



KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

INTERIM FINANCIAL REPORT
FOR THE FINANCIAL HALF-YEAR ENDED
31 DECEMBER 2011

For further information please see the Karoon website or contact:

Scott Hosking: Company Secretary
Telephone: 03 59741044
Email: shosking@karoongas.com.au
Website: www.karoongas.com.au

Ian Howarth: Collins Street Media
Telephone: 0407 822 319
Email: ian@collinsstreetmedia.com.au

Contents	Page
Directors' Report	2
Auditor's Independence Declaration	6
Condensed Consolidated Statement of Comprehensive Income	7
Condensed Consolidated Statement of Financial Position	8
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Statement of Cash Flows	10
Notes to the Condensed Consolidated Financial Statements	
Note 1 Basis of Preparation of Condensed Consolidated Financial Statements	11
Note 2 Results for Financial Half-Year	12
Note 3 Dividends	12
Note 4 Segment Information	13
Note 5 Issued Capital	16
Note 6 Commitments	17
Note 7 Contingent Liabilities	18
Note 8 Subsequent Events	18
Directors' Declaration	19
Independent Auditor's Review Report to the Members of Karoon Gas Australia Ltd	20
Glossary	22

DIRECTORS' REPORT FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011

The Board of Directors submit herewith the interim financial report of Karoon Gas Australia Ltd and its subsidiaries (the 'Group') for the financial half-year ended 31 December 2011 (the 'financial half-year').

Board of Directors

The names of the Directors of Karoon Gas Australia Ltd (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 and Exploration Manager;
Mr Geoff Atkins – Independent Non-Executive Director;
Mr Clark Davey – Independent Non-Executive Director;
Mr Jose Coutinho Barbosa – Non-Executive Director;* and
Mr Stephen Power – Non-Executive Director.

* Mr Barbosa was appointed as a Director of the Company on 31 August 2011.

Highlights - Company Operations

- The "Transocean Legend" drilling rig was secured for the drilling of five wells in the Karoon/ConocoPhillips Browse Basin permits with an option for three additional wells. Preparation for the drilling campaign continued during the financial half-year with several well locations being identified.
- Karoon executed binding documentation to increase its participating interest in the WA-314-P permit from 40% to 90%.
- A data room was opened for a farm-out of equity in the Santos Basin, wholly owned Brazil Blocks and Tumbes Basin, Peru. Negotiations are continuing with a number of interested parties.
- Preparations continued for drilling in Brazil. The "Blackford Dolphin" drilling rig was contracted during the financial half-year and drilling is expected to commence during the second/third quarter of calendar year 2012.
- The final processed Brazilian dataset of wide azimuth 3D seismic was received and the interpretation is being utilised with well planning and selection of well locations for the upcoming drilling campaign.
- Tenders for the provision of a drilling rig for a minimum of two wells in Block Z38, Peru were received and are being evaluated.
- Several new leads and prospects were defined in Block Z-38 in preparation for a planned drilling campaign expected to begin by the end of calendar year 2012/early 2013.

Financial Results

The consolidated profit for the financial half-year was \$2,689,108 (2010: loss of \$14,237,683). The profit for the financial half-year was largely attributable to interest income of \$7,982,405 and net foreign currency gains of \$4,920,803 on USD denominated cash and cash equivalents held by the group as at 31 December 2011, partially offset by a net employee benefits expense of \$5,170,016.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

Review of Operations

Australia

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

Data acquired from the 2009/2010 drilling campaign has continued to be analysed and integrated with the acquisition of 3D seismic from 2009/2010. 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.

Karoon and ConocoPhillips received the required regulatory approvals to continue exploration drilling in the Browse Basin.

During September 2011, the semi-submersible drilling rig the 'Transocean Legend' was secured for the drilling of five wells with three additional optional wells. The drilling campaign is expected to commence March 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 with the main objective designed to define more precisely the size and quality of the contingent gas resource base.

During July 2011, 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%. Subsequent to the financial half-year, Karoon received final regulatory approval. As part of the 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 the 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.

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

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%

South America

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

During financial half-year, interpretation of the new wide azimuth 3D seismic continued, 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, with better definition and understanding of their potential.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

Review of Operations

During August, the "Blackford Dolphin" semi submersible drilling rig was contracted and is currently on schedule for a second/third quarter calendar year 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 drilling campaign.

Karoon continued preparations for drilling with final long lead items currently being delivered.

