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## MARCH 2013 QUARTERLY REPORT AND APPENDIX 5B

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### Highlights - Company Operations

- Discovery at Kangaroo-1 of 42 degree gravity API oil in the Santos Basin, Brazil.
- Zephyros-1 exploration well in the Browse Basin, Australia encountered good quality gas bearing sands in the primary target Plover Formation.
- Pacific Rubiales Energy Corp. exercised its option to acquire a 35% interest in Santos Basin Block S-M-1166. In consideration for the interest, Pacific Rubiales will carry the initial US\$70 million Bilby-1 exploration well costs and 35% of all costs thereafter.
- Emu-1 exploration well completed during March 2013 showing indications of hydrocarbons.
- The Proteus-1 exploration well in the Browse Basin, Australia was spudded on 25 March 2013.
- Preparations for drilling in the Tumbes Basin, Peru continued with long lead items on order, new service contracts approved and tenders received for drilling rigs indicating availability from late calendar year 2013.
- Karoon qualified as Operator A. Operator A status qualifies Karoon to operate all exploration regardless of water depth. Karoon's qualification as Operator A is the result of its demonstration of competent Brazilian drilling experience as shown in the current Santos Basin drilling program.

### 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 kilometres offshore from the north-western Australian coast and have a combined gross area of 7,828 square kilometres.

#### ***Drilling***

During the quarter, the 'Transocean Legend' drilling rig completed drilling and logging of the Zephyros-1 exploration well in WA-398-P. Zephyros-1 was drilled to a total vertical depth of 5,372 metres and 108 metres of core were cut and recovered to surface to assist reservoir characterisation studies. Wireline logging established good quality gas bearing sands in the primary target Plover Formation and pressure data from that interval indicates a possible deep gas-water contact similar to that interpreted at Kronos-1. Reservoir size and characteristics were found to be similar to those found at the Kronos-1 exploration well and drill stem testing was therefore, deemed unnecessary.

Following completion of operations at Zephyros-1 the 'Transocean Legend' was towed to the Proteus-1 location and the well spudded on 25 March 2013. Subsequent to the end of the quarter, Proteus-1 was drilled to a depth of 2,690 metres where the 13-3/8" casing was set and cemented. The 12-1/2" hole section was then drilled to 4,166 metres where the 9-5/8" casing was set and cemented. It is anticipated that the target section will be drilled during the next quarter. Proteus-1 in WA-398-P has its location on a large tilted fault block approximately 14 kilometres south-east of the Poseidon-1 gas discovery location.

The second phase Browse drilling campaign comprising six wells, with a remaining option for an additional well, is expected to continue until calendar year 2014. 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**

Work continued during the quarter to accelerate the exploration of this permit, including preparation of environmental referral documents for submittal to the National Offshore Petroleum Safety and Environmental Management Authority ('NOPSEMA') and the planning of the second permit year seismic program. Tenders have now been received for the acquisition of 2,375 square kilometres of 3D seismic. Current seismic vessel availability provides comfort that the new acquisition can be conducted during the third quarter of calendar year 2013, provided approvals are granted in the near term.

#### ***Equity Interests***

Karoon is currently completing the final equity transfer process with the designated authority. At the completion of this process, and subject to completion of farm-in obligations, 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 square kilometres.

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 to be owned by Petróleo Brasileiro S.A. ('Petrobras').

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

#### ***Drilling***

The 'Blackford Dolphin' drilling rig commenced drilling at the Kangaroo-1 well location on 28 December 2012. During January 2013, Kangaroo-1 reached a total depth of 3,049 metres and intersected an oil column in the Eocene reservoir section at a depth of 1,947 metres. The Kangaroo oil discovery was confirmed by the recovery of 42 degree gravity API oil, sidewall coring, mud log, wireline petrophysical and modular formation dynamic tester pressure data of the Eocene aged rocks. A gross oil column of 25 metres and an oil-water contact has been established from pressure data interpretation.

The Kangaroo-1 exploration well was designed to be a deviated well to test multiple targets at different locations with a planned total depth of 2,697 metres measured depth. However, it was drilled to 3,049 metres.

Kangaroo-1 intersected the Eocene reservoir section approximately 600 metres down dip from the trap crest, as interpreted from post drill seismic mapping. A potential gross hydrocarbon column of approximately 600 metres has been estimated for the entire trap and a wide contingent resource range of 1C 2 million barrels, 2C 73 mmbbls, 3C 337 mmbbls exists. Further drilling will be required to define the resource and narrow this range. Karoon is currently working to secure a rig for an up dip appraisal well.

The Emu-1 exploration well was drilled during February/ March 2013 with a planned total depth of 4,520 metres. The well encountered good quality reservoir intervals, some with good oil and gas shows. Wireline data, however, showed the reservoirs to be mostly water bearing.

The Bilby-1 exploration well was spudded on 7 April 2013 with a planned total depth of 4,541 metres. It is currently being drilled, with results expected during the next quarter.

*Contingent Resources; those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality).*

*1C- Denotes low estimate scenario of contingent resources.*

*2C- Denotes best estimate scenario of contingent resources.*

*3C- Denotes high estimate scenario of contingent resources.*

#### ***Equity Interests***

During the quarter, Pacific Rubiales Energy Corp. (TSX: PRE; BVC: PREC; BOVESPA: PREB) exercised its option to participate in the Bilby-1 exploration well (Block S-M-1166). The exercise of this option provides for participation in all five Blocks and carries the first US\$70 million in exploration well costs at Bilby-1 and 35% of all costs thereafter.

