



KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

INTERIM FINANCIAL REPORT
FOR THE FINANCIAL HALF-YEAR ENDED
31 DECEMBER 2014

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DIRECTORS' REPORT FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

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 2014 (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:

Dr. David Klingner – Independent Non-Executive Chairman (appointed 19 December 2014);
Mr Robert M. Hosking – Managing Director;
Mr Mark A. Smith – Executive Director;
Mr Geoff Atkins – Independent Non-Executive Director;
Mr Clark Davey – Independent Non-Executive Director;
Mr Peter Turnbull – Independent Non-Executive Director;
Mr Bernard Wheelahan – Independent Non-Executive Director; and
Mr Jose Coutinho Barbosa – Non-Executive Director.

Highlights - Group Operations

- During the financial half-year, Karoon commenced an appraisal and exploration drilling campaign for up to 4 wells in the Santos Basin, off-shore Brazil, with the Kangaroo-2 appraisal well spudding during November 2014.
- Kangaroo-2 confirmed a 250 metre gross (135 metre net) oil-bearing reservoir section in Paleocene and Maastrichtian aged reservoir, approximately 300 metres up-dip and 4 kilometres from the Kangaroo-1 discovery well location.
- Oil production capability was proven with successful production tests at Kangaroo-2 completed over the Paleocene and Maastrichtian aged reservoirs.
- Subsequent to the end of the financial half-year a Kangaroo-2 side-track program at both a down dip and up-dip location were successfully completed. The down-dip side-track intersected a 50 metre gross (36% net to gross) oil column in the Maastrichtian aged reservoir section and the up-dip side-track intersected a 37 metre gross (60% net to gross) oil column in the Paleocene aged reservoir section.
- The Levitt-1 exploration well location was selected in Carnarvon Basin exploration permit WA-482-P. The exploration well is expected to be drilled during the June 2015 quarter.

Highlights - Corporate Activity

- During August 2014, the divestment of Karoon's 40% equity interest in exploration permits WA-315-P and WA-398-P to Origin Energy Browse Pty Ltd ('Origin') was completed and net proceeds of \$655 million received.
- Dr. David Klingner was appointed Karoon's new Independent Non-Executive Chairman, effective 19 December 2014. On the appointment of Dr Klingner, Mr Robert Hosking stepped down as Executive Chairman and assumed the role of Managing Director.
- 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 31 December 2014, a total of 9,396,922 ordinary shares had been purchased and cancelled through the Company's on-market share buy-back at an average price of \$3.27 per share. The buy-back was suspended upon commencement of the Santos Basin second phase drilling campaign.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014****Financial Results**

The consolidated result of the Group for the financial half-year was a profit after tax expense of \$209,111,484 (2013: loss of \$8,089,498).

The profit for the financial half-year included a \$276,446,665 gain on divestiture of exploration permits WA-315-P and WA-398-P to Origin; interest income of \$936,234 (2013: \$4,249,958) earned on interest bearing cash assets and security deposits; and net foreign currency gains of \$83,484,258 (2013: \$2,098,383) 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:USD0.9420 as at 30 June 2014 to AUD1:USD0.8202 as at 31 December 2014) on cash assets and security deposits held in United States dollars.

Partially offsetting the profit for the financial half-year was an impairment loss on the carrying amount of capitalised exploration expenditure for Block S-M-1352 in Brazil of \$32,494,689 (2013: \$Nil), net employee benefits expense of \$4,731,098 (2013: \$6,179,817), which included share-based payments expense of \$987,330 (2013: \$2,366,154) from the issue of employee share options and performance right incentives, which remain subject to the satisfaction of vesting conditions; and finance costs of \$2,991,723 (2013: \$140,002) predominantly associated with a short-term 'bridge' loan facility with the National Australia Bank Limited. The financial half-year also included exploration and evaluation expenditure expensed, in accordance with the Group's accounting policy, of \$641,621 (2013: \$2,878,301) from reviewing new exploration ventures predominantly in Australia and Brazil.

Financial Position

At the end of December 2014, the Group had a cash and cash equivalents balance of \$680,092,710 (30 June 2014: \$39,013,343) and no debt. Included in this balance were short-term bank deposits of \$6,435,745 (30 June 2014: \$3,896,532) and the Group's share of joint operation cash balances of \$98,401 (30 June 2014: \$2,039,720).

The Group's working capital, being current assets less current liabilities, increased from \$416,963,558 as at 30 June 2014 to \$621,624,499 as at 31 December 2014 predominantly as a result of the divestment of the Company's 40% equity interest in exploration permits WA-315-P and WA-398-P; partially offset by expenditure on exploration and evaluation assets and the Company's on-market share buy-back.

