going Concern

On the basis of the present level of operations and after consideration of the Group's ability to:

(i) sell/farm-out its interests in exploration permits/Blocks in order to fund future exploration expenditure commitments;
(ii) raise capital through the issue of new ordinary shares in the Company to meet working capital requirements and/or shortfalls in exploration expenditure commitments; and/or
(iii) manage its existing cash and future cash flows to meet its current obligations and future plans,

the Directors are of the opinion that for the next twelve month period from the date of signing the Directors' Declaration, the Group and Company will have sufficient liquidity to meet their existing commitments and accordingly present these condensed consolidated financial statements on a going concern basis.

Note 2. Results for Financial Half-Year

	Consolidated	
	31 Dec 2013 $	**31 Dec 2012 $**
The results for the financial half-year include the following revenue and expense items which are unusual because of their nature, size or incidence:		
Interest income from unrelated entities	4,249,958	4,230,742
Total revenue	4,249,958	4,230,742
Net foreign currency gains	2,098,383	-
Services revenue from joint operations	998,306	-
Sundry income	260	-
Total other income	3,096,949	-
Share-based payments expense	(2,366,154)	(2,678,040)
Net foreign currency losses	-	(1,614,262)

Note 3. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2012: $Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 4. Segment Information

(a) Description of Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Chairman/Chief Executive Officer and Executive Director/Exploration Director (identified collectively as the 'chief operating decision maker') in assessing performance and in determining the allocation of resources.

The operating segments are based on the Group's geographical location of its operations.

The Group has identified operating segments based on the following three geographic locations:

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in four offshore permit areas: WA-314-P, WA-315-P, WA-398-P and WA-482-P;
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in six offshore Blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166 and Block S-M-1352; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in two Blocks: Block 144 (onshore) and Block Z-38 (offshore).

'All other segments' include amounts not specifically attributable to an operating segment.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

Segment revenues and results do not include transfers between reportable operating segments as intercompany balances are eliminated on consolidation.

Employee benefits expenses and other operating expenses, that are associated with exploration and evaluation activities and specifically relate to an area of interest, are allocated to the area of interest and are capitalised as exploration and evaluation assets.

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in a manner consistent with that of the condensed consolidated financial statements. Reportable segment assets and liabilities are equal to consolidated total assets and total liabilities respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 4. Segment Information (continued)

(b) Operating Segments

Segment performance

	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Revenue for financial half-year 31 December 2013					
Interest income from unrelated entities	1,988,104	2,261,854	-	-	4,249,958
Total revenue	1,988,104	2,261,854	-	-	4,249,958
Result for financial half-year 31 December 2013					
Revenue	1,988,104	2,261,854	-	-	4,249,958
Other income	1,090,038	2,134,265	(127,354)	-	3,096,949
Depreciation and amortisation expense	(330,385)	(152,297)	(41,172)	-	(523,854)
Employee benefits expense (net)	(4,329,079)	(1,320,279)	(530,459)	-	(6,179,817)
Exploration and evaluation expenditure expensed	(211,626)	(2,584,543)	(41,798)	(40,334)	(2,878,301)
Finance costs	(112,336)	(20,592)	(7,074)	-	(140,002)
Property costs	(372,619)	(508,946)	(100,413)	-	(981,978)
Administration and other operating expenses	(2,343,495)	(1,665,996)	(722,962)	-	(4,732,453)
Loss before income tax	(4,621,398)	(1,856,534)	(1,571,232)	(40,334)	(8,089,498)
Revenue for financial half-year 31 December 2012					
Interest income from unrelated entities	2,385,076	1,845,639	27	-	4,230,742
Total revenue	2,385,076	1,845,639	27	-	4,230,742
Result for financial half-year 31 December 2012					
Revenue	2,385,076	1,845,639	27	-	4,230,742
Depreciation and amortisation expense	(374,858)	(86,550)	(8,559)	-	(469,967)
Employee benefits expense (net)	(4,582,323)	(1,010,136)	(135,704)	-	(5,728,163)
Exploration and evaluation expenditure expensed or written off	(432,367)	(74,751)	(6,943)	(17,028)	(531,089)
Finance costs	(30,831)	(66,317)	(4,296)	-	(101,444)
Net foreign currency losses	(1,617,703)	(9,335)	12,776	-	(1,614,262)
Property costs	(336,372)	(217,621)	(2,100)	-	(556,093)
Administration and other operating expenses	(2,385,568)	(1,197,549)	(344,403)	-	(3,927,520)
Loss before income tax	(7,374,946)	(816,620)	(489,202)	(17,028)	(8,697,796)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 4. Segment Information (continued)

