



5th January 2007

(ASX Code: KAR)

Karoon's Megascolides-2 well commences

On the 4th January 2006 at 14:00 hours, Karoon spudded the second of a three well exploration drilling program on the 100% owned PEP 162 West Gippsland onshore permit in the Western Gippsland Basin.

The Megascolides-2 well is located near the crest of the greater Megascolides structure and has the Rintouls Creek Formation target more than 200m shallower. Here the well is mapped within a potential closure and at these shallower depths porosity and permeability are expected to be improved from those at Megascolides 1, offering an attractive target.

Karoon has contracted Upstream Petroleum, an experienced drilling and development service group, to assist with the drilling program and has signed a drilling contract with Century Drilling (Century Rig 11) for the three-well exploration program in the Gippsland Basin.

The Western Gippsland Basin

The Gippsland basin province covers about 4,600 square km about two-thirds of which lies offshore in mainly shallow water of up to 200 metres in depth. The Gippsland basin was Australia's largest producer until 1996, when it was surpassed by oil/condensate production from the North West Shelf project in Offshore Western Australia.

Karoon Gas has a 100% registered interest in PEP162. PEP 162 covers an area of 2950 sq km, and is located within the western on-shore Gippsland Basin of Victoria. The permits are 100 km east of Melbourne and are close to existing oil and gas pipelines and infrastructure moving oil and gas from Bass Strait to the Melbourne area, making any discovery commercial at small quantities..

Further drilling reports to follow,

For more information please see the Karoon website or Contact:

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