



**KAROON GAS AUSTRALIA LTD**  
**ABN 53 107 001 338**

**ASX QUARTERLY REPORT AND APPENDIX 5B**  
**FOR THE QUARTER ENDED 30 JUNE 2010**

## **Review of Operations**

### **Highlights:**

- Kronos-1 exploration well drilled and flow tested at an equipment constrained rate of 26 million standard cubic feet per day ("mmscf/d"). Engineering calculations indicate that a production well in a similar location will flow at commercial rates of over 100 mmscf/d.
- Independent DeGolyer & McNaughton ("D&M") report of the Group's Brazilian and Peruvian assets certified risked net mean prospective resources of 577 million barrels of oil equivalent ("BOE").
- Continued processing of 3D seismic data from the Brazilian and Peruvian acquisitions.

## **Australia**

### *Browse Basin permits WA-314-P, WA-315-P and WA-398-P*

The highlight of the Quarter was the completion and testing of the final exploration well in the current Browse drilling campaign, Kronos-1. The Kronos well was located on the south-western high of the greater Poseidon structure. Kronos-1 was spudded during February 2010, 15 kilometres to the south west of the Poseidon-1 exploration well. The well was designed to test and evaluate the Plover reservoirs located high on the greater Poseidon structure. A key Kronos-1 objective that was achieved was to define potential commercial production rates and gas composition on the crest of the greater Poseidon structure.

Mud-logging, core and petrophysical interpretation indicated that the well penetrated a gas bearing sand interval within the Plover Formation. MDT pressure data showed a clear gas gradient with pressures indicating that this sand interval in the Kronos area is a separate gas accumulation from that seen in the Poseidon-1 exploration well. The pressure data indicated that the gas water contact in this sand was over 200 metres deeper than that indicated in Poseidon-1.

The Kronos-1 exploration well was drilled to a total depth of 5,329 mRT and production tested over the interval 4,999 - 5,052 mRT. The maximum sustainable flow rate attained during a multi-phase test was 26 mmscf/d through a 32/64 inch choke, with flowing well head pressure of 3,900 psia. Significantly, the flow rate achieved was equipment constrained. A condensate-gas ratio of 9.5 bbl/mmscf was measured at the surface, along with a 10% carbon dioxide content taken from the gas flow on a volume basis.

Based on the analysis of the well test data, Karoon believes that future possible production wells drilled adjacent to the Kronos-1 location could have the potential to flow at commercial rates in excess of 100 mmscf/d.

Data from the three wells drilled on the greater Poseidon structure will be analysed over the coming months, together with the new Poseidon 3D seismic data which is currently being processed. Further appraisal and exploration well locations will be identified for drilling during early 2011. The tendering process is underway for a new rig to start the Phase-2 exploration and appraisal program planned.

Karoon maintains its contingent resource assessment range for Poseidon of: P90 3TCF; P50 7TCF and P10 15TCF. These results will be revised after new 3D seismic data is available and well results are integrated into a new field model.

The offshore Browse Basin is located 350 km offshore from the North-Western Australian coastline.

Permit interests of the participants in WA-314-P, WA-315-P and WA-398-P are:

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

#### *Bonaparte Basin permit AC/P8*

During the Quarter, Karoon continued preparations for a Controlled Source Electro-Magnetic ("CSEM") survey. This survey is expected to commence during August 2010.

Karoon believes the AC/P8 permit offers good exploration potential due to its location in an existing oil and gas producing province and proximity to several producing oilfields, including the Woodside operated Laminaria and Corallina fields.

The AC/P8 permit contains two prospects and a number of leads which will need to be further defined.

Permit interests of the participants in AC/P8 are:

Karoon Energy International Ltd (Operator)	66.67%
Talisman Oil & Gas (Australia) Pty Limited	33.33%

## **South America**

The results of an independent report, completed by D&M as at 30 May 2010, on the Group's South American portfolio of exploration assets were released during the Quarter. The report incorporated the results of newly acquired and processed 2D seismic in Peru and reprocessed 3D seismic in Brazil. The report stated that Karoon's Brazilian and Peruvian exploration assets had a risked net mean prospective resource of 577 million BOE. The unrisked mean prospective resource was 2,080 million BOE.

