



DECEMBER 2013 QUARTERLY REPORT AND APPENDIX 5B

Highlights:

Group Operations

- The Discovery Appraisal Plan application for a Phase 2 drilling campaign in Santos 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 announced during September 2012, Karoon received notification from the ANP that the assignment of Blocks S-M-1037, 1101, 1102 and 1165 was approved. The transfer of a 35% interest in these blocks is now complete.
- 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.
- The Grace-1 exploration well in permit WA-314-P spudded during October 2013. Subsequent to the end of the quarter, the well was drilled to a total vertical depth of 5,069 metres and is in the process of being plugged and abandoned. No significant hydrocarbons were encountered.
- The location for the fifth well in the Browse Basin Phase 2 drilling program, Poseidon North-1, received joint operation approval.

Corporate Activity

- During the quarter, 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.

Operational Summary

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 October 2013, the fourth well in the Browse Basin Phase 2 drilling campaign, the Grace-1 exploration well, was spudded. The well is located in WA-314-P.

As at the end of the quarter, the well was drilled to a depth of 4,767 metres. Subsequently the Grace-1 exploration well 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 the Grace-1 well is in the process of being plugged and abandoned.

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.

Poseidon North-1, the fifth well location in the Browse Basin Phase 2 drilling program received joint operation approval during the quarter. Poseidon North-1 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 secondary target is the Montara formation.

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 September quarter 2013, 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.

Equity Interests

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

Karoon	40%
ConocoPhillips (Operator)	40%
Chinese National Petroleum Corporation	20%

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

Karoon	90%
ConocoPhillips (Operator)	10%

Carnarvon Basin Permit WA-482-P

3D Seismic Processing and Interpretation

During the September quarter 2013, Karoon completed the 2,386 square kilometre Chrysalids marine 3D seismic survey over the western section of the Carnarvon Basin exploration permit WA-482-P using the CGG Veritas vessel, the 'Geo Caspian'.

During the quarter, processing and interpretation of the new seismic was on-going.

Subsequent to the end of the quarter, 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 in the permit to date.

Equity Interest

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

Karoon (Operator)	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.

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. 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.

Karoon signed agreements during September 2012 to farm-out a 35% interest to Pacific Rubiales Energy Corp. ('Pacific Rubiales').

During August 2010, Karoon signed a farm-in agreement to acquire a 20% participation in Block S-M-1352, with the remaining 80% interest held 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

Subsequent to the farm-out deal of the Blocks to Pacific Rubiales, Karoon received regulatory notification from the ANP during the quarter that the assignment of Blocks S-M-1037, 1101, 1102 and 1165 was approved. The transfer of a 35% interest in the Blocks is now complete.

Pursuant to the terms of the transaction, specifically the option over Block S-M-1166 (exercised during March 2013), the approval for the assignment of Block S-M-1166 to Pacific Rubiales remains outstanding. Karoon has no reason to believe that regulatory approval will not be forthcoming and approval is expected in the near future.

During the quarter, Karoon received written notification from the ANP that the Discovery Appraisal Plan (Plano de Avaliação de Descobertas or the 'PAD') for the Blocks was received. The PAD governs the next stage of the Concession Agreements and outlines the forward appraisal work program commitments on the Blocks.

Karoon has committed to drilling 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.

As previously announced, 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 September quarter 2013 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.

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 (Operator)	65%
Pacific Rubiales	35%*

* Final ANP approval for the assignment of Block S-M-1166 is now in its final stages.

Santos Basin Block S-M-1352

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 quarter 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	20%
Petrobras (Operator)	80%

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.

Drill Planning

Pre-drill planning was on-going through the quarter and final drill locations assessment is nearing completion. The Tumbes Basin Phase 1 drilling campaign is expected to commence during the second half of calendar year 2014.

Subsequent to the end of the quarter, Karoon appointed a global investment bank to manage a formal farm-out process. Discussions to sell down part of Karoon's 75% equity interest in the Block remain on-going.

Equity Interests

Equity interests in Block Z-38 are:

Karoon (Operator)	75%*
Pitkin Petroleum	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

Geological and geophysical studies, using the reprocessed data, were on-going through the quarter.

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

Equity interest of the participant in Block 144 is:

Karoon (Operator)	100%
-------------------	------

Corporate Activity

Farm-out Status

During the quarter, 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.

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 to complete a deal in the near term.

Subsequent to the end of the quarter, Karoon engaged a global investment bank to formally manage the farm-out process over Block Z-38 in the Tumbes Basin, Peru.

Karoon remains committed to and confident of completing the processes in a timely and successful manner.



**ASX QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 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')

31 December 2013

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	750	750
1.2 Payments for:		
(a) exploration and evaluation	(88,784)	(194,931)
(b) development	-	-
(c) production	-	-
(d) administration	(7,456)	(11,505)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	969	2,151
1.5 Interest and other costs of finance paid	(24)	(140)
1.6 Income taxes (paid)/ refund	-	(52)
1.7 Other – GST/VAT refunds/ (payments)	4,670	2,917
Net operating cash flows	(89,875)	(200,810)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	(82)
(b) security deposits (net)	27	15,470
(c) other fixed assets	(752)	(1,585)
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)	1,532	(7,328)
Net investing cash flows	807	6,475
1.13 Total operating and investing cash flows (carried forward)	(89,068)	(194,335)

	Current Quarter \$A'000	Year to date (6 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(89,068)	(194,335)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	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	(1,189)	(5,947)
Net financing cash flows	(1,189)	169,599
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	(90,257) 270,505	(24,736) 204,520
1.21 Exchange rate adjustments to item 1.20	282	746
1.22 Cash as at end of Current Quarter	180,530	180,530

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	574
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: \$452,597
Consulting fees included in 1.23: \$121,633

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	95,900
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	3,700
Total	99,600

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	51,107	86,949
5.2	Short term bank deposits	129,423	183,556
5.3	Bank overdraft	-	-
5.4	Other	-	-
	Total: Cash as at end of Current Quarter (item 1.22)	180,530	270,505

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	Block S-M-1352, Brazil	-	20%

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				
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>			
	925,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
	1,960,000		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
	1,357,364		685 cents	29 November 2016
	985,826		674 cents	30 June 2017
	<u>Performance Rights ('PER')</u>			
	241,769		Zero	29 November 2015
	435,818		Zero	30 June 2016
7.8 Issued during Current Quarter	<u>Options</u>			
	985,826		674 cents	30 June 2017
	<u>PER</u>			
	435,818		zero	30 June 2016
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter	<u>Options</u>			
	1,530,000		1407 cents	
	1,500,000		1150 cents	
	80,000		977 cents	
	100,000		730 cents	
	67,334		685 cents	
	<u>PER</u>			
	14,599		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 January 2014
(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.

== == == == ==

Appendix 1

Schedule of Interests in Petroleum Tenements

Held by the Karoon Gas Australia Ltd Group

As at 31 December 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
Block S-M-1101	Santos, Brazil	Karoon	65
Block S-M-1102	Santos, Brazil	Karoon	65
Block S-M-1165	Santos, Brazil	Karoon	65
Block S-M-1166	Santos, Brazil	Karoon	65 ⁽³⁾
Block S-M-1352	Santos, Brazil	Petrobras	20
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 ⁽⁴⁾

- (1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (2) 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 due. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (3) ANP is yet to approve the final assignment of Block S-M-1066. During March 2013, Pacific Rubiales exercised an option under the farm-out agreement to acquire a 35% participating interest in this Block.
The Group's 75% Block