During the financial half-year, total assets increased from \$800,312,561 to \$1,096,851,331, total liabilities increased from \$33,838,630 to \$147,708,902 and total equity decreased by \$30,716,686 to \$805,529,759. The major changes in the condensed consolidated statement of financial position were largely due to the following:

- divestment of Karoon's 40% equity interest in exploration permits WA-315-P and WA-398-P to Origin;
- the Company's on-market share buy-back;
- exploration and evaluation expenditure in Australia, Brazil and Peru;
- impairment of capitalised exploration and evaluation expenditure for Block S-M-1352 in Brazil; and
- the positive movement in the foreign currency translation reserve as a result of the appreciation of the United States dollar against the Australian dollar from AUD1:USD0.9420 as at 30 June 2014 to AUD1:USD0.8202 as at 31 December 2014; partially offset by the adverse movement in the foreign currency translation reserve as a result of the depreciation of the Brazilian REAL against the Australian dollar from AUD1:REAL2.076 as at 30 June 2014 to AUD1:REAL2.176 as at 31 December 2014.

During August 2014, Karoon received net proceeds of \$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. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014. The disposal date is the same as the date of completion, being 31 July 2014.

The contributed equity of the Company decreased by \$30,716,686 during the financial half-year through an on-market share buy-back. The share buy-back commenced on 3 September 2014. The buy-back was suspended upon commencement of the Santos Basin second phase drilling campaign. The Board continues to assess the merits of the Company's capital management initiative as market conditions evolve.

DIRECTORS' REPORT (Continued) FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

Financial Position (continued)

Exploration and evaluation expenditure of \$89,487,688 was incurred during the financial half-year, with major expenditure in the following operating segments:

- Australia, the Group continued processing and interpretation of the Kraken 3D marine survey over the Elvie lead in exploration permit WA-314-P and the Chrysalids marine 3D survey over the western section of the Carnarvon Basin in exploration permit WA-482-P, and preparatory work and planning for the Levitt-1 exploration well to be operated by Apache in exploration permit WA-482-P at a total cost of \$1,429,423;
- Brazil, the Group completed the Kangaroo-2 appraisal well (vertical well) drilling and undertook preparatory work for the anticipated Kangaroo West-1 exploration well campaign, along with seismic processing and interpretation, at a total cost of \$84,484,539; and
- Peru, the Group undertook preparatory work and planning for the Tumbes Basin Phase 1 exploration drilling campaign, along with geotechnical, social and environmental work in the Marañón Basin Block 144, at a total cost of \$3,573,726.

The market capitalisation of the Company was \$601 million as at 31 December 2014 (30 June 2014: \$785 million), based on the financial half-year end closing market price of \$2.44 per fully paid ordinary share and 246,620,022 fully paid ordinary shares on issue.

Review of Operations

Australia

Carnarvon Basin Permit WA-482-P

Exploration permit WA-482-P is located in the Carnarvon Basin, approximately 300 kilometres offshore from the northwestern Australian Coast in a water depth of between 400 and 2,000 metres. The permit covers an area of 13,539 square kilometres.

The permit is highly prospective for oil, with an independently assessed gross unrisks prospective resource best estimate by DeGolyer and MacNaughton, as at April 2014, of 2.2Bn bbls (net 1.1Bn bbls)¹.

Exploration permit WA-482-P, provides the Group with further exploration through drilling of the first well, Levitt-1, by Apache expected to commence during the June 2015 quarter.

3D Seismic Processing and Interpretation

During the financial half-year, processing and interpretation, along with pre-stack depth migration processing of the Chrysalids marine 3D seismic survey data was on-going.

Drill Planning

The Levitt-1 exploration well location was selected by the joint operation during August 2014. The location was selected to confirm hydrocarbon migration from the Early Jurassic source kitchen. Levitt-1 is targeting the North Rankin and Legendre formations.

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

Equity Interests

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

Karoon Gas (FPSO) Pty Ltd	50%
Apache Northwest Pty Ltd (Operator)	50%

¹ Refer to the Prospective Resource Statement on page 9

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014**

Review of Operations (continued)

Browse Basin Permit WA-314-P

Exploration permit WA-314-P is located in the Browse Basin, approximately 350 kilometres offshore from the northwestern Australian coast in an average water depth of 500 metres. The permit covers an area of 1,953 square kilometres.

The current Year 6 work program commitment consists of geological and geophysical studies.

3D Seismic Processing and Interpretation

During the financial half-year, the processed Kraken 318 square kilometre marine 3D seismic survey data over the Elvie prospect was received and interpretation commenced.

A formal farm-out process commenced during December 2014, incorporating the Kraken 3D seismic data.

