



KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

QUARTERLY REPORT FOR THE QUARTER ENDED 31 DECEMBER 2010 AND APPENDIX 5B

Review of Operations

Highlights:

- The Poseidon-2 exploration well spudded during October 2009.
- Well evaluation at the Poseidon-2 exploration well indicates the potential for gas in the Plover formation sands and Montara formation sands. Well testing in the plover formation is underway.
- During October 2009, the CGG Veritas seismic vessel "M/V Geowave Voyager" commenced a 2,800 square kilometre 3D seismic acquisition over the greater Poseidon structure.
- Karoon agreed to acquire an additional 15% interest in offshore Block Z-38 in Peru taking Karoon's post farm-in and approvals equity interest to 75%.
- An agreement was signed for the seismic vessel, Western Patriot to conduct a 730 square kilometre 3D seismic survey in the Santos Basin, Brazil. The program is expected to commence during the first quarter of 2010.
- The 1,500 square kilometre Peruvian 3D seismic acquisition program, using the CGG Veritas seismic vessel "M/V Geowave Endeavour", commenced during January 2010.

Australia

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

During the Quarter, Karoon and its joint venture partner, ConocoPhillips, continued exploration of the Browse Basin permits with the drilling of the Poseidon-2 exploration well, now entering the testing phase of the evaluation. ConocoPhillips also exercised its right to acquire an additional 9% equity in exploration permits WA-314-P and WA-315-P. As part of the exercise of its option ConocoPhillips will pay 80% of the next US\$125 million in Joint Venture expenditure within exploration permits WA-314-P and WA-315-P.

During October 2009, the Poseidon-2 exploration well was spudded with the objective to test the extent, presence and quality of reservoirs down-dip from Poseidon-1 where the Plover Formation is interpreted to thicken. The well planned to intersect the upper sand intervals in the gas column and then the gas-water contact within the lower sand interval. Current interpretation indicates that the well has met these objectives.

As such, with these objectives and the well position located on the flank of the structure, the well was not expected to intersect a gross gas column as large as that penetrated in Poseidon-1 although the gross sand column was expected to be larger than that seen in Poseidon-1. The well is currently working through these objectives providing additional data that will be used in the planning of future wells and the potential development of the Poseidon field.

Prior to intersecting the Plover Formation the well penetrated a 20 metre gross hydrocarbon bearing sand in the Montara Formation. This interval is planned to be tested during the current testing program in the Poseidon-2 well.

An initial Plover formation level drill stem test failed due to technical difficulties, resulting in the test not achieving a connection of the reservoir with the well bore. The drill stem test is currently being re-run.

The Poseidon-2 well fulfils one of the primary term well commitments in WA-398-P. The drilling of the Kronos-1 exploration well and the Lion-1 exploration well will continue to fulfil the work commitments.

During October 2009, the CGG Veritas seismic vessel, the M/V Geowave Voyager commenced a 2,828 square kilometre 3D seismic acquisition program over the greater Poseidon structure. The acquisition is currently 80% complete. This new 3D seismic covers southern WA-315-P and the northern section of WA-398-P. The survey will provide a uniform set of high quality seismic data over the entire Poseidon trend also covering additional leads that could be tied into a Poseidon development in the event of exploration success.

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

Permit interests of the participants in WA-314-P, WA-315-P and WA-398-P are:

Karoon Gas (Browse Basin) Pty Ltd	40%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	60%

Bonaparte Basin AC/P8

During the Quarter, Karoon continued planning and tendering for a Controlled Source Electro-Magnetic (CSEM) survey. This survey is expected to commence during 2010.

Karoon believes the AC/P8 permit offers good exploration potential, due to its location in an existing oil and gas producing province and proximal to several producing oilfields, including the Woodside operated Laminaria and Corallina fields.

The AC/P8 permit contains two prospects and a number of leads which will need to be further defined by Karoon and its joint venture partner, Talisman Oil & Gas (Australia) Pty Limited.

Permit interests of the participants in AC/P8 are:

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

South America

Brazil

Blocks 1037, 1101, 1102, 1165 and 1166.

During the Quarter, Karoon completed its planning and contracting work for a 730 square kilometre 3D seismic acquisition program. The 3D seismic acquisition has been contracted to WesternGeco and is expected to commence during the first quarter of 2010.