(b) Operating Segments (continued)

Segment assets

	Australia	Brazil	Peru	All Other Segments	Consolidated
	$	$	$	$	$
As at 31 December 2013					
Segment asset information					
Cash and cash equivalents	117,982,225	58,813,276	3,734,849	-	180,530,350
Exploration and evaluation expenditure carried forward	480,151,382	76,500,196	39,410,615	-	596,062,193
Security deposits	375,013	55,620	8,056,282	-	8,486,915
Inventories	4,234,301	25,717,810	17,162,177	-	47,114,288
Receivables	4,311,258	6,744,785	903,240	-	11,959,283
Other	1,633,339	3,103,489	1,894,525	-	6,631,353
Segment assets	608,687,518	170,935,176	71,161,688	-	850,784,382
As at 30 June 2013					
Segment asset information					
Cash and cash equivalents	95,684,371	107,926,966	908,304	-	204,519,641
Exploration and evaluation expenditure carried forward	342,171,959	31,928,443	34,219,385	-	408,319,787
Security deposits	375,004	16,018,697	7,753,680	-	24,147,381
Inventories	2,562,547	12,951,159	13,279,831	-	28,793,537
Assets held for sale	-	267,219,136	-	-	267,219,136
Other	3,435,735	7,764,512	1,744,202	-	12,944,449
Segment assets	444,229,616	443,808,913	57,905,402	-	945,943,931

Segment liabilities

	Australia	Brazil	Peru	All Other Segments	Consolidated
	$	$	$	$	$
As at 31 December 2013					
Segment liability information					
Trade and other payables	43,969,789	37,697,172	3,549,316	-	85,216,277
Provisions	324,301	3,160,516	-	-	3,484,817
Segment liabilities	44,294,090	40,857,688	3,549,316	-	88,701,094
As at 30 June 2013					
Segment liability information					
Trade and other payables	29,398,499	41,184,640	6,221,402	-	76,804,541
Financial liability	-	15,204,315	-	-	15,204,315
Other liabilities	-	253,783,575	-	-	253,783,575
Provisions	310,603	-	-	-	310,603
Segment liabilities	29,709,102	310,172,530	6,221,402	-	346,103,034

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 5. Assets Classified As Held for Sale

	Consolidated	
	31 Dec 2013	**30 June 2013**
	$	**$**
Exploration and evaluation expenditure carried forward held for sale (a)	-	267,219,136
Total assets classified as held for sale	-	267,219,136

(a) During the financial half-year, the Group received approval from the ANP for the assignment to Pacific Rubiales of a 35% equity interest in Santos Basin Exploration Blocks S-M-1101, S-M-1102, S-M-1037, S-M-1165 and S-M-1166 (the 'Blocks') and disposed of the related capitalised exploration and evaluation expenditure carried forward. Subsequent to the end of the financial half-year remaining completion matters for Block S-M-1166 were finalised to complete the transfer of the Block.

Consideration for the disposal of the equity interest to Pacific Rubiales, which was received in advance, was USD40 million cash consideration and a carry up to the first USD70 million of well costs for 3 wells and 35% of all well costs over and above the first USD70 million. As at 30 June 2013, $253,783,575 had been received and recorded as an 'Other Liabilities' in the consolidated statement of financial position. This liability was settled during the financial half-year with the completion of the assignment of the 35% equity interest.

Note 6. Financial Liabilities

In accordance with the Agreements for Pacific Rubiales to acquire a 35% equity interest in the Blocks, Pacific Rubiales was required to advance a share of a refundable insurance bond (security deposit) totalling USD15.3 million. This amount and associated interest payable was classified as a current (unsecured) financial liability in the consolidated statement of financial position as at 30 June 2013 and totalled $15,204,315. This advance and the interest payable were repaid during the financial half-year.

Note 7. Other Liabilities

Refer to Note 5 for information on Other Liabilities held by the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 8. Provisions

As at 31 December 2013, the balance includes a long service leave provision of $324,301 and a restoration provision of $3,160,516. During the financial half-year, a restoration provision had been recognised in respect of the Group's estimated present value of costs relating to future site restoration, removal and rehabilitation activities.

