



QUARTERLY REPORT AND APPENDIX 5B

Period ending 31 December 2011

Highlights - Company Operations

- Ongoing preparation for an extensive drilling campaign comprising five wells with an option for three additional wells in the Karoon/ConocoPhillips Browse Basin permits continued.
- Maintenance on the "Transocean Legend" drilling rig is nearing completion prior to the anticipated commencement of the Browse drilling during February 2012.
- Karoon is receiving interest for a farm-out of equity in the Santos Basin, wholly owned Brazil Blocks and Tumbes Basin, Peru. Negotiations are continuing.
- Preparations for drilling in Brazil with the contracted "Blackford Dolphin" drilling rig are progressing, targeting a second/ third quarter 2012 start of the three well drilling campaign.
- Tenders for the provision of a drilling rig for a minimum of two wells in the Tumbes Basin, Peru were received and are being evaluated.

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, 350 km offshore from the north western Australian coast and have a combined gross area of 7,828 km².

Seismic Interpretation

Data acquired from the 2009/2010 drilling campaign has continued to be analysed and integrated with new 3D seismic. The interpretation is forming the basis for planning the next phase in the exploration of the greater Poseidon trend. Several potential well locations have been identified and the joint venture continued preparations for the up-coming drilling campaign.

Drilling Management

During the quarter, maintenance was undertaken on the "Transocean Legend" drilling rig and this is now nearing completion prior to the commencement of a drilling campaign comprising five wells with an option for three additional wells in Karoon/ConocoPhillips Browse Basin permits.

The drilling campaign is expected to commence February 2012 when the “Transocean Legend” drilling rig is mobilised to the Boreas-1 exploration well location in WA-315-P.

The drilling campaign is expected to continue for up to two years and is designed to define more precisely the size and quality of the contingent gas resource base, to allow the joint venture to quickly move forward with selection of a development concept and progressing to the next stage in realising the potential of the Browse Basin acreage.

Equity Interests

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

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

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

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

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

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 km².

During August 2010, Karoon signed a joint venture agreement to acquire a 20% participation in Block S-M-1352; 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 Interpretation

During 2010, Karoon completed a proprietary, wide azimuth (“WAZ”) 3D seismic acquisition program, covering an area of 750 km². 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.

Interpretation of the 3D seismic continued during the quarter, assisting with well planning and selection of potential well locations. Results have been 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

The “Blackford Dolphin” drilling rig is currently on schedule for a second/third quarter 2012 commencement of a three well drilling campaign in Karoon’s 100% owned Santos Basin Blocks. Karoon is completing the final stages of selecting well locations and planning for the campaign.

Karooon continued preparations for drilling and final long lead items are currently being delivered.

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 Block S-M-1352

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

Equity Interests

Karoon's wholly owned subsidiary, Karoon Petroleo & Gas Ltda, entered into an agreement with Petrobras 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. (Operator)	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 km² located in the Tumbes Basin, 10 kilometres from the northwest coast of Peru.

During 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 all regulatory approval and planning is now underway for a minimum two well drilling campaign to satisfy the third year work commitments and farm-in obligations.

3D Seismic Interpretation

Interpretation of the new 1,500 km² 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

Karoon received tenders for the provision of a drilling rig for a minimum of two wells in Tumbes Basin Block Z-38. The likely timing for the commencement of drilling is expected to be the end of 2012/ early 2013. Karoon will be utilising its existing South American drilling team for this drilling campaign.

Equity Interests

Equity interests in Block Z-38 are:

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.

Block 144

Block 144 is located within the onshore Maranon Basin, on the eastern side of the Andes mountain range in Peru. The Block was awarded to Karoon during 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.

Karoon has commenced environmental impact assessment application works for 300 km of 2D seismic acquisition. The new exploration phase is expected to span 18 months, until June 2013.

Equity Interest

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

South American Farm-out

During the quarter, Karoon continued to host data room appointments for the farm-out of equity interests in Tumbes Basin, Peru and Santos Basin, Brazil Blocks. Karoon has continued to have strong interest, with several parties now moving through internal reviews, declaring an interest or scheduling further visits.

Karoon hopes to complete the farm-outs in Brazil and Peru next quarter, in preparation for the commencement of the Brazilian drilling campaign in the second quarter of 2012 and the drilling preparations for Peru continuing throughout 2012.

**ASX QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 31 DECEMBER 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")

31 December 2011

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 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	(12,235)	(21,713)
(b) development	-	-
(c) production	-	-
(d) administration	(3,813)	(7,537)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4,771	11,715
1.5 Interest and other costs of finance paid	(154)	(154)
1.6 Income taxes paid	(561)	(561)
1.7 Other – GST/VAT refunds	418	2,763
Net operating cash flows	(11,574)	(15,487)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	36	11,687
(c) other fixed assets	-	(793)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	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	36	10,908
1.13 Total operating and investing cash flows (carried forward)	(11,538)	(4,579)

	Current Quarter \$A'000	Year to date (6 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(11,538)	(4,579)
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	(11,538)	(4,579)
1.20 Cash as at beginning of Current Quarter/ year to date	280,776	266,839
1.21 Exchange rate adjustments to item 1.20	(2,651)	4,327
1.22 Cash as at end of Current Quarter	266,587	266,587

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	412
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: \$389,556
Consulting fees included in 1.23: \$22,806

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	32,400
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	3,700
Total	36,100

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	126,511	92,990
5.2	Short term bank deposits	140,076	187,786
5.3	Bank overdraft	-	-
5.4	Other	-	-
	Total: Cash as at end of Current Quarter (item 1.22)	266,587	280,776

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 Preference + securities (description)				
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 (description)				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
	1,530,000		1407 cents	12 November 2013
	1,600,000		1150 cents	18 November 2013
	1,235,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
	2,420,000		730 cents	31 October 2015
	1,000,000		892 cents	1 May 2014
	1,200,000		995 cents	1 May 2015
	2,600,000		1098 cents	1 May 2016
7.8 Issued during Current Quarter	2,420,000 1,000,000 1,200,000 2,600,000		730 cents 892 cents 995 cents 1098 cents	31 October 2015 1 May 2014 1 May 2015 1 May 2016
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter	200,000 100,000 10,000		684 cents 1150 cents 977 cents	30 October 2011 18 November 2013 31 October 2014
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

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 January 2012
(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 31 December 2011

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	ConocoPhillips	90 ^{(1) (2)}
WA-315-P	Browse, Australia	ConocoPhillips	40 ⁽¹⁾
WA-398-P	Browse, Australia	ConocoPhillips	40
Block 1037	Santos, Brazil	Karoon	100
Block 1101	Santos, Brazil	Karoon	100
Block 1102	Santos, Brazil	Karoon	100
Block 1165	Santos, Brazil	Karoon	100
Block 1166	Santos, Brazil	Karoon	100
Block 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) The Group's 90% equity interest is subject to regulatory approval.
- (3) The Group's 20% 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 75% Block equity interest is subject to completion of farm-in obligations.