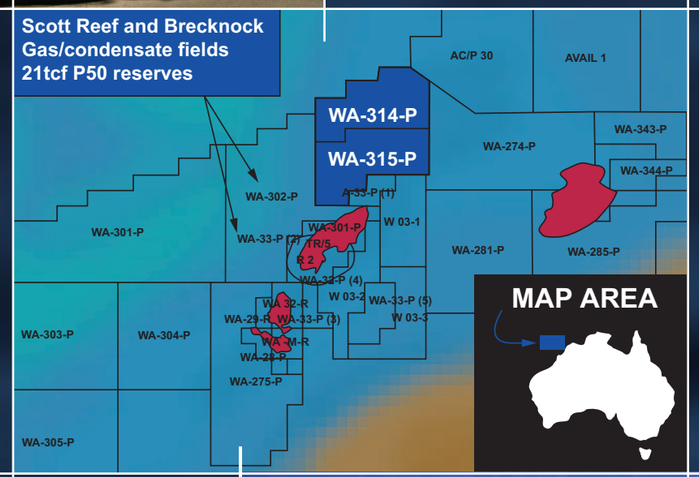
KAROON
Gas Australia Ltd



For an issue of
10,000,000 shares
at $1.20 each

Karoon Gas Australia Limited
ABN 53 107 001 338

PROSPECTUS

May 2005

CORPORATE DIRECTORY

Directors and Company Secretary

Robert M Hosking
Executive Chairman

Mark A Smith
Executive Director and Exploration Manager

Geoffrey Atkins
Non-Executive Director

Hector Peeters
Company Secretary

Registered Office

Karoon Gas Australia Ltd.
Suite 7A, 34 Lochiel Avenue
Mt Martha, Victoria 3934
Tel: (03) 5974 1044
Fax: (03) 5974 1644
Email: basspetrol@hotkey.net.au
Website: www.karoongas.com.au

Share Registry

Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
Perth, Western Australia 6840
Tel (toll free): 1 300 557 010
Fax: (08) 9232 2033

Auditors

Mitchell Wilson and Partners
Level 1 261-271 Wattletree Rd
Malvern, Victoria 3144
Tel: (03) 9500 0533
Fax: (03) 9500 0633
Email: mwp@mitchellwilson.com.au

Independent Geologist

Adenmere Pty Ltd
Petroleum Exploration Consulting
Waterton Hall
61 Waterton Hall Road
Rowella, Tasmania, 7270
Tel: (03) 6394 7214
Fax: (03) 6394 7614
Email: resourceinvest@bigpond.com

Solicitors to the Issue and Reporting Solicitors – Western Australia

Fearis Salter Power Shervington
Solicitors
52 Ord Street
West Perth, Western Australia 6005
Tel: (08) 9481 8700
Fax: (08) 9481 8701
Email: mail@fsps.com.au

Reporting Solicitors - Victoria

Mallesons
Level 50
Bourke Place
600 Bourke Street
Melbourne, Victoria, 3000
Tel: (03) 9643 4000
Fax: (03) 9643 5999
Email: mel@mallesons.com

Lead Manager

E.L. & C. Baillieu Stockbroking Ltd
27th Level
360 Collins Street
Melbourne, Victoria 3000
Tel: (03) 9602 9222
Fax: (03) 9642 0170
Email: baillieu@baillieu.com.au

TABLE OF CONTENTS

CORPORATE DIRECTORY		1
1.	LETTER FROM THE CHAIRMAN	4
2.	THE PLACEMENT	5
3.	DIRECTORS AND CORPORATE STRUCTURE	9
4.	COMPANY OVERVIEW	11
5.	GEOLOGICAL OVERVIEW	14
6.	INDUSTRY TRENDS	35
7.	EXPLORATION AND PRODUCTION STRATEGIES	36
8.	OVERVIEW OF EXPLORATION PROGRAMMES	37
9.	EFFECT OF PLACEMENT ON THE COMPANY	38
10.	INVESTMENT CONSIDERATIONS	40
11.	INDEPENDENT GEOLOGIST'S REPORT	46
12.	SOLICITOR'S REPORT – VICTORIAN PERMITS	58
13.	SOLICITOR'S REPORT – WESTERN AUSTRALIAN PERMITS	64
14.	MATERIAL CONTRACTS	72
15.	ADDITIONAL INFORMATION	75
16.	DEFINITIONS, GLOSSARY AND CONVERSIONS	80
17.	DIRECTORS CONSENT	85
18.	APPLICATION FORM	86

