



SEPTEMBER 2015 QUARTERLY REPORT AND APPENDIX 5B

Operation Highlights

- Santos Basin Brazil Echidna light oil discovery net unrisked 2C contingent resource volume of 49 mmbbls (75 mmbbls gross) was announced to the ASX on 17 September 2015.
- Santos Basin Brazil updated Kangaroo light oil discovery net unrisked 2C contingent resource volume of 35 mmbbls (54 mmbbls gross) was announced to the ASX on 17 September 2015.
- The Santos Basin Brazil forward Appraisal Plan outlining the firm work program commitments to be completed by 31 December 2018 was approved by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP'). The well commitments are focused on the Echidna area.
- A highly experienced South American project management team was established to lead Karoon's efforts in appraising and developing the Echidna and Kangaroo light oil discoveries. Key appointments included Project Team Advisor, Jose Formigli and Project Team Manager, Ricardo Abi-Ramia.
- The Levitt-1 exploration well in the Carnarvon Basin Australia reached final total depth during August 2015. The reservoirs of the target Legendre and North Rankin formations were interpreted to be water bearing at this location. Cores showed the presence of some migrated oil. Good quality reservoir sands and a thick sealing unit were intersected.
- Notification was received from National Offshore Petroleum Titles Administrator accepting the exploration licence renewal application for permit WA-314-P.

Corporate Highlights

- The Board elected to continue the on-market buy-back for a further 12 months.
- Subsequent to the end of the quarter, the Karoon Annual General Meeting was held on 22 October 2015. All resolutions were voted in accordance with Board recommendations.

Operational Summary

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 200 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 a farm-out of a 35% interest to Pacific Rubiales (renamed Pacific Exploration and Production Corp.), an initial 3 well exploration drilling campaign during 2013 delivered the Kangaroo and Bilby oil discoveries.

During 2015, a second phase three well drilling campaign was completed. The Kangaroo-2 appraisal well, with up-dip and down-dip sidetracks, was flow tested confirming the presence of a material oil resource and good reservoir productivity. The Echidna-1 exploration well delivered the Echidna light oil discovery with a flow test confirming good reservoir productivity.

During August 2015, the revised Appraisal Plan (Plano de Avaliação de Descobertas or 'PAD') was approved by ANP for the follow-on work program.

The firm PAD commitments are to be completed by 31 December 2018. These include 2 firm wells in the Echidna/ Emu area, the acquisition and processing of a new 3D seismic survey, pre-stack depth migration of data at 2 millisecond ('ms') sampling and further processing of 2 ms data to increase resolution.

The contingent work program period commences on 1 January 2019 and consists of drilling up to four contingent wells. Each contingent well drilled will result in a 6 month extension to the contingent period, potentially extending the contingent work program period out to a maximum end date of 31 December 2020.

Following the successful drilling campaign, during September 2015 Karoon presented preliminary development concepts for the Echidna and Kangaroo resources. Due to the size of the resource, strong production test results and lower reservoir complexity, the Echidna resource is the focus of the forward program.

Contingent Resource Volume Update

During the quarter, Karoon announced to the ASX an update to the contingent resource volume estimate for the Blocks.

The Echidna light oil discovery, announced during May 2015, is estimated to have a net unrisked 2C contingent resource volume of 49 mmbbls (75 mmbbls gross).

The updated Kangaroo light oil discovery net unrisked 2C contingent resource volume estimate was revised to 35 mmbbls (54 mmbbls gross). While the updated contingent resource volumes were lower than those announced during August 2013, greater well control and new higher resolution 2 ms 3D seismic data has resulted in a greater level of certainty on the revised contingent resource volumes, which is reflected in the tighter contingent resource volume range.

Note, the Kangaroo and Echidna contingent resource volumes were prepared on a probabilistic basis and have previously been disclosed in Karoon's ASX announcement 'Contingent Resource Volume Update: Santos Basin Brazil' dated 17 September 2015. Karoon is not aware of any new information or data that materially affects the resource estimates and all material assumptions and technical parameters underpinning these estimates continue to apply and have not materially changed.

The Santos Basin contingent resource volumes represent Karoon's internal management estimates and have not necessarily been validated or agreed by joint operation partner Pacific Exploration and Production Corp.

Forward Work Program

The forward work program is expected to consist of between 2 and 4 wells, with drilling planned to commence during the June quarter 2016. It will be focused on the appraisal of the Echidna light oil discovery. At the end of the drilling work program, Karoon expects to be in a position to consider a final investment decision on Echidna with respect to an early production system.

Farm-out Status Update

While Karoon remains in discussions with interested parties, a data room process is expected to commence during the first quarter of calendar year 2016.

Santos Basin Block S-M-1352

KAR 20% Interest, Non-Operator

Block S-M-1352, Santos Basin, is located approximately 200 kilometres off the coast of the State of Santa Catarina, Brazil.

Due to the limited recoverable resource estimate of the Bauna Sul oil discovery and timing restrictions on a development decision, an application was made during the June 2015 quarter by Petrobras, the Operator, to the ANP to relinquish the block.

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 north Western Australian Coast in a water depth of between 400 and 2,000 metres. The permit covers an area of 13,539 square kilometres.