Initial research and planning for a drilling program also commenced during the quarter with the environmental and regulatory approval process for future drilling operations underway. Drilling is anticipated to commence late 2010 or early 2011.

Karoon continued its geotechnical work in its Santos Basin Blocks. Recent discoveries in the area immediately around Karoon's Blocks provide Karoon with additional information assisting delineation of prospects and leads more effectively.

The Santos Basin is offshore from the Santa Catarina region of Brazil, just south of Rio de Janeiro, which has recently yielded multiple oil discoveries. Recent discoveries in the Santos Basin include the Tupi and Carioca oil fields, the Newton oil discovery, the Caravela and Coral fields and the Merluza field.

Most recently Petrobras announced the discovery of a 550 million barrel of oil equivalent in place resource at the Piracuca field just 5 kilometres to the east of Karoon's permits. Karoon is currently evaluating the available technical information from this discovery.

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

Peru

Block Z-38

During the Quarter, Karoon completed negotiations with CGG Veritas for the use of the "M/V Geowave Endeavour" for a 1500 square kilometre 3D seismic survey. Seismic acquisition has now commenced and is progressing well. The acquisition is expected to be completed late in the first quarter of 2010. Processing and interpretation will continue throughout the first half of 2010.

During October 2009, Karoon agreed to acquire an additional 15% interest in Block Z-38 to hold a total 75% interest. To earn its additional 15% interest, Karoon will fund the continuing work program through the third period of the exploration phase of the licence contract which includes two exploration wells. Drilling in the Block is expected late 2010 or early 2011.

Block Z-38 is located in the Tumbes Basin, offshore in the northwest of Peru. It is a region that is experiencing renewed activity after a series of successful exploration programs by the holder of the license area adjoining Block Z-38. The Talara Basin, to the south of the Tumbes Basin, has produced more than 1 billion barrels of oil. The Talara Basin is reported to be the location of the first oil production in South America in the late 1800's.

After completion of the farm-in work programs and regulatory approvals equity interests in Block Z38 will be:

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

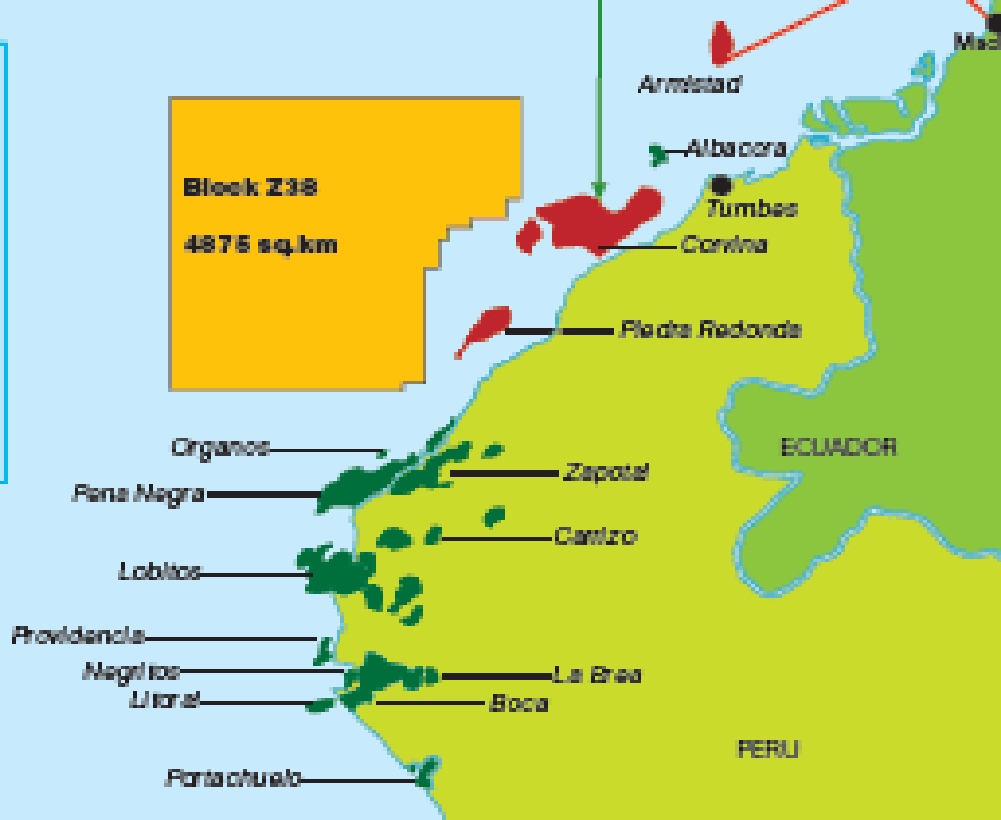
*Equity interests stated are based on the post farm-in ownership. KEI (Peru Z-38) Pty Ltd, Sucursal del Peru is a subsidiary of Karoon.

