



KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

**QUARTERLY REPORT FOR THE QUARTER ENDED 30 JUNE 2011 AND
APPENDIX 5B**

Review of Operations

Recent Quarter Highlights:

- ConocoPhillips and Karoon received regulatory approval under the Environmental Protection and Biodiversity Conservation Act (1999) to start drilling in the Browse Basin commencing in 2011.
- A letter of intent was signed to contract the “Blackford Dolphin” semi-submersible drilling rig for 3 wells in Karoon’s Santos Basin offshore Blocks. Drilling is expected to commence early calendar year 2012.
- Results from the 2,828 square kilometre 3D seismic acquisition over the greater Poseidon structure have been encouraging, providing better definition of the Poseidon trend and several surrounding prospects.
- Processing and interpretation continued on the 750 square kilometre wide azimuth 3D seismic data acquired during 2010 over Karoon’s wholly owned Santos Basin offshore Blocks. Results will become available in the coming months, but early indications show that better definition has been achieved around salt structures.
- Further appraisal over the Maruja oil discovery is continuing and Karoon expects to work with Petrobras on a forward appraisal program.
- Interpretation of the 1,500 square kilometre 3D seismic data acquired during 2010 over the Tumbes Basin Z-38 Block, Peru, continued with results indicating several new leads and prospects.

AUSTRALIA

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

Browse Regulatory Approvals and Drilling Status

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

The drilling campaign is expected to commence in the fourth quarter of 2011 and consist of up to eight wells, including 5 commitment wells under the terms of the permits. At least 4 wells are planned on the WA-315-P and WA-398-P permits, which contain the previously announced Poseidon and Kronos discoveries and at least 1 well within WA-314-P permit. The campaign will seek to determine the quantity and quality of hydrocarbon accumulations within the permits by targeting features around the Poseidon and Kronos discoveries and newly interpreted satellite prospects.

Browse Basin 3D Seismic Update

Processing of the 2009/2010 Poseidon 3D seismic data was completed. Early interpretation results have been encouraging, with the delineation of several surrounding prospects and leads within the permits. Karoon believes that these prospects and leads are of sufficient size that, if successful, would make a meaningful difference to increasing the capacity and improving the economics of a potential Poseidon LNG project.

Increase of WA-314-P ownership Interest

Karoon has executed final documentation to effect Karoon acquisition of an additional 40% participating interest in WA-314-P from ConocoPhillips (Browse Basin) Pty Ltd to take Karoon's interest in the permit to 90%.

The 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%

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

The views expressed in this release do not necessarily reflect the views of our joint venture partner, ConocoPhillips

Bonaparte Basin AC/P8

Karoon continued to interpret a Controlled Source Electro-Magnetic survey data set. Results from this assessment will be used in decision making for future permit plans.

Permit interests of the participants in AC/P8 are:

Karoon Energy International Ltd (Operator)	66.67%
Talisman Oil & Gas (Australia) Pty Limited	33.33%

OVERSEAS

Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166.

Drilling Update

During May 2011, Karoon signed a letter of intent to contract with Dolphin Drilling Ltd for the “Blackford Dolphin” semi-submersible drilling rig. The letter of intent covers the drilling of 3 wells in Karoon’s Santos Basin offshore Blocks, expected to begin early calendar year 2012. The negotiation of the final drilling agreement is ongoing.

The “Blackford Dolphin” is a semi-submersible drilling rig, currently operating in Brazilian waters, and is the preferred drilling rig for Karoon’s upcoming Santos drilling program. Karoon will be targeting several prospects in this drilling program, along with satisfying its second period work commitments. Karoon’s Santos Basin offshore Blocks contain several large drill targets, with the three drilling targets to be announced at the completion of seismic interpretation later in calendar 2011.

Wide-Azimuth 3D Seismic

The wide azimuth 3D seismic data processing is nearing completion. The aim of this seismic survey is to produce better imaging of potential reservoir and structuring above, below and around the salt structures in Karoon's offshore Santos Basin acreage. Interpretation of early data cubes has begun and will be ready for inclusion in a data room for potential joint venture partners during the fourth quarter 2011.

Karoon has a 100% working interest and is the operator of its Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166.

Santos Basin Block BM-S-41/S-M-1352

Marujá Field Appraisal

After the completion of the Marujá-2 appraisal well during late March 2011, well data continues to be integrated into the oil field model to assess the commercial potential of the Marujá oil field. Karoon expects to have news on the forward program for Maruja in the upcoming period.

Marujá-2 surface location was 4.8 km north east of the Marujá-1 (1-SPS-76) oil discovery, which flowed oil at a stabilised rate 4,675 stb/day from a drill stem test interval between 2,201-2010m.

Equity Interests

Upon receipt of regulatory approvals (including from Agencia Nacional do Petroleo, the Brazilian National Petroleum Agency) 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 SA (Operator)	80%

Peru Tumbes Basin Block Z-38

3D Seismic Acquisition and Interpretation

Interpretation of the 1,500 square kilometre 3D seismic acquisition is well advanced. Results have been encouraging with several new leads and prospects, identified for a total of 11 prospects and leads. Karoon has assessed prospective resource sizes ranging from 50mmbls to just over 400mmbls. Detailed risking and volumetrics will be carried out over the coming quarters ahead of drilling expected during calendar 2012.

