



ASX RELEASE

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Western Australian Browse Basin acreage activity update and Gippsland basin, Megascolides-1 drilling results and forward plans.

West Australian Assets

Karoon has acquired the exclusive rights to explore and earn 100% interest in the oil and gas exploration permits WA-314-P and WA-315-P in the Browse Basin offshore North-Western Western Australia. Karoon is earning 100% equity in the block by fulfilling the Year-2 commitments of 400 square km. of 3D seismic in each permit by the permit year end of May 2005.

To technically evaluate the permits and position the 3D seismic survey, Karoon has purchased all suitable 2D seismic over the permits and has carried out a geological and geophysical mapping program. The interpretation has identified seven large leads. The four lower risk leads each have potential recoverable reserves in the range 3.6 to 6.2 trillion cubic feet (TCF) of gas and potentially 70 to 260 million barrels of condensate in each lead. The three higher risk leads are larger averaging 17 trillion cubic feet of gas each with potential of approx 500 million barrels of condensate in each lead. The leads range in area from 80 to 300 square km. The reserves are based on mapping results and data from offset fields at Scott Reef and Brecknock and surrounding wells.

The permits are located less than 10km from the giant Scott Reef/ Brecknock gas and condensate fields complex, estimated by Woodside Petroleum to contain 21TCF of recoverable gas reserves with 210 million barrels of condensate. Woodside have announced the drilling of three further wells in 2005, an action which reflects the renewed industry interest in developing what were recently considered static resources. Karoon's mapping and geologic analysis demonstrates that the same play type and similar large structures occurs across Karoon's WA-314-P and WA-315-P permits.

Operationally Karoon is working through the planning process for the 3D seismic acquisition commitment. Karoon is fulfilling government environmental planning requirements and has tendered the work to suitable seismic acquisition companies. It is expected that seismic acquisition would commence in the second quarter 2005.

Karoon is also in the process of farming out equity in the permits. To date there has been serious interest by a number of large international companies positioning themselves to take advantage of the rapidly expanding LNG market and high oil

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prices. A series of technical reviews and data room visits has already occurred. A result is expected to be announced with the next three to four weeks. Karoon is attempting to confirm reserve potential of approx 6-10 TCF of gas and 100 million barrels of condensate by the drilling of two wells in the permit.

Victorian Gippsland Assets

The Megascolides-1 well, the first to be drilled in the Narracan Trough has confirmed the presence of Black Coal across the permit area and has identified a potential oil play near the Top of the Crayfish Group equivalent section. Both these results are enormously encouraging with the data gathered providing a sound basis for further exploration for CBM and oil in the permits.

Karoon will acquire more seismic to delineate optimal CBM and oil targets. The existing seismic grid covers only a small portion of the permits with line spacing inadequate to define CBM sweet spots or closed traps for the Crayfish Group equivalent oil play. This action represents the most cost effective and lowest risk path to defining commercial resources.

Interpretation of the Megascolides data shows that the well penetrated the oil zone well down dip and possibly out of closure on a structural high seen only on one seismic line. Karoon wants to test this play in the best possible location on the top of a well defined trap, hence the need for more seismic.

Geochemical and petrophysical analysis shows a waxy crude oil is present in a poorer quality reservoir (porosity 12 to 13%). Evidence suggests that it may be a residual oil column and that it is questionable it would flow on test. With the well suspended and new seismic planned that will define the optimum test position for a possible appraisal well on this structure, Karoon is preserving its options with this well to a time when the results will be better understood.

CBM coal core analysis is continuing with the coal core section having just finished desorbing gas. Further analysis is underway. Interpretation of final results expected in February will dictate CBM testing decisions on this well.

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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