Equity Interest

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

Karoon Gas Browse Basin Pty Ltd (Operator)	100%
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Browse Basin Permits WA-315-P and WA-398-P

During June 2014, Karoon signed a Sale and Purchase Agreement ('SPA') for the sale of Karoon's 40% interest in Browse Basin exploration permits WA-315-P and WA-398-P to Origin Energy for up to USD800 million.

During August 2014, the transaction reached Completion and Karoon received net proceeds of \$655 million from Origin. Contingent payments outstanding are USD75 million payable at Final Investment Decision, USD75 million payable at first production and a resource step up payment up to USD50 million payable at first production.

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 no further testing information is available to Karoon.

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

Brazil

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

Karoon's 65% owned 5 exploration blocks in the Santos Basin, are located approximately 112 kilometres off the coast of the State of Santa Catarina, Brazil in an average water depth of approximately 400 metres. The blocks cover an area of 549 square kilometres.

Following the farm-out of a 35% interest to Pacific Rubiales, an initial 3 well exploration drilling campaign during 2013 delivered the Kangaroo and Bilby oil discoveries.

A second phase drilling campaign commenced during the financial half-year, focusing on the appraisal of the Kangaroo oil discovery and exploration of the near-by Kangaroo West prospect. The current rig contract with the 'Olinda Star' semi-submersible drilling rig consists of 2 firm wells (Kangaroo-2 and Kangaroo West-1) and 2 option wells.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014****Review of Operations (continued)****Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (continued)*****Drill Campaign***

On 5 November 2014, Karoon spudded the Kangaroo-2 appraisal well, the first in the second phase drilling campaign consisting of up to 4 wells.

The Kangaroo-2 appraisal well, located in Block S-M-1165, was drilled to a total depth of 2,369 mRT. A 250 metre gross column was intersected, with 135 metres net oil bearing reservoir in the Paleocene and Maastrichtian age formations between 1,660 mRT and 2,000 mRT.

Production tests were conducted over the Maastrichtian interval reservoir sections between 1,790 mRT and 1,953 mRT. The net reservoir section tested was 67 metres (gross 163 metres). The maximum flow rate attained during the main 12 hour flow period was 3,700 stb/d (stabilised flow rate of 3,300 stb/d) through a 1" choke with a flowing tubing head pressure of 430 psia, a gas to oil ratio ('GOR') of 650 scf/stb and a 38 degree API gravity oil with no CO₂, H₂S, water or sand produced.

Subsequent to the end of the financial half-year, production tests were conducted over the Paleocene interval reservoir sections between 1,663 mRT and 1,753 mRT. The net reservoir section tested was 70 metres (gross 90 metres). The maximum flow rate attained during the 12 hour main flow period was 3,700 stb/d (stabilised flow rate of 3,450 stb/d) through a 88/64" choke with a flowing tubing head pressure of 270 psia, a GOR of 540 scf/stb and a 33 degree API gravity oil with no CO₂, H₂S, water or sand produced.

Following the completion of production testing in the Kangaroo-2 appraisal well, a decision was made to side-track the well in both a down-dip and an up-dip location so as to better define the resource size, recovery factors and also collect valuable field data to assist in assessing development concepts. Subsequent to the end of the financial half-year, the side track program was completed.

The down-dip side-track reached a total depth of 2,745 mRT, intersecting a 50 metre gross oil column (36% net to gross) in the deeper Maastrichtian oil bearing reservoir accumulation on the eastern side of a fault. Five reservoir fluid samples were recovered, with one sample opened at surface containing 3 litres of 38 degree API gravity oil. Pressure data confirmed the Maastrichtian reservoir accumulation intersected in the Kangaroo-2 down-dip side-track is the same accumulation as the Maastrichtian B oil reservoir in Kangaroo-2.

The up-dip side-track reached a total depth of 1,960 mRT, intersecting a 37 metre gross oil column (60% net to gross) in the Paleocene reservoir section. Five reservoir fluid samples were recovered, with one sampled opened at surface containing 2.9 litres of 39 degree API gravity oil. Pressure data confirmed the Paleocene accumulation intersected is a separate accumulation to the Paleocene oil reservoirs intersected in the Kangaroo-2 vertical well. The Maastrichtian reservoir was water bearing where a second fault separates the up-dip Maastrichtian from the oil accumulations in the vertical and down-dip side-track wells.

Aquifer pressure data from all Karoon's wells in the Santos Basin indicates that the Maastrichtian and Campanian sections are pressured normally. This supports the presence of a common aquifer, which would likely provide water drive. This is important information for production and recovery modelling.

Upon completion of the Kangaroo-2 side-track program during February 2015, the rig was moved to the Kangaroo West-1 exploration well location to drill the second firm well in the current drilling campaign.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014**

Review of Operations (continued)

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

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

Block S-M-1352, Santos Basin, is located approximately 120 kilometres off the coast of the State of Santa Catarina, Brazil in an average water depth of approximately 300 metres. The block covers an area of 50 square kilometres.