Important Notes

Date of Lodgment

This Prospectus is dated 12 May 2005. It was lodged with ASIC on 12 May 2005. Neither ASIC nor ASX take any responsibility for the contents of this Prospectus. No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

This Prospectus should only be accessed from within Australia as the Shares have only been qualified for issuance in Australia. Where this Prospectus has been dispatched to a jurisdiction outside Australia and that jurisdiction's securities legislation requires registration of this Prospectus, this Prospectus is provided for information purposes only. No person is authorised to give any information or to make any representation in connection with the Placement. Any information or representation in relation to the Placement that is not contained in this Prospectus may not be relied on as having been authorised by the Company.

Purpose of Prospectus

The Shares that are the subject of the Placement have been offered to Subscribers who are Professional or Sophisticated Investors. The Lead Manager of the Placement is E.L. & C. Baillieu Stockbroking Ltd. No applications from persons other than the Subscribers will be accepted by the Company. This Prospectus is being issued for the purpose of facilitating secondary trading in the Shares to be issued pursuant to the Placement in accordance with Section 707(3) of the Corporations Act, within 12 months after their issue.

Definitions

Certain terms, including technical terms, are defined in the Definitions, Glossary and Conversions section on page 80.

1. LETTER FROM THE CHAIRMAN

Dear Investor,

On behalf of the Board of Karoon Gas Australia Ltd ("Karoon Gas") I take pleasure in inviting you to become a Shareholder of Karoon Gas by participating in the recently announced placement of approximately 10 million fully paid ordinary shares. I am pleased to confirm that approximately 50% of the Placement has been taken up by Australian nominees of overseas institutional investors. The balance of the Placement has been taken up by local institutions and other Professional and Sophisticated Investors. The placement is subject to approval by Shareholders at a General Meeting to be held on 26 May 2005.

Karoon Gas has recently farmed out 60% of its interest in the Browse Basin exploration permits WA-314-P and WA- 315-P to BG International Ltd ("BG") (a subsidiary of BG plc formerly known as British Gas plc). BG is a company incorporated in England, with a registered office in Berkshire, United Kingdom. BG is to be the operator of the permits. For further information regarding the Browse Basin and the agreement with BG please refer to the material contracts section of this Prospectus in addition to the geological reviews and the Independent Geologist's Report contained in this Prospectus.

I look forward to welcoming you as a Shareholder of Karoon Gas.

Robert Hosking
Chairman

2. THE PLACEMENT

The Company proposes to make a Placement of approximately 10,000,000 Shares to Professional and Sophisticated Investors at an issue price of $1.20 per Share. The issue price is payable in full upon Application for the Shares.

The Placement is conditional upon the Company obtaining Shareholder approval at its upcoming General Meeting on 26 May 2005.

Details of the Placement

The Placement is lead managed by E.L. & C. Baillieu Stockbroking Ltd and is only available to the Subscribers.

Shares issued pursuant to the Placement will rank equally in all respects with existing Shares. The rights and liabilities attaching to Shares are described in Section 15 of this Prospectus.

Applications must be made on the Application Form enclosed with this Prospectus.

Application of the Placement Funds

The purpose of the Placement is to raise funds for the Company's expenditure commitments in respect of its interest in the offshore Browse Basin Permits WA-314-P and WA-315-P situated off the coast of Western Australia. The expenditure commitments arise pursuant to an exploration programme to be carried out in accordance with the BG Farmout Agreement, which entails the carrying out of an aeromagnetic survey over both permits, a minimum of 400 square kilometres of 3D seismic survey in respect of each permit and the drilling of two exploration wells; one on each permit. In addition, in Gippsland, the Company proposes to conduct oil exploration and further coal seam methane exploration.