Karoon has a 100% working interest and is the operator of its Santos Basin 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 financial half-year. A forward plan for Maruja will be formulated with a decision on the development option expected in 2012.

On 23 August 2010, 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 financial half-year 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%

*Karoon's equity interest is subject to regulatory approval.

Peru Block Z-38

Interpretation of 1,500 km² 3D seismic continued. Interpretation of the seismic has identified 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 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.

Karoon received bids 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 calendar year 2012/early 2013. Karoon will be utilising its existing South American drilling team for this drilling campaign.

After completion of the farm-in obligation including the drilling of two wells, equity interests in Block Z-38 will be:

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

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011****Review of Operations***Peru Block 144*

Karoon continued its geotechnical, social and environmental work in the Block and continued the interpretation of 1,000 km of existing 2D seismic data.

Geophysical interpretation using the reprocessed data 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 the Block, with a commitment to acquire 300km of new 2D seismic. The new exploration phase is expected to span 18 months, until June 2013.

During the financial half-year Karoon commenced environmental impact assessment application works for 300 km of 2D seismic acquisition.

Karoon has a 100% working interest in Block 144.

South American Farm-out

During the financial half-year, Karoon opened a data room for the farm-out of equity interests in the Santos Basin, Brazil and Tumbes Basin, Peru Blocks. Karoon has received interest from several parties and negotiations are continuing.

Karoon hopes to complete a farm-out before 30 June 2012, 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.

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 6.

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

5 March 2012
Melbourne



Auditor's Independence Declaration

As lead auditor for the review of Karoon Gas Australia Ltd for the half year ended 31 December 2011, 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.

A handwritten signature in black ink, appearing to read 'Charles Christie', written in a cursive style.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
5 March 2012

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

	Note	Consolidated	
		31 Dec 2011 \$	31 Dec 2010 \$
Revenue	2	7,982,405	5,449,917
Other income	2	4,934,439	13,000
Total revenue and other income		12,916,844	5,462,917
Computer support		(441,865)	(299,030)
Consulting fees		(377,503)	(622,391)
Depreciation and amortisation expense		(472,497)	(205,396)
Employee benefits expense (net)		(5,170,016)	(3,796,571)
Exploration and evaluation expenditure expensed or written off		(547,453)	(299,004)
Finance costs		(154,341)	(85,897)
Insurance expense		(570,214)	(152,673)
Legal fees		(90,029)	(173,684)
Net foreign currency losses	2	-	(6,595,163)
Property costs		(539,146)	(256,647)
Share registry and listing fees		(133,804)	(369,795)
Telephone and communication expenses		(150,189)	(128,907)
Travel and accommodation expenses		(634,902)	(304,458)
Brazilian initial public offering expenses	2	(99,145)	(5,507,440)
Other expenses		(846,632)	(903,544)
Total expenses		(10,227,736)	(19,700,600)
Profit (loss) before income tax		2,689,108	(14,237,683)
Income tax		-	-
Profit (loss) for financial half-year	2	2,689,108	(14,237,683)
Other comprehensive loss:			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(11,906,140)	(8,238,018)
Income tax relating to components of other comprehensive loss		-	-
Other comprehensive loss for financial half-year, net of tax		(11,906,140)	(8,238,018)
Total comprehensive profit (loss) for financial half-year		(9,217,032)	(22,475,701)
Earnings per share for profit (loss) attributable to equity holders of the Company:			
Basic profit (loss) per ordinary share		0.0121	(0.0723)
Diluted profit (loss) per ordinary share		0.0121	(0.0723)

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	Note	Consolidated	
		31 Dec 2011 \$	30 June 2011 \$
Current Assets			
Cash and cash equivalents		266,586,700	266,839,144
Trade and other receivables		1,172,271	4,003,566
Inventories		11,882,535	279,892
Security deposits		38,934,142	41,301,743
Current tax assets		570,137	-
Other assets		1,604,980	3,525,878
Total current assets		320,750,765	315,950,223
Non-Current Assets			
Property, plant and equipment		2,119,613	2,216,532
Intangible assets		859,233	480,041
Exploration and evaluation expenditure carried forward		289,114,898	276,465,002
Security deposits		7,486,754	26,058,837
Other assets		556,546	1,102,759
Total non-current assets		300,137,044	306,323,171
Total assets		620,887,809	622,273,394
Current Liabilities			
Trade and other payables		9,707,948	4,306,586
Total current liabilities		9,707,948	4,306,586
Non-Current Liabilities			
Provisions		147,317	99,484
Total non-current liabilities		147,317	99,484
Total liabilities		9,855,265	4,406,070
Net Assets		611,032,544	617,867,324
Equity			
Issued capital	5	664,894,335	664,894,335
Accumulated losses		(55,326,246)	(58,015,354)
Share-based payments reserve		20,730,834	18,348,582
Foreign currency translation reserve		(19,266,379)	(7,360,239)
Total Equity		611,032,544	617,867,324

