



KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

QUARTERLY REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2009 AND APPENDIX 5B

Review of Operations

Highlights:

- The ~2,800 square kilometre Poseidon seismic acquisition, using the CGGVeritas seismic vessel "M/V Geowave Voyager", commenced during October 2009.
- The Poseidon-2 exploration well spudded on 10 October 2009.
- A two well option for the "Transocean Legend" semi-submersible drilling rig was exercised during September 2009.
- \$24 million share purchase plan was completed during July 2009.
- Karoon was registered as the holder of a 60% interest in Block Z38 Peru.
- During October 2009, an additional 15% interest in Block Z38 was agreed to be acquired, taking Karoon's post farmin and approvals equity interest to 75%.
- Negotiating for 3D seismic acquisition programs continued for Brazil and Peru. The programs are expected to commence late in 2009 or early 2010.

Australia

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

During the Quarter, Karoon and its joint venture partner, ConocoPhillips, continued the exploration of the Browse Basin permits by completing the drilling of the Kontiki-1 exploration well and the spudding of the Poseidon-2 exploration well.

On 10 October 2009, the Poseidon-2 exploration well was spudded. The objective of this well is to test the extent, presence and quality of reservoirs down-dip from Poseidon-1 where the Plover Formation is interpreted to thicken. The well is planned to intersect the upper sand intervals in the gas column and then the gas-water contact within the lower sand interval. As such, with these objectives and the well position located on the flank of the structure, the well is not expected to intersect a gross gas column as large as that penetrated in Poseidon-1. A full evaluation program is planned, including production testing, subject to well results. This well will fulfil one of the four primary term well commitments in WA-398-P.

In Karoon's interpretation, the Kontiki-1 exploration well penetrated approximately 40m of interbedded sands with complex lithologies over an interval of approximately 460m. Karoon's preliminary interpretation of mudlogging and petrophysical data indicates some gas saturation in poor reservoir quality sands. The well was plugged and abandoned.

During the Quarter, the Joint Venture exercised its option with Transocean to drill two additional wells using the Transocean Legend semi-submersible drilling rig. A further option exists to drill up to an additional four wells using the Legend rig.

On 11 October 2009, the CGG Veritas seismic vessel, the M/V Geowave Voyager commenced a ~2,800 square kilometre 3D seismic acquisition over the Poseidon structure and surrounds. The acquisition will encase an area to the south of WA-315-P and the north of WA-398-P and provide a uniform set of seismic data over the entire prospective area.

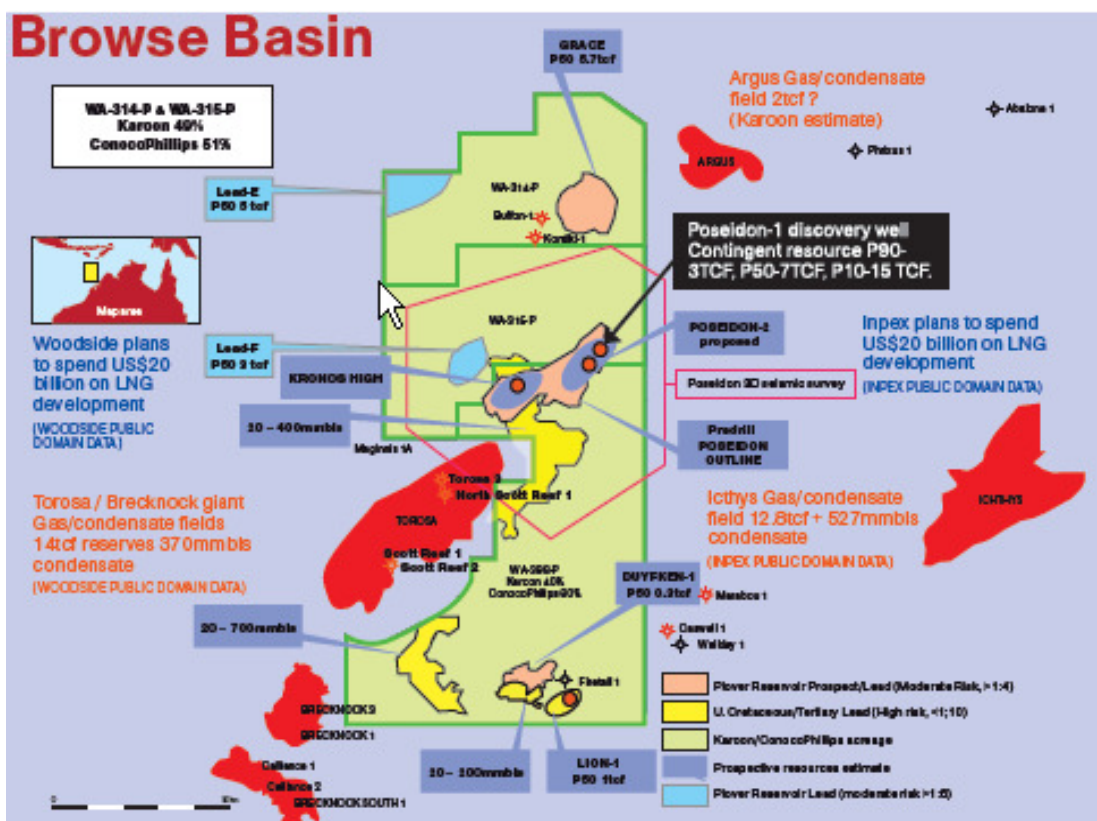
The offshore Browse Basin is located 350 km offshore from the North-Western Australian coastline.

