

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

**QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 30TH SEPTEMBER 2006**

Review of operations

WA-314-P and WA-315-P

Farmout Update

After a lengthy farmout process and interest from many International Companies, Karoon Gas has entered into agreements to farm out up to a 60% interest in its Browse Basin permits, WA-314-P and WA-315-P, to the ConocoPhillips Group subsidiary company, ConocoPhillips SH2 Pty Ltd.

Karoon considers that ConocoPhillips brings substantial expertise and extensive knowledge of gas exploration and LNG production to the Browse Basin operations and the terms of the farm out greatly reduce the monetary commitments required by Karoon for these assets.

Seismic Update

Karoon Gas is pleased to announce that the final 284 sq km portion of the 3D seismic program (D Lead) was completed on August 3rd 2006. This data will be processed for interpretation in late 2006.

Processing of the first 850 square km of 3D seismic data is complete with interpretation and mapping nearing completion. Early results confirm the position and size of the two leads (Updip Buffon and A Lead) in the survey area.

Processing of Karoon's 850 km 2D seismic survey is complete with final processed lines being interpreted in the coming weeks.

Improved data quality and coverage has allowed the volcanics and reservoir intervals within the closures to be mapped far more accurately to better define potential reserves, confirming initial potential reserve estimate ranges from the earlier 2D seismic mapping. An extensive and detailed mapping and analysis program is ongoing to best define drilling locations.

With the seismic acquisition work finished, Karoon has fulfilled and exceeded the Year 2 work program commitments in both permits.

West Gippsland Basin - PEP 162 and EL 4537

Drilling Program Update

A three well exploration drilling program has been constructed to test the commercial viability of the Narracan Trough. Karoon has contracted Upstream Petroleum, an experienced drilling and development service group to secure a drilling rig and assist with the planning approvals and operations of the drilling program.

Karoon through Upstream Petroleum has signed a letter of intent with Century Drilling for their Century Rig 11 for a drilling program scheduled to start in November 2006 and all final contracts are nearing completion. The drilling program will follow up on the high quality oil shows discovered in the Megascolides-1 well and the results of 2005 2D seismic survey data which looks promising.

Seismic Interpretation

Interpretation of the recently acquired seismic is complete with results revealing a number of prospective structures and has demonstrated that the Megascolides-1 well intersected a structure near the lower limit of the closure.

For further information please contact:
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Company Secretary
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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")

September 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	(4,857)	(4,857)
1.3	Dividends received	(317)	(317)
1.4	Interest and other items of a similar nature received	196	196
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other - GST refunds	535	535
Net Operating Cash Flows		(4,443)	(4,443)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(1)	(1)
1.9	Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets	(54)	(54)
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material)		
Net investing cash flows		(55)	(55)
1.13	Total operating and investing cash flows (carried forward)	(4,498)	(4,498)

1.13	Total operating and investing cash flows (brought forward)	(4,498)	(4,498)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	272	272
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		
	Net increase (decrease) in cash held	(4226)	(4,226)
1.20	Cash at beginning of quarter/year to date	15,701	15,701
1.21	Exchange rate adjustments to item 1.20	(4)	(4)
1.22	Cash at end of quarter	11,471	11,471

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	45
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 : \$ 14
Consulting Fees included in 1.23 : \$ 31

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	6,200
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	6,297	6,428
5.2 Deposits at call (see note 6)	5,174	9,273
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	11,471	15,701

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	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				
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>			<i>Exercise price</i>	<i>Expiry date</i>
	1,500,000		25 cents	30 June 2007
	1,500,000		175 cents	30 Sept 2008
	1,500,000		200 cents	30 Sept 2008
	1,500,000		225 cents	30 Sept 2008
	500,000		165 cents	30 Sept 2008
	500,000		135 cents	31 Oct 2007
	100,000		160 cents	30 June 2007
	475,000		203 cents	1 August 2008
7.8 Issued during quarter	100,000		160 cents	31 Oct 2008
	475,000		203 cents	
7.9 Exercised during quarter				
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 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:
(Company secretary)

Date:28 October 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.

6 **Deposits at Call** Included in the deposits at call is a US dollar term deposit for \$3,039,300.00 which has been converted to Australian dollars for recording purposes only at a rate of .7531 (the USD/AUD exchange rate on the last day of the period).

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Note 1

Schedule of Exploration Permits

Held by the Consolidated Entity

At 30 September 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