



**KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338**

**QUARTERLY REPORT FOR THE QUARTER ENDED 31 MARCH 2011 AND
APPENDIX 5B**

Review of Operations

Highlights:

- Interpretation of 2,828 square kilometres of 3D seismic data acquired over the greater Poseidon structure has resulted in better definition of the greater Poseidon trend and several surrounding prospects. Exploration success at these new prospects would increase reserves significantly and improve the economics of an eventual LNG project.
- Processing of 750 square kilometers of wide azimuth 3D seismic data acquired over Karoon's wholly owned Santos Basin offshore blocks in Brazil during early 2010 is nearing completion. Data is expected to be ready for interpretation during the second quarter of calendar 2011.
- The Marujá-2 appraisal well was completed. An initial deviated well (3-SPS-83D) was drilled to a measured depth of 2,530m, followed by a side-track vertical well (3-SPS-84P) drilled to a measured depth of 2,389m. Both wells encountered excellent quality reservoir sands, which were interpreted to be water bearing at this location.
- Interpretation of 1,500 square kilometre 3D seismic data acquired in the Tumbes Basin Z-38 Block, Peru during early 2010, continued with results indicating several new leads and prospects.
- During March 2011, Karoon received Peruvian Government regulatory approval to increase its interest in Peru Block Z-38 to 75%.

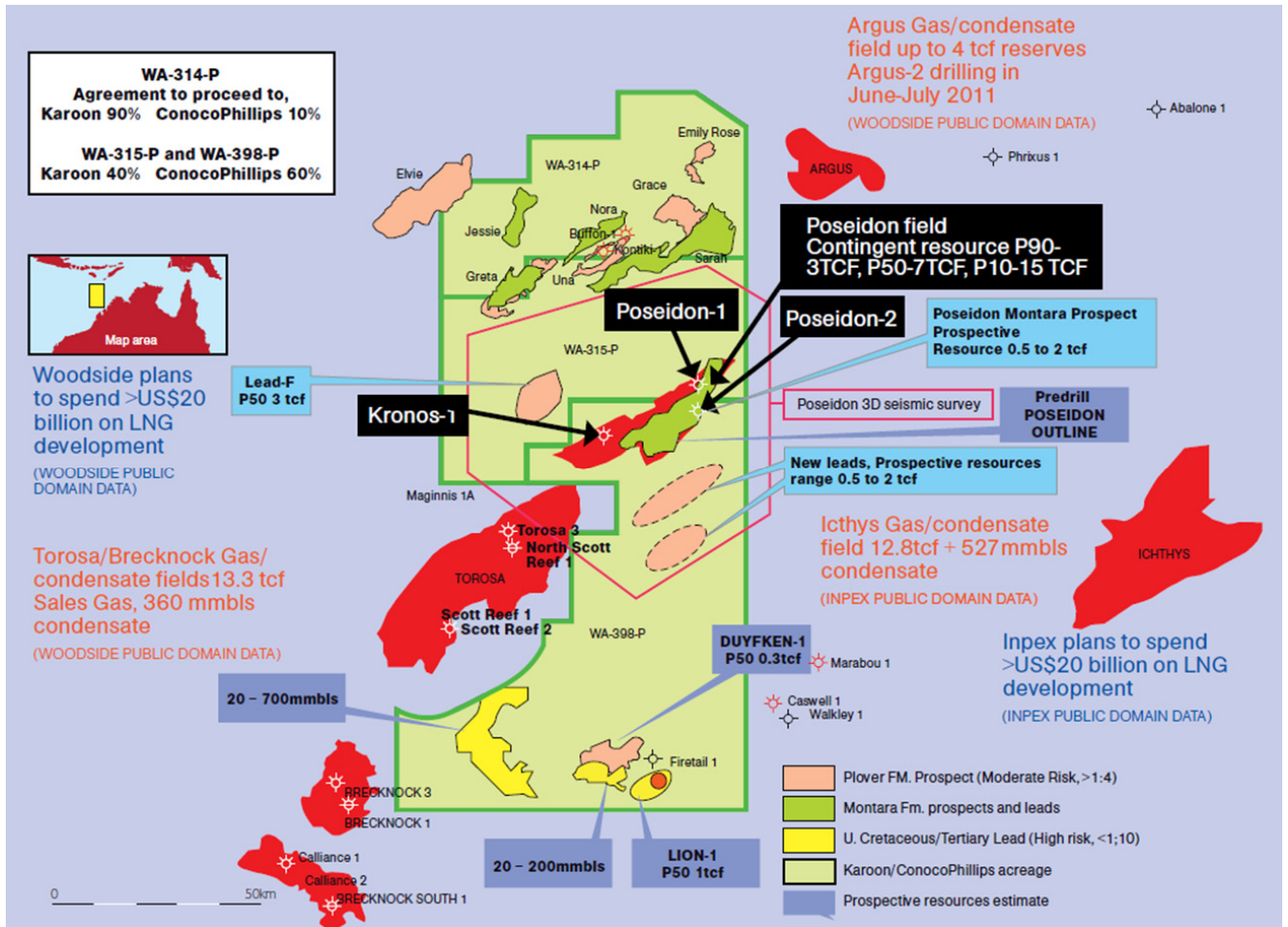
WA-314-P, WA-315-P and WA-398-P Browse Basin

