



DECEMBER 2014 QUARTERLY REPORT AND APPENDIX 5B

Group Operation Highlights

- The Kangaroo-2 appraisal well 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.
- Kangaroo oil field production capabilities confirmed with successful production tests at Kangaroo-2. Production tests were successfully completed over the Paleocene and Maastrichtian aged reservoirs.
- Subsequent to the end of the quarter, the Kangaroo-2 down-dip side-track was drilled approximately 200 metres down-dip to a total depth of 2,745 mRT, intersecting a 50 metre gross (36% net to gross) oil column in the same Maastrichtian oil bearing reservoir accumulation as the Maastrichtian B oil bearing reservoir intersected in the Kangaroo-2 vertical well.

Corporate Activity Highlights

- 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 the quarter, 7,496,722 ordinary shares were bought back and cancelled under the current on-market buy-back program announced 20 August 2014. In total 9,396,922 ordinary shares have been bought back and cancelled to date.
- On 27 October 2014, the Karoon AGM was held. All resolutions were voted in accordance with Karoon Board recommendations.

Operational Summary

Australia

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

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, April 2014, of 2.2Bn bbls (net 1.1Bn bbls)¹.

Exploration permit WA-482-P, will provide for further exploration led growth with drilling of the first exploration well, Levitt-1, by Apache as Operator, which is expected to commence during the June 2015 quarter.

3D Seismic Processing and Interpretation

During the quarter, pre-stack depth migration processing of the Chrysalids marine 3D seismic survey data was on-going.

Drill Planning

Levitt-1, was selected by the joint operation during August 2014. Levitt-1 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 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 consist of geological and geophysical studies.

3D Seismic Processing and Interpretation

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

Farm-out Status Update

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

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

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 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 (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 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.

3D Seismic Processing and Interpretation

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

Drill Campaign

On 5 November 2014, Karoon spudded the Kangaroo-2 appraisal well, the first in the current 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 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 quarter, 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 quarter, the down-dip side-track was drilled to a total depth of 2,745 mRT. The side-track 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.

Following the completion of the down-dip side-track, the up-dip side-track has now commenced drilling. Once the Kangaroo-2 side-track program is complete, the rig will be moved to the Kangaroo West-1 exploration well location to drill the second firm well in the current drilling campaign.

A decision on the 2 option wells is expected to be made during the March 2015 quarter.

Farm-out Status Update

Karoon remains in farm-out discussions with interested parties.

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.

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 S-M-1352 is held by Petrobras, the operator.

Petrobras is continuing its technical and commercial assessment of the Bauna Sul (formerly Maruja) oil discovery and working on a development plan.

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 on going through the quarter in preparation for the Tumbes Basin Phase 1 exploration drilling campaign.

Farm-out Status Update

Karoon remains 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 144 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 during the quarter.

Corporate Activity Summary

Chairman Position Update

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

Dr. Klingner brings both 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. For further information on Dr. Klingner's appointment refer to Karoon's 19 December 2014 ASX announcement.

Effective on the appointment of Dr. Klingner as 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 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 buy-back program for up to 10% of its ordinary shares on issue, or up to 25,112,076 shares.

During the quarter, Karoon bought back 7,496,722 ordinary shares on-market bringing the total number of shares bought back and cancelled to 9,396,922. The remaining number of ordinary shares that can be bought back and cancelled under the existing program is 15,715,154 ordinary shares.

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

Prospective Resources 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 resources evaluated.



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

31 December 2014

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	218	262
1.2 Payments for:		
(a) exploration and evaluation	(27,072)	(47,507)
(b) development	-	-
(c) production	-	-
(d) administration	(4,292)	(10,782)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	636	897
1.5 Interest and other costs of finance paid	(248)	(656)
1.6 Income taxes (paid)/ refund	364	712
1.7 Other – GST/VAT refunds/ (payments)	1,118	1,612
Net operating cash flows	(29,276)	(55,462)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	1,418	1,424
(c) other fixed assets	(182)	(421)
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)	(80)	654,618
Net investing cash flows	1,156	655,621
1.13 Total operating and investing cash flows (carried forward)	(28,120)	600,159

	Current Quarter \$A'000	Year to date (6 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(28,120)	600,159
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	(23,749)	(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	(23,749)	(30,819)
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	699,123	39,013
1.21 Exchange rate adjustments to item 1.20	32,839	71,740
1.22 Cash as at end of Current Quarter	680,093	680,093

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	582
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: \$509,244
Consulting fees included in 1.23: \$72,526

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	111,300
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,300
Total	115,600

Reconciliation of cash

Reconciliation of cash as at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows		Current Quarter \$A'000	Previous quarter \$A'000
5.1	Cash at banks and on hand	673,657	693,052
5.2	Short-term bank deposits	6,436	6,071
5.3	Bank overdraft	-	-
5.4	Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)		680,093	699,123

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)	246,620,022	246,620,022		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	7,471 (7,496,722)	7,471 (7,496,722)		
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>			
	1,860,000		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
	936,066		674 cents	30 June 2017
	2,583,375		406 cents	30 June 2018
	<u>Performance Rights ('PER')</u>			
	66,406		Zero	29 November 2015
	274,432		Zero	30 June 2016
7.8 Issued during Current Quarter	<u>Options</u>			
	848,620		406 cents	
7.9 Exercised during Current Quarter	<u>PER</u>			
	7,471		Zero	
7.10 Expired/cancelled during Current Quarter	<u>Options</u>			
	925,000		977 cents	
	500,000		948 cents	
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 January 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 December 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.