Karoon believes that the value of its Brazilian and Peruvian assets is not adequately reflected in the Company's market capitalisation. To obtain a comparable value of these assets with other South American oil exploration companies, Karoon has undertaken a process to assess the viability of listing its Brazilian and Peruvian asset portfolio on a separate stock exchange. This assessment commenced during the Quarter and is presently ongoing. No final decision has been made and Karoon will update shareholders as soon as any decision is made.

### *Brazil*

#### *Blocks 1037, 1101, 1102, 1165 and 1166*

During the Quarter, processing of the 730 square kilometre 3D seismic survey continued and is expected to be ongoing through to the end of 2010. The new seismic data will aid in the positioning of exploration wells expected to be drilled during early 2011.

Initial research and planning for a drilling program also commenced during the Quarter, with the environmental and regulatory approval process for future drilling operations underway.

Karoon also continued geotechnical work in its Santos Basin Blocks. Recent discoveries in the area immediately around Karoon's Blocks provide Karoon with additional information assisting delineation of prospects and leads.

The Santos Basin is offshore from the Santa Catarina region of Brazil, just south of Rio de Janeiro, which has recently yielded multiple oil discoveries. Recent discoveries in the Santos Basin include the Piracuca oil field, 5 kilometres to the east of Karoon's Blocks, Sidon and Tiro oil fields, 25 kilometres south west of Karoon's Blocks. In the last few years, significant discoveries in the Santos Basin also include the Tupi and Carioca oil fields, the Newton oil discovery and the Caravela, Coral and Merluza fields.

Karoon is currently evaluating the available technical information from the discovery of a 550 million barrel of oil in place resource at the Piracuca oil field just 5 kilometres to the east of Karoon's Blocks.

Expression of interest for drilling rigs and tendering for long lead items for a future drilling campaign also commenced during the Quarter.

Karoon is a 100% interest holder in Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166.

## *Peru*

### *Block Z-38*

During the Quarter, processing and interpretation of the 1,500 square kilometre 3D seismic survey continued and is expected to be ongoing through to the end of 2010.

Karoon also began preparations for carrying out a sea bed coring program, in order to investigate the presence and characteristics of any hydrocarbon seeps. Since the end of the Quarter, this survey has been successfully completed and the results are expected in the next two months.

Environmental impact assessment and related approvals commenced for a future drilling campaign.

Block Z-38 is located in the Tumbes Basin, offshore in the northwest of Peru. It is a region that is experiencing renewed activity after a series of successful exploration programs by BPZ Energy the operator of Z1 Block, adjoining Block Z-38. The Talara Basin, to the south of the Tumbes Basin, has produced more than 1 billion barrels of oil. The Talara Basin is reported to be the location of the first oil production in South America during the late 1800's.

After completion of the farm-in work programs and regulatory approvals, equity interests in Block Z-38 will be:

KEI (Peru Z38) Pty Ltd, Sucursal del Peru (Operator)	75% *
Vietnam American Exploration Company LLC	25%

\* Equity interests stated are based on post farm-in ownership. KEI (Peru Z-38) Pty Ltd, Sucursal del Peru is a subsidiary of Karoon.

### *Block 144*

Karoon continued its geotechnical, social and environmental work in the Block and during the Quarter completed the reprocessing of 1,000 kilometres of existing 2D seismic data. Geophysical interpretation using the reprocessed data has identified the presence of a four way dip closed structure in the southern portion of the Block.

This Block is located within the onshore Maranon Basin, on the eastern side of the Andes mountain range.

Karoon has a 100% working interest in Block 144.

