



SEPTEMBER 2012 QUARTERLY REPORT AND APPENDIX 5B

Highlights - Company Operations

- Drilling and testing of the first well in the phase two Browse Basin drilling campaign. The Boreas-1 exploration well achieved gas flow rates of 30.2 million standard cubic feet per day ('mmscf/d') through a 40/64 inch choke at a well head pressure of 3,300 psia and an associated condensate rate of 18 barrels per million standard cubic feet.
- Executed final agreements for Pacific Rubiales Energy Corp. to acquire a 35% interest in Karoon's wholly owned Santos Basin exploration Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165, with an option to acquire a 35% interest in Block S-M-1166.
- Preparing to commence drilling in Brazil with the contracted 'Blackford Dolphin' drilling rig expected to spud the Kangaroo-1 exploration well during November or December 2012.
- Execution of final agreements to acquire a 100% interest in exploration permit WA-482-P in the North Canarvon Basin, Australia.
- Preparations for drilling in the Tumbes Basin, Peru continued with long lead items ordered and drilling rig contracts being re-tendered for a minimum of two wells in Karoon's preferred time period during late calendar 2013.
- Karoon continued to receive interest for a farm-out of its equity in WA-314-P in the Browse Basin, Australia and Block Z-38 in the Tumbes Basin, Peru.

Australia

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.

Drilling

During the quarter, the 'Transocean Legend' drilling rig resumed drilling the Boreas-1 exploration well after resolving blowout preventer problems. The well cut core through the gas bearing reservoir interval before conducting a full wireline logging evaluation at total depth, a drill stem test was then conducted.

During the drill stem testing, the well flowed gas to the surface from a 70 metre reservoir section at an equipment constrained maximum sustained rate of up to 30.2 mmscf/d through a 40/64 inch choke at a well head pressure of 3,300 psia. A condensate/gas ratio of 18 bbl/mmscf was measured at the surface, along with a 16% CO₂ content taken from the gas flow on a volume basis. This condensate/gas ratio was almost double the rate tested in the Kronos-1 well.

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

Boreas-1 is located approximately 4 km south of Poseidon-1 in WA-315-P on a large tilted fault block which is part of the of the north-east trending structural high of the greater Poseidon structure.

The 'Transocean Legend' drilling rig will now move to the second well location, Zephyros-1 to commence drilling in the coming weeks in WA-398-P. The Zephyros-1 well location is situated on the flank of a large tilted fault block and is located approximately 8 km southwest of the Kronos-1 discovery location. The objective of the Zephyros-1 well is to test the extent, presence and quality of plover formation reservoirs within the Zephyros fault block.

The third well, Proteus-1 in WA-398-P, was approved by the joint venture and its location is on a large tilted fault block approximately 14 km southeast of the Poseidon-1 discovery location.

The Browse drilling campaign is expected to continue for a period of up to two years. The campaign 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%

North Carnarvon Basin Permit WA-482-P

During the quarter, Karoon executed final agreements to acquire a 100% interest in the North Canarvon Basin permit WA-482-P from Liberty Petroleum Corporation. In consideration for the equity in the permit, during the first two work permit years, Karoon will manage the permit and be solely responsible for the work programmes, budgets and expenditure on the permit.

Karoon is required to complete the re-processing of existing 3D seismic and the acquisition of 2,010 km² of new 3D seismic in the first two permit years. Karoon then has an option to drill a well or exit the permit at the end of the second permit year.

The permit is located in the North Carnarvon Basin, 300 km offshore from the north-western Australian coast and covers an area of 13,630 km².

Karoon is currently completing the final equity transfer process with the designated authority; at the completion of this process, Karoon will hold a 100% equity interest in WA-482-P.

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 km².

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

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

Farm-out

During the quarter, Karoon and Pacific Rubiales Energy Corp. executed final agreements to acquire a 35% interest in Karoon's wholly owned Santos Basin exploration Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165 with an option to acquire a 35% interest in S-M-1166 ('Blocks').

In consideration for acquiring the interests in the Blocks, Pacific Rubiales Energy Corp. has paid Karoon cash consideration of US\$40 million and will carry up to US\$210 million in well costs. Pacific Rubiales Energy Corp. will pay the initial US\$70 million of each of the first two wells of a three well drilling campaign in Brazil, followed by 35% of all costs thereafter. In the case that Pacific Rubiales Energy Corp. exercises its option for entry into the third well in the drilling campaign, Bilby, it will pay the initial US\$70 million well costs and 35% of costs thereafter.

Seismic Interpretation

Interpretation of recently re-processed wide azimuth 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. It 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 the three well drilling campaign on Karoon's 100% owned Santos Basin Blocks during late November 2012. Karoon has selected final well locations and long lead items have been delivered.

Equity Interests

Provided all regulatory approvals are granted from the ANP and subject to completion of farm-in obligations by Pacific Rubiales Energy Corp., equity interests of the participants in Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165 will be:

Karoon Petr�leo & Gas Ltda (Operator)	65%
Pacific Rubiales Energy Corp.	35%

Karoon currently holds an equity interest of 100% in Block S-M-1166. However, Pacific Rubiales Energy Corp. has an option to acquire a 35% equity interest in this Block, subject to regulatory approval from the ANP.

Santos Basin Block S-M-1352

Assessment of the results from the Maruja-1 and Maruja-2 wells, drilled late 2010 and early 2011 respectively, continued. The operator, Petrobras, is currently continuing its technical and commercial assessment of the Maruja discoveries while working with the ANP on the future of the field.

