



9th September 2004

Karoon Gas Update - Drilling Operations Narracan Trough West Gippsland.

Progress

Karoon Gas is pleased to announce that a contract has been signed with Hunt Energy & Mineral Co. Australia Pty. Ltd for the Karoon Gas forthcoming drilling program in the Western Onshore Gippsland Basin.

The Hunt Energy Rig 2 has been contracted to drill the Megascolides #1 well with an option to drill two additional wells back to back.

Site and access work for the Megascolides #1 drilling location has commenced. The Hunt Energy Rig 2 is currently on location at the Wombat #3 well and is anticipated to be mobilised to the Megascolides #1 site at the end of September 2004 with a spud date expected in early October 2004.

Location

The well is located in PEP 162 and EL 4537, approximately 100 kilometres South East of Melbourne.

Karoon Gas Comment

The Megascolides #1 well is targeting Coal Bed Methane (CBM) in the early Cretaceous age Strzelecki Formation and a deeper conventional petroleum target at the Crayfish Group equivalent level which is prospective and productive in the Western Otway Basin. The Megascolides #1 prospect is a broad faulted anticlinal structure with potential for hydrocarbon trapping at a number of levels.

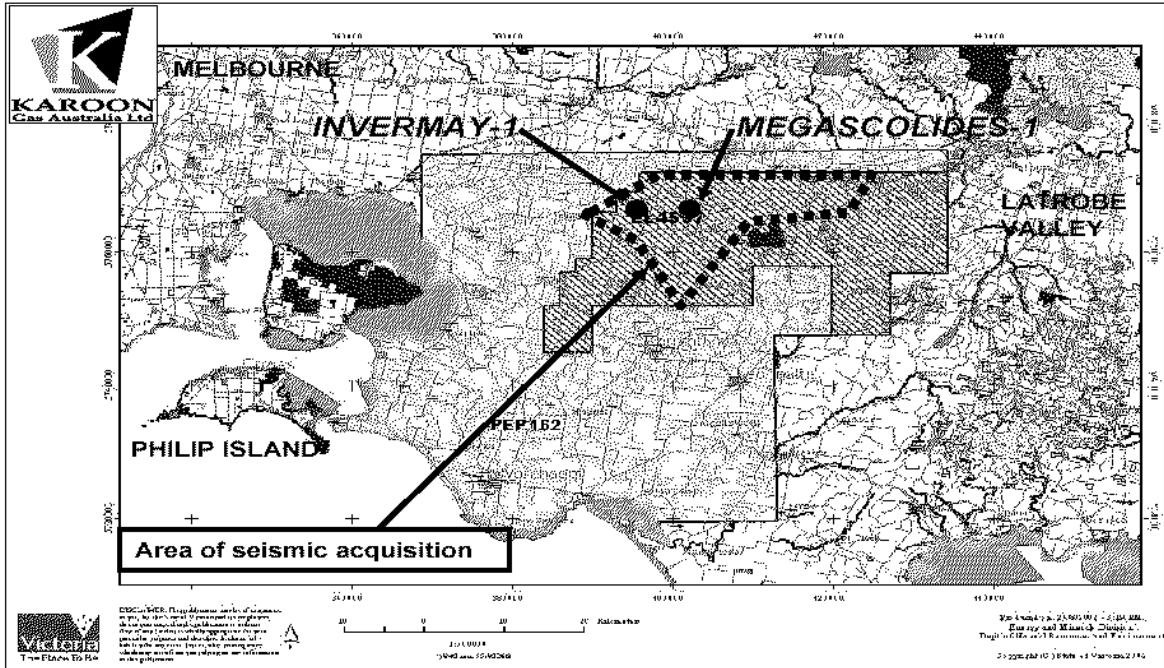
The prospect is expected to be gas charged with the CBM targets from 700 to 1100 metres with the conventional gas target at a depth of 1700 metres. The well is expected to take 20 days to reach the proposed total depth of 2000 metres.

The Company looks forward to a successful outcome for its shareholders.

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