The block is located adjacent to the Bauna/ Piracaba integrated production hub, owned and operated by Petróleo Brasileiro S.A. ('Petrobras'). The remaining 80% interest in Block S-M-1352 is held by Petrobras, the Operator.

During the financial half-year, the joint operation continued its technical and commercial assessment of the Bauna Sul (formerly Maruja) oil discovery and working on a development plan.

Due to the timeframe for a potential development being shorter than for other permits/blocks across the exploration portfolio and a limited recoverable resource estimate, the Group recognised during the financial half-year an impairment loss of \$32,494,689 against the carrying value of the asset.

A decision to either remain in the Block or proceed into a development of Bauna Sul is expected to be made during the second half of the financial year.

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 2014**

Review of Operations (continued)

Peru

Tumbes Basin Block Z-38

Exploration Block Z-38, Tumbes Basin is located approximately 10 kilometres of the northwest coast of Peru in a water depth of between 300 and 3,000 metres. The Block covers 4,750 square kilometres.

Block Z-38 is currently in force majeure. The current third period term has approximately 22 months remaining once force majeure is lifted.

Drill Planning

Pre-drill planning was on going through the financial half-year in preparation for the Tumbes Basin Phase 1 exploration drilling campaign.

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.

Marañón Basin Block 144

Exploration Block 144, Marañón Basin, is located onshore Peru on the eastern side of the Andes mountain range. The Block covers an area of 6,836 square kilometres.

The Block is currently in force majeure while social programs and government introductions to the indigenous communities are completed. Block 144 work program commitments will resume once force majeure is lifted.

During the financial half-year, Karoon continued its geotechnical, social and environmental work in the Block.

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 2014****Corporate Activity Summary****Chairman Position**

During the financial half-year, Karoon announced the appointment of Dr. David Klingner as the Company's new Independent Non-Executive Chairman, effective 19 December 2014.

Dr. Klingner brings ASX and offshore Chairman experience, along with a distinguished career of 38 years with Rio Tinto in a series of senior executive, commercial and technical roles to Karoon.

Effective on the appointment of Dr. Klingner, Executive Chairman Mr Robert Hosking assumed the role of Managing Director.

Following the appointment of Dr. Klingner, the Karoon Board of Directors consists of a total of 8 Directors, with an independent majority. The Board composition is 5 Independent Non-Executive Directors (including the Chairman), 1 Non-Executive Director and 2 Executive Directors.

On-Market Share Buy-Back Program

Following the sale of Karoon's 40% interest in Browse Basin exploration permits WA-315-P and WA-398-P to Origin, and the receipt of \$655 million cash proceeds during August 2014, Karoon launched an on-market share buy-back program for up to 10% of its ordinary shares on issue, or up to 25,112,076 shares.

During the financial half-year, Karoon bought back and cancelled 9,396,922 ordinary shares. The remaining number of ordinary shares that can be bought back and cancelled under the existing program is 15,715,154.

Karoon's current number of outstanding shares on issue is 246,620,022.

Farm-out Status

During the financial half-year, a formal farm-out process commenced over Browse Basin exploration permit WA-314-P (incorporating the new Kraken 3D seismic data) and also over Marañón Basin exploration Block 144. Despite the current weak oil price environment, good interest has been shown for these assets with a number of parties either involved in, or expressing interest in the process.

With respect to Karoon's 65% owned Santos Basin blocks and 75% owned Tumbes Basin exploration Block Z-38, discussions with interested parties remain ongoing.

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 hydrocarbons 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 resources evaluated.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014**

Corporate Activity Summary (continued)

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 11.

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

On behalf of the Directors:



Mr Robert Hosking
Managing Director

16 March 2015
Melbourne



Auditor's Independence Declaration

As lead auditor for the review of Karoon Gas Australia Ltd for the half-year ended 31 December 2014, 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.

A handwritten signature in black ink that reads 'Nadia Carlin'.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
16 March 2015

