



MARCH 2015 QUARTERLY REPORT AND APPENDIX 5B

Group Operation Highlights

- The Kangaroo-2 appraisal well recorded a maximum flow rate of 3,700 stb/d over the Paleocene aged reservoir interval. The production test supported earlier test results from the deeper Maastrichtian section, announced during the December 2014 quarter, confirming reservoir productivity in the Kangaroo oil discovery.
- The Kangaroo-2 up-dip and down-dip side-track program intersected a 50 metre gross (36% net to gross) oil column in the Maastrichtian oil bearing reservoir interval (approximately 200 metres down-dip) and a 37 metre gross (60% net to gross) oil column in the Paleocene oil bearing reservoir interval (approximately 300 metres up-dip).
- The Echidna-1 exploration well discovered a light oil accumulation adjacent to the Kangaroo oil discovery, providing incremental resource for any potential integrated production hub development in the Santos Basin. The well intersected a 213 metre gross oil column with 104 metres net oil accumulation in the Paleocene and Maastrichtian aged reservoir intervals. Physical samples recovered 40 degree API gravity oil.
- The 'Ocean America' semi-submersible drill rig was contracted to drill the 220 mmbbl¹ gross unrisked prospective resource best estimate oil exploration prospect, Levitt, in the Carnarvon Basin exploration permit WA-482-P. The Levitt-1 exploration well is expected to commence drilling during June 2015.

¹ Refer to the Prospective Resource Statement on page 5

Operational Summary

Australia

Carnarvon Basin Permit WA-482-P ***KAR 50% Interest, Non-Operator***

Exploration permit WA-482-P is 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 a gross unrisks prospective resource best estimate of 2.2Bn bbls (net 1.1Bn bbls)¹ as assessed by DeGolyer and MacNaughton during April 2014.

WA-482-P will provide for further exploration led growth with drilling of the first exploration well, Levitt-1, by Apache.

3D Seismic Acquisition, Processing and Interpretation

Pre-stack depth migration processing of the Chrysalids marine 3D seismic survey data continued.

During the quarter, the acquisition of a regional third party Capreolus 3D seismic survey commenced. The joint operation is licencing 5,256 square kilometres of the survey being shot over the eastern part of the permit.

Drill Planning

During the quarter, the Diamond Offshore semi-submersible drill rig 'Ocean America' was contracted by Apache to drill the Levitt-1 exploration well. Levitt-1 is expected to commence drilling during June 2015.

The well is targeting the North Rankin and Legendre formations, positioned to receive migrating hydrocarbons from the oil mature Early Jurassic source kitchen. The Levitt prospect has a net unrisks prospective resource best estimate to Karoon of 110 mmbbls¹.

Browse Basin Permit WA-314-P ***KAR 100% Interest, Operator***

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 quarter, interpretation of the 318 square kilometre Kraken marine 3D seismic survey processed data over the Elvie prospect continued.

Farm-out Status Update

The farm-out process that commenced during the December 2014 quarter remains ongoing.

¹ Refer to the Prospective Resource Statement on page 5

Brazil

Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 **KAR 65% Interest, Operator**

Karoon's 65% owned 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.

During 2014, a second phase drilling campaign commenced focusing on the appraisal of the Kangaroo oil discovery and exploration of the nearby Kangaroo West prospect. The current rig contract with the 'Olinda Star' semi-submersible drilling rig consists of 2 firm wells and 2 option wells. Three wells have been drilled to date and following this drilling campaign, work will continue on the assessment of the Kangaroo and Echidna-1 well results and overall preliminary front end engineering and design work.

3D Seismic Processing and Interpretation

Seismic processing, interpretation and quantitative interpretation studies remain on-going.

Drill Campaign

Kangaroo-2 Appraisal Well Results

During the December 2014 quarter, 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 oil bearing reservoir interval was intersected, with 135 metres net oil bearing reservoir in the Paleocene and Maastrichtian age formations between 1,660 mRT and 2,000 mRT.

Following a successful production test in the Kangaroo-2 vertical well over the Maastrichtian interval reservoir sections during January 2015, production tests were conducted over the Paleocene interval reservoir sections.

The net reservoir section tested was 70 metres (gross 90 metres). A maximum flow rate of 3,700 stb/d (stabilised flow rate of 3,450 stb/d) was attained 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, the decision was made to drill both a down-dip and up-dip side-track well.

Kangaroo-2 Down-Dip and Up-Dip Side-Track Results

The down-dip side-track was drilled to a total depth of 2,745 mRT and intersected 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 was drilled to a total depth of 1,960 mRT and intersected a 37 metre gross oil column (60% net to gross) in the shallower Paleocene oil bearing reservoir accumulation. Five reservoir fluid samples were recovered with one sample opened at surface, containing 2.9 litres of 39 degree API gravity oil. Pressure data indicates that the Paleocene oil bearing reservoir is in a separate pressure compartment from those seen in Kangaroo-2.

The Maastrichtian reservoir in the up-dip setting was water bearing due to a second fault separating the up-dip Maastrichtian from the oil accumulations in the vertical and down-dip side-track wells. Aquifer pressure data indicates that the Maastrichtian and Campanian sections in this well and all the previous Karoon wells are normally pressured. This supports the presence of a common aquifer, which would likely provide water drive. This is important information for production and recovery modelling.

