KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

INTERIM FINANCIAL REPORT
FOR THE FINANCIAL HALF-YEAR ENDED
31 DECEMBER 2012

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DIRECTORS' REPORT
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

The Board of Directors submit 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 2012 (the 'financial half-year').

Board of Directors

The names of the Directors of the Company during the financial half-year and up to the date of this Directors' Report are set out below:

Mr Robert M. Hosking – Executive Chairman;
Mr Mark A. Smith – Executive Director;
Mr Geoff Atkins – Independent Non-Executive Director;
Mr Clark Davey – Independent Non-Executive Director;
Mr Stephen Power – Non-Executive Director; and
Mr Jose Coutinho Barbosa – Non-Executive Director.

Highlights - Company Operations

- Successful drilling and testing of the first well in the phase two Browse Basin drilling campaign. The Boreas-1 exploration well achieved an equipment constrained stabilised gas flow rate of 30.2 million standard cubic feet per day ('mmscf/d') through a 40/64 inch choke at a well head pressure of 3,300 psia and an associated condensate rate of 18 barrels per million standard cubic feet ('mmscf').

- Commencement of the Zephyros-1 exploration well, the second well in the phase two Browse Basin drilling campaign.

- Execution of final agreements to acquire a 100% interest in exploration permit WA-482-P in the North Carnarvon Basin, Australia.

- Drilling in Brazil commenced with the Kangaroo-1 exploration well, which spudded during December 2012.

- Execution of agreements for Pacific Brasil Exploração e Produção de Óleo e Gás Ltda ('PRE'), a subsidiary of Pacific Rubiales Energy Corp, to acquire a 35% interest in Karoon's wholly owned Santos Basin exploration Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165, with an option to acquire a 35% interest in Block S-M-1166.

- Preparations for drilling in the Tumbes Basin, Peru continued with long lead items on order, new service contracts approved and tenders received for drilling rigs indicating availability late calendar 2013.

Financial Results

The consolidated loss for the financial half-year was $8,697,796 (2011: profit of $2,689,108). The loss for the financial half-year was largely attributable net foreign currency losses of $1,614,262 (2011: Gain of $4,920,803) on USD denominated cash and cash equivalents and security deposits held by the Group as at 31 December 2012 and net employee benefits expense of $5,728,163 (2011: $5,170,016), partially offset by interest income of $4,230,742 (2011: 7,982,405).

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Review of Operations

Australia

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

During the financial half-year, the 'Transocean Legend' drilling rig resumed drilling the Boreas-1 exploration well after resolving blowout preventer problems. The well cut core through the gas bearing reservoir interval before conducting a full wireline logging evaluation at total depth and a drill stem test was then conducted.

During drill stem testing, the well flowed gas to the surface from a 70 metre reservoir section at an equipment constrained stabilised gas flow rate of 30.2 mmscf/d through a 40/64 inch choke at a well head pressure of 3,300 psia. A condensate/gas ratio of 18 bbl/mmscf was also measured at the surface, along with a 16% CO^2 content taken from the gas flow on a volume basis. This condensate/gas ratio was almost double the rate tested in the Kronos-1 well.

The Boreas-1 well was plugged and abandoned prior to spudding the Zephyros-1 well in WA-398-P. Zephyros-1 was then drilled to a depth of 2,691 metres where the 13-3/8" surface casing was set and repairs to the blowout preventers ('BOP') were undertaken. Following completion of BOP repairs, drilling ahead commenced in the 12-1/4" hole section during January 2013. It is anticipated that the target section will be drilled during the first quarter of calendar 2013.

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

Karoon Gas Browse Basin Pty Ltd	40%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	60%

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

Karoon Gas Browse Basin Pty Ltd	90%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	10%

North Carnarvon Basin Permit WA-482-P

During the financial half-year, Karoon executed final agreements to acquire a 100% interest in the North Carnarvon Basin permit WA-482-P from Liberty Petroleum Corporation. In consideration for the equity in the permit, during the first two work permit years, Karoon will manage the permit and be solely responsible for the work programmes, budgets and expenditure on the permit.

