



KAROON GAS AUSTRALIA LTD

ABN 53 107 001 338

30 SEPTEMBER 2011 QUARTERLY REPORT AND APPENDIX 5B

Highlights - Company Operations

Australia

- The Karoon and ConocoPhillips joint venture received regulatory approval to conduct drilling in the Browse Basin, which is now expected to commence in late 2011/ early 2012.
- The "Transocean Legend" drilling rig was contracted by the joint venture to drill five wells in the Browse Basin permits with an option for three additional wells.
- Karoon executed binding documentation to increase its participating interest in the WA-314-P permit from 40% to 90%.
- Mr Jose Coutinho Barbosa was appointed as a Non-Executive Director of Karoon Gas Australia Ltd.

Brazil

- The final processed dataset of wide azimuth 3D seismic was received and interpretation is continuing with positive results thus far.
- The "Blackford Dolphin" semi-submersible drilling rig was contracted to drill three wells in Karoon's wholly owned Santos Basin Blocks.
- Preparations commenced to farm-out an interest in Karoon's South American acreage.

Peru

- Interpretation of 1,500 square kilometres of new 3D seismic data continued.
- Several new leads and prospects have been defined in Block Z-38 in preparation for a planned drilling program during calendar year 2012.

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

Karoon acquired its interest in exploration permits WA-314-P and WA-315-P in the Browse Basin during 2005, adding WA-398-P during 2007. The permits are located in the Browse Basin, 350km offshore from the north western Australian coast and have a combined gross area of 7,828 km².

Seismic Processing and Interpretation

Data acquired from the 2009/2010 drilling campaign has continued to be analysed and integrated with the new seismic. The interpretation is forming the basis for planning the next phase in the exploration of the greater Poseidon trend. Several potential well locations were identified and the joint venture continued preparations for a new drilling campaign.

Drilling Management

Karoon and ConocoPhillips received the required regulatory approvals from the Australian Government's Department of Sustainability, Environment, Water, Population and Communities to continue exploration drilling in the Browse Basin.

During September, the semi-submersible drilling rig the 'Transocean Legend' was secured for the drilling of a minimum of five wells with three additional optional wells. The Transocean Legend is expected to commence drilling in late 2011/early 2012, with at least one well to be drilled in WA-314-P during the forthcoming drilling campaign.

The drilling campaign is expected to continue for up to two years and is designed to gain a greater confidence of the contingent gas resource base with a view to quickly move forward with a selection of a development concept and progressing to the next stage in realising the potential of the Browse Basin Acreage.

Equity Interests

During July, Karoon and ConocoPhillips completed the final agreements enabling Karoon to acquire an additional 50% interest in WA-314-P, taking Karoon's interest to 90%. These agreements are now subject to regulatory approval. As part of this transaction, ConocoPhillips will remain the operator of the permit, however, Karoon has the right to determine the final location, depth and target for a commitment well to be drilled on the permit as part of upcoming drilling campaign. ConocoPhillips' ongoing obligations under the Farm-in Agreement dated 9th October 2006 to pay 80% of US\$125 million of expenditure will only apply to remaining expenditure incurred on the WA-315-P permit.

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%

*Karoon's additional 50% interest in WA-314-P is subject to regulatory approval.

Bonaparte Basin Permit AC/P8

The geological and geophysical evaluation of AC/P8 was completed during the quarter and the decision on whether to proceed into the Secondary Term of the permit, which carries a commitment to drill an exploration well, was made.

The joint venture was unable to identify a prospect that offered a drilling target that would meet the joint venture's minimum economic and probability of success criteria. Accordingly, during September Karoon applied to the relevant authority to surrender the permit in good standing having satisfied the permits primary work commitments.

Brazil

During March 2008, Karoon was awarded 100% participation in five offshore exploration Blocks, S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 in the Santos Basin, Brazil. The five blocks total 865 square kilometres.