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 2011**

Consolidated	Issued capital	Accumulated losses	Share-based payments reserve	Foreign currency translation reserve	Total Equity
	\$	\$	\$	\$	\$
Balance as at 1 July 2010	381,147,212	(34,710,440)	13,279,107	1,987,692	361,703,571
Loss for previous financial half-year	-	(14,237,683)	-	-	(14,237,683)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(8,238,018)	(8,238,018)
Total comprehensive loss for financial half-year	-	(14,237,683)	-	(8,238,018)	(22,475,701)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	272,836,747	-	-	-	272,836,747
Transaction costs arising on shares issued	(8,645,046)	-	-	-	(8,645,046)
Share-based payments expense	-	-	2,595,410	-	2,595,410
	264,191,701	-	2,595,410	-	266,787,111
Balance as at 31 December 2010	645,338,913	(48,948,123)	15,874,517	(6,250,326)	606,014,981
Balance as at 1 July 2011	664,894,335	(58,015,354)	18,348,582	(7,360,239)	617,867,324
Profit for 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 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

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 2011**

	Consolidated	
	31 Dec 2011	31 Dec 2010
	\$	\$
Cash Flows From Operating Activities		
Receipts from customers (inclusive of GST refunds)	2,763,234	1,098,911
Payments to suppliers and employees (inclusive of GST)	(7,537,358)	(11,393,538)
Payments for exploration and evaluation expenditure expensed	(547,453)	(299,004)
Interest received	11,714,712	3,847,697
Interest and other costs of finance paid	(154,341)	(85,897)
Income taxes paid	(560,717)	(220,227)
Net cash flows provided by (used in) operating activities	5,678,077	(7,052,058)
Cash Flows From Investing Activities		
Purchase of plant and equipment and computer software	(792,642)	(848,208)
Payments for exploration and evaluation expenditure capitalised	(21,165,573)	(17,549,743)
Payment of security deposits (net)	11,686,943	(304,358)
Proceeds from disposal of non-current assets	13,636	-
Net cash flows used in investing activities	(10,257,636)	(18,702,309)
Cash Flows From Financing Activities		
Proceeds from issue of ordinary shares	-	272,836,747
Payments for transaction costs arising on ordinary shares issued	-	(8,645,046)
Net cash flows provided by financing activities	-	264,191,701
Net increase (decrease) in cash and cash equivalents held	(4,579,559)	238,437,334
Cash and cash equivalents as at the beginning of financial half-year	266,839,144	87,122,836
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	4,327,115	(6,613,471)
Cash and cash equivalents at the end of financial half-year	266,586,700	318,946,699

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 2011****Note 1. Basis of Preparation of Condensed Consolidated Financial Statements**

This condensed consolidated 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. It is recommended that the condensed consolidated financial statements be read in conjunction with the Annual Report for the financial year ended 30 June 2011 and any public announcements made by Karoon Gas Australia Ltd during the financial half-year ended 31 December 2011 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

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 2011. 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 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 2011.

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 prior periods.

Going concern

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

- (i) sell interests in permits/Blocks and/or 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 12 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

Note 2. Results For Financial Half-Year

	Consolidated	
	31 Dec 2011	31 Dec 2010
	\$	\$
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	7,982,405	5,449,917
Net foreign currency gains	4,920,803	-
Net foreign currency losses	-	(6,595,163)
Brazilian initial public offering expenses	(99,145)	(5,507,440)

Note 3. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2010: \$Nil).

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011****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 Manager (identified as the 'chief operating decision makers') in assessing performance and in determining the allocation of resources.

The operating segments identified are based on the Group's equity interest in each individual exploration permit. Discrete financial information (including expenditure on exploration and evaluation assets) is provided to the chief operating decision makers on a regular basis. In certain circumstances, individual exploration permits are aggregated into a single operating segment where the economic characteristics and long term planning and operational considerations of the individual exploration permits are such that they are considered interdependent.

