



SEPTEMBER 2013 QUARTERLY REPORT AND APPENDIX 5B

Highlights:

Group Operations

- Kangaroo oil discovery, Santos Basin, Brazil preliminary contingent resource upgraded to 11 mmbbls (1C), 135 mmbbls (2C) and 487 mmbbls (3C).
- Pre-FEED studies on Kangaroo oil discovery commenced by Worley Parsons.
- Submitted the Discovery Appraisal Plan application to the Agencia Nacional do Petróleo ('ANP') to approve the next drilling campaign in the Santos Basin. Long lead items are currently being delivered for this campaign.
- Discovery at Proteus-1 exploration well, Browse Basin, Australia encountered good quality gas bearing sands in the Jurassic aged section. Flow tested at a constrained maximum flow rate of 7.3 mmscf/d through a 16/64 inch choke at a well head pressure of 4,457 psia and an associated condensate rate range of 19-22 bbls/mmscf. The condensate rate is the highest so far recorded in the Greater Poseidon area.
- Completed the 2,386 square kilometre Chrysalids marine 3D seismic survey over the western section of exploration permit WA-482-P.
- Commenced and completed the 318 square kilometre Kraken marine 3D seismic survey over the Elvie lead in exploration permit WA-314-P.
- Internal prospect evaluation in Block Z-38, Tumbes Basin, Peru completed and preliminary drill locations are being selected. Long lead items delivered for the exploration drilling campaign.

Corporate Activity

- Raised gross proceeds of \$175.5 million via an institutional investor placement and a Share Purchase Plan to retail investors.
- Cash balance as at 30 September 2013 was \$270.5 million.
- Farm-out programs remain ongoing.

Operational Summary

Australia

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

Karoon acquired a 100% interest in exploration permits WA-314-P and WA-315-P in the Browse Basin during 2005. Karoon signed agreements during 2006 to farm-out a 60% interest to ConocoPhillips to retain a 40% interest. The Karoon/ConocoPhillips joint operation added 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

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 is the highest yet recorded and the CO₂ level was among the lowest level found to date in the Greater Poseidon area.

Based on the analysis of the well test data, Karoon believes that future production wells drilled adjacent to the Proteus-1 location have the potential to flow at commercial rates in excess of 100 mmscf/d.

Proteus-1 is located on a large tilted fault block approximately 14 kilometres south-east of the Poseidon-1 gas discovery location.

Following the Proteus-1 well, the 'Transocean Legend' was towed to the Grace-1 exploration well location in exploration permit WA-314-P. The Grace-1 exploration well is the fourth in the Phase 2 Browse drilling campaign.

Subsequent to the end of the quarter, the Grace-1 exploration well was spudded on 3 October 2013. The well was then drilled to a depth of 2,966 metres and the 13 3/8 inch casing was set at 2,767 metres. The 12 1/4 inch hole section was then reamed through and drilling continued to a depth of 3,311 metres as of 5pm AEST yesterday.

The Phase 2 Browse drilling campaign, comprising 6 wells with a remaining option for an additional well, is expected to continue until calendar year end 2014. The 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 Acquisition

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 during the next few months.

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

3D Seismic Acquisition

Karoon completed a 2,386 square kilometre Chrysalids marine 3D seismic survey over the western section of the North Carnarvon Basin exploration permit WA-482-P 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, which are being reprocessed.

Processing and initial interpretation is underway and preliminary results are expected during the next few months.

The WA-482-P permit is currently in the first year of a three year initial term and the seismic evaluation work will prepare Karoon for a drilling decision required before the third permit year.

Equity Interest

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

Karoon Gas Browse Basin Pty Ltd	100%*
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* Subject to completion of first and second permit year work program commitments and obtaining regulatory approval. 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 due.

Brazil

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. Karoon signed agreements during September 2012 to farm-out a 35% interest to Pacific Rubiales Energy Corp. ('Pacific Rubiales'). The blocks, S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') cover a total of 865 square kilometres, with an average water depth of approximately 400 metres.

During August 2010, Karoon signed an agreement to acquire a 20% participation in Block S-M-1352; subject to ANP approval, with the remaining 80% interest to be owned by Petróleo Brasileiro S.A. ('Petrobras').