Provided all regulatory approvals are received from the ANP, and subject to completion of the applicable farm-in obligations by Pacific Rubiales Energy Corp., equity interests of the participants in Blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165 and S-M-1166 will be as follows:

Karoon Petróleo & Gas Ltda (Operator)	65%
Pacific Rubiales Energy Corp.	35%

### **Santos Basin Block S-M-1352**

Karoon continued its assessment of the results from the Maruja-1 and Maruja-2 wells. The operator, Petrobras, is currently continuing its technical and commercial assessment of the Maruja discoveries while working with the ANP, the Brazilian Government agency responsible for regulation of the petroleum industry, 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. 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 square kilometres, located in the Tumbes Basin, 10 kilometres from the north-west 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 exploration drilling campaign to satisfy current work commitments and farm-in obligations.

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

Results of the interpretation of previously acquired 1,500 square kilometres of 3D seismic, have allowed detailed prospect oriented interpretation, indicating the presence of 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 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 and delivery of long lead items in preparation for the Tumbes Basin Block Z-38 exploration drilling campaign. The likely timing for the commencement of drilling is currently expected to be early calendar year 2014. 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 including the interpretation of 1,000 kilometres of existing 2D seismic data and offset well information in preparation for stratigraphic studies of the region.

#### ***Seismic Reprocessing and Interpretation***

Continuing geophysical interpretation, using the reprocessed data, has identified the presence of several four-way dip closed structures in the eastern portion of the Block, in addition to the closure in the southern part of the Block.

Karoon is continuing the environmental impact assessment application works for acquiring 300 kilometres of 2D seismic. The planned survey is to be concentrated on the prospects in the eastern part of the Block. The permit is currently in force majeure while social work programs and government introductions are completed.

#### ***Equity Interest***

Karoon has a 100% equity interest in Peru Block 144.

### **Peru and Australia Farm-out Status**

During the quarter, Karoon continued to work with interested parties for the farm-out of its equity interests in the Tumbes Basin, Peru and WA-314-P, WA-315-P and WA-398-P in the Browse Basin, Australia.

The Peruvian and Australian farm-out data rooms received interest during the quarter and Karoon aims to complete both farm-outs in advance of anticipated drilling.



## ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 2013

### 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')

**31 March 2013**

#### Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (9 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	(87,778)	(160,116)
(b) development	-	-
(c) production	-	-
(d) administration	(4,000)	(11,264)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	788	5,298
1.5 Interest and other costs of finance paid	(31)	(132)
1.6 Income taxes (paid)/ refund	(782)	(455)
1.7 Other – GST/VAT refunds	4	168
<b>Net operating cash flows</b>	<b>(91,799)</b>	<b>(166,501)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	(24)
(b) security deposits (net)	(66)	(3,949)
(c) other fixed assets	(69)	(424)
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 (Brazilian farm-out)	74,023	155,079
<b>Net investing cash flows</b>	<b>73,888</b>	<b>150,682</b>
1.13 Total operating and investing cash flows (carried forward)	(17,911)	(15,819)

	Current Quarter \$A'000	Year to date (9 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(17,911)	(15,819)
<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>	<b>(17,911)</b>	<b>(15,819)</b>
1.20 Cash as at beginning of Current Quarter/ year to date	228,252	227,802
1.21 Exchange rate adjustments to item 1.20	10	(1,632)
1.22 <b>Cash as at end of Current Quarter</b>	<b>210,351</b>	<b>210,351</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	466
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: \$406,274  
Consulting fees included in 1.23: \$59,364

**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	74,700
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	3,300
<b>Total</b>	<b>78,000</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	104,542	98,891
5.2	Short term bank deposits	105,809	129,361
5.3	Bank overdraft	-	-
5.4	Other	-	-
	<b>Total: Cash as at end of Current Quarter (item 1.22)</b>	<b>210,351</b>	<b>228,252</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	Block S-M-1166, Brazil	Exploration permit	100%	65%
6.2	Interests in tenements acquired or increased	-	-	-	-

(1) Subject to regulatory approval. Refer ASX release dated 28 March 2013.



### 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> (description)				
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> (description)				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options and Performance Rights</b> (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
	<u>Options</u>			
	1,530,000		1407 cents	12 November 2013
	1,500,000		1150 cents	18 November 2013
	1,005,000		977 cents	31 October 2014
	100,000		977 cents	18 November 2014
	500,000		948 cents	18 November 2014
	2,210,000		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
	1,438,999		685 cents	29 November 2016
	<u>Performance Rights ('PER')</u>			
	259,469		zero	29 November 2015
7.8 Issued during Current Quarter	<u>Options</u>			
	82,891		685 cents	29 November 2016
	<u>PER</u>			
	15,448		zero	29 November 2015
7.9 Exercised during Current Quarter				
7.10 Expired/cancelled during Current Quarter	50,000		730 cents	
	100,000		977 cents	
7.11 <b>Debentures</b> (totals only)				
7.12 <b>Unsecured notes</b> (totals only)				

**Compliance statement**

- A. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- B. This statement does give a true and fair view of the matters disclosed.

Signed: ..... Date: 30 April 2013  
(Company Secretary)  
Name: Scott Hosking

**Notes:**

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

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## Appendix 1

### Schedule of Interests

Held by the Karoon Gas Australia Ltd Group

As at 31 March 2013

<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	65 (3)
Block S-M-1352	Santos, Brazil	Petrobras	20 (4)
Block 144	Maranon, Peru	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	75 (5)

- (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) The Group's 20% participating interest in the Block is subject to satisfying farm-in obligations and obtaining regulatory approvals from ANP.
- (5) The Group's 75% Block equity interest is subject to completion of farm-in obligations.