



Karooon Gas Australia Ltd

7 July 2004

KAROON GAS UPDATE

Karooon Gas Australia Limited (Karooon), a new CBM / Gas exploration energy company, is exploring in the onshore Western Gippsland Basin to exploit the coal bed methane (CBM) and conventional Gas potential for sale to the gas markets of South Eastern Australia.

Karooon's exploration acreage portfolio is located in its 100% owned permits PEP 162 and EL 4537. PEP162 is an oil and gas exploration permit and EL4537 is a minerals permit covering exploration for CBM, brown and black coal and other minerals.

The permits are located 20 km from the Latrobe valley and 100km from Melbourne.



CURRENT ACTIVITIES

Drilling Operations

Planning and operational work is well under-way for the minimum two well drilling program with plans to spud the first well in August. Tenders for drilling services have been received and are currently being evaluated.

The drilling programme will target up to 15 TCF of gas in place in the main black coal sequences in the Narracan Trough. Seismic interpretation indicates well developed coal seams are likely to be present. The aim of this drilling programme is to prove the presence, volume and quality of the coal and to start to book proved and probable gas reserves in order to enter into gas sales contracts.

Brown Coal Resource

An audit of EL4537 has identified a potentially commercial brown coal resource. This resource was drilled and evaluated by ESSO in the early 1980's as a candidate for a coal to liquids project. ESSO field work that defined the resource included seismic acquisition and interpretation and the drilling of 77 bores in and around the resource. This extensive data base, retained by Victorian state government has been used to re-evaluate the deposit.

Karooon Gas Australia Ltd ABN 53 107 001 • P.O. Box 469 Mt Martha Vic. 3934
PHONE: +61 3 5974 1044 • FAX: +61 3 5974 1644
Website: Karoongas.com.au • Email: Basspetrol@hotmail.net.au

To establish this brown coal as a defined resource Karoon has commissioned an independent evaluation by GHD Pty Ltd. GHD is an international engineering and professional services company.

The GHD report has determined that a Coal In-situ Resource Estimate in EL4537 as follows;

| | | |
|-----------|-----|----------------|
| Measured | 50 | million tonnes |
| Indicated | 210 | million tonnes |
| Inferred | 80 | million tonnes |

| | | |
|--------------|-------------|-----------------------|
| TOTAL | *340 | Million tonnes |
|--------------|-------------|-----------------------|

* contains coal and inferior coal in previous exploration activity.

The deposit is located in the Yarragon area under a thin cover of sands and clays.

Business Development Options

Karoon is currently evaluating potential development and commercialisation options for this brown coal resource. This could include a development in unison with any CBM discovered and be put into production by Karoon.

Technological advances in brown coal mining and drying techniques are currently being developed and evaluated by other energy companies in the Latrobe Valley. These new technologies offer Karoon the scope for more efficient, more economic and more environmentally friendly (lower Carbon dioxide emissions) from brown coal usage.

Potential Markets

The use of new technology, particularly with the addition of gas in the process, increases the range and value of potential energy market options available to Karoon. These options range from:

conventional gas supply (CBM only);

high efficiency electricity generation (brown coal plus CBM gas) ;

the export of dry low sulphur coal (brown coal plus CBM gas);

carbon dioxide sequestration

Karoon believes that the brown coal has the potential to be significant asset and offers the Company an additional dimension above that of pure oil and gas exploration company, however the potential of this resource needs to be examined further.

About GHD

GHD is an international company, providing services in management, engineering, geotechnical engineering, the environment, planning and architecture. GHD is one of Australasia's largest and longest established companies of multi-disciplinary consultants with an integrated network of 2,300 personnel and over 50 offices in Australia, the Middle East, Asia, New Zealand and the Americas. GHD ranks in the world's top 50 engineering and environmental firms.

GHD has offices in the LaTrobe valley and services the regions mining and energy industries.

Please note that statements regarding the coal resources is based on information prepared by GHD under the supervision of Mr E Waghorne.

Mr Waghorne (MEngSc BEng(Mining) FAusIMM) is Principal Mining Engineer for GHD Pty. Ltd. and not an employee of Karoon. Mr Waghorne has more than 5 year's experience in estimating brown coal resources and has consented to the inclusion of the information from the report in the form and context in which it is being included in this announcement.

Karoon interests in permits

| | |
|---------|------|
| PEP 162 | 100% |
| EL 4537 | 100% |

For further information contact Robert Hosking, executive chairman on 03 5974 1044 or 0414 667 844 or visit the company's website at www.karoongas.com.au