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

Following the preliminary contingent resource announcement for the Kangaroo oil discovery on 11 April 2013, Karoon received new core analysis and reservoir fluid data during the quarter 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 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.

Due to the contingent resource size, oil and reservoir quality and production potential of the Kangaroo oil discovery, Karoon has prioritised the appraisal and commercial assessment of the asset. In order to fast track any future development, Karoon commenced pre-Front End Engineering and Design ('FEED') studies during September 2013, which will be run in parallel with the 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 Energy Corp.	35%*

* Subsequent to the end of the quarter, Pacific Rubiales received ANP approval for the assignment of a 35% participating interest in Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165.

Note: ANP is yet to approve the final assignment of Block S-M-1166. Pacific Rubiales exercised an option under the farm-out agreement to acquire a 35% participating interest in this Block. Karoon anticipates that ANP approval to complete the transfer will be forthcoming in the near future.

Santos Basin Block S-M-1352

The Operator, Petrobras, is currently continuing its technical and commercial assessment of the Maruja discovery while working with the ANP on the future of the field.

Equity Interests

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

Karoon Petróleo & Gas Ltda	20%*
Petróleo Brasileiro S.A. (Operator)	80%

* Subsequent to the end of the quarter, discussions between the ANP and Petrobras regarding Block S-M-1352 were completed. Consequently, Karoon has been approved for the assignment of a 20% participating interest in this Block.

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.

Planning is progressing for a minimum 2 well exploration drilling campaign, to satisfy work commitments and 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 and the preliminary drill locations for the first 2 exploration wells are being selected.

Drill Planning

Regulatory approval for the Environmental Impact Assessment study to drill up to 10 exploration and up to 10 appraisal wells was received last quarter and long lead items have been delivered.

Following the completion of the prospect evaluation, the Marina and Bonito prospects have been selected for the first 2 exploration wells.

The Phase 1 drilling campaign is expected to commence during calendar year 2014 and discussions are underway to partially farm-out Karoon's 75% equity interest in the Block.

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 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.

During the quarter, Karoon continued its geotechnical, social and environmental work in the Block including the interpretation of 1,000 kilometres of existing 2D seismic data and offset well information in preparation for stratigraphic studies of the region.

Seismic Reprocessing and Interpretation

Continuing geophysical interpretation, using the reprocessed data, has identified the presence of multiple four-way dip closed structures in the eastern portion of the Block, in addition to the closure in the southern part of the Block.

Karoon is continuing the Environmental Impact Assessment studies for acquiring 300 kilometres of 2D seismic. The planned survey is to be concentrated on the prospects in the eastern part of the Block.

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

Equity Interest

Karoon has a 100% equity interest in Peru Block 144.

Corporate Summary

Capital Raising

On 7 August 2013, Karoon announced a capital raising via an institutional investor placement and 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.

Farm-out Status

During the quarter, Karoon continued to work with interested parties for the farm-out of its equity interests in the Browse Basin, Santos Basin and Tumbes Basin. Strong interest remains across the data room processes. Karoon remains committed to and confident of completing the processes in an expedient and successful manner.



ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2013

Appendix 5B (Unaudited)

Introduced 1/7/96. Origin: Appendix 8. Amended 1/07/97, 1/07/98, 30/09/01, 01/06/10, 17/12/10, 1/05/13.

Name of entity

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ('Current Quarter')

30 September 2013

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for:		
(a) exploration and evaluation	(106,146)	(106,146)
(b) development	-	-
(c) production	-	-
(d) administration	(4,048)	(4,048)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1,183	1,183
1.5 Interest and other costs of finance paid	(117)	(117)
1.6 Income taxes (paid)/ refund	(52)	(52)
1.7 Other – GST/VAT refunds/ (payments)	(1,753)	(1,753)
Net operating cash flows	(110,933)	(110,933)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	(82)	(82)
(b) security deposits (net)	15,443	15,443
(c) other fixed assets	(832)	(832)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (Brazilian farm-out including repayment of share of security deposits)	(8,859)	(8,859)
Net investing cash flows	5,670	5,670
1.13 Total operating and investing cash flows (carried forward)	(105,263)	(105,263)

