



14th December 2006

(ASX Code: KAR)

West Gippsland PEP 162 drilling commences

Drilling Update #1

At 12am on the 13th of December 2006 Karoon spudded the first of a three well exploration drilling program on the 100% owned PEP 162 West Gippsland onshore permit in Eastern Victoria. The goal of this well is to test for the presence of commercial oil reserves in the onshore portion of the highly productive Gippsland Basin.

The additional two wells will give Karoon a greater knowledge of the Oil and CBM potential across the permit

The Gippsland Basin has been the source of the large Bass Strait offshore oil and gas fields, which have been the mainstay of Australia's petroleum production since the mid 1960's. In the 2004 exploration well, Megascolides-1, Karoon encountered a ten metre gross oil bearing zone. Success in Megascolides-1, the first deep well in the Narracan Trough section of the Gippsland Basin would open up a new oil producing fairway in the onshore Gippsland Basin.

The previous Megascolides-1 well uncovered an oil zone which was not flow tested due to a washed out hole and the lack of availability of suitable testing equipment. The well was suspended for re-entry and a 250km 2D seismic program was run to map this new oil prospective interval.

The first operation in the current drilling program is the re-entry and sidetrack of Megascolides-1, designed to evaluate the oil zone in the Rintouls Creek Fm. Sandstone (Crayfish Group equivalent). The second well will test the crest of the Megascolides structure and the third well, Raniformis-1 will test another structure 5 km to the west.

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.

The Gippsland Basin has extensive, coal bed methane (CBM) and oil potential. The results of the Megascolides-1 well, confirmed the presence of interbedded gas-bearing black coal (CBM) across the Narracan Trough. The original Megascolides-1 well intersected a total thickness of 15m of black coal in seams less than 0.5m with a gas content of 100 standard cubic feet per ton and an approximate gas saturation of 30%.

Further drilling reports to follow.

For more information please see the Karoon website or Contact:

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