Work continues to accelerate the exploration of this prospective permit including preparing environmental referral documents for submittal to the National Offshore Petroleum Safety and Environmental Management Authority ('NOPSEMA') and the planning of the second permit year seismic program.

Karoon is currently completing the final equity transfer process with the designated authority. At the completion of this process, and subject to completion of farm-in obligations, Karoon will hold a 100% equity interest in WA-482-P.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Review of Operations (continued)

Brazil

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

Interpretation of re-processed wide azimuth dataset continued during the financial half-year so as to further enhance the resolution of the data and assist with selection of well locations and the provision of additional definition of the pre-salt structuring within the Blocks.

The 'Blackford Dolphin' drilling rig commenced drilling at the Kangaroo-1 well location on 28 December 2012. The 'Blackford Dolphin' drilling rig is currently scheduled for a three well drilling campaign on Karoon's 100% owned Santos Basin Blocks.

During the financial half-year, Karoon's wholly owned subsidiary, Karoon Petróleo & Gas Ltda and PRE executed final agreements for it to acquire a 35% interest in Karoon's wholly owned Santos Basin exploration Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165, with an option to acquire a 35% interest in S-M-1166 (the 'Blocks').

In consideration for acquiring the interests in the Blocks, PRE paid Karoon cash consideration of USD40 million and will carry up to USD210 million in well costs. PRE will pay the initial USD70 million of each of the first two wells of a three well drilling campaign in Brazil, followed by 35% of all costs thereafter. In the case that PRE exercises its option for entry into the third well in the drilling campaign, Bilby, it will pay the initial USD70 million well costs and 35% of costs thereafter.

Provided all regulatory approvals are received from the ANP, the Brazilian Government agency responsible for regulation of the petroleum industry, and subject to completion of farm-in obligations by PRE, equity interests of the participants in Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165 will be:

Karoon Petróleo & Gas Ltda (Operator)	65%
Pacific Brasil Exploração e Produção de Óleo e Gás Ltda	35%

Karoon currently holds an equity interest of 100% in Block S-M-1166, however, PRE has an option to acquire a 35% equity interest in this Block, which will be subject to regulatory approval from the ANP.

Santos Basin Block S-M-1352

Karoon continued its assessment of the results from the Maruja-1 and Maruja-2 wells. The operator, Petróleo Brasileiro SA ('Petrobras'), is currently continuing its technical and commercial assessment of the Maruja discoveries while working with the ANP on the future of the field.

Karoon Petróleo & Gas Ltda entered into an agreement with Petrobras on 23 August 2010 to acquire a 20% interest in Block S-M-1352, which is part of the BM-S-41 Concession. The acquisition is subject to regulatory approval being granted by the ANP. Petrobras is currently in discussions with the ANP regarding the ongoing status of the BM-S-41 Concession and Karoon's 20% interest. Karoon is not a party to ongoing discussions between Petrobras and the ANP.

Provided all regulatory approvals are granted from the ANP, equity interests of the participants in BM-S-41/S-M-1352 will be:

Karoon Petróleo & Gas Ltda	20%
Petróleo Brasileiro S.A. (Operator)	80%

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Review of Operations (continued)

Peru

Block Z-38

Interpretation of 1,500 square kilometres of 3D seismic was completed during the financial half-year. Results of the interpretation have allowed detailed prospect oriented interpretation, indicating the presence of up to nineteen prospects and leads within the Block.

Combining drop core results with the 3D seismic work and offset well information from surrounding fields, has resulted in the development of a geological model that is supportive of the presence of a diverse range of potentially large commercial oil and gas prospects where all the required petroleum system elements are in place.

Karoon continued to prepare for drilling in Block Z-38. This process included tenders for the provision of various drilling related items in preparation for the Tumbes Basin Block Z-38 exploration drilling campaign. The likely timing for the commencement of drilling is expected late calendar 2013. Karoon will be utilising its existing South American drilling team for this drilling campaign.

Equity interests of the participants 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.