Note 9. Contributed Equity

	Consolidated	
	31 Dec 2013	30 June 2013
(a) Share Capital	$	$
Ordinary shares, fully paid	834,493,064	664,894,335
Total contributed equity	834,493,064	664,894,335

(b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares	$
1 July 2012	Opening balance in previous financial year	221,420,769	664,894,335
30 June 2013	Balance at end of previous financial year	221,420,769	664,894,335
14 August 2013	Share placement	29,700,000	151,470,000
10 September 2013	Share Purchase Plan	4,720,812	24,076,141
	Less: Transaction costs arising on ordinary shares issued during the financial half-year		(5,947,412)
31 December 2013	Balance at end of financial half-year	255,841,581	834,493,064

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 10. Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables, and a financial liability in the previous financial year. The fair values of financial assets and financial liabilities are represented by their carrying values as disclosed in the condensed consolidated statement of financial position.

Note 11. Commitments

	Consolidated	
	31 Dec 2013	**30 June 2013**
	$	$
(a) Capital Expenditure Commitments		
Contracts and/or signed Authorities for Expenditure for capital expenditure in relation to assets not provided for in the condensed consolidated financial statements and payable:		
(i) Drilling operations		
Not later than one year	93,178,613	115,324,838
Total capital expenditure commitments	93,178,613	115,324,838

(b) Exploration Expenditure Commitments		
Some subsidiaries within the Group have commitments for exploration expenditure arising from obligations to governments, to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration permits WA-314-P, WA-315-P, WA-398-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block S-M-1352, Block Z-38 and Block 144 (30 June 2013: WA-314-P, WA-315-P, WA-398-P, WA-482-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38 and Block 144) not provided for in the condensed consolidated financial statements or payable. Included in exploration expenditure commitments are $456,387,953 (30 June 2013: $108,100,000) of commitments that relate to the non-guaranteed work commitments:		
Not later than one year	169,378,739	111,750,473
Later than one year but not later than five years	621,599,732	353,611,540
Total exploration expenditure commitments	790,978,471	465,362,013

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are organised, and are determined in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties.

The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group.

Where exploration and evaluation expenditure included in this category relates to an existing contract for expenditure and/or signed Authorities for Expenditure, the amount will be included in both categories (a) and (b) above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

Note 12. Contingent Liabilities

As at 31 December 2013, the Group had contingent liabilities, in the form of performance guarantees, bank guarantees and bonds, for which there have not been any significant changes from the 30 June 2013 Annual Report other than as discussed below.

On 30 August 2010, Karoon executed a Farm-in Agreement with Petrobras to acquire a 20% equity interest in Blocks S-M-1352 and S-M-1354 in the Santos Basin, off-shore Brazil. This transaction was conditional on obtaining regulatory approval from the ANP for the assignment of the Blocks. As at 30 June 2013, the Group's best estimate of the share of the costs on both Blocks was $49,029,524, representing a contingent liability payable to Petrobras.

During the financial half-year, the final assignment of Block S-M-1352 was approved by the ANP and completed with Petrobras. The Group's share of the costs relating to both Blocks totaling $30,881,947, as well as an uplift fee of $309,599 for a full license to non-exclusive seismic data, payable upon the completion of the farm-in, has therefore been recognised in the condensed consolidated financial statements as at 31 December 2013.

The financial effect of recognising these costs was:

- an increase of capitalised exploration and evaluation expenditure carried forward of $28,360,795; and
- a loss from exploration and evaluation expenditure expensed of $2,521,152 relating to Block S-M-1354, which was relinquished during January 2011.

Under the Farm-in Agreement with Petrobras, the Group's share of the costs incurred on both Blocks was $30,881,947, and is included in trade and other payables in the condensed consolidated statement of financial position as at 31 December 2013.

During the financial half-year the second period work program for Block S-M-1166 in the Santos Basin, Brazil was acknowledged by the ANP as being completed, thereby removing the obligation to the ANP to complete the work. This obligation was disclosed as a contingent liability as at 30 June 2013 for $11,867,812.

Note 13. Subsequent Events

The Interim Financial Report was authorised for issue by the Board of Directors on 13 March 2014. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements.