Browse Regulatory Approvals and Drilling Status

Karoon and ConocoPhillips continued work on securing environmental authorisations and Federal Government approvals to commence the second phase of exploration drilling in the Browse Basin. A final regulatory decision is expected in the near term. The drilling campaign will consist up to 8 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 one well within the WA-314-P permit. The campaign will seek to determine quantity and quality of hydrocarbon accumulations, within the exploration permits by targeting features around the Poseidon and Kronos discoveries and newly interpreted satellite prospects. Karoon is hopeful of commencing drilling activities during the third quarter of calendar 2011 based on the anticipated approval schedule and drill rig availability.

Browse Basin 3D Seismic Update

Processing of the 2009/2010 Poseidon 3D seismic data continued during the quarter and is now nearing completion. Early interpretation of the data suggests the addition of several satellite leads and prospects within the permits. Karoon believes that these potential prospects are of sufficient size that if successful, would make a meaningful difference to increasing the capacity and improving the economics of an eventual LNG project.



The following quote is taken from the ConocoPhillips Annual analyst update on 23 March 2011 in New York;

"We followed up our large 2009 Poseidon gas discovery in the Browse Basin of Australia with the 2010 Kronos discovery. Kronos proved up material volumes of gas in a large fault block adjacent to Poseidon and more importantly DST at the Kronos well demonstrated the quality of the Jurassic Plover reservoirs here and the capability those Jurassic Plover reservoirs to flow at commercial rates. We're also quite pleased with the results of 3D survey we provided in this area in the last year or two. This survey reveals more prospects than we've seen before. So, we are finalizing plans now for a five to seven well exploration and appraisal program in this part of the Browse that we'd like to kick off in the second part of this year, if we can get permits in a timely fashion."

The offshore 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 is currently processing and interpreting a Controlled Source Electro-Magnetic survey data set. The data from this survey will contribute to the understanding of the geology and prospectivity of potential drilling targets in AC/P8.

