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## JUNE 2012 QUARTERLY REPORT AND APPENDIX 5B

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### Highlights - Company Operations

- Commencement of the Browse drilling campaign comprising five wells with an option for three additional wells.
- Preparations are progressing for drilling in Brazil with the contracted 'Blackford Dolphin' drilling rig. Commencement of a three well drilling campaign is expected in the coming months.
- Preparations for drilling in the Tumbes Basin, Peru have commenced with long lead items ordered and early tender work indicating the availability of several drilling rigs for a minimum of two wells in Karoon's preferred time period during calendar 2013.
- Karoon continued to receive interest for a farm-out of equity in its five wholly owned Blocks in the Santos Basin, Brazil and one Block in the Tumbes Basin, Peru.

### **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 northwestern Australian coast and have a combined gross area of 7,828 km<sup>2</sup>.

### ***Drilling***

During the quarter, the 'Transocean Legend' drilling rig commenced drilling the Boreas-1 exploration well. Boreas-1 is located approximately 4 kilometres south of Poseidon-1 in WA-315-P on a large tilted fault block, which is part of the north-east trending structural high of the greater Poseidon structure. The objective of the well is to test the extent, presence and quality of reservoirs within the Boreas-1 fault block.

The blowout preventer was pulled for repair after drilling the Boreas-1 well to a depth of 4,009 metres under the rotary table. Once repairs are complete and the blowout preventer is fully functional, drilling on the Boreas-1 well will recommence toward the primary well target.

The second well, Zephyros-1, is the next well in the program and will be drilled in permit WA-398-P on a large tilted fault block approximately 8 kilometres southwest of the Kronos-1 discovery location. The third well, Proteus-1 in WA-398-P,

was approved by the joint venture and will be drilled on a large tilted fault block approximately 14 kilometres southeast of the Poseidon-1 discovery location.

The Browse drilling campaign is expected to continue for a period of up to two years. The program is designed to define more precisely the size and quality of the contingent gas resource base, allowing the joint venture to move forward with selection of a development concept and progress to more in-depth project design and planning.

### ***Equity Interests***

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%

### **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 a gross area of 865 km<sup>2</sup>.

During August 2010, Karoon signed a joint venture agreement to acquire a 20% participation in Block S-M-1352; subject to Agencia Nacional do Petróleo ('ANP') approval, with the remaining 80% interest owned by Petróleo Brasileiro S.A. ('Petrobras').

### **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 km<sup>2</sup>. 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 recently re-processed WAZ dataset continued during the quarter so as to further enhance the resolution of the data and assist with well planning and selection of 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 the prospects by providing better definition and understanding of their potential. The new processing is designed to provide additional definition of the pre-salt structuring within Karoon's Blocks.

#### ***Drilling***

The 'Blackford Dolphin' drilling rig is currently scheduled for commencement of a three well drilling campaign on Karoon's 100% owned Santos Basin Blocks during the fourth quarter calendar 2012. Karoon is completing the final stages of selecting well locations and final long lead items continued to be 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. A forward plan for Maruja is currently under assessment with outcomes expected during the upcoming year.

### ***Equity Interests***

Karoon's wholly owned subsidiary, Karoon Petróleo & 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 ANP. Karoon submitted final regulatory submissions during the previous quarter and does not expect to encounter any issues with the approval. Upon receipt of regulatory approval and subject to satisfying farm-in obligations, equity interests of the participants in BM-S-41/S-M-1352 will be:

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

## **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 km<sup>2</sup> 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%. Planning is now underway for a minimum two well drilling campaign to satisfy the current work commitments and farm-in obligations.

### ***3D Seismic Interpretation***

Interpretation of 1,500 km<sup>2</sup> 3D seismic continued during the quarter. Results of the interpretation have allowed detailed prospect oriented interpretation indicating the presence of up to 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.

### ***Drilling***

Karoon is currently receiving and evaluating tenders for the provision of various drilling related items such as a drilling rig for a minimum of two wells, along with many long lead items, in preparation for the Tumbes Basin Block Z-38 exploration drilling program. The likely timing for the commencement of drilling is expected to be during the second half of calendar 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% equity interest is subject to completion of farm-in obligations.

## **Block 144**

Block 144 is located within the onshore Marañon 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 is continuing the environmental impact assessment application works for 300 km of 2D seismic acquisition.

### ***Equity Interest***

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

### **South American Farm-out**

During the quarter, Karoon continued to work with interested parties for the farm-out of its equity interests in the Tumbes Basin, Peru and its wholly owned Blocks in the Santos Basin, Brazil. Karoon has continued to receive interest, with formal discussions continuing, and internal reviews taking place.

Karoon hopes to complete the farm-out of its Brazilian Blocks in the near term, in preparation for the commencement of the Brazilian drilling campaign later in calendar 2012.

The Peruvian farm-out dataroom is currently being refreshed with new information, interpretation and analysis added, and will re-open in the coming months for remaining interested parties. Karoon aims to complete the farm-out in advance of drilling during 2013.

**ASX QUARTERLY FINANCIAL REPORT  
FOR THE QUARTER ENDED 30 JUNE 2012**

**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 June 2012**

**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	(21,720)	(61,751)
(b) development	-	-
(c) production	-	-
(d) administration	(3,650)	(14,004)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	804	16,074
1.5 Interest and other costs of finance paid	(54)	(256)
1.6 Income taxes paid	-	(561)
1.7 Other – GST/VAT refunds	73	2,982
<b>Net operating cash flows</b>	<b>(24,547)</b>	<b>(57,516)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(21)	11,666
(c) other fixed assets	(59)	(967)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	11	25
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>(69)</b>	<b>10,724</b>
1.13 Total operating and investing cash flows (carried forward)	(24,616)	(46,792)

	Current Quarter \$A'000	Year to date (12 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(24,616)	(46,792)
<b>Cash flows related to financing activities</b>		
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	-	-
<b>Net financing cash flows</b>	-	-
<b>Net increase (decrease) in cash held</b>		
1.20 Cash as at beginning of Current Quarter/ year to date	245,904	266,839
1.21 Exchange rate adjustments to item 1.20	2,645	3,886
1.22 <b>Cash as at end of Current Quarter</b>	<b>223,933</b>	<b>223,933</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	456
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: \$395,325  
Consulting fees included in 1.23: \$60,496

**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	51,500
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	3,800
<b>Total</b>	<b>55,300</b>

### 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	94,408	114,693
5.2	Short term bank deposits	129,525	131,211
5.3	Bank overdraft	-	-
5.4	Other	-	-
	<b>Total: Cash as at end of Current Quarter (item 1.22)</b>	<b>223,933</b>	<b>245,904</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>	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 <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>			<i>Exercise price</i>	<i>Expiry date</i>
	1,530,000		1407 cents	12 November 2013
	1,500,000		1150 cents	18 November 2013
	1,105,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
	2,360,000		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				
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter	100,000 130,000 60,000		1150 cents 977 cents 730 cents	
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 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 July 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 30 June 2012

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	ConocoPhillips	90 <sup>(1)</sup>
WA-315-P	Browse, Australia	ConocoPhillips	40 <sup>(1)</sup>
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 <sup>(2)</sup>
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 <sup>(3)</sup>

- (1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (2) 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.
- (3) The Group's 75% Block equity interest is subject to completion of farm-in obligations.