Block 144

During the financial half-year, Karoon continued its geotechnical, social and environmental work in the Block including the interpretation of 1,000 kilometres of existing 2D seismic data and offset well information in preparation for stratigraphic studies of the onshore Maranon Basin.

Continuing geophysical interpretation, using the reprocessed data, has identified the presence of several four-way dip closed structures in the eastern portion of the Block, in addition to the closure in the southern part of the Block.

Karoon is continuing the environmental impact assessment application works for acquiring 300 kilometres of 2D seismic. The planned survey is to be concentrated on the prospects in the eastern part of the Block. The permit is currently in force majeure while social work programs and introductions are completed.

Karoon has a 100% equity interest in Block 144.

Brazil, Peru and Australia Farm-out Status

During the financial half-year, Karoon successfully executed agreements to farm-out a 35% equity interest in its wholly owned Santos Basin Blocks and continued to work with interested parties for the farm-out of its equity interests in the Tumbes Basin, Peru and WA-314-P in the Browse Basin, Australia. Karoon aims to complete the remaining farm-outs in advance of anticipated drilling during late calendar 2013.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Future Plans, Development, Business Strategies and Prospects

Other than the matters included in this Directors' Report or elsewhere in the Interim Financial Report, future developments, business strategies and prospects of the Group and the expected results of those operations have not been disclosed as the Directors believe that the inclusion would most likely result in unreasonable prejudice to the Company and/or the Group.

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 7.

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

On behalf of the Directors:

Mr Robert Hosking
Executive Chairman

8 March 2013
Melbourne

pwc

Auditor's Independence Declaration

As lead auditor for the review of Karoon Gas Australia Ltd and the Karoon Gas Australia Ltd Group for the half year ended 31 December 2012, 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.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
8 March 2013

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

	Note	Consolidated Half-year ended 31 Dec 2012 $	Consolidated Half-year ended 31 Dec 2011 $
Revenue	2	4,230,742	7,982,405
Other income	2	-	4,934,439
Total revenue and other income		4,230,742	12,916,844
Computer support		(506,721)	(441,865)
Consulting fees		(218,277)	(377,503)
Depreciation and amortisation expense		(469,967)	(472,497)
Employee benefits expense (net)		(5,728,163)	(5,170,016)
Exploration and evaluation expenditure expensed or written off		(531,089)	(547,453)
Farm-out costs		(611,150)	(100,683)
Finance costs		(101,444)	(154,341)
Insurance expense		(900,087)	(570,214)
Legal fees		(153,396)	(90,029)
Net foreign currency losses	2	(1,614,262)	-
Property costs		(556,093)	(539,146)
Share registry and listing fees		(142,579)	(133,804)
Telephone and communication expenses		(180,946)	(150,189)
Travel and accommodation expenses		(488,719)	(634,902)
Brazilian initial public offering expenses		-	(99,145)
Other expenses		(725,645)	(745,949)
Total expenses		(12,928,538)	(10,227,736)
Profit (loss) before income tax		(8,697,796)	2,689,108
Income tax expense		-	-
Profit (loss) for financial half-year attributable to equity holders of the Company	2	**(8,697,796)**	**2,689,108**
Other comprehensive income (loss), net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(3,224,829)	(11,906,140)
Other comprehensive loss for financial half-year, net of income tax		**(3,224,829)**	**(11,906,140)**
Total comprehensive loss for financial half-year attributable to equity holders of the Company, net of income tax		**(11,922,625)**	**(9,217,032)**
Profit (loss) per share attributable to equity holders of the Company:			
Basic profit (loss) per ordinary share		(0.0393)	0.0121
Diluted profit (loss) per ordinary share		(0.0393)	0.0121