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

	Note	Consolidated Half-year ended 31 Dec 2014 \$	31 Dec 2013 \$
Revenue	2	936,234	4,249,958
Other income	2	360,192,900	3,096,949
Total revenue and other income		361,129,134	7,346,907
Computer support		(553,144)	(663,270)
Consulting fees		(352,351)	(395,810)
Depreciation and amortisation expense		(573,804)	(523,854)
Employee benefits expense (net)		(4,731,098)	(6,179,817)
Exploration and evaluation expenditure expensed		(641,621)	(2,878,301)
Exploration and evaluation impairment loss	2	(32,494,689)	-
Farm-out costs		(317,821)	(836,730)
Finance costs	2	(2,991,723)	(140,002)
Insurance expense		(113,120)	(481,699)
Investor relation costs		(537,715)	(34,715)
Legal fees		(139,816)	(236,948)
Property costs		(1,099,190)	(981,978)
Share registry and listing fees		(126,224)	(110,077)
Telephone and communication expenses		(179,796)	(177,886)
Travel and accommodation expenses		(621,221)	(729,622)
Other expenses		(1,031,959)	(1,065,696)
Total expenses		(46,505,292)	(15,436,405)
Profit (loss) before income tax		314,623,842	(8,089,498)
Tax expense	6	(105,512,358)	-
Profit (loss) for financial half-year attributable to equity holders of the Company		209,111,484	(8,089,498)
Other comprehensive income (loss), net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		3,286,370	(1,632,994)
Other comprehensive income (loss) for financial half-year, net of income tax		3,286,370	(1,632,994)
Total comprehensive profit (loss) for financial half-year attributable to equity holders of the Company, net of income tax		212,397,854	(9,722,492)
Profit (loss) per share attributable to equity holders of the Company:			
Basic profit (loss) per ordinary share		0.8303	(0.0328)
Diluted profit (loss) per ordinary share		0.8291	(0.0328)

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014**

	Note	Consolidated 31 Dec 2014 \$	30 June 2014 \$
Current assets			
Cash and cash equivalents		680,092,710	39,013,343
Receivables		7,603,173	7,761,654
Inventories		3,168,288	5,563,313
Security deposits		29,057	41,337
Current tax asset		2,000,505	2,821,977
Assets classified as held for sale	5	-	386,667,150
Other assets		1,779,543	5,263,470
Total current assets		694,673,276	447,132,244
Non-current assets			
Inventories		34,058,247	31,569,743
Deferred tax assets	6	-	13,741,402
Plant and equipment		2,779,371	2,979,538
Intangible assets		506,188	467,256
Exploration and evaluation expenditure carried forward		355,668,589	296,389,492
Security deposits		9,165,660	8,032,886
Total non-current assets		402,178,055	353,180,317
Total assets		1,096,851,331	800,312,561
Current liabilities			
Trade and other payables		52,421,905	10,514,089
Current tax liabilities	6	20,626,872	-
Liabilities directly associated with assets classified as held for sale		-	19,654,597
Total current liabilities		73,048,777	30,168,686
Non-current liabilities			
Deferred tax liabilities	6	71,120,982	-
Provisions	7	3,539,143	3,669,944
Total non-current liabilities		74,660,125	3,669,944
Total liabilities		147,708,902	33,838,630
Net assets		949,142,429	766,473,931
Equity			
Contributed equity	8	805,529,759	836,246,445
Retained earnings (Accumulated losses)		131,359,565	(77,751,919)
Share-based payments reserve		34,724,572	33,737,242
Foreign currency translation reserve		(22,471,467)	(25,757,837)
Total equity		949,142,429	766,473,931

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 2014**

Consolidated	Contributed Equity	Retained Earnings (Accumulated Losses)	Share- based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
	\$	\$	\$	\$	\$
Balance as at 1 July 2013	664,894,335	(72,233,139)	29,435,672	(22,255,971)	599,840,897
Loss for previous 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, net of tax	(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
Balance as at 1 July 2014	836,246,445	(77,751,919)	33,737,242	(25,757,837)	766,473,931
Profit for financial half-year	-	209,111,484	-	-	209,111,484
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	3,286,370	3,286,370
Total comprehensive profit for financial half-year	-	209,111,484	-	3,286,370	212,397,854
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Share buy-back (on-market)	(30,716,686)	-	-	-	(30,716,686)
Share-based payments expense	-	-	987,330	-	987,330
	(30,716,686)	-	987,330	-	(29,729,356)
Balance as at 31 December 2014	805,529,759	131,359,565	34,724,572	(22,471,467)	949,142,429

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 2014**

	Consolidated	
	Half-year ended	
	31 Dec 2014	31 Dec 2013
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST refunds)	1,873,619	3,666,472
Payments to suppliers and employees (inclusive of GST)	(10,782,236)	(11,504,539)
Payments for exploration and evaluation expenditure expensed	(623,498)	(358,355)
Interest received	897,036	2,151,482
Interest and other costs of finance paid	(656,089)	(140,002)
Income taxes refund (paid)	711,676	(51,520)
Net cash flows (used in) operating activities	(8,579,492)	(6,236,462)
Cash flows from investing activities		
Purchase of plant and equipment and computer software	(421,380)	(1,584,613)
Payments for exploration and evaluation expenditure capitalised	(46,883,116)	(194,653,907)
Repayment of security deposits	1,423,755	15,470,042
Advance payments (Brazilian farm-out)	-	8,043,616
Payment of refundable share of insurance bond	-	(15,371,404)
Proceeds from divestment of exploration permits to Origin	654,617,976	-
Net cash flows provided by (used in) investing activities	608,737,235	(188,096,266)
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)
Share buy-back (on-market)	(30,716,686)	-
Proceeds from borrowings	21,450,021	-
Repayments of borrowings	(21,551,724)	-
Net cash flows provided by (used in) financing activities	(30,818,389)	169,598,729
Net increase (decrease) in cash and cash equivalents	569,339,354	(24,733,999)
Cash and cash equivalents at beginning of financial half-year	39,013,343	204,519,641
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	71,740,013	744,708
Cash and cash equivalents at end of financial half-year	680,092,710	180,530,350

