

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

**QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 30th JUNE 2006**

REVIEW OF OPERATIONS

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

Karoon Gains 100% Equity

Karoon Gas is a 100% interest holder in oil and gas exploration permits WA-314-P and WA-315-P in the offshore Browse Basin located in North-Western Australia. Karoon has earned 100% equity in the WA-314-P and WA-315-P permits by fulfilling the minimum Year-2 commitments which consists of 400 square km. of 3D seismic in each permit.

Year Two Work Commitments Update

After being granted an extension within which to complete its Year 2 work commitments, Karoon is pleased to report that the Veritas vessel "Viking 2" commenced the final phase of the 3D seismic acquisition over the WA-314-P and WA-315-P permits on 18 July 2006. The final phase of seismic acquisition will cover 286 sq km over eastern WA-315-P and is expected to be complete in the 1st week of August 2006. Data processing and interpretation should be completed in the 4th quarter 2006.

This seismic survey will fulfil Karoon's year 2 work program commitments on the WA-314-P and WA-315-P permits.

Interpretation of the first 3D seismic survey has commenced, with results expected during the 3rd quarter 2006. The 845km 2D seismic survey data is in the final stages of processing.

Joint Venture Update

Karoon is currently seeking to farm out equity in the WA-314-P and WA-315-P permits. Karoon is moving forward with potential farminees with results expected in the near future. Karoon will continue to employ its best efforts to generate a successful Joint Venture so as to further develop the WA-314-P and WA-315-P permits in the most timely and cost efficient manner.

Gippsland Basin Permits – PEP162 and EL4537

Karoon interest 100%

Karoon Gas (through its 100% owned subsidiary Karoon Gas Pty Ltd) has a 100% registered interest in PEP162 and EL4537, located within the Western on-shore Gippsland Basin of Victoria.

Gippsland Exploration Program

The 250 km West Gippsland 2D seismic survey in PEP162 and EL4537 has been processed and prospect and lead mapping is progressing.

The seismic program was designed to map the extent of the updip Megascolides-1 structure (Drilled by Karoon in November 2004) and to define new structures at the oil bearing Top Crayfish Group equivalent level. The seismic was also designed to map the extent and quality of CBM black coals across the EL4537 license to locate optimal drilling targets.

A drilling program is being planned, and a rig is currently being contracted to complete the drilling of two prospects late in the 4th quarter of 2006.

For further information please contact:

Robert Hosking - 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")

June 2006

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (12 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	(2,030)	(15,357)
1.3	Dividends received	(362)	(1,375)
1.4	Interest and other items of a similar nature received	172	932
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other - GST refunds	158	1,540
	Net Operating Cash Flows	(2,062)	(14,260)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(96)	(190)
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	(96)	(190)
1.13	Total operating and investing cash flows (carried forward)	(2,158)	(14,450)

1.13	Total operating and investing cash flows (brought forward)	(2,158)	(14,450)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,641	17,277
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	3,641	17,277
	Net increase (decrease) in cash held	1,483	2,827
1.20	Cash at beginning of quarter/year to date	14,600	12,797
1.21	Exchange rate adjustments to item 1.20	(382)	77
1.22	Cash at end of quarter	15,701	15,701

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	77
	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 : \$ 12
Consulting Fees included in 1.23 : \$ 65

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	4,000
4.2 Development	Nil
Total	

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	6,428	2,984
5.2 Deposits at call	9,273	11,616
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	15,701	14,600

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 (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	81,241,897	81,241,897		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	17,408,047 345,000	17,408,047 345,000 15,000,000	20 cents 125 cents	
7.5 +Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options (description and conversion factor)	1,500,000 1,500,000 1,500,000 1,500,000 500,000 500,000		<i>Exercise price</i> 125 cents 175 cents 200 cents 235 cents 165 cents 135 cents	<i>Expiry date</i> 30 June 2007 30 Sept 2008 30 Sept 2008 30 Sept 2008 31 Oct 2007 30 June 2007
7.8 Issued during quarter				
7.9 Exercised during quarter			20 cents	30 June 2006
7.10 Expired during quarter	17,753,047	17,753,047		
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

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:
(Company secretary)

Date:31 July 2006

Print 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 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.

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Note 1

Schedule of Exploration Permits

Held by the Consolidated Entity

At 30th June 2006

<u>Exploration Permits</u>	<u>Basin</u>	<u>Interest %</u>
PEP162	Gippsland	100
EL 4537	Gippsland	100
WA 314-P	Browse	100
WA 315-P	Browse	100