Key Dates

Date of Prospectus	12 May 2005
Opening Date	26 May 2005
Date of General Meeting to approve Placement	26 May 2005
Closing Date	23 June 2005
Expected Date for dispatch of holding statements	27 May 2005
Expected Date of ASX Quotation	30 May 2005

These dates are indicative only and may vary. Karoon Gas reserves the right to vary the Opening Date and Closing Date without prior notice subject to the requirements of the Listing Rules and the Corporations Act. The date the Shares are expected to be issued and/or commence official quotation on ASX may vary with any change to the Closing Date.

Share Purchase Plan

On 27 April 2005 the Company announced a Share Purchase Plan ("**SPP**") to be offered to all Shareholders. The number of Shares to be issued under the SPP is capped at 2.5 million Shares. The SPP is non-renounceable and gives each Shareholder the opportunity to subscribe for up to a maximum of $5,000 worth of new Shares (subject to the Company's discretion to scale back applications) on the same terms as the Placement.

E.L. & C. Baillieu Stockbroking Ltd will be paid a 3% broker handling fee to facilitate acceptances under the SPP. Any other participating organisation of ASX will be paid the same handling fee for acceptances submitted on behalf of broker sponsored clients initiated through CHESS, which bear the broker's stamp on the acceptance form.

Minimum Subscription

The minimum subscription to be raised pursuant to this Prospectus is 10,000,000 Shares at $1.20 each to raise $12,000,000.

Shares will not be allotted until the minimum subscription has been received. Should minimum subscription not be reached within four months of the issue of the Prospectus, the Company will either repay the Application Monies to Applicants or issue a supplementary or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their Application Monies. Interest will not be paid on Application Monies refunded.

Application of Funds

The following table demonstrates the expected application of the proceeds from the Placement.

	Placement(1)	**Placement and SPP $3 million (2)**
Browse Basin Exploration Programme • 2D seismic data, • at least 400 sq km 3D seismic survey in each permit • exploration well on each permit	$8 million	$9.7 million
Gippsland Basin Exploration Programme • a total of 290 km of 2D seismic data over both Karoon Leases.	$2 million	$2.6 million
Administration Costs & Working Capital	$1.1 million	$1.7 million
Costs of Issue	$0.9 million	$1 million
TOTAL	$12 million	$15 million

Notes:

(1) Assumes that minimum subscription for the Placement is reached and that no funds are raised from the SPP.

(2) Assumes that minimum subscription for the Placement is reached and that the maximum amount of $3,000,000 is raised under the SPP.

Applications for Shares

Those participating in the Placement are required to complete the Application Form attached to this Prospectus.

How to Apply for Shares

Applications for Shares can only be made by the Subscribers. Subscribers should complete the Application Form included in this Prospectus in accordance with the instructions on the reverse side of the Application Form.

Applications must be forwarded to:

E.L. & C. Baillieu Stockbroking Ltd
PO Box 48
Collins Street West
Melbourne VIC 3001

Application Monies

Application Monies will be held in trust in a separate bank account on behalf of Applicants until the Shares are issued.

Issue of Shares

The Company will dispatch a holding statement to each Applicant under the Placement as soon as practicable after the Closing Date. The issue of Shares pursuant to this Prospectus is subject to obtaining Shareholder approval for the Placement being obtained at the General Meeting and the minimum subscription being raised.

It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants who sell Shares before they receive their holding statements will do so at their own risk.

Application for Quotation on ASX

Within seven days after the issue of this Prospectus, Karoon Gas will apply to the ASX for the new Shares issued under this Prospectus to be quoted on the ASX.

The fact that ASX may agree to grant official quotation for the Shares is not to be taken in any way as an indication of the merits of the Company or the new Shares issued under this Prospectus. ASX takes no responsibility for the contents of this Prospectus, including the experts' reports that it contains.