This was the largest 3D seismic acquisition program ever undertaken in offshore Peru and it has given Karoon great confidence in Block Z-38’s prospectivity. The objective of this seismic acquisition was to provide state of the art prospect delineation ahead of a planned drilling campaign, expected during the second half of 2012, and to also gain a better understanding of previously under explored areas within Block Z-38.

Drilling Update

Karoon has commenced planning for a campaign expected during the second half of 2012 calendar year comprising of up to 3 exploration wells in the Tumbes Basin Peru. All necessary preparations are currently being carried out to obtain regulatory approvals.

In the early weeks of July 2011, Karoon completed community consultation meetings in Northern Peru to local communities. The Karoon delegation of Directors, local Management, Technical Staff and Social Specialists were very satisfied with the reception to the presentations. These meetings are essential to successfully completing future work and ensuring community concerns are addressed effectively.

After completion of the farm-in work program, equity interests in Block Z-38 will be:

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

* Karoon must pay 100% of the cost of one well to fulfill its joint venture farm-in work program.

Block 144

Karoon is continuing its geotechnical, social and environmental work in the Block. Interpretation of 1,000 kilometres of existing reprocessed 2D seismic data is complete and has provided a better understanding of the prospect in the south of the Block. Karoon is preparing a forward program, which may include additional seismic and/or the drilling of one well.

Karoon has a 100% working interest in Block 144.

For further information please see the Karoon website or contact:

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ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2011

**Appendix 5B
(Unaudited)**

Introduced 1/7/96. Origin: Appendix 8. Amended 1/07/97, 1/07/98, 30/09/01, 01/06/10, 17/12/10.

Name of entity

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("Current Quarter")

30 June 2011

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (12 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	(6,283)	(34,774)
(b) development	-	-
(c) production	-	-
(d) administration	(2,442)	(16,654)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3,674	10,329
1.5 Interest and other costs of finance paid	(53)	(456)
1.6 Income taxes paid	-	(220)
1.7 Other - GST refunds	218	1,670
Net operating cash flows	(4,886)	(40,105)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(5,852)	(51,875)
(c) other fixed assets	(476)	(2,405)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	31
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(6,328)	(54,249)
1.13 Total operating and investing cash flows (carried forward)	(11,214)	(94,354)

	Current Quarter \$A'000	Year to date (12 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(11,214)	(94,354)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	1,625	292,462
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	-	(8,715)
Net financing cash flows	1,625	283,747
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	(9,589) 279,317	189,393 87,123
1.21 Exchange rate adjustments to item 1.20	(2,889)	(9,677)
1.22 Cash as at end of Current Quarter	266,839	266,839

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	202
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: \$141,621
Consulting fees included in 1.23: \$60,139

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	78,800
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	4,400
Total	83,200

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	81,900	73,005
5.2 Short term bank deposits	184,939	206,312
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)	266,839	279,317

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 <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	125,000 250,000	125,000 250,000	500 cents 400 cents	500 cents 400 cents
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>	200,000 1,700,000 1,530,000 1,245,000 100,000 500,000		<i>Exercise price</i> 684 cents 1150 cents 1407 cents 977 cents 977 cents 948 cents	<i>Expiry date</i> 30 October 2011 18 November 2013 12 November 2013 31 October 2014 18 November 2014 18 November 2014
7.8 Issued during Current Quarter				
7.9 Exercised during Current Quarter	125,000 250,000		<i>Exercise price</i> 500 cents 400 cents	
7.10 Expired during Current Quarter	100,000 100,000		<i>Exercise price</i> 977 cents 1150 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: 28 July 2011
(Company Secretary)
Name: Scott Hosking

Notes:

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, AASB 6 *'Exploration for and Evaluation of Mineral Resources'* and AASB 107 *'Statement of Cash Flows'* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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Appendix 1

Schedule of Interests

Held by the Karoon Gas Australia Ltd Group

As at 30 June 2011

<u>Exploration permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
AC/P8	Bonaparte, Australia	Karoon	66.67
WA-314-P	Browse, Australia	ConocoPhillips	40.00 ⁽¹⁾
WA-315-P	Browse, Australia	ConocoPhillips	40.00 ⁽¹⁾
WA-398-P	Browse, Australia	ConocoPhillips	40.00
Block 1037	Santos, Brazil	Karoon	100.00
Block 1101	Santos, Brazil	Karoon	100.00
Block 1102	Santos, Brazil	Karoon	100.00
Block 1165	Santos, Brazil	Karoon	100.00
Block 1166	Santos, Brazil	Karoon	100.00
Block 1352	Santos, Brazil	Karoon	20.00 ⁽²⁾
Block 144	Maranon, Peru	Karoon	100.00
Block Z-38	Tumbes, Peru	Karoon	75.00 ⁽³⁾

(1) 1.5% over-riding royalty for first five years of production, going to 2% thereafter.

(2) The Group's 20.00% Block equity interest is subject to satisfying farm-in obligations and obtaining regulatory approvals in Brazil, including from the Brazilian Petroleum Agency.

(3) The Group's 75.00% Block equity interest is subject to satisfying farm-in obligations