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	Consolidated 31 Dec 2012 $	Consolidated 30 June 2012 $
Current assets			
Cash and cash equivalents		228,251,523	227,802,316
Receivables		3,357,200	3,362,813
Inventories		17,090,729	13,051,792
Security deposits		37,988,187	35,090,209
Current tax asset		162,890	503,416
Assets classified as held for sale	5	77,212,257	-
Other assets		9,434,509	8,058,487
Total current assets		373,497,295	287,869,033
Non-current assets			
Plant and equipment		2,039,865	2,036,567
Intangible assets		565,311	679,426
Exploration and evaluation expenditure carried forward		323,950,706	313,884,275
Security deposits		7,337,850	7,470,369
Other assets		-	142,177
Total non-current assets		333,893,732	324,212,814
Total assets		707,391,027	612,081,847
Current liabilities			
Trade and other payables		34,727,652	11,275,782
Financial liabilities	6	14,855,997	-
Other liabilities	7	66,200,052	-
Total current liabilities		115,783,701	11,275,782
Non-current liabilities			
Provisions		251,990	206,144
Total non-current liabilities		251,990	206,144
Total liabilities		116,035,691	11,481,926
Net assets		**591,355,336**	**600,599,921**
Equity			
Contributed equity	8	664,894,335	664,894,335
Accumulated losses		(70,000,532)	(61,302,736)
Share-based payments reserve		26,996,092	24,318,052
Foreign currency translation reserve		(30,534,559)	(27,309,730)
Total equity		**591,355,336**	**600,599,921**

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 2012

Consolidated	Contributed Equity	Accumulated Losses	Share-based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$	$
Balance as at 1 July 2011	664,894,335	(58,015,354)	18,348,582	(7,360,239)	617,867,324
Profit for previous financial half-year	-	2,689,108	-	-	2,689,108
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(11,906,140)	(11,906,140)
Total comprehensive profit (loss) for financial half-year	-	2,689,108	-	(11,906,140)	(9,217,032)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Transaction costs arising on ordinary shares issued	-	-	-	-	-
Share-based payments expense	-	-	2,382,252	-	2,382,252
	-	-	2,382,252	-	2,382,252
Balance as at 31 December 2011	**664,894,335**	**(55,326,246)**	**20,730,834**	**(19,266,379)**	**611,032,544**
Balance as at 1 July 2012	664,894,335	(61,302,736)	24,318,052	(27,309,730)	600,599,921
Loss for financial half-year	-	(8,697,796)	-	-	(8,697,796)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(3,224,829)	(3,224,829)
Total comprehensive profit (loss) for financial half-year	-	(8,697,796)	-	(3,224,829)	(11,922,625)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	-	-	-	-	-
Transaction costs arising on ordinary shares issued	-	-	-	-	-
Share-based payments expense	-	-	2,678,040	-	2,678,040
	-	-	2,678,040	-	2,678,040
Balance as at 31 December 2012	**664,894,335**	**(70,000,532)**	**26,996,092**	**(30,534,559)**	**591,355,336**

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 2012

	Consolidated	
	Half-year ended	
	31 Dec 2012 $	31 Dec 2011 $
Cash flows from operating activities		
Receipts from customers (inclusive of GST refunds)	163,867	2,763,234
Payments to suppliers and employees (inclusive of GST)	(7,264,493)	(7,537,358)
Payments for exploration and evaluation expenditure expensed	(540,633)	(547,453)
Interest received	4,509,330	11,714,712
Interest and other costs of finance paid	(101,444)	(154,341)
Income taxes refund/ (paid)	326,842	(560,717)
Net cash flows provided by/ (used in) operating activities	(2,906,531)	5,678,077
Cash flows from investing activities		
Purchase of plant and equipment and computer software	(354,470)	(792,642)
Payments for exploration and evaluation expenditure capitalised	(71,821,337)	(21,165,573)
Repayment (payment) of security deposits	(3,883,054)	11,686,943
Advance payments (Brazilian farm-out)	66,257,213	-
Refundable share of insurance bond	14,798,836	-
Proceeds from disposal of non-current assets	-	13,636
Net cash flows provided by/ (used in) investing activities	4,997,188	(10,257,636)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	-	-
Payments for transaction costs arising on ordinary shares issued	-	-
Net cash flows provided by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	2,090,657	(4,579,559)
Cash and cash equivalents at beginning of financial half-year	227,802,316	266,839,144
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(1,641,450)	4,327,115
Cash and cash equivalents at end of financial half-year	**228,251,523**	**266,586,700**

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 2012

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 shall be read in conjunction with the Annual Report for the financial year ended 30 June 2012.

The condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as used in the corresponding previous financial half-year and Annual Report for the financial year ended 30 June 2012, 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.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with financial half-year amounts and other disclosures.

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 2012.

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial half-year that are relevant to the Group include:

- Amendments to *AASB 101 'Presentation of Financial Statements'* and AASB 134 as a consequence of *AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'*.

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 the amounts reported for the current or previous financial half-years. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its financial half-year condensed consolidated financial statements.

AASB 2011-9 introduced new terminology for the statement of comprehensive income and income statement. Under amendments to AASB 101, the statement of comprehensive income was renamed as a statement of profit or loss and other comprehensive income. The amendment required the Group to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It did not affect the measurement of any of the items recognised in comprehensive income. The amendment has also been applied retrospectively.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012**

Note 1. Basis of Preparation of Condensed Consolidated Financial Statements (continued)

Going Concern

On the basis of the present level of operations and after consideration of the Group's ability to:

(i) farm-out its interests in exploration permits/Blocks in order to fund future exploration expenditure commitments;
(ii) raise capital through the issue of new ordinary shares in the Company to meet working capital requirements and/or shortfalls in exploration expenditure commitments; and/or
(iii) manage its existing cash and future cash flows to meet its current obligations and future plans,

the Directors are of the opinion that for the next twelve month period from the date of signing the Directors' Declaration, the Group and Company will have sufficient liquidity to meet their existing commitments and accordingly present these condensed consolidated financial statements on a going concern basis.

Note 2. Results For Financial Half-Year

	Consolidated	
	31 Dec 2012 $	31 Dec 2011 $
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	4,230,742	7,982,405
Net foreign currency gains	-	4,920,803
Net foreign currency losses	(1,614,262)	-
Share-based payments expense	(2,678,040)	(2,382,252)

Note 3. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2011: $Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

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 Executive Chairman and Executive Director/Exploration Director (identified as the 'chief operating decision maker') in assessing performance and in determining the allocation of resources.

In the previous financial half-year, operating segments were identified based on the Group's equity interest in each individual exploration permit and aggregated where the economic circumstances and long-term planning and operational considerations of the individual exploration permits were such that they were considered interdependent.

The operating segments now identified are based on the Group's geographical location of its operations, which has resulted in a change in both the basis of segmentation and the basis of measurement of segment profit (or loss) and segment assets.

The Group has now 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 four offshore permit areas: WA-314-P, WA-315-P, WA-398-P and WA-482-P (31 December 2011: WA-314-P, WA-315-P and WA-398-P);
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in five offshore Blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165 and Block S-M-1166; 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.

Segment revenues and results do not include transfers between 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 are measured in a manner consistent with that of the condensed consolidated financial statements. Reportable segment assets are equal to consolidated total assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Note 4. Segment Information (continued)

(b) Operating Segments

Segment performance

	Australia $	Brazil $	Peru $	All Other Segments $	Consolidated $
Revenue for financial half-year 31 December 2012					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	2,385,076	1,845,639	27	-	4,230,742
Total revenue	2,385,076	1,845,639	27	-	4,230,742
Result for financial half-year 31 December 2012					
Revenue	2,385,076	1,845,639	27	-	4,230,742
Depreciation and amortisation expense	(374,858)	(86,550)	(8,559)	-	(469,967)
Employee benefits expense (net)	(4,582,323)	(1,010,136)	(135,704)	-	(5,728,163)
Exploration and evaluation expenditure expensed or written off	(432,367)	(74,751)	(6,943)	(17,028)	(531,089)
Finance costs	(30,831)	(66,317)	(4,296)	-	(101,444)
Net foreign currency losses	(1,617,703)	(9,335)	12,776	-	(1,614,262)
Property costs	(336,372)	(217,621)	(2,100)	-	(556,093)
Administration and other operating expenses	(2,385,568)	(1,197,549)	(344,403)	-	(3,927,520)
Loss before income tax	(7,374,946)	(816,620)	(489,202)	(17,028)	(8,697,796)
Revenue for financial half-year 31 December 2011					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	5,264,603	2,717,802	-	-	7,982,405
Total revenue	5,264,603	2,717,802	-	-	7,982,405
Result for financial half-year 31 December 2011					
Revenue	5,264,603	2,717,802	-	-	7,982,405
Other income	5,012,677	(103,025)	24,787	-	4,934,439
Depreciation and amortisation expense	(405,351)	(64,385)	(2,761)	-	(472,497)
Employee benefits expense (net)	(3,823,708)	(1,287,824)	(58,484)	-	(5,170,016)
Exploration and evaluation expenditure expensed or written off	(544,888)	(2,080)	(411)	(74)	(547,453)
Finance costs	(97,399)	(54,721)	(2,221)	-	(154,341)
Property costs	(372,148)	(166,183)	(815)	-	(539,146)
Administration and other operating expenses	(1,627,904)	(1,563,470)	(152,909)	-	(3,344,283)
Profit before income tax	3,405,882	(523,886)	(192,814)	(74)	2,689,108