Levitt-1 Drill Results

During the quarter, the Levitt-1 exploration well spudded on 4 July 2015 in the permit, operated by Quadrant Energy Australia Limited ('Quadrant', formerly Apache), and it was completed on 8 August 2015 reaching a final total depth of 4,929 mRT. The 'Ocean America' semi-submersible drilling rig was used to drill the well.

Petrophysical analysis indicates good quality reservoir in the Legendre and North Rankin formations with a thick sealing unit penetrated over the North Rankin formation, however, the sands were water bearing at this location.

Analysis of mechanical sidewall core tool cores from the North Rankin formation show oil fluorescence, which is indicative of generated and migrating oil.

While the Legendre and North Rankin formations were water bearing at this location, the presence of good reservoirs and seals is encouraging and provides support for a possible working petroleum system present in the acreage.

Subsequent to a farm-out of a 50% interest in the permit during May 2014, Karoon was carried for 90% of the cost of the Levitt-1 exploration well by Quadrant. The total net cost of the well to Karoon was approximately \$5 million.

3D Seismic Acquisition, Processing and Interpretation

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

The acquisition of a regional third party Capreolus 3D seismic survey was ongoing.

The multi-client Capreolus 3D seismic survey is expected to cover a minimum area of 22,130 square kilometres with high resolution broadband 3D seismic. This survey includes a significant area over the eastern part of WA-482-P. The joint operation is licencing 5,256 square kilometres of the survey data being acquired over the eastern part of the permit.

The eastern part of WA-482-P is an area of significant interest with a number of interesting structures and the depocentre of the oil mature Wigmore Sub-basin identified from historical 2D seismic data in this relatively underexplored part of the north-west shelf. The Capreolus 3D survey will provide high quality 3D seismic data to better define, risk and rank identified leads.

The permit covers a very large area and contains numerous prospects and leads. The drilling results along with the new Capreolus 3D seismic survey will be incorporated into the basin modelling studies and used to high grade the prospects prior to further exploration drilling.

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 north Western Australian coast in an average water depth of 500 metres. The permit covers an area of 1,953 square kilometres.

During the quarter, Karoon successfully negotiated the exploration licence renewal over the permit for a five year term. The firm work program for the first 3 years consists of geological and geophysical studies.

Following interpretation of the Kraken 3D seismic data and thermal maturation modelling, evidence of hydrocarbons generating from a source kitchen to the northwest of the Elvie structure suggests that the kitchen is oil prone. Previous expectations were anticipated that the Elvie prospect was wet gas only.

Farm-out Status Update

Discussions with interested parties remained ongoing during the quarter.

Peru

Tumbes Basin Block Z-38

KAR 75% Interest, Operator

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

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

Seismic Reprocessing and Interpretation

Advanced geophysical studies (amplitude versus offset) studies commenced during the quarter using the existing 3D seismic data.

Farm-out Status Update

Discussions with interested parties remained ongoing during the quarter.

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 until 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

Discussions with interested parties remained ongoing during the quarter.



ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 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

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ('Current Quarter')

30 September 2015

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	91	91
1.2 Payments for:		
(a) exploration and evaluation	(30,278)	(30,278)
(b) development	-	-
(c) production	-	-
(d) administration	(5,040)	(5,040)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	295	295
1.5 Interest and other costs of finance paid	(76)	(76)
1.6 Income taxes (paid)/ refund	(39)	(39)
1.7 Other – GST/VAT refunds/ (payments)	585	585
Net operating cash flows	(34,462)	(34,462)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	17	17
(c) other fixed assets	(107)	(107)
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	-	-
Net investing cash flows	(90)	(90)
1.13 Total operating and investing cash flows (carried forward)	(34,552)	(34,552)

	Current Quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(34,552)	(34,552)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Share buy-back (on-market)	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	-	-
Net financing cash flows	-	-
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	553,091	553,091
1.21 Exchange rate adjustments to item 1.20	44,223	44,223
1.22 Cash as at end of Current Quarter	562,762	562,762

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	583
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: \$530,218
Consulting fees included in 1.23: \$52,885

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	13,900
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,500
4.5 Share buy-back (on-market)	574
Total	18,974

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	548,624	529,169
5.2 Short-term bank deposits	14,138	23,922
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)	562,762	553,091

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)	246,853,361	246,853,361		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through share buy-backs	197,622 -	197,622 -		
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> 1,800,000 400,000 900,262 2,902,026 56,604		730 cents 1098 cents 674 cents 406 cents 406 cents	31 October 2015 1 May 2016 30 June 2017 30 June 2018 30 December 2018
	<u>Performance Rights ('PER')</u> 96,947		Zero	30 June 2016
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter				
	<u>PER</u> 197,622		Zero	
	<u>Options</u> 1,292,251		685 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 October 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.

Appendix 1

Schedule of Interests in Petroleum Tenements

Held by the Karoon Gas Australia Ltd Group

As at 30 September 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 ⁽³⁾
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 ⁽⁴⁾

- (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) An application was made during the June 2015 quarter by the Operator to the ANP to relinquish the block.
- (4) The Group's 75% equity interest is subject to completion of farm-in obligations.