The Group has identified three operating segments:

- Australia exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in three offshore permit areas within the Browse Basin, Australia: WA-314-P, WA-315-P, WA-398-P (31 December 2010: WA-314-P, WA-315-P, WA-398-P and AC/P8);
- Brazil exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in five offshore Blocks within the Santos Basin, Brazil: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165, Block S-M-1166;
- Peru exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in two Blocks in Peru: Block 144 (onshore) and Block Z-38 (offshore).

'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment but are reviewed by the chief operating decision maker on a regular basis:

- interest income;
- net foreign currency gains (losses);
- finance costs;
- net employee benefits expense (including non-cash share-based payments expense);
- administration and other operating expenses;
- depreciation and amortisation expense;
- property costs; and
- income tax expense.

Employee benefits expense and other operating expenses, that are associated with the exploration for and evaluation of the resources and specifically relate to an area of interest, are allocated to the area of interest and are capitalised as exploration and evaluation assets.

Segment revenues and results do not include transfers between segments as intercompany balances are eliminated on consolidation.

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 2011**

Note 4. Segment Information (continued)

(b) Operating segments

Segment performance	Australia	Brazil	Peru	All Other Segments	Consolidated
	\$	\$	\$	\$	\$
Revenue for financial half-year 31 December 2011					
Segment revenue	-	-	-	-	-
Interest income from unrelated entities	-	-	-	7,982,405	7,982,405
Total revenue					<u>7,982,405</u>
Result for financial half-year 31 December 2011					
Exploration and evaluation expenditure expensed or written off	(544,888)	(2,080)	(411)	(74)	(547,453)
Revenue	-	-	-	7,982,405	7,982,405
Other income	-	-	-	4,934,439	4,934,439
Finance costs	-	-	-	(154,341)	(154,341)
Employee benefits expense (net)	-	-	-	(5,170,016)	(5,170,016)
Administration and other operating expenses	-	-	-	(3,344,283)	(3,344,283)
Depreciation and amortisation expense	-	-	-	(472,497)	(472,497)
Property costs	-	-	-	(539,146)	(539,146)
Profit before income tax					2,689,108
Income tax					-
Profit for financial half-year					<u>2,689,108</u>
Revenue for financial half-year 31 December 2010					
Segment revenue	-	-	-	13,000	13,000
Interest income from unrelated entities	-	-	-	5,449,917	5,449,917
Total revenue					<u>5,462,917</u>
Result for financial half-year 31 December 2010					
Exploration and evaluation expenditure expensed or written off	(223,286)	(26,260)	(16,640)	(32,818)	(299,004)
Revenue	-	-	-	5,462,917	5,462,917
Net foreign currency losses	-	-	-	(6,595,163)	(6,595,163)
Finance costs	-	-	-	(85,897)	(85,897)
Employee benefits expense (net)	-	-	-	(3,796,571)	(3,796,571)
Administration and other operating expenses	-	-	-	(8,461,922)	(8,461,922)
Depreciation and amortisation expense	-	-	-	(205,396)	(205,396)
Property costs	-	-	-	(256,647)	(256,647)
Loss before income tax					(14,237,683)
Income tax					-
Loss for financial half-year					<u>(14,237,683)</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

Note 4. Segment Information (continued)

(b) Operating segments (continued)

Segment assets	Australia	Brazil	Peru	All Other Segments	Consolidated
	\$	\$	\$	\$	\$
As at 31 December 2011					
Segment asset information					
Cash and cash equivalents	6,340	6,276,663	796,326	259,507,371	266,586,700
Exploration and evaluation expenditure carried forward	202,144,890	61,494,648	25,475,360	-	289,114,898
Security deposits	-	39,023,208	7,000,557	397,131	46,420,896
Inventories	561,802	11,320,733	-	-	11,882,535
Other assets	12,028	2,240,794	70,013	4,559,945	6,882,780
Segment assets	<u>202,725,060</u>	<u>120,356,046</u>	<u>33,342,256</u>	<u>264,464,447</u>	<u>620,887,809</u>
As at 30 June 2011					
Segment asset information					
Cash and cash equivalents	343,869	848,356	85,553	265,561,366	266,839,144
Exploration and evaluation expenditure carried forward	195,034,904	58,519,082	22,911,016	-	276,465,002
Security deposits	-	56,811,842	10,011,647	537,091	67,360,580
Inventories	279,892	-	-	-	279,892
Other assets	188,091	4,150,819	2,263,013	4,726,853	11,328,776
Segment assets	<u>195,846,756</u>	<u>120,330,099</u>	<u>35,271,229</u>	<u>270,825,310</u>	<u>622,273,394</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

