



Karooon Gas Australia Ltd

28 October 2004

KAROON GAS AUSTRALIA LIMITED

ACTIVITIES

Exploration Permits

PEP 162 and EL 4537 Karoon interest 100%

During the quarter operational planning continued, with Karoon completing the site preparation and location for its first well, Megascollides #1 and also gaining the necessary regulatory approvals to drill the well.

The Hunt #2 drilling rig was secured by Karoon and it is expected that the drilling operations will commence during early November 2004, once the Hunt rig has finished its current drilling commitments.

The aim of this drilling programme is to prove the reserves of Coal Bed Methane and conventional oil and gas.

The drilling of Megascollides #1 will target up to 1 TCF of gas in place in the main black coal sequences in the Narracan Trough

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.

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BROWN COAL RESOURCE

As reported previously the company has 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.

The company is still investigating the potential of this resource

Corporate

During the quarter the company commenced screening a number of new venture opportunities

Corporate

Nothing to report

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

Karooon Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("current quarter")

September 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(445)	(445)
(b) development		
(c) production		
(d) administration	(109)	(109)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	40	40
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other - GST refunds	58	58
Net Operating Cash Flows	(456)	(456)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects		
(b)equity investments	(1)	(1)
(c) other fixed assets	(6)	(6)
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	(7)	(7)
1.13 Total operating and investing cash flows (carried forward)	(463)	(463)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(463)	(463)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		
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			
Net increase (decrease) in cash held		(463)	(463)
1.20	Cash at beginning of quarter/year to date	4,226	4,226
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	3,763	3,763

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	264
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

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	
4.2 Development	Nil
Total	

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	77	77
5.2 Deposits at call	3,686	3,686
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	3,763	3,763

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				
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				
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:28 October 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
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