#### **For further information, please contact:**

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# KAROON

## Gas Australia Ltd

### ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2010

#### Appendix 5B (Unaudited)

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("Current Quarter")

30 June 2010

#### Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for:		
(a) exploration and evaluation	(64,529)	(157,485)
(b) development	-	-
(c) production	-	-
(d) administration	(3,003)	(7,034)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	660	4,954
1.5 Other costs of finance paid	(65)	(244)
1.6 Income taxes paid	-	-
1.7 Other - GST refunds	121	572
<b>Net operating cash flows</b>	<b>(66,816)</b>	<b>(159,237)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(394)	(1,768)
(c) other fixed assets	(106)	(520)
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 (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(500)</b>	<b>(2,288)</b>
1.13 Total operating and investing cash flows (carried forward)	(67,316)	(161,525)

	Current Quarter \$A'000	Year to date (12 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(67,316)	(161,525)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares, options, etc.	-	29,592
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other – Equity raising costs	-	(801)
<b>Net financing cash flows</b>	<b>-</b>	<b>28,791</b>
<b>Net increase (decrease) in cash held</b>		
1.20 Cash as at beginning of Current Quarter/ year to date	152,008	228,238
1.21 Exchange rate adjustments to item 1.20	2,430	(8,382)
1.22 <b>Cash as at end of Current Quarter (item 5)</b>	<b>87,122</b>	<b>87,122</b>

**Payments to directors of the entity and associates of the directors**

**Payments to 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	316
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' fees included in 1.23: \$32,700  
Consulting fees included in 1.23: \$283,710

**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	8,800
4.2 Development expenditure	Nil
<b>Total</b>	

### Reconciliation of cash

Reconciliation of cash as at the end of the Current 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	25,951	67,008
5.2 Short term bank deposits	61,171	85,000
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: Cash as at end of Current Quarter (item 1.22)</b>	<b>87,122</b>	<b>152,008</b>

### Changes in interests in tenements

	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 tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in 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 <b>Preference + securities</b> <i>(description)</i>				
7.2 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary shares (fully paid)</b>	177,546,198	177,546,198		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	1,205,000 90,000 250,000 1,500,000 2,505,000 200,000 1,800,000 1,530,000		<i>Exercise price</i> 295 cents 400 cents 400 cents 450 cents 500 cents 684 cents 1150 cents 1407 cents	<i>Expiry date</i> 31 October 2010 30 October 2010 30 April 2011 30 April 2011 30 April 2011 30 October 2011 18 November 2013 12 November 2013
7.8 Issued during Current Quarter			<i>Exercise price</i>	<i>Expiry date</i>
7.9 Exercised during Current Quarter			<i>Exercise price</i>	
7.10 Expired during Current Quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

**Compliance statement**

- A. This statement has been prepared under accounting policies which comply with relevant Australian Accounting Standards as defined in the *Corporations Act 2001* (see note 5); and
- B. This statement does give a true and fair view of the matters disclosed.

Signed: ..... Date: 30 July 2010  
(Company Secretary)  
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 mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining 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 Accounting 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

Held by the Karoon Gas Australia Ltd Group

As at 30 June 2010

<u>Exploration permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% interest held</u>
AC/P8	Bonaparte, Australia	Karoon	66.67
WA-314-P	Browse, Australia	ConocoPhillips	40.00 <sup>(1)</sup>
WA-315-P	Browse, Australia	ConocoPhillips	40.00 <sup>(1)</sup>
WA-398-P	Browse, Australia	ConocoPhillips	40.00
Block 1037	Santos, Brazil	Karoon	100.00
Block 1101	Santos, Brazil	Karoon	100.00
Block 1102	Santos, Brazil	Karoon	100.00
Block 1165	Santos, Brazil	Karoon	100.00
Block 1166	Santos, Brazil	Karoon	100.00
Block 144	Maranon, Peru	Karoon	100.00
Block Z-38	Tumbes, Peru	Karoon	75.00 <sup>(2)</sup>

(1) 1.5% over-riding royalty for first five years, going to 2% thereafter.

(2) Subject to regulatory approvals and completion of second and third year work commitments.