Note 5. Issued Capital

		31 Dec 2011	30 June 2011
(a) Share capital		\$	\$
Ordinary shares, fully paid		664,894,335	664,894,335
(b) Movement in ordinary shares			
		Number of ordinary shares	\$
Date	Details		
1 July 2010	Opening balance in previous financial year	177,546,198	381,147,212
	Share placement	26,631,929	186,423,503
	Share purchase plan	11,692,642	81,848,494
	Exercise of other share options	4,250,000	18,200,000
	Exercise of ESOP options	1,300,000	5,989,750
	Less: Transaction costs arising on ordinary shares issued during previous financial year		(8,714,624)
30 June 2011	Balance as at end of previous financial year	221,420,769	664,894,335
31 December 2011	Balance as at end of financial half-year	221,420,769	664,894,335

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

Note 6. Commitments

	Consolidated	
	31 Dec 2011	30 June 2011
	\$	\$
(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:		
(i) Drilling operations		
Not later than 1 year	114,024,258	12,965,882
Later than 1 year but not later than 5 years	23,656,952	-
Total capital expenditure commitments	137,681,210	12,965,882

(b) Exploration expenditure commitments

Some subsidiaries within the Group have commitments for exploration expenditure arising from commitments 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, 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 2011: 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 and AC/P8) not provided for in the condensed consolidated financial statements.

Included in exploration expenditure commitments are \$69,559,827 (30 June 2011: \$90,965,044) of commitments that relate to the non-guaranteed work commitments:

Not later than 1 year	150,773,387	155,694,566
Later than 1 year but not later than 5 years	368,127,584	265,895,674
Total exploration expenditure commitments	518,900,971	421,590,240

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, the amount will be included in both categories (a) and (b) above.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011****Note 7. Contingent Liabilities**

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

Under the farm-in agreement and subject to obtaining regulatory approvals from Agencia Nacional do Petróleo (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 retained 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 2011 was \$43,140,045 (30 June 2011: \$39,429,646), that is payable upon obtaining regulatory approvals.

An uplift fee of \$2,732,375 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 2011, in the form of insurance bonds, performance guarantees and bank guarantees, for which there have not been any significant changes from the 30 June 2011 Annual Report.

Note 8. Subsequent Events

Since 31 December 2011, there were no material events that have occurred.

The interim financial report was authorised for issue by the Board of Directors on 5 March 2012. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements.

**DIRECTORS' DECLARATION
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2011**

In the Directors' opinion:

1. the condensed consolidated financial statements and notes, set out on pages 7 to 18, 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 2011 and of its performance for the financial half-year ended on that date; and
2. 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 declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors:



Mr Robert Hosking
Executive Chairman

5 March 2012
Melbourne



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 2011, 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 Ltd (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 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 2011 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 2011*. 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*.

PricewaterhouseCoopers, ABN 52 780 433 757

Freshwater Place, 2 Southbank Boulevard, GPO BOX 1331, MELBOURNE VIC 3006

DX 77

T +61 3 8603 1000, F +61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



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 2011 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 2011 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Charles Christie'.

Charles Christie
Partner

Melbourne
5 March 2012

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 Securities Exchange or ASX Limited (ACN: 008 624 691).
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.
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.
Diaper	An upward penetration of lower density rocks through overlaying formations e.g. a salt dome.
Director	A Director of Karoon Gas Australia Ltd.
Discovery well	The first successful well on a new prospect.
DST	Drill stem test.
ESOP	The Karoon Gas Australia Employee Share Option Plan.
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' or 'farminee') earns an interest in an exploration permit by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the 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 2011.
Group	Karoon Gas Australia Ltd and its subsidiaries.
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.
MAZ	Multi Azimuth seismic processing.
mmscf/d	Millions of standard cubic feet per day; equivalent to 28,317 cubic metres per day.
Monadnock	An erosional remnant, a high that is the result of removal of surrounding rocks.
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.
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, defined and evaluated, 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.
salt dome	A dome shaped geological structure formed by the intrusion of salt into overlying sediments.
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).
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD	United States dollars.
WAZ	Wide Azimuth seismic data.