No gas cap was penetrated in any reservoir. The lack of a gas cap is positive, as it indicates no oil has been displaced by gas in the Kangaroo reservoirs.

Kangaroo West-1 Exploration Well Results

Following the Kangaroo-2 appraisal well and side-track program, the Kangaroo West-1 exploration well was drilled to a total depth of 3,170 mRT. Based on mudlog and LWD petrophysical data, no hydrocarbons were intersected. The well intersected a good thick sealing unit before penetrating a thick sequence of Paleocene to Campanian interbedded sands and shales. The lack of hydrocarbons is attributed to a lack of oil migration charge into the structure, previously recognised as the main risk with this prospect.

Echidna-1 Exploration Well Results

Subsequent to the end of the quarter, the Echidna-1 exploration well was drilled to a total depth of 2,379 mRT and intersected a 213 metre gross oil column with 104 metres net in the Paleocene and Maastrichtian aged reservoir intervals. Physical oil samples were recovered from the Paleocene section, which contained 40 degree API gravity oil.

Preparations are currently underway to commence a production test of the Paleocene reservoir section.

Farm-out Status Update

Following the completion of the drilling campaign, in the coming months Karoon will be providing all the well data to interested parties and continuing current farm-out discussions.

Santos Basin Block S-M-1352 *KAR 20% Interest, Non-Operator*

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.

Due to the limited recoverable resource estimate of the Bauna Sul oil discovery and timing restrictions on a development decision, Karoon fully impaired the carrying value of the asset in its December 2014 half-year financial report. A decision to remain in the block is expected to be made during the June 2015 quarter.

The remaining 80% interest in S-M-1352 is held by Petrobras, the Operator.

Peru

Tumbes Basin Block Z-38 ***KAR 75% Interest, Operator***

Exploration Block Z-38, Tumbes Basin, is located approximately 10 kilometres offshore from 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 ongoing through the quarter in preparation for the Tumbes Basin Phase 1 exploration drilling campaign.

Farm-out Status Update

Karoon remains actively engaged in farm-out discussions with interested parties.

Marañón Basin Block 144 ***KAR 100% Interest, Operator***

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 work program commitments will resume once force majeure is lifted.

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

Farm-out Status Update

A formal farm-out process commenced last quarter and is on going.

Prospective Resources Statement

WA-482-P prospective resource volume estimates have been independently assessed by DeGolyer and MacNaughton on a probabilistic basis and disclosed in Karoon's 30 April 2014 ASX announcement.

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 resources evaluated.



ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2015

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')

31 March 2015

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	522	784
1.2 Payments for:		
(a) exploration and evaluation	(87,993)	(135,500)
(b) development	-	-
(c) production	-	-
(d) administration	(4,775)	(15,557)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	326	1,223
1.5 Interest and other costs of finance paid	(333)	(989)
1.6 Income taxes (paid)/ refund	1,402	2,114
1.7 Other – GST/VAT refunds/ (payments)	290	1,901
Net operating cash flows	(90,561)	(146,024)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(1,409)	14
(c) other fixed assets	(68)	(489)
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)	4,311	658,929
Net investing cash flows	2,834	658,454
1.13 Total operating and investing cash flows (carried forward)	(87,727)	512,430

	Current Quarter \$A'000	Year to date (9 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(87,727)	512,430
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	-	(30,717)
1.16 Proceeds from borrowings	-	21,450
1.17 Repayment of borrowings	-	(21,552)
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	-	-
Net financing cash flows	-	(30,819)
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	(87,727) 680,093	481,611 39,013
1.21 Exchange rate adjustments to item 1.20	46,977	118,719
1.22 Cash as at end of Current Quarter	639,343	639,343

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	642
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: \$563,243
Consulting fees included in 1.23: \$79,040

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	91,300
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,400
Total	95,700

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	618,506	673,657
5.2 Short-term bank deposits	20,837	6,436
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)	639,343	680,093

Changes in interests in petroleum tenements

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

Issued and quoted securities as at end of Current Quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid-up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 Ordinary shares (fully paid)	246,633,615	246,633,615		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	13,593 -	13,593 -		
7.5 Convertible debt securities <i>(description)</i>				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options and Performance Rights <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	<u>Options</u>			
	1,800,000		730 cents	31 October 2015
	1,200,000		995 cents	1 May 2015
	400,000		1098 cents	1 May 2016
	1,292,251		685 cents	29 November 2016
	918,584		674 cents	30 June 2017
	2,928,378		406 cents	30 June 2018
	56,604		406 cents	30 December 2018
	<u>Performance Rights ('PER')</u>			
	52,813		Zero	29 November 2015
	269,279		Zero	30 June 2016
7.8 Issued during Current Quarter	<u>Options</u>			
	427,335		406 cents	
7.9 Exercised during Current Quarter	<u>PER</u>			
	13,593		Zero	
7.10 Expired/cancelled during Current Quarter	<u>Options</u>			
	60,000		730 cents	
	17,482		674 cents	
	25,728		406 cents	
	<u>PER</u>			
	5,153		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: 30 April 2015
(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 31 March 2015

<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.