



KAROON GAS AUSTRALIA LTD
ABN 53 107 001 338

QUARTERLY REPORT FOR THE QUARTER ENDED 31 MARCH 2010 AND APPENDIX 5B

Review of Operations

Highlights:

- Poseidon-2 exploration well in the Browse Basin completed and tested during February 2010.
- Kronos-1 exploration well spudded on 19 February 2010 and drilling continues.
- 2,828 square kilometre 3D seismic survey over the greater Poseidon structure is complete and processing and interpretation is ongoing.
- 730 square kilometre 3D seismic survey in the Santos Basin, offshore Brazil was completed.
- 1,500 square kilometre Peruvian 3D seismic acquisition program in Block Z-38, offshore Peru was completed.

Australia

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

During the Quarter the Kronos-1 exploration and appraisal well commenced and the Poseidon-2 exploration and appraisal well was completed. These wells form part of a multiple well exploration and appraisal program which will define the size and production capacity of the Poseidon discovery.

The data from these wells will form the basis of a potential future development decision.

The acquisition of a 2800 sq km Poseidon 3D seismic survey over the greater Poseidon structure and surrounding prospective areas is now complete with processing and interpretation ongoing. The new seismic data will form the basis for the planning of the next drilling program which is expected to run from early in calendar year 2011 and possibly into 2012.

The Poseidon-2 exploration well was drilled and subsequently Drill Stem Tested ("DST") during February 2010. Prior to intersecting the target Plover Formation, the well penetrated a 20 metre gross potentially hydrocarbon bearing sand in the Montara Formation not seen in Poseidon-1.

The well met the objective of establishing continuity of the gross sand intervals and intervening shales discovered in the Poseidon-1 well. The completion of a DST and coring program identified the presence of gas in the reservoirs.

The Kronos-1 exploration well was spudded on 19 February 2010 and the drilling program is continuing. The well is located on a high block in the south-western part of the greater Poseidon trend. The well is designed to evaluate and test the Plover Formation reservoirs in an up-dip location on the Kronos high, 16 kilometres to the South West of the Poseidon-1 well location. Key objectives of Kronos-1 are to collect reservoir properties data, reservoir fluid compositional data and then define production rates for possible future production wells.

As of 0600 WST, 30 April 2010, Kronos-1 was drilling ahead at 5,249 mRT. Since the last report, the well was cored from 5,018 mRT to 5,055 mRT and then drilled to 5,249. The well has a planned total depth of 5,322mRT.

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

Permit interests of the participants in WA-314-P, WA-315-P and WA-398-P are:

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

The views expressed in relation to the the Browse Basin permits do not necessarily reflect the views of ConocoPhillips.

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 during calendar year 2010.

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

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.

A 730 square kilometre 3D seismic acquisition program over Karoon's Santos Basin blocks offshore Brazil was started and completed during the Quarter. Processing and interpretation will continue through calendar year 2010.

The objective of this program is to provide uniform, high-quality wide azimuth, 3D seismic coverage over Karoon's Santos Basin blocks. This high quality wide azimuth 3D seismic acquisition program is believed to be the first of its kind in Brazil and is designed to image beneath and around salt structures allowing more accurate prospect definition. The new seismic data will aid in the positioning of exploration wells expected to be drilled during early calendar year 2011.

Karoon continued geotechnical work in its Santos Basin blocks. Recent discoveries in the area immediately around Karoon's blocks provide Karoon with additional information assisting delineation of prospects and leads.

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 kilometres 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 Z-38

During the Quarter a 1500 square kilometre 3D seismic survey was completed. Processing and interpretation is expected to be ongoing through the calendar year 2010. The objective of the seismic acquisition was to provide prospect delineation for drilling during 2011 and to gain a better understanding of previously underexplored areas within Block Z-38.

Block Z-38 is located in the Tumbes Basin, offshore in the northwest of Peru. It is a region that is experiencing renewed activity 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 during the late 1800's.

After completion of the farm-in work programs and regulatory approvals, equity interests in Block Z-38 will be:

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

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

Block 144

Karoon continued its geotechnical, social and environmental work in the Block and commenced reprocessing of 1,000 kilometres of existing 2D 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 31 MARCH 2010

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")

31 March 2010

Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (9 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	(44,516)	(92,956)
(b) development	-	-
(c) production	-	-
(d) administration	(614)	(4,031)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1,200	4,295
1.5 Other costs of finance paid	(107)	(179)
1.6 Income taxes paid	-	-
1.7 Other - GST refunds	91	450
Net operating cash flows	(43,946)	(92,421)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) security deposits (net)	(1,374)	(1,374)
(c) other fixed assets	(4)	(413)
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	(1,378)	(1,787)
1.13 Total operating and investing cash flows (carried forward)	(45,324)	(94,208)

	Current Quarter \$A'000	Year to date (9 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(45,324)	(94,208)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	1,636	29,592
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	-	(801)
Net financing cash flows	1,636	28,791
Net increase (decrease) in cash held		
1.20 Cash as at beginning of Current Quarter/ year to date	197,052	228,238
1.21 Exchange rate adjustments to item 1.20	(1,356)	(10,813)
1.22 Cash as at end of Current Quarter (item 5)	152,008	152,008

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	154
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: \$43,600
Consulting fees included in 1.23: \$110,000

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 the next quarter

	\$A'000
4.1 Exploration and evaluation expenditure	67,000
4.2 Development expenditure	Nil
Total	

Reconciliation of cash

Reconciliation of cash as at the end of the Current 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 at banks and on hand	67,008	57,252
5.2 Short term bank deposits	85,000	139,800
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: Cash as at end of Current Quarter (item 1.22)	152,008	197,052

Changes in interests in tenements

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

Issued and quoted securities as 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 Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary shares (fully paid)	177,546,198	177,546,198		
7.4 Changes during Current Quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	350,000 80,000	350,000 80,000	400 cents 295 cents	400 cents 295 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during Current Quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	1,205,000 90,000 250,000 1,500,000 2,505,000 200,000 1,800,000 1,530,000		<i>Exercise price</i> 295 cents 400 cents 400 cents 450 cents 500 cents 684 cents 1150 cents 1407 cents	<i>Expiry date</i> 31 October 2010 30 October 2010 30 April 2011 30 April 2011 30 April 2011 30 October 2011 18 November 2013 12 November 2013
7.8 Issued during Current Quarter	1,800,000	1,800,000	<i>Exercise price</i> 1150 cents	<i>Expiry date</i> 18 November 2013
7.9 Exercised during Current Quarter	350,000 80,000		<i>Exercise price</i> 400 cents 295 cents	
7.10 Expired during Current Quarter	30,000		<i>Exercise price</i> 684 cents	
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

- A. 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
- B. This statement does give a true and fair view of the matters disclosed.

Signed: Date: 30 April 2010
(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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Appendix 1

Schedule of Interests

Held by the Karoon Gas Australia Ltd Group

As at 31 March 2010

<u>Exploration permit</u>	<u>Basin</u>	<u>Operator</u>	<u>% Interest held</u>
AC/P8	Bonaparte, Australia	Karoon	66.67
WA-314-P	Browse, Australia	ConocoPhillips	40.00 ⁽¹⁾
WA-315-P	Browse, Australia	ConocoPhillips	40.00 ⁽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 144	Maranon, Peru	Karoon	100.00
Block Z-38	Tumbes, Peru	Karoon	75.00 ⁽²⁾

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

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