During August 2010, Karoon signed joint venture agreements to acquire a 20% participation in Blocks S-M-1352 and S-M-1354, with the remaining 80% interest owned by Petrobras, subject to Agencia Nacional do Petróleo, ("ANP") approval.

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

Seismic Acquisition, Processing and Interpretation

In 2010, Karoon completed a proprietary, wide azimuth ("WAZ") 3D seismic acquisition program, covering an area of 750 square kilometres. This was the first application of WAZ technology in Brazil. This specialised method of acquiring 3D seismic is designed to better image above, around and under salt bodies in the basin.

In September 2011, Karoon received the final processed seismic dataset. Intermediary products were made available earlier to commence interpretation ahead of the completion of final delivery, primarily to assist with well planning. This newly acquired seismic data has fulfilled the first period work program commitments for the blocks and is being used by Karoon for the 2012 drilling campaign.

Results are very encouraging on the new seismic datasets. Interpretation has confirmed the main post-salt amplitude supported prospects, defined on earlier 3D data and further validates these prospects, providing better definition and understanding of their potential.

Drilling

During August 2011, the "Blackford Dolphin" semi submersible drilling rig was contracted and it is expected to commence drilling in the first half of calendar year 2012. Karoon has a firm commitment to drill three wells. Karoon continued preparations for drilling by applying for relevant environmental and regulatory approvals. Supply bases have been contracted and long lead items are currently being delivered. Drill targets are expected to be finalised at the completion of the interpretation later in calendar year 2011.

Karoon has now re-commenced the farm-out process, with initial data room visits commencing and several potential joint venture partners showing an interest in participation. The farm-out process is expected to continue into 2012.

Equity Interest

Karoon currently has a 100% participating interest in Blocks, S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166.

Santos Basin Blocks S-M-1352 & S-M-1354

Assessment of the results from the Maruja-1 and Maruja-2 well, drilled late in 2010 and early 2011 respectively continued throughout the quarter. A forward plan for Maruja will be formulated with outcome available in 2012.

Equity Interests

Karoon's wholly owned subsidiary, Karoon Petroleo & Gas Ltda, has entered into an agreement to acquire a 20% interest in Block S-M-1352 which is part of the BM-S-41 Concession and is subject to regulatory approval from the Agencia Nacional do Petroleo, the Brazilian National Petroleum agency. Karoon submitted final regulatory submissions during the quarter and does not expect to encounter any issues with the approval. Upon receipt of regulatory approvals and subject to satisfying farm-in obligations, equity interests of the participants in BM-S-41/S-M-1352 will be:

Karoon Petroleo & Gas Ltda	20%
Petroleo Brasileiro S.A.	80%

Peru Block Z-38

During January 2008, Karoon signed a farm-in agreement to acquire a 20% participating interest in Block Z-38, an offshore block of 4,750 square kilometres located in the Tumbes Basin, 10 kilometres from the northwest coast of Peru.

In October 2009, Karoon was approved by the regulator as Operator of the Block and negotiated to increase its participating interest in Block Z-38 to 75%. This new participating equity has received further regulatory approval and planning is now underway for a two well drilling campaign to satisfy the third year work commitments and farm-in obligations.

3D Seismic Acquisition, Processing and Interpretation

Interpretation of the new 1,500 square kilometre 3D seismic program continued during the quarter. Results of the interpretation have allowed detailed prospect oriented interpretation indicating the presence of fifteen prospects and leads.

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

Drill Planning

During the quarter, approval applications and planning for the upcoming drilling campaign continued. Drilling in the Block is expected to commence late in calendar year 2012, with two firm wells and additional optional wells likely. Karoon will be utilising its existing South American drilling team who have commenced preparations for the drilling and have sought expressions of interest for rigs and services.

Karoon is in dialogue with other offshore Peruvian Operators to form a 'rig club' with the aim of providing a more cost effective and attractive contract for the drilling rig operator.

During September, a data room was opened for potential partners acquire an interest in the permit. The farm-out process is expected to continue into 2012.

