



23rd June 2006

(ASX Code: KAR)

Gippsland Update

Karoon Gas is encouraged by the recent focus on the company's 100% owned PEP 162 and EL 4537 exploration activity in the Western Gippsland Basin. Karoon's activity over the last two years has taken the relatively unexplored Narracan Trough to a point now where there could be commercial potential on drilling success. A three well exploration drilling program is currently being designed to capitalise on the potential for a commercial oil discovery. The drilling program will follow up on the oil discovered in the Megascolides-1 well and the recent November 2005 acquired 2D seismic survey data.

Well results

In December 2004 the Megascolides-1 well was suspended for possible re-entry having penetrated a 10m gross hydrocarbon bearing reservoir section at the Crayfish Group equivalent level as seen in the Katnook and Ladbroke Grove gas areas in the Western Otway Basin. Drill cuttings, mud gas and wireline petrophysical interpretation described a 3-5m net oil bearing zone which could be capable of flowing oil at commercial rates (porosity 13-15%, oil saturation up to 60% and permeability 60md from limited core data). Due to hole conditions, wireline testing tools failed to recover oil samples and due to the lack of availability of Open Hole Drill Stem Test Tools, the well was suspended.

Karoon decided to conduct a further 250km 2D seismic survey (only limited existing seismic information data available) to better define any potential updip Megascolides-1 target and other possible prospects as a better allocation of funds than re-entering Megascolides-1.

The Megascolides-1 well also penetrated 15m net of gas bearing thin coals for possible Coal Bed Methane (CBM) production. After coring and analysis these coals were deemed to be not commercial at this location.

Seismic program

In December 2005 Karoon began a 250km 2D seismic program focused around the Megascolides-1 well and the prospective Northern Terrace area. Good quality data, more than adequate to map structure at the prospective levels was obtained over most of the area.

Interpretation

Interpretation is continuing with preliminary results revealing a number of prospective structures and has demonstrated that the Megascolides-1 well intersected a structure near the lower limit of the closure.

Further Gippsland 2D seismic interpretation results shall be available over the 3rd quarter 2006.

Size and value potential

Interpretation of the 2D seismic data has so far identified 10 leads, four of which may have potential for an upside recoverable resource in each lead in the range of 2.5 to 3.5 million barrels. The four leads are currently being worked up for drilling.

Economic modelling shows that due to the close proximity to infrastructure and low transport costs, oil resources as low as 300,000 barrels could be commercially produced. On drilling success a field with reserves of 3 million barrels could have a Net Present Value of approximately AUD\$25 dollars a barrel at an oil price around US\$60 per barrel and a 15% discount factor, Capex costs are approx 12\$ a barrel. With a discovery, oil production could be quickly established providing significant near term cash flow.

Drilling program

Karoon has contracted Upstream Petroleum, an experienced drilling and development service group to secure a drilling rig and assist with the planning approvals and operations of the drilling program. Karoon is in the process of contracting a drilling rig and anticipates that a drilling program would commence in 1st quarter 2007.

WA-314-P & WA-315-P

Processing of the seismic data from the recently acquired 3D and 2D surveys is nearing completion and interpretation of this data will start in June 2006. The final 3D seismic acquisition program utilizing the seismic vessel Veritas Viking 2 is due to commence in mid July 2006 with final processing of this data to be completed and ready for interpretation in October 2006. Karoon shall keep the market updated on the current 3D/2D seismic results and farm out during July 2006.

For more information please see the Karoon website or Contact:

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