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%

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

Drilling Update

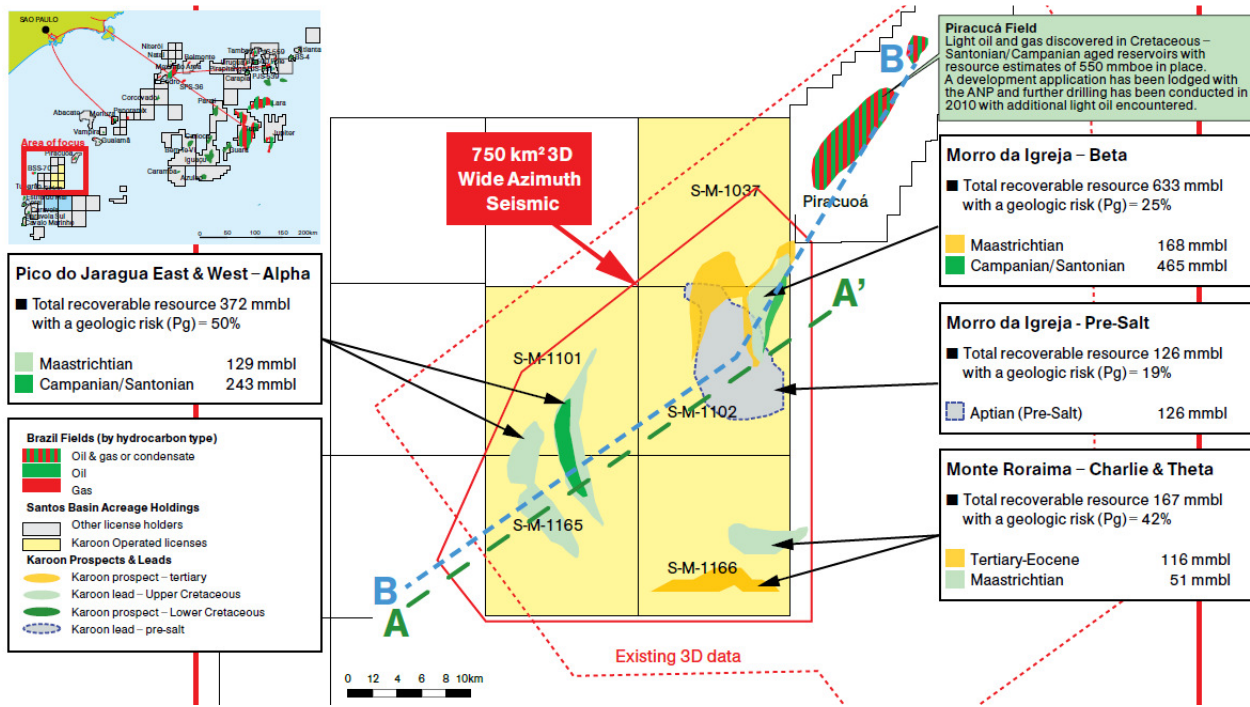
Negotiations with rig companies continued during the quarter to secure a rig for up to four wells in the five 100% owned Santos Basin Brazil blocks. Rigs are currently available to commence drilling for Karoon during the first quarter of calendar 2012 and are expected to continue into the third quarter of 2012. All necessary preparations are currently being carried out to obtain the necessary regulatory approvals, long lead items have been ordered and a specialised team of drilling engineers has commenced drill planning and engineering.

Unrisked prospective resource sizes for the three target prospects are 375mmbbls at Pico do Jaragua East and West and 633mmbbls at Morro da Igreja. Risks have been independently assessed at between 25 and 50 percent probability of success.

Wide Azimuth 3D Seismic

Processing of the wide azimuth 3D seismic survey is nearing completion with the provision of data being received. The seismic acquisition was conducted during early 2010 and was the first of its kind conducted in Brazil. The aim of this seismic was to produce better imaging above, below and around the salt structures within Karoon's Santos Basin acreage. Early data received by Karoon indicates very positive results, with confirmation of existing prospects and the delineation of new leads within existing play types around the salt structures. The new data is also expected to provide Karoon with a better picture of potential deeper presalt targets. Interpretation of early data cubes has begun and will be ready for potential joint venture partners to review later in 2011.

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. Discoveries in the Santos Basin include the Tupi and Carioca oil fields, the Newton oil discovery, the Caravela and Coral fields, the Merluza field and the Tiro, Sidon and Maruja discoveries.



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-1352

Marujá Field Appraisal

During March 2011, the Marujá-2 appraisal well was completed. After drilling an initial deviated well (3-SPS-83D) to a measured depth of 2,530m, followed by side-track vertical well (3-SPS-84P) drilled to a measured depth of 2,389m. Both wells encountered excellent quality reservoir sands, which were interpreted to be water bearing at this location. The objective of the Maruja-2 well were to test the extension and continuity of the oil bearing reservoirs in a down-dip location, approximately 80m vertical depth to the discovery, within the north-west part of the overall structural closure. Whilst continuity of excellent quality reservoirs and free water has been proven, the extent and depth of an oil water contact and therefore the oil column, in the up-dip attic part of the culmination, has yet to be defined.