Permit interests of the participants in WA-314-P and WA-315-P are:

Karoon Gas (Browse Basin) Pty Ltd	49%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	51%

Permit interests of the participants in WA-398-P are:

Karoon Gas (Browse Basin) Pty Ltd	40%
ConocoPhillips (Browse Basin) Pty Ltd (Operator)	60%



Bonaparte Basin AC/P8

During the Quarter, Karoon continued planning and tendering for a Controlled Source Electro-Magnetic (CSEM) survey. This survey is expected to commence late in 2009.

Karoon believes the AC/P8 permit offers good exploration potential, due to its location in an existing oil and gas producing province and proximal to several producing oilfields including the Woodside operated Laminara and Corallina fields.

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 and 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%

South America

Brazil

Blocks 1037, 1101, 1102, 1165 and 1166.

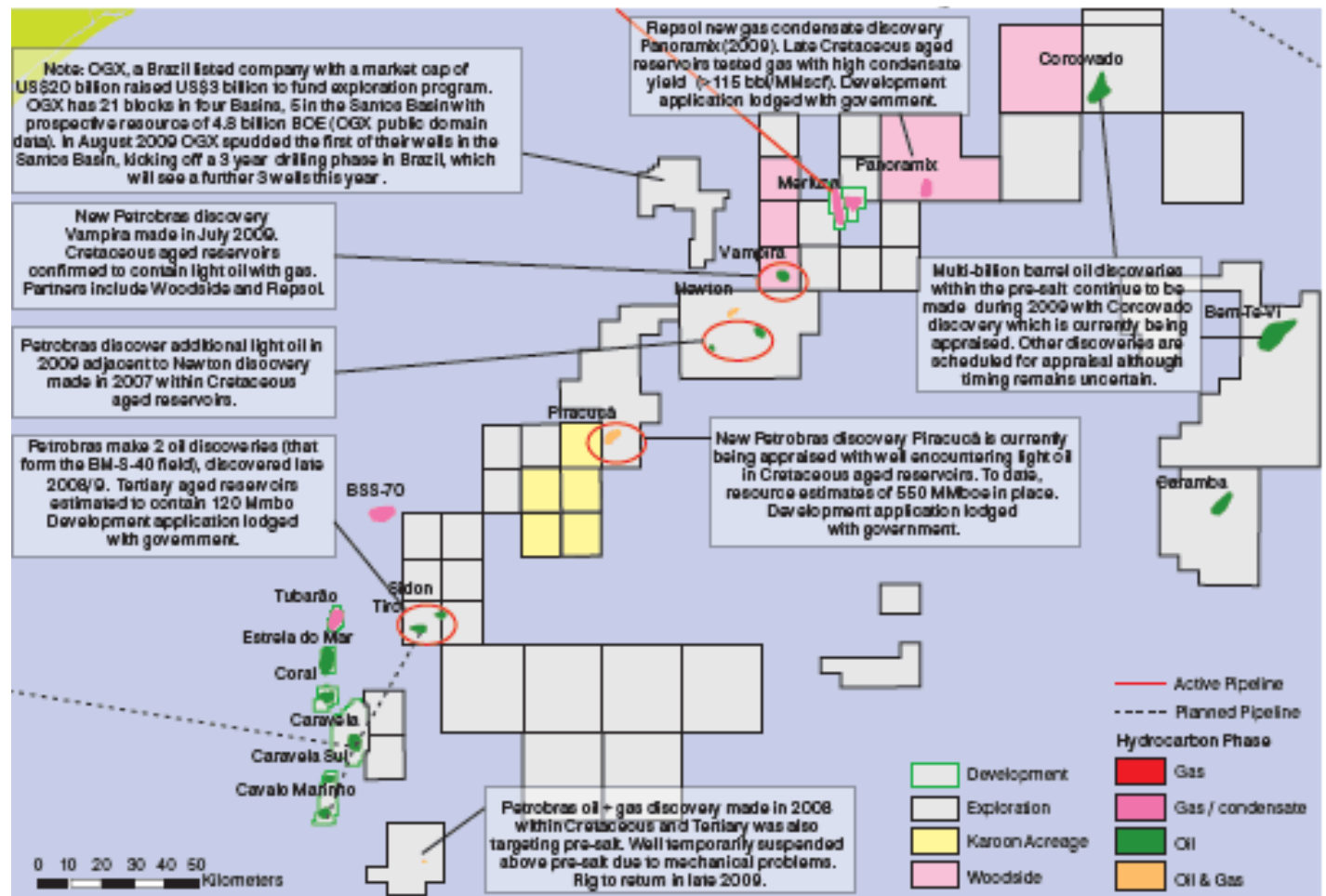
During the Quarter, Karoon continued its planning and contracting work for a 730 square kilometre 3D seismic acquisition program. The survey is expected to commence early 2010.

Karoon continued its geotechnical work in its Santos Basin blocks. Recent discoveries in the area immediately around Karoon's blocks provide it with more significant data. Karoon has also commenced the environmental and regulatory approval process for future drilling operations.

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. Recent discoveries in the Santos Basin include the Tupi and Carioca oil fields, the Newton oil discovery, the Caravela and Coral fields and the Merluza field.

Most recently Petrobras announced the discovery of a 550 million barrel of oil equivalent in place resource at the Piracua field just 5 km to the east of Karoon's permits. Karoon is currently evaluating the available technical information from this discovery.

Karoon has a 100% working interest and is the operator of its Santos Basin Blocks 1037, 1101, 1102, 1165 and 1166.



Peru

Block Z38

During the Quarter, Karoon continued processing and interpretation of its new 2D seismic data acquired earlier in the year. A 1600 square kilometre 3D seismic acquisition program is expected to commence during late 2009.

During the Quarter, Karoon was registered as the holder of a 60% interest in Block Z-38 following its decision to exercise its option to acquire an additional 40% interest by assuming the responsibility to satisfy the second year work commitments, being the 3D seismic acquisition program noted above.

Subsequent to the end of the Quarter, Karoon also agreed to acquire an additional 15% post farmin interest in Block Z-38 to hold a total 75% interest. To earn its additional 15% interest, Karoon will fund the continuing work program through the third period of the exploration phase of the licence contract which includes two exploration wells. Drilling in the block is expected late in 2010 or early in 2011.

