



ASX RELEASE

6th December 2004

Karoon Gas Update – Megascolides – 1 Drilling Operations Narracan Trough West Gippsland

Progress Update No 7

Further to the last ASX Release dated the 30th November 2004, the latest drilling information is that at 0800 hours on the 6th December the Megascolides-1 well had reached a depth of 1522m in 8-1/2" hole.

The well is drilling toward the deeper target at 1700m. This target is the Crayfish Group interval which produces gas in the western Otway Basin. The drilling operation is in a position to core and evaluate zones of interest as they are intersected down to the planned total depth of 2000m.

The well has established the presence of gas bearing black coals across the permit in the Narracan Trough. Preliminary seismic/drilling results calibration show a good relationship between the presence of the thicker coals and seismic amplitudes. When all the well data is collected and analysed there will be a sound basis for more quantitatively identifying CBM 'sweet spots' on the seismic on which to drill potential production wells.

Irrespective of the outcome of the evaluation of the deeper Crayfish Gp. conventional target, the forward plan is to acquire more 2 D seismic then identify, drill and appraise shallower CBM locations. This plan is more cost effective and lower risk than drilling a second well immediately following Megascolides-1.

This plan allows all Megascolides data to be fully evaluated prior to proceeding with the drilling campaign. Acquisition of the seismic, adding to the limited existing grid will locate the best drilling locations across the entire permit. Further, drilling will be undertaken using a smaller and low cost CBM/minerals rig. Discussions are now underway with both seismic and drilling contractors.

The Megascolides-1 well will also be suspended subject to decisions on further testing at a later date.

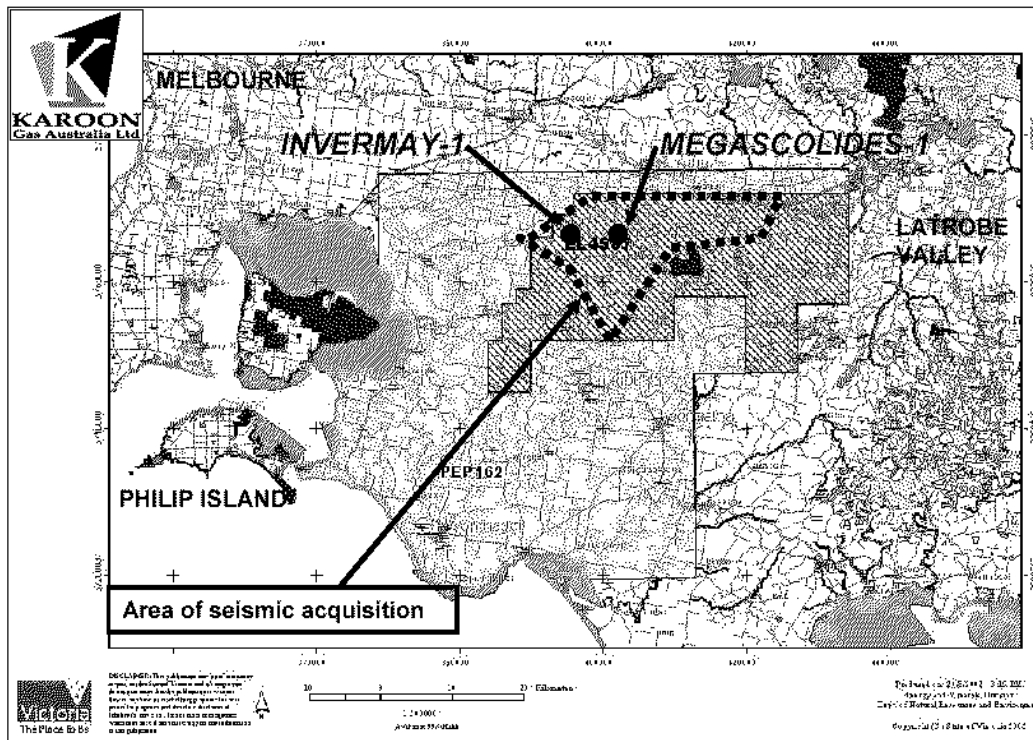
Karoon Gas (through its 100% owned subsidiary Karoon Gas Pty Ltd) has a 100% registered interest in PEP 162 and EL 4537, within the Western on-shore Gippsland Basin of Victoria. The Megascolides – 1 drilling site is located in PEP 162 and EL 4537, approximately 100 Kilometres South East of Melbourne.

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KAROON GAS AUSTRALIA LTD. ACREAGE, SEISMIC AND PLANNED WELL LOCATIONS



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