



SEPTEMBER 2014 QUARTERLY REPORT AND APPENDIX 5B

Corporate Activity Highlights

- During August 2014, the divestment of Karoon's 40% interest in exploration permits WA-315-P and WA-398-P to Origin was completed and \$655 million received.
- During August 2014, an on-market share buy-back was announced for up to 25,112,076 ordinary shares, or a maximum of 10% of ordinary shares on issue. As at 30 October 2014, a total of 8,170,182 ordinary shares had been purchased through the share buy-back at an average price of \$3.32 per share.
- During September 2014, Karoon announced that it would be separating the roles of the Executive Chairman and the Chief Executive Officer ('CEO') upon the appointment of an independent Non-Executive Chairperson. A new Chairperson is expected to be selected and in place by the end of calendar year 2014, at which time Mr Robert Hosking will assume the role of Managing Director.
- On 27 October 2014, Karoon held its Annual General Meeting. All resolutions were voted in accordance with Board recommendations and no second strike on the Remuneration Report was received.

Group Operational Highlights

- During the quarter, the 'Olinda Star' semi-submersible drilling rig was contracted for up to four wells in the Santos Basin, Brazil. The 'Olinda Star' was received during October 2014, with the Kangaroo-2 appraisal well expected to spud during early November 2014.
- The Levitt-1 exploration well location was selected in exploration permit WA-482-P, Carnarvon Basin. The exploration well is expected to be drilled during the first half of calendar year 2015.

Operational Summary

Australia

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 in the Carnarvon Basin. The permit is located 300 kilometres offshore from the north Western Australian Coast in water depths ranging from 400 to 2,000 metres. The permit covers an area of 13,539 square kilometres.

Following the successful farm-out of a 50% interest in WA-482-P to Apache during the June 2014 quarter, the transfer was approved by the regulator and Apache was registered on title and assumed Operatorship of the permit during July 2014.

3D Seismic Processing and Interpretation

During the quarter, processing and interpretation of the Chrysalids marine 3D seismic survey data was ongoing. Pre-stack depth migration processing is also ongoing. Receipt of the final 3D data is expected during the December 2014 quarter.

Drill Planning

During the quarter, the Levitt-1 exploration well location was selected and approved by the joint operation as the first exploration well expected to be drilled during the first half of calendar year 2015.

The Levitt exploration well location has been selected as the best position to confirm hydrocarbon migration from the Early Jurassic source and is targeting the North Rankin and Legendre formation reservoirs.

The Levitt prospect has a net unrisked prospective resource best estimate of 110 mmbbls¹.

Equity Interests

Equity interests of the participants in WA-482-P are:

Karoon	50%
Apache (Operator)	50%

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

Permits WA-315-P and WA-398-P

During July 2014, the Pharos-1 exploration well in WA-398-P was drilled to a total depth of 5,220 mRT. Karoon's assessment showed a hydrocarbon bearing column being intersected. With Karoon divesting its interest in the permit, and no longer being on title, no further testing information will be made available.

During August 2014, Karoon received \$655 million from Origin thereby completing the divestment of the Company's 40% equity interest in exploration permits WA-315-P and WA-398-P.

Pursuant to the terms of the Sale and Purchase Agreement with Origin, outstanding deferred milestone payments of US\$75 million due at Final Investment Decision ('FID'), US\$75 million due at first production and a resource step-up payment of up to US\$50 million payable on first production remain contingent.

As a result of the divestures, Karoon has no remaining equity interest in exploration permits WA-315-P and WA-398-P.

¹ Refer to the Prospective Resource Statement on page 5
Karoon Gas Australia Ltd

Permit WA-314-P

During the quarter, Karoon assumed ConocoPhillips' 10% interest in exploration permit WA-314-P following notification of ConocoPhillips' intention to withdraw from the permit. This increased Karoon's equity interest in the permit to 100%.

The transfer was approved by the regulator during July 2014 and Karoon was approved Operator of the permit shortly thereafter.