BPZ 10,200 bopd test in new pool discovery in Corvina Field



Block Z38
4875 sq.km

- Oil field
- Gas field
- Karoon Block Z38
- Pipe line



Block 144

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

Karoon has a 100% working interest in Block 144.

For further information, please contact:

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KAROON

Gas Australia Ltd

ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 31 DECEMBER 2009

Appendix 5B (Unaudited)

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("Current Quarter")

31 December 2009

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 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	(38,562)	(48,660)
(b) development	-	-
(c) production	-	-
(d) administration	(1,992)	(3,417)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1,099	3,095
1.5 Other costs of finance paid	(18)	(73)
1.6 Income taxes paid	-	-
1.7 Other - GST refunds	229	359
Net operating cash flows	(39,244)	(48,696)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits	38	-
(c) other fixed assets	(63)	(409)
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	(25)	(409)
1.13 Total operating and investing cash flows (carried forward)	(39,269)	(49,105)

	Current Quarter \$A'000	Year to date (6 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(39,269)	(49,105)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	400	27,956
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	9	(801)
Net financing cash flows	409	27,155
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Quarter/ year to date	237,476	228,238
1.21 Exchange rate adjustments to item 1.20	(1,784)	(9,456)
1.22 Cash as at end of Quarter (item 5)	196,832	196,832

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	123
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' fees included in 1.23: \$21,800
Consulting fees included in 1.23: \$101,100

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	69,000
4.2 Development expenditure	Nil
Total	

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	57,032	64,920
5.2	Short term bank deposits	139,800	172,556
5.3	Bank overdraft	-	-
5.4	Other	-	-
Total: Cash as at end of Quarter (item 1.22)		196,832	237,476

Changes in interests in tenements

	Tenement reference	Nature of interest (note (2))	Interest as at beginning of Quarter	Interest as at end of Quarter	
6.1	Interests in tenements relinquished, reduced or lapsed	WA-314-P, Australia	49.0%	40.0%	(1)
		WA-315-P, Australia	49.0%	40.0%	(1)
6.2	Interests in tenements acquired or increased	Block Z-38, Peru	60.0%	75.0%	(2)

(1) During December 2009, Karoon's joint venture partner ConocoPhillips exercised its right to acquire additional equity of 9.0% in exploration permits WA-314-P and WA-315-P.

(2) Subject to regulatory approvals and completion of second and third year work commitments.

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 Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary shares (fully paid)	177,116,198	177,116,198		
7.4 Changes during Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	100,000	100,000	400 cents	400 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	1,285,000 440,000 250,000 1,500,000 2,505,000 230,000 1,530,000		<i>Exercise price</i> 295 cents 400 cents 400 cents 450 cents 500 cents 684 cents 1407 cents	<i>Expiry date</i> 31 Oct 2010 30 Apr 2010 30 Apr 2011 30 Apr 2011 30 Apr 2011 30 Oct 2011 12 November 2013
7.8 Issued during Quarter	530,000 1,000,000	530,000 1,000,000	<i>Exercise price</i> 1407 cents 1407 cents	<i>Expiry date</i> 12 November 2013 12 November 2013
7.9 Exercised during Quarter	100,000		<i>Exercise price</i> 400 cents	
7.10 Expired during Quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with relevant Australian Accounting Standards as defined in the Corporations Act 2001 (see note 5); and
- 2 This statement does give a true and fair view of the matters disclosed.

Signed: Date: 29 January 2010
(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 mining 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 mining 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 (Cash Flow Statements), apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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 December 2009

<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 144	Maranon, Peru	Karoon	100.00
Block Z-38	Tumbes, Peru	Karoon	75.00 ⁽²⁾

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

(2) Subject to regulatory approvals and completion of second and third year work commitments.