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 2014

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 should be read in conjunction with the Annual Report for the financial year ended 30 June 2014.

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 2014, 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 2014.

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.

Note 2. Results for Financial Half-Year

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$	\$
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	936,234	4,249,958
Total revenue	936,234	4,249,958
Net foreign currency gains	83,484,258	2,098,383
Gain on divestment of exploration permits WA-315-P and WA-398-P (a)	276,446,665	-
Services revenue from joint operations	261,977	998,306
Sundry income	-	260
Total other income	360,192,900	3,096,949

(a) During August 2014, Karoon received net proceeds of \$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. Completion of the Sale and Purchase Agreement was effective as at 31 July 2014. The disposal date is the same as the date of completion, being 31 July 2014. As at 31 December 2014 \$4.0 million was receivable from Origin for reimbursement of Poseidon North-1 exploration well drilling costs previously cash called by the Operator of WA-315-P but not incurred.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014**

Note 2. Results for Financial Half-Year (continued)

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$	\$
Finance costs:		
- interest expense to unrelated entities	(112,851)	-
- discount unwinding on provision for restoration	(46,918)	-
- loan establishment fees (b)	(2,333,751)	-
- bank charges	(498,203)	(140,002)
Total finance costs	(2,991,723)	(140,002)
Share-based payments expense	(987,330)	(2,366,154)
Exploration and evaluation impairment loss (c)	(32,494,689)	-

(b) During July 2014, a USD100 million 'bridge' loan facility, existing as at 30 June 2014 between the Company and National Australia Bank Limited, was drawn down upon by USD20 million. The facility had an expiry date of 30 November 2014, however, it was voluntarily cancelled during August 2014 after the USD20 million loan outstanding was repaid in full. Associated loan establishment fees were expensed over the life of the facility following the first draw down. The loan establishment fees were recognised in Other Assets (as prepayments) in the Consolidated Statement of Financial Position as at 30 June 2014.

(c) An exploration and evaluation impairment loss exists when the carrying amount of the capitalised exploration and evaluation expenditure exceeds its estimated recoverable amount. As at 31 December 2014, the carrying amount of Block S-M-1352 in Brazil has been fully impaired as it is considered in excess of its recoverable amount due to the timeframe for a potential development being shorter than for other permits/blocks across the exploration portfolio and a limited recoverable resource estimate.

Note 3. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2013: \$Nil).

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 Managing Director 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

Note 4. Segment Information (continued)

(a) Description of Segments (continued)

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 two offshore permit areas: WA-314-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 segment liabilities are equal to consolidated total assets and total liabilities respectively. These assets and liabilities are allocated on the operations of the segment.

(b) Operating Segments

Segment performance

	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
Revenue for financial half-year 31 December 2014					
Interest income from unrelated entities	156,826	779,408	-	-	936,234
Total revenue	156,826	779,408	-	-	936,234
Result for financial half-year 31 December 2014					
Revenue	156,826	779,408	-	-	936,234
Other income	359,911,160	478,272	(196,532)	-	360,192,900
Depreciation and amortisation expense	(231,641)	(250,128)	(92,035)	-	(573,804)
Employee benefits expense (net)	(3,254,644)	(943,510)	(532,944)	-	(4,731,098)
Exploration and evaluation expenditure expensed	(196,438)	(340,407)	(14,385)	(90,391)	(641,621)
Exploration and evaluation impairment loss	-	(32,494,689)	-	-	(32,494,689)
Finance costs	(2,665,468)	(317,579)	(8,676)	-	(2,991,723)
Property costs	(341,882)	(599,340)	(157,968)	-	(1,099,190)
Administration and other operating expenses	(3,385,660)	32,356	(619,863)	-	(3,973,167)
Profit (loss) before income tax	349,992,253	(33,655,617)	(1,622,403)	(90,391)	314,623,842
Tax expense	(105,512,358)	-	-	-	(105,512,358)
Profit (loss) for financial half-year	244,479,895	(33,655,617)	(1,622,403)	(90,391)	209,111,484

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

Note 4. Segment Information (continued)

(b) Operating Segments (continued)