An application to the regulator for a variation to the permit term's Year 6 work program was approved during the quarter. A Year 6 well commitment was replaced with geological and geophysical work.

3D Seismic Processing and Interpretation

During the quarter, processing of the Kraken marine 3D seismic data over the Elvie lead continued. Subsequent to the end of the quarter, the processed 3D seismic data was received and is currently being interpreted.

Equity Interest

Equity interest of the participant in WA-314-P is:

Karoon (Operator)	100%
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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 five offshore exploration blocks in the Santos Basin, located approximately 112 kilometres off the coast of the State of Santa Catarina, Brazil in an average water depth of approximately 400 metres.

Consistent with Karoon's corporate strategy, during September 2012 Karoon farmed out a 35% interest in the Blocks to Pacific Rubiales Energy Corp ('Pacific Rubiales').

Following the approval of a Discovery Appraisal Plan by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP'), the revised area of the Blocks covers approximately 549 square kilometres.

3D Seismic Processing and Interpretation

Seismic processing, interpretation and quantitative interpretation studies remain ongoing in the lead up to the commencement of the Santos Basin Phase 2 drilling campaign.

Drill Planning

During the quarter, Karoon contracted the 'Olinda Star' semi-submersible drilling rig for the upcoming appraisal and exploration drilling campaign in the Santos Basin. The contract allows for up to four wells, consisting of a Kangaroo-2 appraisal well and a Kangaroo West-1 exploration well as firm locations followed by two optional wells.

During the quarter, drill preparation activities included the mobilisation of personnel, work boats, helicopters and other associated support functions. Drilling is expected to commence during early November 2014.

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:

Karooon (Operator)	65%
Pacific Rubiales	35%

Santos Basin Block S-M-1352

During August 2010, Karooon 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').

The Operator, Petrobras, is continuing its technical and commercial assessment of the Bauna Sul (formerly named Maruja) oil discovery and working on a Development Plan.

Equity Interests

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

Karooon	20%
Petrobras (Operator)	80%

Peru

Tumbes Basin Block Z-38

During January 2008, Karooon farmed-in for 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. Karooon was approved as Operator during October 2009 and subsequently increased its equity interest to 75%, subject to completion of final farm-in obligations.

During the quarter, Block Z-38 was placed into force majeure, effective 1 September 2013. As a result, the third period term has approximately 22 months remaining once force majeure is lifted.

Drill Planning

Pre-drill planning was ongoing through the quarter in preparation for the Tumbes Basin Phase 1 exploration drilling campaign. A minimum of two wells are planned for the campaign, expected late in calendar year 2015.

Equity Interests

Equity interests in Block Z-38 are:

Karooon (Operator)	75%*
Pitkin Petroleum	25%

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

Marañón Basin 144

During April 2009, Karooon was awarded Block 144, in the onshore Marañón Basin, on the eastern side of the Andes mountain range.

During the quarter, Karoon continued its geotechnical, social and environmental work in the Block.

The Block is currently in force majeure while government introductions to the indigenous communities are completed. Block work program commitments will resume once force majeure is lifted.

Equity Interest

Equity interest of the participant in Block 144 is:

Karoon (Operator)	100%
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Corporate Activity Summary

Board Restructure Update

During the quarter, Karoon announced the Company would appoint a new independent Non-Executive Chairperson, separating the dual function Executive Chairman/CEO role. Effective on the appointment of a new Chairperson, Karoon's Executive Chairman Mr Robert Hosking will assume the role of Managing Director.

The process is being managed by the Board's Nomination Committee, with executive search firm Heidrick and Struggles searching and advising on suitable candidates.

Subsequent to the end of the quarter, Karoon announced the process was well advanced and interviews had commenced. The Board of Directors expects to have the new independent Non-Executive Chairperson appointed by the end of calendar year 2014.

Farm-out Status Update

Consistent with Karoon's corporate strategy, Karoon remains in farm-out discussions with a number of interested parties on the Santos Basin and Tumbes Basin assets. In addition, the farm-out process over Block 144, Marañón Basin commenced during the quarter with several companies looking to expand their presence in the area.