Since 31 December 2013, the following material events have occurred:

<u>Browse Drilling Campaign</u>

The Grace-1 exploration well in permit WA-314-P spudded during October 2013. Subsequent to the end of the financial half-year, the well was drilled to a total vertical depth of 5,069 metres and was plugged and abandoned. No significant hydrocarbons were encountered.

DIRECTORS' DECLARATION
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2013

The Directors declare that:

1. in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 11 to 23, are in accordance with the *Corporations Act 2001,* including:

   a) complying with Australian Accounting Standard *AASB 134 'Interim Financial Reporting'* and the *Corporations Regulations 2001*; and
   b) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the financial half-year ended on that date; and

2. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This Directors' Declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors:

Mr Robert Hosking
Executive Chairman

14 March 2014
Melbourne

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Independent auditor's review report to the members of Karoon Gas Australia Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Karoon Gas Australia Ltd (the "Company"), which comprises the condensed consolidated statement of financial position as at 31 December 2013, the condensed consolidated statement of profit and loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Karoon Gas Australia Ltd Group (the "consolidated entity"). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Karoon Gas Australia Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Karoon Gas Australia Ltd is not in accordance with the *Corporations Act 2001* including:

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a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
14 March 2014

GLOSSARY

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
ANP	Agencia Nacional do Petróleo.
API	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
ASX	Australian Limited (ACN 008 624 691), trading as Australian Securities Exchange.
Block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 standard cubic feet per barrel and not price equivalence at the time.
BOP	Blowout preventer.
Company	Karoon Gas Australia Ltd.
condensate	Hydrocarbons which are predominantly pentane and heavier compounds which are in a gas phase in the reservoir and which separate out from natural gas at the well head and condense to liquid at lower pressures and temperatures.
ConocoPhillips	ConocoPhillips (Browse Basin) Pty Ltd.
contingent resources	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality). 1C- Denotes low estimate scenario of contingent resources. 2C- Denotes best estimate scenario of contingent resources. 3C- Denotes high estimate scenario of contingent resources.
Director	A Director of Karoon Gas Australia Ltd.
discovery well	The first successful well on a new prospect.
DST	Drill stem test.
exploration	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
farm-in and farm-out	A commercial agreement in which an incoming joint operation participant (the ‘farmee’) earns an interest in an exploration permit by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration permit (the ‘farmor’) pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.
financial half-year	Financial half-year ended 31 December 2013.
GST	Goods and Services Tax in Australia.

GLOSSARY (Continued)

Term	Definition
hydrocarbon	A chemical compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Karoon or Group	Karoon Gas Australia Ltd and its subsidiaries.
lead	A potential hydrocarbon target which has been identified but requires further evaluation before it can be classified as a prospect.
LNG	Liquefied natural gas.
m	Metres.
mm	Million.
mmscf	Millions of standard cubic feet.
mmscf/d	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.
Monte Carlo simulation	Where there is uncertainty in the variables used in the calculation of economically recoverable reserves, the ranges of possible values of each variable can be incorporated in a Monte Carlo simulation calculation to produce a range of probabilistic outcomes that reflect that uncertainty. The 'mean' is the expected outcome. The P10 (probability greater than 10%) is often used as the maximum case, the P50 (probability of 50%) the mid case and the P90 (probability greater than 90%) the minimum case.
mRT	Metres rotary table.
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of Karoon Gas Australia Ltd.
Pacific Rubiales	Pacific Rubiales Energy Corp.
permit	A hydrocarbon tenement, lease, licence, concession or Block.
Petrobras	Petróleo Brasileiro SA.
play	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
prospective resource	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Low estimate (P90): P90 refers to a 90% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. Median estimate (P50): P50 refers to a 50% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded. High estimate (P10): P10 refers to a 10% chance that an estimated quantity, such as a prospective resources volume or associated quantity, will be equalled or exceeded.

GLOSSARY (Continued)

Term	Definition
psia	Pounds per square inch absolute.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths to form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
SPE PRMS standards	Society of Petroleum Engineers Petroleum Resource Management System Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet to be discovered accumulations, resource evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resource management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.
spud	To start drilling a new well.
TCF	Trillion cubic feet (1,000,000,000,000 cubic feet).
trap	A formation in the earth's subsurface which prevents the onward migration of hydrocarbons.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD	United States dollars.