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Note 4. Segment Information (continued)

(b) Operating Segments (continued)

Segment assets	Australia	Brazil	Peru	All Other Segments	Consolidated
	$	$	$	$	$
As at 31 December 2012					
Segment asset information					
Cash and cash equivalents	161,109,409	66,707,869	434,245	-	228,251,523
Exploration and evaluation expenditure carried forward	264,905,760	30,041,097	29,003,849	-	323,950,706
Security deposits	344,385	38,095,284	6,886,368	-	45,326,037
Inventories	2,035,707	15,055,022	-	-	17,090,729
Assets held for sale	-	77,212,257	-		77,212,257
Other	4,724,847	6,823,743	4,011,185	-	15,559,775
Segment assets	433,120,108	233,935,272	40,335,647	-	707,391,027
As at 30 June 2012					
Segment asset information					
Cash and cash equivalents	226,230,091	1,153,673	418,552	-	227,802,316
Exploration and evaluation expenditure carried forward	220,318,279	66,466,372	27,099,624	-	313,884,275
Security deposits	344,385	35,197,810	7,018,383	-	42,560,578
Inventories	932,223	12,119,569	-	-	13,051,792
Other	6,855,329	5,411,082	2,516,475	-	14,782,886
Segment assets	454,680,307	120,348,506	37,053,034	-	612,081,847

Note 5. Assets Classified As Held For Sale

	Consolidated	
	31 Dec 2012	**30 June 2012**
	$	**$**
Exploration and evaluation expenditure carried forward held for sale (a)	77,212,257	-
Total assets classified as held for sale	77,212,257	-

(a) As described in Note 7, the Company has executed agreements to dispose of a 35% interest in the Company's Santos Basin Exploration Blocks, S-M-1101, S-M-1102, S-M-1037 and S-M-1165. Exploration and evaluation expenditure carried forward relating to this interest has therefore, been reclassified as held for sale.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Note 6. Financial Liabilities

Refer to Note 7 for information on other liabilities held by the Group.

Note 7. Other Liabilities

On 18 September 2012 Karoon Petróleo & Gas Ltda, a wholly owned subsidiary of the Company executed agreements (the 'Agreements') with PRE, for PRE to acquire a 35% interest in the Company's Santos Basin Exploration Blocks, S-M-1101, S-M-1102, S-M-1037 and S-M-1165 with an option to acquire a 35% interest in S-M-1166 ("Blocks").

In consideration for acquiring the interest in the Blocks, PRE paid USD40 million cash consideration in advance for the interests, was required to submit a share of a refundable insurance bond (security deposit) totalling USD15.3 million and will carry USD70 million in well costs for each of the first two wells in the Santos Basin drilling campaign, for a cumulative total of USD140 million in well carry. After meeting the first USD70 million in well costs for each of the first two wells, PRE must meet 35% of all well costs thereafter.

If PRE elects to participate in the third well in the campaign it must carry up to the first USD70 million of well costs for that well and meet 35% of all well costs over and above the first USD70 million.