The farm-out program for WA-314-P is scheduled to resume in the coming months.

Prospective Resource Statement

WA-482-P prospective resource volume estimates have been independently assessed by DeGolyer and MacNaughton and disclosed in Karoon's 30 April 2014 ASX announcement 'Independently Certified Net Un-risked Prospective Resource, Australia and Peru, Best Case Net to Karoon 4.5 Tcf Wet Gas and 4.2 Bn bbls Oil'.

Karoon is not aware of any new information or data that materially affects the resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. There is no certainty that any portion of the prospective resource estimated on behalf of Karoon will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resource evaluated.



ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2014

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

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ('Current Quarter')

30 September 2014

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	44	44
1.2 Payments for:		
(a) exploration and evaluation	(20,434)	(20,434)
(b) development	-	-
(c) production	-	-
(d) administration	(6,490)	(6,490)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	261	261
1.5 Interest and other costs of finance paid	(408)	(408)
1.6 Income taxes (paid)/ refund	347	347
1.7 Other – GST/VAT refunds/ (payments)	493	493
Net operating cash flows	(26,187)	(26,187)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	6	6
(c) other fixed assets	(240)	(240)
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 (disposal of WA-315-P and WA-398-P exploration permits to Origin Energy)	654,698	654,698
Net investing cash flows	654,464	654,464
1.13 Total operating and investing cash flows (carried forward)	628,277	628,277

	Current Quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	628,277	628,277
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	(6,968)	(6,968)
1.16 Proceeds from borrowings	21,450	21,450
1.17 Repayment of borrowings	(21,552)	(21,552)
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	-	-
Net financing cash flows	(7,070)	(7,070)
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	39,013	39,013
1.21 Exchange rate adjustments to item 1.20	38,903	38,903
1.22 Cash as at end of Current Quarter	699,123	699,123

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	556
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: \$486,404
Consulting fees included in 1.23: \$69,215

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	50,500
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,500
Total	55,000

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	693,052	35,117
5.2 Short-term bank deposits	6,071	3,896
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)	699,123	39,013

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	WA-315-P and WA-398-P Browse Basin, Australia	Exploration permits	40%	-
6.2 Interests in petroleum tenements acquired or increased	-	-	-	-

(1) The transfer of the 40% interest from Karoon to Origin Energy was approved by the regulator during August 2014. Refer ASX releases dated 2 June 2014, 1 July 2014 and 12 August 2014.

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)	254,109,273	254,109,273		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	167,892 (1,900,200)	167,892 (1,900,200)		
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>	<u>Options</u> 825,000 100,000 500,000 1,860,000 1,200,000 400,000 1,292,251 936,066 1,734,755 <u>Performance Rights ('PER')</u> 73,877 274,432		<i>Exercise price</i> 977 cents 977 cents 948 cents 730 cents 995 cents 1098 cents 685 cents 674 cents 406 cents Zero Zero	<i>Expiry date</i> 31 October 2014 18 November 2014 18 November 2014 31 October 2015 1 May 2015 1 May 2016 29 November 2016 30 June 2017 30 June 2018 29 November 2015 30 June 2016
7.8 Issued during Current Quarter	<u>Options</u> 1,734,755		406 cents	
7.9 Exercised during Current Quarter	<u>PER</u> 167,892		Zero	
7.10 Expired/cancelled during Current Quarter	<u>Options</u> 29,036 65,113 100,000 100,000 <u>PER</u> 152,224		674 cents 685 cents 977 cents 730 cents 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 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.

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Appendix 1

Schedule of Interests in Petroleum Tenements

Held by the Karoon Gas Australia Ltd Group

As at 30 September 2014

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	Karoon	100 ⁽¹⁾
WA-482-P	Carnarvon, Australia	Apache	50 ⁽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
Block S-M-1352	Santos, Brazil	Petrobras	20
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 ⁽³⁾

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