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. The acquisition is subject to regulatory approval being granted by the ANP, the Brazilian Government agency responsible for regulation of the petroleum industry. Petrobras is currently in discussions with the ANP regarding the ongoing status of the BM-S-41 Concession and Karoon's 20% interest. Karoon is not a party to ongoing discussions between Petrobras and the ANP.

Provided all regulatory approvals are granted from the ANP, 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 km² located in the Tumbes Basin, 10 km 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 progressing for a minimum two well drilling campaign to satisfy the current work commitments and farm-in obligations.

3D Seismic Interpretation

Interpretation of 1,500 km² of 3D seismic was ongoing during the quarter. Results of the interpretation have allowed detailed prospect oriented interpretation, indicating the presence of up to nineteen prospects and leads.

Combining drop core results with the 3D seismic work 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 prospects where all the required petroleum system elements are in place.

Drill Planning

Karoon continued to prepare for drilling in Block Z-38. This process included tenders for the provision of various drilling related items in preparation for the Tumbes Basin Block Z-38 exploration drilling campaign. The likely timing for the commencement of drilling is expected late 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%*
Pitkin Petroleum Peru Z-38 SRL	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

Continuing 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 acquiring 300 km of 2D seismic.

Equity Interest

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

Peru and Australia Farm-out Status

During the quarter, Karoon completed its Santos Basin farm-out work and also continued to work with interested parties for the farm-out of its equity interests in the Tumbes Basin, Peru and WA-314-P in the Browse Basin, Australia.

The Peruvian and Australian farm-out data rooms received early requests and visits during the quarter and Karoon aims to complete the farm-out in advance of drilling in each location during calendar 2013.



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

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ('Current Quarter')

30 September 2012

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	(20,363)	(20,363)
(b) development	-	-
(c) production	-	-
(d) administration	(3,167)	(3,167)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1,955	1,955
1.5 Interest and other costs of finance paid	(84)	(84)
1.6 Income taxes paid	-	-
1.7 Other – GST/VAT refunds	129	129
Net operating cash flows	(21,530)	(21,530)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	(24)	(24)
(b) security deposits (net)	(3,887)	(3,887)
(c) other fixed assets	(95)	(95)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(4,006)	(4,006)
1.13 Total operating and investing cash flows (carried forward)	(25,536)	(25,536)

	Current Quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(25,536)	(25,536)
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	(25,536)	(25,536)
1.20 Cash as at beginning of Current Quarter/ year to date	227,802	227,802
1.21 Exchange rate adjustments to item 1.20	(2,399)	(2,399)
1.22 Cash as at end of Current Quarter	199,867	199,867

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	446
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: \$406,275
Consulting fees included in 1.23: \$39,640

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	56,000
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	3,000
Total	59,000

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	123,039	98,277
5.2	Short term bank deposits	76,828	129,525
5.3	Bank overdraft	-	-
5.4	Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)		199,867	227,802

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	Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, Brazil	Exploration permits	100%	65%	(1)
		Block S-M-1166, Brazil	Exploration permit	100%	100%	(2)
6.2	Interests in tenements acquired or increased	WA-482-P, Australia	Exploration permit	-	100%	(3)

(1) Subject to regulatory approval. Refer ASX release dated 19 September 2012.

(2) Pacific Rubiales Energy Corp. has an option to acquire a 35% equity interest in Block S-M-1166. Refer ASX release dated 19 September 2012.

(3) Subject to regulatory approval and completion of Year 1 and 2 work programme commitments. Refer ASX release dated 21 September 2012.

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>
	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
	2,260,000		730 cents	31 October 2015
	850,000		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	150,000 100,000		892 cents 730 cents	
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 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 September 2012

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	ConocoPhillips	90 (1)
WA-315-P	Browse, Australia	ConocoPhillips	40 (1)
WA-398-P	Browse, Australia	ConocoPhillips	40
WA-482-P	North Carnarvon, Australia	Karoon	100 (2)
Block S-M-1037	Santos, Brazil	Karoon	65 (3)
Block S-M-1101	Santos, Brazil	Karoon	65 (3)
Block S-M-1102	Santos, Brazil	Karoon	65 (3)
Block S-M-1165	Santos, Brazil	Karoon	65 (3)
Block S-M-1166	Santos, Brazil	Karoon	100 (4)
Block S-M-1352	Santos, Brazil	Petrobras	20 (5)
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (6)

- (1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.
- (2) Subject to regulatory approval and completion of Year 1 and 2 work programme commitments. Following completion of the second year of the permit term, Karoon has withdrawal rights under the farm-in agreement and would be removed from title after Year 2 and before Year 3 well commitment is due. If Karoon elects to acquire the permit, such assignment will be conditional on regulatory approval. Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and a royalty in the event of production.
- (3) Subject to regulatory approval of the ANP and completion by Pacific Rubiales Energy Corp. of its farm-in commitments for its 35% equity interest in these Blocks.
- (4) Pacific Rubiales Energy Corp. has an option to acquire a 35% equity interest in Block S-M-1166.
- (5) The Group's 20% participating interest in the Block is subject to satisfying farm-in obligations and obtaining regulatory approvals from ANP.
- (6) The Group's 75% Block equity interest is subject to completion of farm-in obligations.