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)
Tax income (expense)	-	-	-	-	-
Loss for financial half-year	(4,621,398)	(1,856,534)	(1,571,232)	(40,334)	(8,089,498)

Segment assets

As at 31 December 2014

Segment asset information

Cash and cash equivalents	637,435,250	42,009,555	647,905	-	680,092,710
Exploration and evaluation expenditure carried forward	171,252,927	131,943,650	52,472,012	-	355,668,589
Security deposits	375,031	57,351	8,762,335	-	9,194,717
Inventories	168,562	14,686,095	22,371,878	-	37,226,535
Other	6,687,263	5,264,455	2,717,062	-	14,668,780
Segment assets	815,919,033	193,961,106	86,971,192	-	1,096,851,331

As at 30 June 2014

Segment asset information

Cash and cash equivalents	33,302,532	5,348,966	361,845	-	39,013,343
Exploration and evaluation expenditure carried forward	169,823,504	82,826,159	43,739,829	-	296,389,492
Deferred tax assets	13,741,402	-	-	-	13,741,402
Security deposits	375,022	56,295	7,642,906	-	8,074,223
Inventories	-	17,822,824	19,310,232	-	37,133,056
Assets classified as held for sale	386,667,150	-	-	-	386,667,150
Other	6,571,013	10,078,455	2,644,427	-	19,293,895
Segment assets	610,480,623	116,132,699	73,699,239	-	800,312,561

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

Note 4. Segment Information (continued)

(b) Operating Segments (continued)

Segment liabilities	Australia \$	Brazil \$	Peru \$	All Other Segments \$	Consolidated \$
As at 31 December 2014					
Segment liability information					
Trade and other payables	1,444,760	50,204,661	772,484	-	52,421,905
Current tax liabilities	20,626,872	-	-	-	20,626,872
Deferred tax liabilities	71,120,982	-	-	-	71,120,982
Provisions	396,249	3,142,894	-	-	3,539,143
Segment liabilities	93,588,863	53,347,555	772,484	-	147,708,902
As at 30 June 2014					
Segment liability information					
Trade and other payables	4,897,074	3,248,513	2,368,502	-	10,514,089
Liabilities directly associated with assets classified as held for sale	19,654,597	-	-	-	19,654,597
Provisions	423,398	3,246,546	-	-	3,669,944
Segment liabilities	24,975,069	6,495,059	2,368,502	-	33,838,630

Note 5. Assets Classified As Held for Sale

	Consolidated	
	31 Dec 2014	30 June 2014
	\$	\$
Exploration and evaluation expenditure carried forward held for sale (a)	-	386,667,150
Total assets classified as held for sale	-	386,667,150

(a) Exploration and evaluation expenditure carried forward on exploration permits WA-315-P and WA-398-P had been classified as held for sale as at 30 June 2014 and stated at the lower of its carrying amount and fair value less costs to sell. The carrying amount was recovered through a sale of asset transaction during the financial half-year.

Note 6. Current and Deferred Tax Assets and Liabilities

As a result of the gain on divestment of exploration permits WA-315-P and WA-398-P during the financial half-year, the Company incurred a current tax expense of \$198,410,571 for the financial half-year ended 31 December 2014. After utilising carried forward losses available as at 30 June 2014 of \$177,783,699 the Company has recognised a current tax liability as at 31 December 2014 of \$20,626,872.

After utilisation of the Company's carried forward losses against current year taxable profit, a net deferred tax liability of \$71,120,982 has been recognised as at 31 December 2014 (30 June 2014: deferred tax assets \$13,741,402). The deferred tax liability represents future income tax of \$51,294,035 relating to capitalised Australian exploration expenditure, which will only be realised upon future taxable profits from these assets by either future production and/or recoupment via asset sales and farm-outs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

Note 7. Provisions

As at 31 December 2014, the balance of \$3,539,143 includes a long service leave provision of \$396,249 (30 June 2014: \$423,398) and a restoration provision of \$3,142,894 (30 June 2014: \$3,246,546). The restoration provision has been recognised in respect of the Group's estimated present value of costs relating to future Brazilian site restoration, removal and rehabilitation activities.

