



Karooon Gas Australia Ltd

KAROON GAS AUSTRALIA LIMITED

ACTIVITIES

Exploration Permits

PEP 162 and EL 4537 Karoon interest 100%

Operational planning continued during the quarter for a two well drilling program. The company is aiming to start site preparation in August with a likely spud date in September 2004. Tenders for drilling services have been received and are currently being evaluated.

The current drilling programme will target up to 1 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 reserves of Coal Bed Methane and conventional oil and gas.

Drilling management operations have been contracted to Upstream Petroleum Pty Ltd.

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.

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

BROWN COAL RESOURCE

During the quarter an audit of EL4537 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.

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To establish this brown coal as a defined resource Karoon 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
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* contains coal and inferior coal.

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

Corporate

The company was successfully listed on the Australian Stock Exchange (ASX) on 8th June 2004. The IPO was oversubscribed and raised approx. \$4.7 million, the issue was largely assisted by Melbourne brokers Bell Potter Securities, EL & C Baillieu's and Sydney broker Tricom Securities Ltd.

Rule 5.3

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")

June 2004

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	(151)	(160)
1.3 Dividends received	(3)	(16)
1.4 Interest and other items of a similar nature received	33	34
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST refunds	13	13
Net Operating Cash Flows	(108)	(129)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(47)	(49)
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	(47)	(49)
1.13 Total operating and investing cash flows (carried forward)	(155)	(178)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(155)	(178)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	4,663	4,998
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings	(95)	(174)
1.18	Dividends paid		
1.19	Other – capital raising costs	(376)	(421)
	Net financing cash flows	4,192	4,403
	Net increase (decrease) in cash held	4,037	4,225
1.20	Cash at beginning of quarter/year to date	188	0
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	4,225	4,225

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	139
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

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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

+ See chapter 19 for defined terms.

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	200
4.2 Development	Nil
Total	200

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	46	188
5.2 Deposits at call	4,179	
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	4,225	188

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			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 securities	41,663,503	26,663,503		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow	24,988,500 Seed shares listed	24,988,500 1,675,003		
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>	20,831,750 1,500,000	13,331,750	<i>Exercise price</i> 20 cents 25 cents	<i>Expiry date</i> 30 June 2006 30 June 2007
7.8 Issued during quarter	12,494,250 Seed options listed	12,494,250 837,500	20 cents 20 cents	30 June 2006 30 June 2006
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

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: Date:30 July 2004
(Company secretary)

Print name: ..Edward Munks.....

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

+ See chapter 19 for defined terms.

Schedule of Exploration Permits

Held by the Consolidated Entity

At 30 June 2004

<u>Exploration Permits</u>	<u>Basin</u>	<u>Interest %</u>
PEP 162	Gippsland	100
EL 4537	Gippsland	100

+ See chapter 19 for defined terms.