Karoon Petróleo & Gas Ltda's assignment of the 35% interest in the respective Blocks is conditional on obtaining regulatory approval from the Agencia Nacional do Petroleo ('ANP') within 18 months of submission of documents to ANP, with the potential of a further 6 month period to obtain ANP approval if other outcomes cannot be agreed between the parties.

If ANP approval is not met within the above extended timeframe, or as a result of a number of other scenarios including but not limited to misrepresentation by Karoon Petróleo & Gas Ltda or a breach of the Agreements by Karoon Petróleo & Gas Ltda, it would in certain circumstances result in the repayment of amounts advanced by Karoon Petróleo & Gas Ltda to PRE as provided in the Agreements.

In accordance with the Agreements, a cash consideration of USD40 million was received in advance as consideration for the assignment and further funds of USD29.1 million were received as part of the well carry for the first two wells. As at 31 December 2012, $66,200,052 had been received and recorded as an "Other Liability" in the Statement of Financial Position. Because the liability is expected to be settled within 12 months by transferring the equity interest in the Blocks, the liability has been classified as a current liability. Karoon Petróleo & Gas Ltda will, however, not be required to pay any cash to settle the liability within the next 12 months. A financial liability will be recognised in the future if the extended timeframe lapses, or as the result of a number of other scenarios including but not limited to misrepresentation by Karoon Petróleo & Gas Ltda or a breach of the Agreements by Karoon Petróleo & Gas Ltda.

Before 31 December 2012, PRE also made a payment of USD15.3 million in respect of the insurance bond amount required for its share of the minimum work programme commitments. This amount, or parts thereof, will be repaid to PRE if it elects not to participate in the third well and/or fulfilment of the minimum work programme. This amount has been classified as a current financial liability in the Statement of Financial Position and as at 31 December 2012 totalled $14,855,997.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012**

Note 8. Contributed Equity

	Consolidated	
	31 Dec 2012	**30 June 2012**
(a) Share Capital	**$**	**$**
Ordinary shares, fully paid	664,894,335	664,894,335
Total contributed equity	664,894,335	664,894,335

(b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares	$
1 July 2011	Opening balance in previous financial year	221,420,769	664,894,335
30 June 2012	Balance at end of previous financial year	221,420,769	664,894,335
31 December 2012	Balance at end of financial half-year	221,420,769	664,894,335

Note 9. Commitments

	Consolidated	
	31 Dec 2012 $	**30 June 2012 $**
(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	106,829,917	122,162,003
Total capital expenditure commitments	106,829,917	122,162,003

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Note 9. Commitments (continued)

	Consolidated	
	31 Dec 2012 $	**30 June 2012 $**
(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 exploration permits WA-314-P, WA-315-P, WA-398-P, WA-482-P, 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 2012: WA-314-P, WA-315-P, WA-398-P, Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166, Block Z-38, Block 144) not provided for in the condensed consolidated financial statements and payable. Included in exploration expenditure commitments are $108,100,000 (30 June 2012: $66,248,229) of commitments that relate to the non-guaranteed work commitments:		
Not later than one year	368,170,050	343,876,544
Later than one year but not later than five years	296,267,466	198,955,083
Total exploration expenditure commitments	664,437,516	542,831,627

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 agreements, which are typical of the normal operating activities of the Group.

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, the minimum commitments for Blocks S-M-1101, S-M-1102, S-M-1037, S-M-1165 and S-M-1166 included above are based on a 100% equity share and do not reflect the completion and regulatory approval of the farm-out of these Blocks, as described in Note 7.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

Note 10. Contingent Liabilities

On 23 August 2010, Karoon Petróleo & Gas Ltda, executed a farm-in agreement with Petrobras to acquire a 20% interest in Block S-M-1352, which is part of the BM-S-41 Concession located in the offshore Santos Basin, Brazil.

Under the farm-in agreement and subject to obtaining regulatory approvals from the ANP (the Brazilian Petroleum Agency), Karoon Petróleo & Gas Ltda will earn a 20% equity interest by funding a proportion of the cost of two exploration wells. Karoon Petróleo & Gas Ltda will then pay its equity share of continued work and reimburse Petrobras for sunk costs.