Note 8. Contributed Equity

	Consolidated	
	31 Dec 2014	30 June 2014
(a) Contributed Equity	\$	\$
Ordinary shares, fully paid	805,529,759	836,246,445
Total contributed equity	805,529,759	836,246,445

(b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares		\$
1 July 2013	Opening balance in previous financial year	221,420,769		664,894,335
	Share placement	29,700,000		151,470,000
	Share purchase plan	4,720,812		24,076,141
	Less: Transaction costs arising on ordinary shares issued during the financial half-year			(5,991,473)
	Deferred tax credit recognised directly in equity			1,797,442
30 June 2014	Balance at end of previous financial year	255,841,581		836,246,445
	Performance rights exercised	175,363		-
	Share buy-back (on-market)	(9,396,922)		(30,716,686)
31 December 2014	Balance at end of financial half-year	246,620,022		805,529,759

Note 9. Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables (30 June 2014: cash and cash equivalents, receivables, security deposits, trade and other payables, liabilities directly associated with assets classified as held for sale). 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014

Note 10. Commitments

	Consolidated	
	31 Dec 2014	30 June 2014
	\$	\$
(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	90,901,640	47,858,610
Total capital expenditure commitments	90,901,640	47,858,610

(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 petroleum tenements WA-314-P, WA-482-P, Block S-M-1352, 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 (30 June 2014: WA-314-P, WA-315-P, WA-398-P, WA-482-P, Block S-M-1352, 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 \$232,675,274 (30 June 2014: \$312,284,289) of commitments that relate to the non-guaranteed work commitments:

Not later than one-year	58,296,739	103,739,835
Later than one-year but not later than five years	453,532,382	456,177,071
Total exploration expenditure commitments	511,829,121	559,916,906

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 and/or sales agreements or the relinquishment of permits/blocks.

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.

Note 11. Contingent Liabilities

As at 31 December 2014, the Group had contingent liabilities in the form of performance guarantees, bank guarantees, bonds and Brazilian local content, for which there have not been any significant changes from the 30 June 2014 Annual Report.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014****Note 12. Subsequent Events**

The Interim Financial Report was authorised for issue by the Board of Directors on 6 March 2015. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements.

Since 31 December 2014, the following material event has occurred:

Santos Basin Second Phase Drilling Campaign

The Kangaroo-2 appraisal well in Block S-M-1165 spudded during November 2014. Subsequent to the end of the financial half-year, production tests were conducted over the Paleocene interval reservoir sections between 1,663 mRT and 1,753 mRT. The net reservoir section tested was 70 metres (gross 90 metres). The maximum flow rate attained during the 12 hour main flow period was 3,700 stb/d (stabilised flow rate of 3,450 stb/d) through a 88/64" choke with a flowing tubing head pressure of 270 psia, a GOR of 540 scf/stb and a 33 degree API gravity oil with no CO₂, H₂S, water or sand produced.

Following the completion of production testing in the Kangaroo-2 appraisal well, subsequent to 31 December 2014, a decision was made to side-track the well in both a down-dip and an up-dip location.

The down-dip side-track reached a total depth of 2,745 mRT, intersecting a 50 metre gross oil column (36% net to gross) in the deeper Maastrichtian oil bearing reservoir accumulation on the eastern side of a fault. Five reservoir fluid samples were recovered, with one sample opened at surface containing 3 litres of 38 degree API gravity oil.

The up-dip side-track reached a total depth of 1,960 mRT, intersecting a 37 metre gross oil column (60% net to gross) in the Paleocene reservoir section. Five reservoir fluid samples were recovered, with one sampled opened at surface containing 2.9 litres of 39 degree API gravity oil. The Maastrichtian reservoir was water bearing where a second fault separates the up-dip Maastrichtian from the oil accumulations in the vertical and down-dip side-track wells.

Upon completion of the Kangaroo-2 side-track program during February 2015, the rig was moved to the Kangaroo West-1 exploration well location within Block S-M-1165 to drill the second firm well in the current drilling campaign. The Kangaroo West-1 exploration well spudded on 26 February 2015.

**DIRECTORS' DECLARATION
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2014**

The Directors declare that:

1. in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 12 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 2014 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 declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:



Mr Robert Hosking
Managing Director

16 March 2015
Melbourne



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 2014, 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 the 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 entity's financial position as at 31 December 2014 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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

PricewaterhouseCoopers, ABN 52 780 433 757

Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Nadia Carlin'.

Nadia Carlin
Partner

16 March 2015

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	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
Apache	Apache Northwest Pty Ltd.
API	American Petroleum Institute's inverted scale for denoting the 'lightness' or 'heaviness' of crude oils and other liquid hydrocarbons.
appraisal well	A well drilled to confirm the size or quality of a hydrocarbon discovery.
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.
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.
FID	Final Investment Decision.
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.

GLOSSARY (Continued)

Term	Definition
financial half-year	Financial half-year ended 31 December 2014.
GOR	Gas to oil ratio.
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.
mmbbls	Millions of barrels (1,000,000 barrels).
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.
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.
Origin	Origin Energy Browse Pty 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.

GLOSSARY (Continued)

Term	Definition
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.
psia	Pounds per square inch absolute.
REAL	Brazilian currency.
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.
Rotary Table	A flat plate in the drill floor which is turned mechanically at varying speeds and directions imparting the rotary action to the drill string which passes through its centre.
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.