

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

**QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 30th SEPTEMBER 2007**

Review of Operations

Browse Basin Permits

Karoon Gas is a 49% interest holder in oil and gas exploration permits WA-314-P and WA-315-P and a 40% interest holder of WA-398-P in the offshore Browse Basin located 350 km offshore from the North-Western Australian coastline.

In July, a contract was signed with Sedco Forex International for the use of the Sedco 703 semi-submersible drilling rig on the forthcoming drilling programme in the Browse Basin leases, WA-314-P, WAP-315-P and WA-398-P. The drilling contract is for 200 - 225 days. Drilling is expected to start in the third quarter of 2008.

Subsequent to the end of this current quarter, a 3D seismic program was contracted with Fugro-Geoteam AS. The 3D seismic acquisition will cover an area of 1900 sq kms and is due to commence in late 2007-early 2008. This seismic data will be utilized for the further definition of prospects in WA-398-P and to aid in targeting well sites in the drilling program later in 2008.

The Year 3 drilling work commitments for WA-314-P and WA-315-P (i.e. the drilling of one well in each permit) have been extended for a period of 12 months and are now required to be completed by 11 February 2009. The Year 1 drilling work commitment for WA-398-P (i.e. the drilling of one well) has also been extended for a period of 12 months and is now required to be completed by 30 April 2009.

Gippsland Basin

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

There has been limited work done in the EL-4537 permit, comprising the writing of well completion reports and well site remediation. After the 2 well drilling program finishing earlier this year, Karoon has decided that its resources will be better utilized pursuing other new high value acreage opportunities and has allowed the PEP-162 acreage to lapse.

A 25% relinquishment has taken place with EL 4537. No additional technical work is being done. Areas retained cover the highest seismic amplitudes and thicker coal potential.

For further information please contact:

Scott Hosking

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 2007

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	(1,306)	(1,306)
1.3 Dividends received	(2,640)	(2,640)
1.4 Interest and other items of a similar nature received	1,120	1,120
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST refunds	562	562
Net Operating Cash Flows	(2,264)	(2,264)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(72)	(72)
1.9 Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets	10	10
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(62)	(62)
1.13 Total operating and investing cash flows (carried forward)	(2,326)	(2,326)

1.13	Total operating and investing cash flows (brought forward)	(2,326)	(2,326)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		
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		(2,326)	(2,326)
1.20	Cash at beginning of quarter/year to date	76,412	76,412
1.21	Exchange rate adjustments to item 1.20	(910)	(910)
1.22	Cash at end of quarter	73,176	73,176

**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	53
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 : \$ 22 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	1,500
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	82	4,056
5.2 Deposits at call (see note 6)	73,094	72,356
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	73,176	76,412

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	114,427,897	114,427,897		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	19,000,000 500,000 500,000	19,000,000 500,000 500,000	220 cents	25 cents 135 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>	1,500,000 1,500,000 1,500,000 500,000 100,000 575,000		<i>Exercise price</i> 175 cents 200 cents 235 cents 165 cents 160 cents 203 cents	<i>Expiry date</i> 30 Sept 2008 30 Sept 2008 30 Sept 2008 31 Oct 2007 1 August 2008 31 Oct 2008
7.8 Issued during quarter	100,000		203 cents	31 Oct 2008
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: Date: 24th October 2007
(Company secretary)

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 \$21,211,356.00 which has been converted to Australian dollars for recording purposes only at a rate of .8827 (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 30th September 2007

<u>Exploration Permits</u>	<u>Basin</u>	<u>Interest %</u>
EL 4537	Gippsland	100
WA-314-P	Browse	49
WA-315-P	Browse	49
WA-398 P	Browse	40