

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

**QUARTERLY FINANCIAL REPORT
FOR THE QUARTER ENDED 31ST DECEMBER 2005**

Review of Operations

Exploration

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

Karoon interest 100%

Karoon has acquired the exclusive rights to explore and earn 100% interest in the oil and gas exploration permits WA-314-P and WA-315-P in the offshore Browse Basin located in North-Western Australia. Karoon is earning 100% equity in the block by fulfilling the Year-2 commitments which consists of 400 square km. of 3D seismic in each permit by the permit year end.

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 first 3D seismic acquisition over the WA-314-P and WA-315-P permits was completed on the 1st of January 2006, on time and under budget.

The Veritas vessel "Pacific Sword" is expected to commence the 2D/3D seismic acquisition in early February 2006. This seismic acquisition will cover 286 sq km of 3D seismic survey and 845 sq km of 2D seismic survey over WA-314-P and WA-315-P for completion in February 2006.

These seismic surveys will fulfil Karoon's commitments under the permits and Karoon will have the option to exercise its right to take the 100% equity interest, in exchange for royalties and a cash transfer.

Joint Venture Update

Karoon is employing its best efforts to generate a successful experienced Joint Venture so as to further develop the Browse Basin in the most efficient manner. Karoon is currently farming out equity in leases WA-314-P and WA-315-P.

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, within the Western on-shore Gippsland Basin of Victoria. The Megascolides – 1 drilling site is located in PEP162 and EL4537, approximately 100 Kilometres South East of Melbourne.

Gippsland 2D Seismic Survey

The 250 km West Gippsland 2D seismic survey in PEP162 and EL4537 was completed on the 10th November 2005 on time and on budget. This survey is now being processed in preparation for mapping, analysis and prospect generation.

The seismic program was designed to map the extent of the updip Megascolides structure and define new structures at the oil bearing Top Crayfish Group equivalent level. The seismic also mapped the extent and quality of CBM black coals across the EL4537 license to locate optimal drilling targets.

A drilling program is being planned, subject to seismic interpretation, in the second quarter of 2006. Rigs are currently being sourced in anticipation of successful seismic processing results.

For further information please contact:

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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")

December 2005

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	(1,994)	(2,309)
1.3	Dividends received	(261)	(622)
1.4	Interest and other items of a similar nature received	317	569
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other - GST refunds	275	383
	Net Operating Cash Flows	(1,663)	(1,979)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(30)	(91)
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	(30)	(91)
1.13	Total operating and investing cash flows (carried forward)	(1,693)	(2,070)

1.13	Total operating and investing cash flows (brought forward)	(1,693)	(2,070)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	(33)	13,460
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	(33)	13,460
	Net increase (decrease) in cash held	(1,726)	11,390
1.20	Cash at beginning of quarter/year to date	25,793	12,744
1.21	Exchange rate adjustments to item 1.20	120	53
1.22	Cash at end of quarter	24,187	24,187

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	58
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 : \$ 27
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	6,000
4.2 Development	Nil
Total	6,000

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	8,801	12,797
5.2 Deposits at call	15,386	13,116
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	24,187	25,913

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	62,609,387	47,609,387		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	285,775	285,775	20 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)	19,147,010 1,500,000 415,000 1,500,000 1,500,000 1,500,000 500,000 500,000	11,647,010	<i>Exercise price</i> 20 cents 25 cents 125 cents 175 cents 200 cents 235 cents 165 cents 135 cents	<i>Expiry date</i> 30 June 2006 30 June 2007 30 June 2006 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	285,775	285,775	20 cents	30 June 2006
7.10 Expired during quarter				
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 January 2006

Print name: ..Hector Peeters.....

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 31st December 2005

<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