The two exploration wells included drilling of the Quasi Prospect in Block S-M-1354, which were subsequently plugged and abandoned during September 2010. The second well, the Maruja-1 exploration well in Block S-M-1352, commenced drilling during September 2010 and was suspended following a completion of a production test during January 2011. Block S-M-1354 expired during November 2010 and was formally relinquished by Petrobras during January 2011. The farm-in area of S-M-1352 has been reduced to an area around the Maruja discovery. This reduction also includes the partial relinquishment of S-M-1352.

Continued work has also included the drilling of a third well, the Maruja-2 appraisal well, which was completed and abandoned during March 2011.

Under the farm-in agreement with Petrobras, the Group's share of the costs incurred on both Blocks as at 31 December 2012 was $43,793,223 (30 June 2012: $44,622,592), that is payable upon obtaining regulatory approvals.

An uplift fee of $906,683 (30 June 2012: $2,722,991) for a full license to non-exclusive seismic data is also payable upon the completion of this farm-in and obtaining regulatory approval.

The Group also had contingent liabilities as at 31 December 2012, in the form of insurance bonds, performance guarantees, bank guarantees and bonds, for which there have not been any significant changes from the 30 June 2012 Annual Report.

Note 11. Subsequent Events

The Interim Financial Report was authorised for issue by the Board of Directors on 8 March 2013. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements.

Since 31 December 2012, the following material events have occurred:

Santos Drilling Campaign

(a) During January 2013, the Kangaroo-1 exploration well in the Santos Basin, Brazil reached a total depth of 3,049 metres and intersected an oil column in the Eocene reservoirs at a depth of 1,947 metres. The Kangaroo oil discovery was confirmed by the recovery of 42° gravity API oil, sidewall coring, mud log, wireline, petrophysical and modular formation dynamic tester pressure data of the Eocene aged rocks. A gross oil column of 25 metres and an oil-water contact has been established from pressure data interpretation.

    Kangaroo-1 intersected the Eocene reservoir section 300 metres down dip from the trap crest as interpreted on seismic mapping. A potential gross hydrocarbon column of approximately 350 metres is estimated for the entire trap.

(b) On 10 February 2013, the Emu-1 exploration well commenced drilling in the Santos Basin, Brazil. As at 5 March 2013, the well had been drilled to a depth of 2,919 metres and drilling was continuing.

Browse Drilling Campaign

(a) During February 2013, the Zephyros-1 well in WA-398-P intersected the primary reservoir objective and coring operations commenced.

DIRECTORS' DECLARATION
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2012

The Directors declare that:

1. in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 8 to 20, 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 2012 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 Directors' Declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors:

Mr Robert Hosking
Executive Chairman

8 March 2013
Melbourne

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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, which comprises the condensed statement of financial position as at 31 December 2012, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Karoon Gas Australia Ltd Group (the "consolidated entity"). The consolidated entity comprises both Karoon Gas Australia (the "Company") and the entities it controlled during that 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 Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports 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 consolidated entity's financial position as at 31 December 2012 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*.

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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 2012 and of its performance for the half-year ended on that date; and

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 31 December 2012 included on Karoon Gas Australia Ltd's web site. The Company's directors are responsible for the integrity of the Karoon Gas Australia Ltd web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
8 March 2013

GLOSSARY

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
$ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
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.
BOP	Blowout preventer.
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	Quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not yet currently considered to be commercially recoverable for lack of market or suitable price.
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 venture 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.
financial half-year	Financial half-year ended 31 December 2012.
GST	Goods and Services Tax in Australia.
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.
km	Kilometre.
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.

GLOSSARY (Continued)

Term	Definition
m	Metres.
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.
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority.
operator	One joint venture participant that has been appointed to carry out all operations on behalf of all the joint venture participants.
ordinary shares	The ordinary shares in the capital of Karoon Gas Australia Ltd.
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.
prospective resource	The term used to describe undiscovered volumes in an exploration prospect yet to be drilled.
psia	Pounds per square inch absolute.
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.
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.
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.