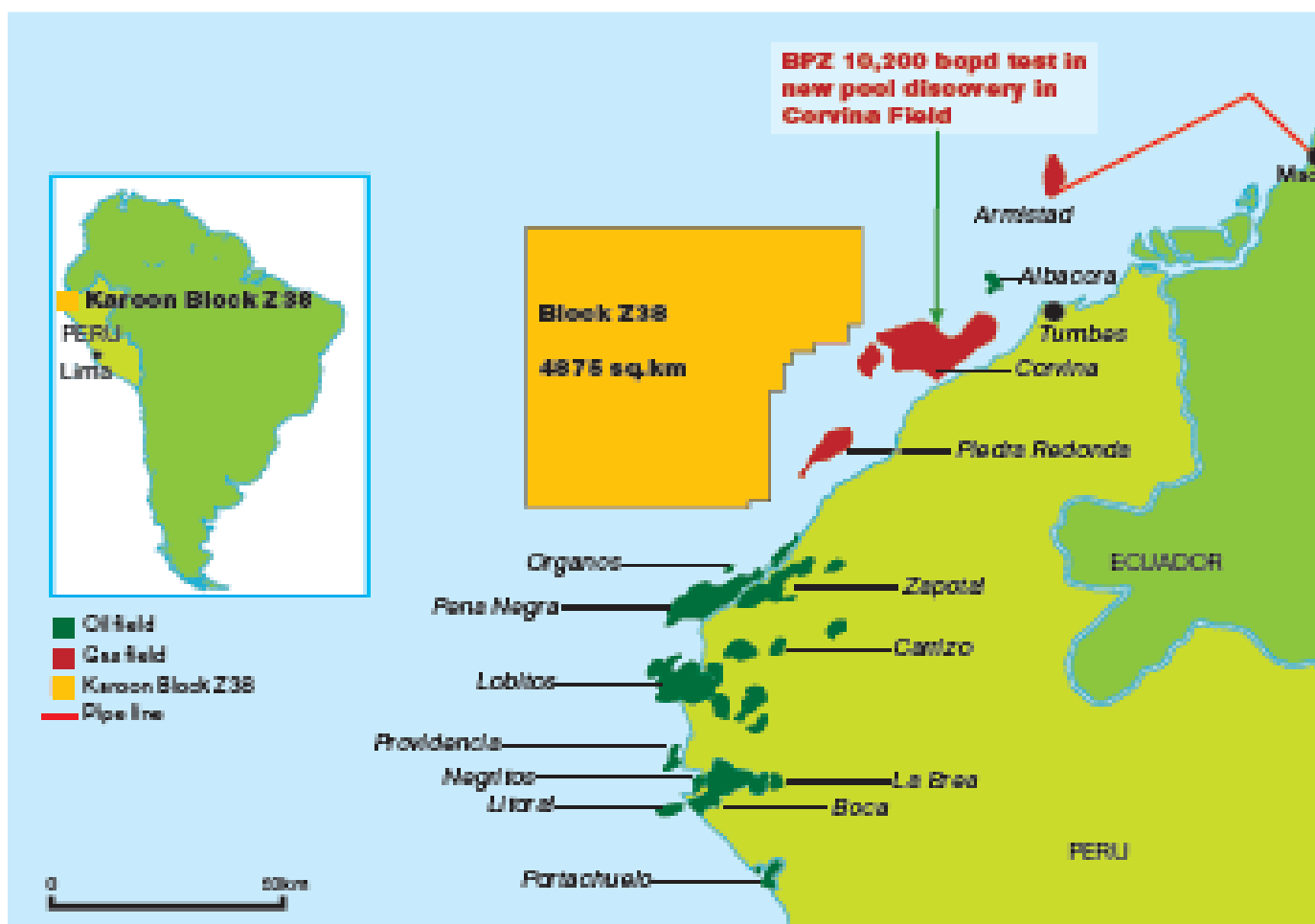
Block Z-38 is located in the Tumbes Basin, offshore in the northwest of Peru. It is a region that is experiencing renewed activities after a series of successful exploration programs by the holder of the licence area adjoining Block Z-38. The Talara Basin, to the south of the Tumbes Basin, has produced 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.

