



MARCH 2014 QUARTERLY REPORT AND APPENDIX 5B

Highlights:

Group Operations

- The fifth exploration well in the Browse Basin Phase 2 drilling campaign, Poseidon North-1, spudded during the quarter in permit WA-315-P. The current depth is 4,304 mRT and the well is drilling ahead in the 8-1/2" hole section.
- Following the farm-out deal for a 35% equity interest in Block S-M-1166 to Pacific Rubiales, Karoon received notification from the ANP that the assignment of the Block was approved to complete the transfer.
- The Grace-1 exploration well in permit WA-314-P was plugged and abandoned, no significant hydrocarbons were encountered.

Corporate Activity

- Farm-out discussions on the Browse, Santos, Tumbes and Carnarvon Basin assets are progressing. Karoon has entered into negotiations on three of the farm-out processes.
- Karoon engaged a global investment bank to formally manage the farm-out process over Block Z-38 in the Tumbes Basin, Peru.
- Karoon intends to undertake a process of Board restructuring, with the objective of having a majority Independent Board. As part of this process, Mr Stephen Power intends to retire from the Board to make way for the appointment of an Independent Director.

Operational Summary

Australia

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

During 2004, Karoon acquired exploration permits WA-314-P and WA-315-P in the Browse Basin and was subsequently awarded exploration permit WA-398-P during 2007. The permits are located 350 kilometres offshore from the north-Western Australian coast and have a combined gross area of 7,828 square kilometres.

Drilling

During March 2014, the fifth exploration well in the Browse Basin Phase 2 drilling campaign, Poseidon North-1, spudded. The well is located in WA-315-P.

As at the end of April 2014, the well had been drilled to a depth of 4,304 mRT and is currently drilling ahead in the 8-1/2" hole section.

Poseidon North-1 is located 6.5 kilometres north-east of Poseidon-1, in a crestal position on a large tilted fault block. The primary target of the well is the Plover formation and secondary target the Montara formation. Poseidon North-1 has the potential to add significantly to the already discovered Greater Poseidon resource.

The Browse Basin Phase 2 drilling campaign, consisting of 6 wells, is expected to continue through calendar year 2014. The 'Transocean Legend' semi-submersible rig is being used for the entire drilling campaign.

The drilling campaign is designed to more precisely define the size and quality of the contingent gas resource base, allowing the joint operation to move forward with selection of a development concept and progress to more in-depth project design and planning.

3D Seismic Processing and Interpretation

During the September 2013 quarter, Karoon completed the 318 square kilometre Kraken marine 3D seismic survey over the Elvie lead in exploration permit WA-314-P. Processing and initial interpretation is underway and preliminary results are expected in the coming months.

Equity Interests

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

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

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

Karoon	90%
ConocoPhillips (Operator)	10%

Carnarvon Basin Permit WA-482-P

During September 2012, Karoon entered into a farm-in agreement to acquire 100% of exploration permit WA-482-P in the Carnarvon Basin. The permit is located 300 kilometres off-shore from the north-Western Australian coast and covers an area of 13,630 square kilometres.

3D Seismic Processing and Interpretation

During the September 2013 quarter, Karoon completed the 2,386 square kilometre Chrysalids marine 3D seismic survey over the western section of the Carnarvon Basin exploration permit WA-482-P. Processing and interpretation of this seismic was on going during the quarter.

Initial fast track cube data has been received and the preliminary interpretation is encouraging, highlighting significant additional prospects with a total of 14 prospects and leads mapped in the permit to date.

Final pre-stack time migration has also now been received and processing has commenced for the pre-stack depth migration.

Equity Interest

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

Karoon	100%*
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* Subject to completion of first and second permit year work program commitments to satisfy farm-in obligations. Following completion of the second year of the permit term, Karoon has withdrawal rights under the farm-in agreement before the third permit year well commitment is entered into.

Brazil

During March 2008, Karoon was awarded 100% participation in 5 offshore exploration blocks in the Santos Basin, located approximately 112 kilometres off the coast of the State of Santa Catarina, Brazil. Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 (the 'Blocks') cover a total of 865 square kilometres, with an average water depth of approximately 400 metres. Karoon subsequently signed agreements during September 2012 to farm-out a 35% interest in the Blocks to Pacific Rubiales Energy Corp. ('Pacific Rubiales').

During August 2010, Karoon signed a farm-in agreement to acquire a 20% participation in Block S-M-1352, with the remaining 80% interest to be held by Petróleo Brasileiro S.A. ('Petrobras').

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

During the quarter, Karoon received regulatory notification from the ANP during the quarter that the assignment of Block S-M-1166 to Pacific Rubiales was approved. The transfer of a 35% interest in that block is now complete.

3D Seismic Processing and Interpretation

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

Drill Planning

Pre-drill planning for the Santos Basin Phase 2 drilling campaign was on going through the quarter and rig tender selection is at an advanced stage.

The first well of the campaign, the Kangaroo-2 appraisal well, is planned to spud during the second half of calendar year 2014.