Equity Interests

Equity interests in Block Z-38:

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

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

Peru Block 144

Block 144 is located within the onshore Marañon Basin, on the eastern side of the Andes mountain range. The Block was awarded to Karoon in April 2009. During the quarter, Karoon continued its geotechnical, social and environmental work in the Block and continued the interpretation of 1,000 km of existing 2D seismic data.

Seismic Reprocessing and Interpretation

Geophysical interpretation using the reprocessed data has identified the presence of a four-way dip closed structure in the southern portion of the block.

The assessment of the reprocessed seismic allowed Karoon to make a decision to commence the next exploratory phase in this Block, with a commitment to acquire 300km of new 2D seismic. The new seismic acquisition is expected to be concentrated in the area of the Patria Prospect. Karoon has commenced EIA application works for the seismic acquisition. The new exploration phase will span for 24 months, until June 2013.

Equity Interest

Karoon currently has a 100% participating interest in Peru Block 144.

**ASX QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 30 SEPTEMBER 2011**

**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.

Name of entity

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("Current Quarter")

30 September 2011

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	-	-
1.2 Payments for:		
(a) exploration and evaluation	(9,479)	(9,479)
(b) development	-	-
(c) production	-	-
(d) administration	(3,724)	(3,724)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	6,943	6,943
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – GST/VAT refunds	2,346	2,346
Net operating cash flows	(3,914)	(3,914)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	11,651	11,651
(c) other fixed assets	(793)	(793)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	14	14
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	10,872	10,872
1.13 Total operating and investing cash flows (carried forward)	6,958	6,958

	Current Quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	6,958	6,958
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	-
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	-	-
Net financing cash flows	-	-
Net increase (decrease) in cash held	6,958	6,958
1.20 Cash as at beginning of Current Quarter/ year to date	266,839	266,839
1.21 Exchange rate adjustments to item 1.20	6,979	6,979
1.22 Cash as at end of Current Quarter	280,776	280,776

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	271
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: \$176,605
Consulting fees included in 1.23: \$94,550

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	74,750
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	3,850
Total	78,600

Reconciliation of cash

Reconciliation of cash as at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows		Current Quarter \$A'000	Previous quarter \$A'000
5.1	Cash at banks and on hand	92,990	81,900
5.2	Short term bank deposits	187,786	184,939
5.3	Bank overdraft	-	-
5.4	Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)		280,776	266,839

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	AC/P8	Exploration permit	66.67	- [^]
6.2	Interests in tenements acquired or increased	WA-314-P	Exploration permit -	40.00	90.00 ^{^^}

[^] The relinquishment is subject to regulatory approval.

^{^^}The Group's 90.00% equity interest is subject to regulatory approval.

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)	221,420,769	221,420,769		
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 <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	200,000		684 cents	30 October 2011
	1,700,000		1150 cents	18 November 2013
	1,530,000		1407 cents	12 November 2013
	1,245,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter				
7.10 Expired 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 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: 31 October 2011
(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 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 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

Held by the Karoon Gas Australia Ltd Group

As at 30 September 2011

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
AC/P8	Bonaparte, Australia	Karoon	- (1)
WA-314-P	Browse, Australia	ConocoPhillips	90.00 (2) (4)
WA-315-P	Browse, Australia	ConocoPhillips	40.00 (2)
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 1352	Santos, Brazil	Petrobras	20.00 (3)
Block 144	Maranon, Peru	Karoon	100.00
Block Z-38	Tumbes, Peru	Karoon	75.00 (5)

- (1) The permit has been relinquished but is subject to regulatory approval.
- (2) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (3) The Group's 20.00% Block equity interest is subject to satisfying farm-in obligations and obtaining regulatory approvals in Brazil, including from the Brazilian Petroleum Agency.
- (4) The Group's 90.00% equity interest is subject to regulatory approval.
- (5) The Group's 75.00% Block equity interest is subject to completion of farm-in obligations.