After completion of the farm-in work programs and regulatory approvals equity interests in Block Z38 will be:

KEI (Peru Z38) Pty Ltd, Sucursal del Peru	75%*
Vietnam American Exploration Company LLC (Operator)	25%

Karoon is in the process of becoming the Operator of this Block pending necessary approvals.

*Equity interests stated are based on the post farmin ownership. KEI (Peru Z-38) Pty Ltd, Sucursal del Peru is a wholly owned subsidiary of Karoon.



Block 144

Karoon continued its geotechnical, social and environmental work in the block and commenced reprocessing of 1000 kilometres of existing seismic data.

Karoon has a 100% working interest in Block 144.

For further information please contact:

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KAROON Gas Australia Ltd

ASX QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2009

Appendix 5B (Unaudited)

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

Name of entity

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("Current Quarter")

30 September 2009

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (3 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	(10,098)	(10,098)
(b) development	-	-
(c) production	-	-
(d) administration	(1,425)	(1,425)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1,995	1,995
1.5 Other costs of finance paid	(55)	(55)
1.6 Income taxes paid	-	-
1.7 Other - GST refunds	131	131
Net Operating Cash Flows	(9,452)	(9,452)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits	(38)	(38)
(c) other fixed assets	(346)	(346)
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	(384)	(384)
1.13 Total operating and investing cash flows (carried forward)	(9,836)	(9,836)
1.13 Total operating and investing cash flows (brought forward)	(9,836)	(9,836)

	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	27,556	27,556
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	(810)	(810)
	Net financing cash flows	26,746	26,746
	Net increase (decrease) in cash held	16,910	16,910
1.20	Cash at beginning of Quarter/year to date	228,238	228,238
1.21	Exchange rate adjustments to item 1.20	(7,672)	(7,672)
1.22	Cash at end of Quarter	237,476	237,476

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	121
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 : \$21,800
Consulting fees included in 1.23 : \$98,854

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 expenditure	49,500
4.2 Development expenditure	Nil
Total	49,500

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	64,920	45,156
5.2 Deposits at call	172,556	183,082
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of Quarter (item 1.22)	237,476	228,238

Changes in interests in tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of Quarter	Interest at end of Quarter
6.1 Interests in tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in tenements acquired or increased	Block Z-38, Peru	Exploration permit	20.0%	60.0%

(1) Subject to regulatory approvals and completion of second year work commitments.

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 shares (fully paid)	177,016,198	177,016,198		
7.4 Changes during Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	3,514,367 360,000 1,740,000 100,000	3,514,367 360,000 1,740,000 100,000	670 cents 295 cents 400 cents 500 cents	670 cents 295 cents 400 cents 500 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>	1,285,000 540,000 250,000 1,500,000 2,505,000 230,000		<i>Exercise price</i> 295 cents 400 cents 400 cents 450 cents 500 cents 685 cents	<i>Expiry date</i> 31 Oct 2010 30 Apr 2010 30 Apr 2010 30 Apr 2011 30 Apr 2011 30 Oct 2011
7.8 Issued during Quarter				
7.9 Exercised during Quarter	360,000 1,740,000 100,000		<i>Exercise price</i> 295 cents 400 cents 500 cents	
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 relevant Australian Accounting Standards as defined in the Corporations Act 2001 (see note 5); and

2 This statement does give a true and fair view of the matters disclosed.

Signed: Date: 30 October 2009

(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 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 6 (Exploration for and Evaluation of Mineral Resources) and AASB 107 (Cash Flow Statements), 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 Interests

Held by the Karoon Group

As at 30 September 2009

<u>Exploration Permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest Held</u>
WA-314-P	Browse, Australia	ConocoPhillips	49.00 (1)
WA-315-P	Browse, Australia	ConocoPhillips	49.00 (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 Z-38	Tumbes, Peru	VAMEX	60.00 (2), (3)
Block 144	Maranon, Peru	Karoon	100.00
AC/P8	Bonaparte, Australia	Karoon	66.67

(1) 1.5% over-riding royalty for first five years, going to 2% thereafter.

(2) Subject to regulatory approvals and completion of second year work commitments.

(3) Karoon is currently completing the procedures to become Operator of Z-38.