The results of this drilling campaign will be integrated with the Maruja-1 oil discovery well data and an assessment of the remaining potential of the Marujá Oil discovery will be made in the near future. Karoon expects to have news on the forward program for Maruja later in 2011.

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

Equity Interests

Karoon's wholly owned subsidiary, Karoon Petroleo & Gas S.A., has entered into an agreement to acquire a 20% interest in Block S-M-1352 which is part of the BM-S-41 Concession, which is subject to regulatory approval from the Agencia Nacional do Petroleo, the Brazilian national Petroleum agency (ANP). Karoon does not expect to encounter any issues with this regulatory approval. Upon receipt of regulatory approvals (including from the ANP) and subject to satisfying farm-in obligations, equity interests of the participants in BM-S-41/S-M-1352 will be:

Karoon Petroleo & Gas S.A.	20%
Petroleo Brasileiro S.A.	80%

Peru Tumbes Basin Block Z-38

Drilling Update

Karoon will initiate the process of selecting a rig for three wells in the Tumbes Basin Peru during the second half of calendar 2011. This drilling program is expected to begin during 2012. All necessary preparations are currently being carried out to obtain the necessary regulatory approvals.

There are now (post 3D Seismic) 11 prospective drilling targets the best of which are currently being worked on.

Regulatory Approvals

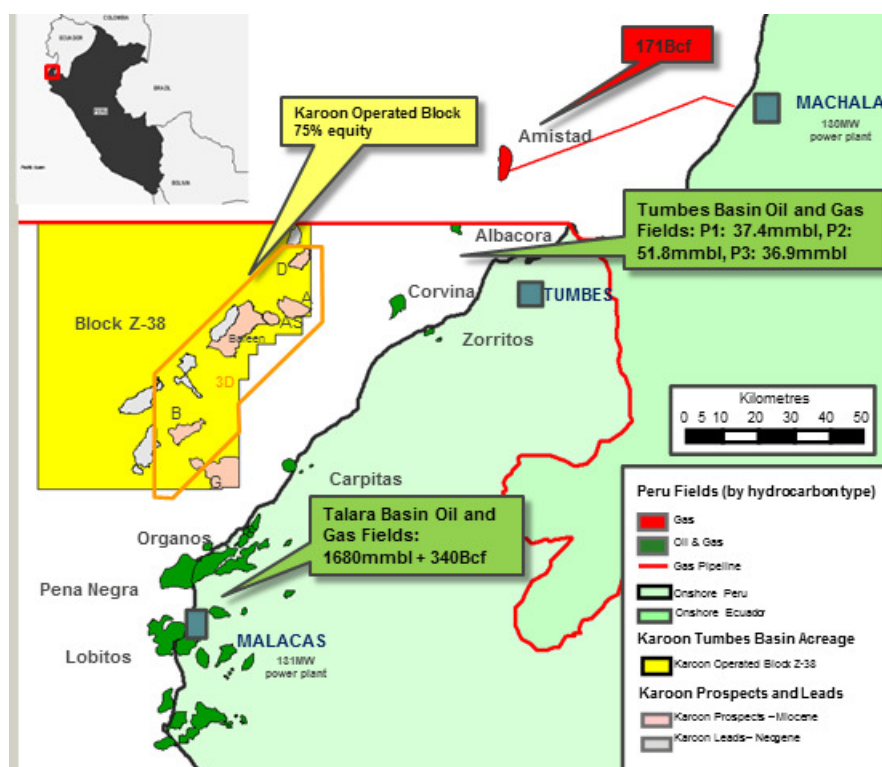
On 17 March 2011, Karoon received formal supreme decree formalising its 75% ownership of Block Z-38. Karoon negotiated this position during 2009 and 2010, and now must carry its joint venture partner, Vietnam American Exploration LLC, through the cost of one exploration well to fulfil its joint venture commitments. This well is expected to be drilled during calendar 2012.