	Current Quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(105,263)	(105,263)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	175,546	175,546
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	(4,758)	(4,758)
Net financing cash flows	170,788	170,788
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	204,520	204,520
1.21 Exchange rate adjustments to item 1.20	460	460
1.22 Cash as at end of Current Quarter	207,505	270,505

Payments to directors of the entity and associates of the directors, related entities of the entity and associates of the related entities

	Current Quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	522
1.24 Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors' remuneration included in 1.23: \$431,679
Consulting fees included in 1.23: \$90,033

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for the next quarter

	\$A'000
4.1 Exploration and evaluation expenditure	87,492
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	5,415
Total	92,907

Reconciliation of cash

Reconciliation of cash as at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows		Current Quarter \$A'000	Previous quarter \$A'000
5.1	Cash at banks and on hand	86,949	111,223
5.2	Short term bank deposits	183,556	93,297
5.3	Bank overdraft	-	-
5.4	Other	-	-
	Total: Cash as at end of Current Quarter (item 1.22)	270,505	204,520

Changes in interests in petroleum tenements

	Petroleum tenement reference	Nature of interest (note (2))	Interest as at beginning of Current Quarter	Interest as at end of Current Quarter
6.1	Interests in petroleum tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in petroleum tenements acquired or increased	-	-	-

Issued and quoted securities as at end of Current Quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid-up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 Ordinary shares (fully paid)	255,841,581	255,841,581		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	34,420,812	34,420,812		
7.5 Convertible debt securities <i>(description)</i>				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options and Performance Rights <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	<u>Options</u>			
	1,530,000		1407 cents	12 November 2013
	1,500,000		1150 cents	18 November 2013
	1,005,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
	2,060,000		730 cents	31 October 2015
	850,000		892 cents	1 May 2014
	1,200,000		995 cents	1 May 2015
	2,600,000		1098 cents	1 May 2016
	1,424,698		685 cents	29 November 2016
	<u>Performance Rights ('PER')</u>			
	256,368		zero	29 November 2015
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter	<u>Options</u>			
	50,000		730 cents	
	14,301		685 cents	
	<u>PER</u>			
	3,101		zero	
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

- A. This statement has been prepared under accounting policies which comply with accounting standards as defined in the *Corporations Act 2001* or other standards acceptable to ASX (see note 5).
- B. This statement does give a true and fair view of the matters disclosed.

Signed: Date: 31 October 2013
(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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint operating agreement and there are conditions precedent which will change its percentage interest in a petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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Appendix 1

Schedule of Interests in Petroleum Tenements

Held by the Karoon Gas Australia Ltd Group

As at 30 September 2013

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	ConocoPhillips	90 (1)
WA-315-P	Browse, Australia	ConocoPhillips	40 (1)
WA-398-P	Browse, Australia	ConocoPhillips	40
WA-482-P	North Carnarvon, Australia	Karoon	100 (2)
Block S-M-1037	Santos, Brazil	Karoon	65 (3)
Block S-M-1101	Santos, Brazil	Karoon	65 (3)
Block S-M-1102	Santos, Brazil	Karoon	65 (3)
Block S-M-1165	Santos, Brazil	Karoon	65 (3)
Block S-M-1166	Santos, Brazil	Karoon	65 (3)
Block S-M-1352	Santos, Brazil	Petrobras	20 (4)
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (5)

- (1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (2) Subject to completion of first and second year work program commitments and obtaining regulatory approval. 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 due. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (3) Subsequent to the end of the quarter, Pacific Rubiales received ANP approval for the assignment of a 35% participating interest in Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165. Note: ANP is yet to approve the final assignment of Block S-M-1166. Pacific Rubiales exercised an option under the farm-out agreement to acquire a 35% participating interest in this Block. Karoon anticipates that ANP approval to complete the transfer will be forthcoming in the near future.
- (4) Subsequent to the end of the quarter, discussions between the ANP and Petrobras regarding Block S-M-1352 were completed. Consequently, Karoon has been approved for the assignment of a 20% participating interest in this Block.
- (5) The Group's 75% Block equity interest is subject to completion of farm-in obligations.