Equity Interests

Equity interests of the participants in blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 are:

Karooon (Operator)	65%
Pacific Rubiales	35%

Santos Basin Block S-M-1352

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

Equity Interests

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

Karooon	20%
Petrobras (Operator)	80%

Peru

Tumbes Basin Block Z-38

During January 2008, Karooon signed a farm-in agreement to acquire a 20% participating interest in Block Z-38, a 4,750 square kilometre offshore block, located in the Tumbes Basin, 10 kilometres off the north-west coast of Peru. Karooon was approved as Operator during October 2009 and subsequently increased its equity interest to 75%, subject to completion of final farm-in obligations.

Drill Planning

Pre-drill planning was on going through the quarter in preparation for the Tumbes Basin Phase 1 drilling campaign. A minimum of 2 exploration wells are planned for the campaign, which is expected to commence during calendar year 2015.

Equity Interests

Equity interests in Block Z-38 are:

Karooon (Operator)	75%*
Pitkin Petroleum	25%

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

Marañón Basin 144

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

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

The permit 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.

Equity Interest

Equity interest of the participant in Block 144 is:

Karoon (Operator)	100%
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Corporate Activity Summary

Farm-out Status Update

Farm-out discussions across the Browse, Santos, Tumbes and Carnarvon Basin assets are progressing with negotiations underway on three of the assets.

Specifically relating to exploration permits WA-315-P and WA-398-P farm-out processes, current negotiations are progressing with global energy players focused on their ability to secure a higher equity interest, up to 30%. This differs from Karoon's previously indicated target range of 5-10%.

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

Karoon will also commence a farm-out process during the next quarter over Block 144, Marañón Basin, Peru. A physical data room has been established and Karoon is in the process of scheduling visits for interested parties.

Karoon remains focussed on achieving the best possible outcome for shareholders from these negotiations.



ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 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

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ('Current Quarter')

31 March 2014

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	285	1,035
1.2 Payments for:		
(a) exploration and evaluation	(117,079)	(312,010)
(b) development	-	-
(c) production	-	-
(d) administration	(3,848)	(15,353)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3,829	5,981
1.5 Interest and other costs of finance paid	(81)	(221)
1.6 Income taxes (paid)/ refund	(520)	(571)
1.7 Other – GST/VAT refunds/ (payments)	(184)	2,733
Net operating cash flows	(117,598)	(318,406)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	(82)
(b) security deposits (net)	-	15,470
(c) other fixed assets	(355)	(1,940)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (Brazilian farm-out including repayment of share of security deposits)	-	(7,328)
Net investing cash flows	(355)	6,120
1.13 Total operating and investing cash flows (carried forward)	(117,953)	(312,286)

	Current Quarter \$A'000	Year to date (9 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(117,953)	(312,286)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	175,546
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	5,106	5,106
1.17 Repayment of borrowings	(2,564)	(2,564)
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	(11)	(5,958)
Net financing cash flows	2,531	172,130
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	(115,422) 180,530	(140,156) 204,520
1.21 Exchange rate adjustments to item 1.20	(350)	394
1.22 Cash as at end of Current Quarter	64,758	64,758

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	477
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: \$442,138
Consulting fees included in 1.23: \$34,950

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	2,500	2,500
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for the next quarter

	\$A'000
4.1 Exploration and evaluation expenditure	47,300
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,700
Total	52,000

Reconciliation of cash

Reconciliation of cash as at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows		Current Quarter \$A'000	Previous quarter \$A'000
5.1	Cash at banks and on hand	35,594	51,107
5.2	Short term bank deposits	29,164	129,423
5.3	Bank overdraft	-	-
5.4	Other	-	-
	Total: Cash as at end of Current Quarter (item 1.22)	64,758	180,530

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)	255,841,581	255,841,581		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 Convertible debt securities <i>(description)</i>				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options and Performance Rights <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	<u>Options</u>			
	925,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
	1,960,000		730 cents	31 October 2015
	850,000		892 cents	1 May 2014
	1,200,000		995 cents	1 May 2015
	2,600,000		1098 cents	1 May 2016
	1,357,364		685 cents	29 November 2016
	985,826		674 cents	30 June 2017
	<u>Performance Rights ('PER')</u>			
	241,769		Zero	29 November 2015
	435,818		Zero	30 June 2016
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter				
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 2014
(Company Secretary)

Print name: Scott Hosking

Notes:

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint operating agreement and there are conditions precedent which will change its percentage interest in a petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6 'Exploration for and Evaluation of Mineral Resources'* and *AASB 107 'Statement of Cash Flows'* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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Appendix 1

Schedule of Interests in Petroleum Tenements

Held by the Karoon Gas Australia Ltd Group

As at 31 March 2014

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	ConocoPhillips	90 ⁽¹⁾
WA-315-P	Browse, Australia	ConocoPhillips	40 ⁽¹⁾
WA-398-P	Browse, Australia	ConocoPhillips	40
WA-482-P	North Carnarvon, Australia	Karoon	100 ⁽²⁾
Block S-M-1037	Santos, Brazil	Karoon	65
Block S-M-1101	Santos, Brazil	Karoon	65
Block S-M-1102	Santos, Brazil	Karoon	65
Block S-M-1165	Santos, Brazil	Karoon	65
Block S-M-1166	Santos, Brazil	Karoon	65
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) Subject to completion of first and second permit year work program commitments to satisfy farm-in obligations. Following completion of the second year of the permit term, Karoon has withdrawal rights under the farm-in agreement before the third permit year well commitment is entered into. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (3) The Group's 75% Block equity interest is subject to completion of farm-in obligations.