3D Seismic Acquisition and Interpretation

The 1,500 square kilometre 3D seismic acquisition and processing program has been completed and interpretation is well advanced. Results have been very encouraging with several new leads and prospects presenting themselves with now 11 prospects and leads identified. Karoon has assessed prospective resource sizes ranging from 50mmbbls to just over 400mmbbls. Detailed risking and volumetrics will be carried out over the coming quarters ahead of drilling during calendar 2012.

This is was the largest 3D seismic acquisition program ever undertaken offshore Peru and it has given Karoon great confidence in Block Z-38's prospectivity. The objective of this seismic acquisition was to provide prospect delineation for a planned drilling campaign during calendar 2012 and to gain a better understanding of previously underexplored areas within Block Z-38.

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.



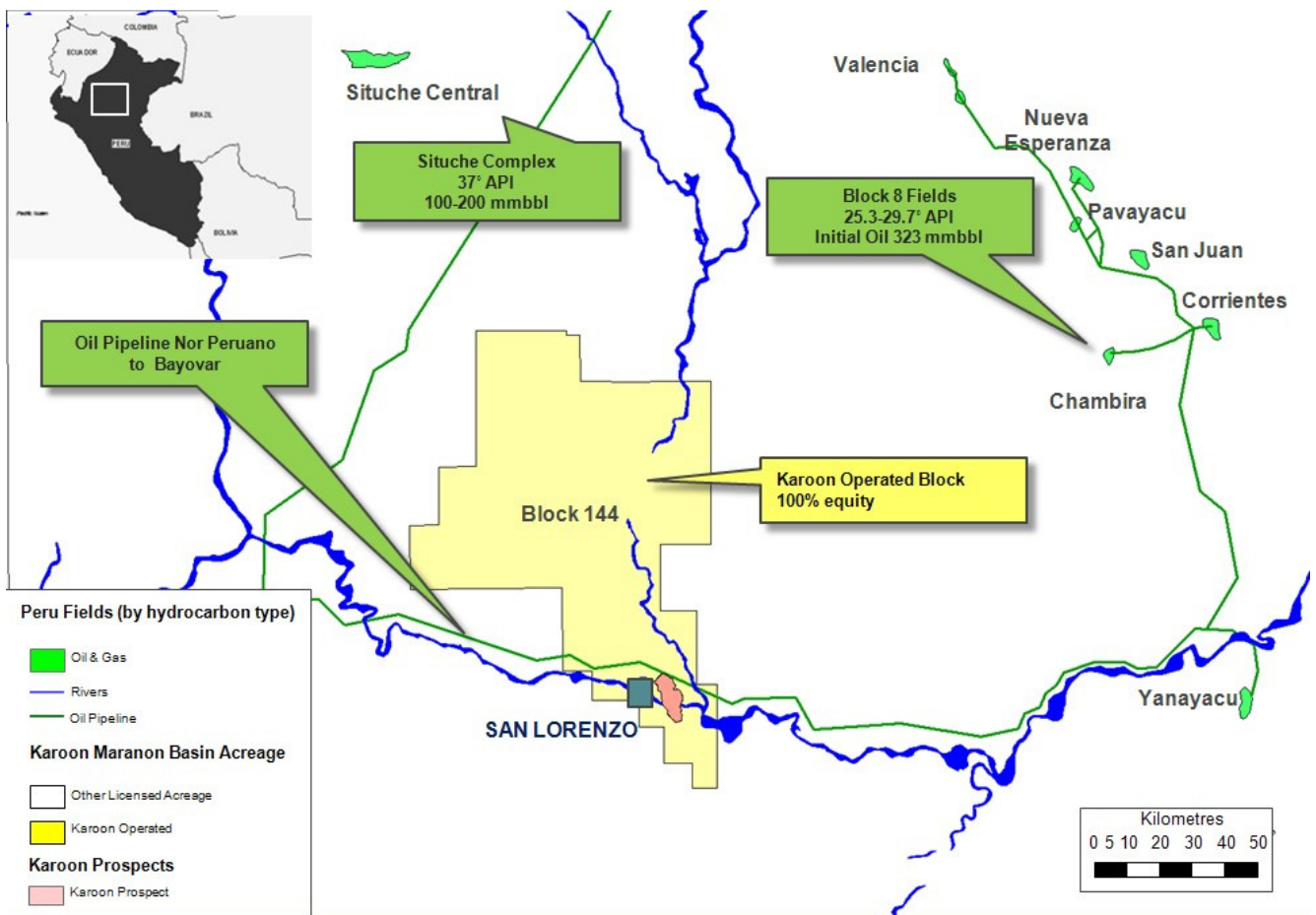
Equity interests in Block Z-38:

