

**KAROON GAS AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 53 107 001 338**

**QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 30TH MARCH 2005**

Review of operations

Exploration

West Gippsland Basin - PEP 162 and EL 4537

The exploration well Megascolides-1 was drilled in November/December 2004 to a depth of 2000metres to test both the Coal Bed Methane (CBM) potential and the conventional oil and gas potential of the Narracan Trough, onshore Gippsland Basin. This was the first deep exploration well in the Narracan Trough apart from shallow water and coal bores.

The well intersected approximately 15m of black gas bearing coal. Gas content and saturation levels however were lower than anticipated with Karoon assessing that there is little commercial CBM potential at this location. As with other CBM fairways there can be considerable variation in coal characteristics over a short distance that greatly impact commerciality. Karoon will be acquiring new seismic in October 2005 to delineate areas of thicker, shallower and potentially commercial CBM coals.

The analysis of the oil bearing Crayfish Group equivalent sands has been completed with results indicating the potential for commercial oil, once traps at this level are identified and mapped. The new seismic program planned for October 2005 will both delineate the best CBM areas, and allow the Crayfish Group level oil play leads to be mapped to a level suitable for drilling in 2006.

WA-314-P and WA-315-P

In early April 2005 Karoon completed the farmout of a 60% interest in both permits to BG International Limited (UK) who are funding 90% of the minimum work program exploration commitments in Year 2 and Year 3 to earn their 60% interest.

Current Joint Venture activity comprises planning and preparations for a high resolution aeromagnetic survey scheduled to start in May 2005. This survey is designed to delineate the location of volcanics and guide the positioning of the planned 1200 square km 3D seismic survey over the high graded leads. Drilling prospects are expected to be matured in early 2006 in preparation for drilling later in the year.

EL 4537 Brown Coal resources

As reported previously, the company has Coal in-situ Resource Estimates for EL 4537 in the onshore Gippsand Basin as follows.

Measured	50	Million tonnes
Indicated	210	Million tonnes
Inferred	80	Million tonnes
TOTAL	*340	Million tonnes

* contains inferior coal

The deposit is located in the Yarragon area under a thin cover of sands and clays. The resource was initially delineated with many wells and seismic by ESSO in the early 1980's as a potential coal to hydrocarbon liquids project prior to oil prices dropping to uncommercial levels.

GHD a large consulting group has assessed this resource for Karoon to JORC code assessment levels required by ASX rules.

The company is still investigating the potential of this resource.

For further information please contact:

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Executive Director

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Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

Karoon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("current quarter")

March 2005

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(915)	(3,058)
1.3 Dividends received	(210)	(483)
1.4 Interest and other items of a similar nature received	18	98
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST refunds	237	304
Net Operating Cash Flows	(870)	(3,139)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(12)	(101)
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	(12)	(102)
1.13 Total operating and investing cash flows (carried forward)	(882)	(3,241)
1.13 Total operating and investing cash flows (brought forward)	(882)	(3,241)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	76	77
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 (provide details if material)		

Net financing cash flows		76	77
Net increase (decrease) in cash held		(806)	(3,164)
1.20	Cash at beginning of quarter/year to date	1,868	4,226
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	1,062	1,062

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	501	
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 : \$15,896
Consulting and management fees included in 1.23 : \$ 485,297

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 next quarter

		\$A'000
4.1	Exploration and evaluation	150
4.2	Development	Nil
Total		150

Reconciliation of cash

Reconciliation of cash 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 on hand and at bank	24	96
5.2	Deposits at call	1,038	1,771
5.3	Bank overdraft		
5.4	Other (provide details)		
Total: cash at end of quarter (item 1.22)		1,062	1,867

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

Issued and quoted securities 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 securities	43,704,703		
7.4	Changes during quarter	366,200	20 cents	
	(a) Increases through issues			
	(b) Decreases through returns of capital, buy-backs			
	(c) Shares out of escrow	1,675,000		

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>	21,303,050 1,500,000 415,000	14,169,250	<i>Exercise price</i> 20 cents 25 cents 125 cents	<i>Expiry date</i> 30 June 2006 30 June 2007 30 June 2006
7.8	Issued during quarter				
7.9	Exercised during quarter	366,200		20 cents	30 June 2006
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 accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date:29 April 2005....
(Company secretary)

Print name: ..Hector Peeters.....

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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* 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.

Note 1

Schedule of Exploration Permits

Held by the Consolidated Entity

At 31st March 2005

<u>Exploration Permits</u>	<u>Basin</u>	<u>Interest %</u>
PEP 162	Gippsland	100
EL 4537	Gippsland	100
WA-314-P	Browse	100
WA-315-P	Browse	100