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 commitments.

Maranon Basin Block 144

Karoon is continuing its geotechnical, social and environmental work in the Block, including the interpretation of 1,000 kilometres of existing reprocessed 2D seismic data, allowing a better understanding of the prospect in the south of the Block. Karoon expects to complete the interpretation of the re-processed seismic data and make an assessment of size and risk in preparation for the planning of its forward program which may include additional seismic or the drilling of an exploration well.



Karoon has a 100% working interest in Block 144.

Revised Report by Degolyer & MacNaughton

Karoon is currently arranging with Degolyer & MacNaughton to have a contingent and prospective resource audit of its global asset base expected to commence late in the second quarter of calendar 2011. At this time Karoon expects to have all of the latest seismic and drilling information prepared and ready for audit.

The last report that was undertaken by D&M, attributed 588 million barrel of oil equivalent of prospective resource in South America and a high case of 7.6 tcf of contingent resource in Australia.

For further information please see the Karoon website or contact:

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ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 31 MARCH 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

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("Current Quarter")

31 March 2011

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (9 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	(10,642)	(28,490)
(b) development	-	-
(c) production	-	-
(d) administration	(2,819)	(14,212)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	2,807	6,655
1.5 Interest and other costs of finance paid	(318)	(403)
1.6 Income taxes paid	-	(220)
1.7 Other - GST refunds	353	1,452
Net operating cash flows	(10,619)	(35,218)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(45,719)	(46,024)
(c) other fixed assets	(1,068)	(1,929)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	18	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	(46,769)	(47,922)
1.13 Total operating and investing cash flows (carried forward)	(57,388)	(83,140)

	Current Quarter \$A'000	Year to date (9 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(57,388)	(83,140)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	18,000	290,837
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	(70)	(8,715)
Net financing cash flows	17,930	282,122
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	318,947	87,123
1.21 Exchange rate adjustments to item 1.20	(172)	(6,788)
1.22 Cash as at end of Current Quarter	279,317	279,317

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 1.25	325
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: \$274,050
Consulting fees included in 1.23: \$50,641

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	67,500
4.2 Development expenditure	Nil
4.3 Production expenditure	Nil
4.4 Administration expenditure	2,700
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	73,005	67,247
5.2	Short term bank deposits	206,312	251,700
5.3	Bank overdraft	-	-
5.4	Other	-	-
	Total: Cash as at end of Current Quarter (item 1.22)	279,317	318,947

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 1354, Brazil	Exploration permit	20.00%	-
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)	221,045,769	221,045,769		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	2,250,000 1,500,000	2,250,000 1,500,000	500 cents 450 cents	500 cents 450 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>	250,000 125,000 200,000 1,800,000 1,530,000 1,345,000 500,000 100,000		<i>Exercise price</i> 400 cents 500 cents 684 cents 1150 cents 1407 cents 977 cents 948 cents 977 cents	<i>Expiry date</i> 30 April 2011 30 April 2011 30 October 2011 18 November 2013 12 November 2013 31 October 2014 18 November 2014 18 November 2014
7.8 Issued during Current Quarter	300,000		<i>Exercise price</i> 977 cents	<i>Expiry date</i> 31 October 2014
7.9 Exercised during Current Quarter	2,250,000 1,500,000		<i>Exercise price</i> 500 cents 450 cents	
7.10 Expired during Current Quarter				
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: 29 April 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 31 March 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

(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.