If application for quotation is not made within seven days after the date of this Prospectus, or if the Shares are not granted official quotation within three months after the date of issue of this Prospectus, all monies received pursuant to this Prospectus will be repaid without interest, in accordance with the requirements of the Corporations Act.

Underwriting

The Placement is not underwritten.

3. DIRECTORS AND CORPORATE STRUCTURE

Directors

Robert Michael Hosking
Executive Chairman

Robert is the founding Director of Karoon Gas and has 30 years of commercial experience in the administration of several companies. Robert has been involved in the oil and gas industry for ten years, most recently as a founding Director/Shareholder of Nexus Energy NL. Robert is also responsible for procuring PEP162 and EL4537 and managing all of the required work programs in relation to those permits, including raising funds and overseeing the geophysical and geological contractors. Robert has been instrumental in obtaining the finance and contracts that have helped Karoon Gas reach its present status.

Robert additionally has more than 15 years' commercial experience in the steel industry. He jointly owned and managed businesses involved in the trans-global sourcing, shipping and distribution of steel-related products, with particular expertise gained in Europe and the Asia/Pacific Rim.

Mark Alexander Smith
Executive Director and Exploration Manager
Dip. App. Geol, Bsc. (Geology)

Mark has 24 years of continuous experience as a geologist and exploration manager in petroleum exploration and development in Australia, Southeast Asia and North America. The bulk of this experience was gained while with BHP Petroleum Pty Ltd (BHPP). He has been directly involved with seven economic oil and gas discoveries.

His geoscience skills cover regional basin and tectonics studies, acreage evaluations and gazettals, farm-ins/farm-outs, petroleum systems/fairway assessments, prospect evaluations, risking and volumetrics and fault seal prediction. He is co-author of several key regional tectonics papers.

Mark also has project and operations management experience in wellsite operations and management of onshore and offshore drilling operations. He has also held management positions looking after BHPP's Gippsland operated exploration acreage joint ventures and non-operated exploration and production acreage (Esso/BHPP joint venture, Gippsland Basin). Mark also gained general business skills at BHPP, having looked after budget and business plan development and human resources management within his groups. His commercial experience also includes economic evaluation team management.

For the past five years, Mark has operated a specialised geoscience consulting company. Specialist areas include southern Australian basins petroleum geology and fault seal prediction. His company provides general petroleum geoscience services and fault-seal prediction services to the industry using in-house developed software. Clients have included BHPP, Esso and other large and small oil and gas industry organisations.

Geoffrey Atkins
Non-executive Chairman
Associate, Royal Melbourne Institute of Technology; Dip. of Civ. Eng., Australia.

Geoff has over 34 years' experience in investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects, including container terminals, LNG jetties, cement, coal, bauxite, iron ore and other bulk terminals and naval bases. Geoff has gained substantial overseas experience completing marine projects in Indonesia, Malaysia, Thailand, Vietnam, Sri Lanka, India, South Africa, Namibia, New Zealand and the United Kingdom. LNG, oil, gas, bulk ports and other large maritime infrastructure projects have included the design of Woodsides LNG Jetty, tender design of Darwin LNG Jetty and investigations of proposed LNG marine terminals in Taiwan, Iran and Israel for BHP Petroleum and the West Kingfish and Cobia oil drilling platforms for Esso/BHP in Bass Strait.

Corporate Governance Statement

The Directors are responsible for the Corporate Governance of Karoon Gas, and for matters relating to the rights and interests of Shareholders.

The Board is responsible for overseeing the strategic direction of the Company, determining financial and operational objectives and monitoring progress in achieving those objectives. The Board ensures that the Company complies with the law and regulatory requirements.

Directors and officers are required to act with integrity and objectivity while working to enhance the reputation and commercial performance of the Company.

Individual Directors may seek independent advice at the cost of the Company. Such action, and the costs involved, must first be approved by the Chairman, whose approval may not be unreasonably withheld.

The Board, when approving committees, determines their terms of reference. The findings and decisions of such committees require ratification by the Board.

4. COMPANY OVERVIEW

Background

Karoon Gas Australia Limited was incorporated as a public company in November 2003 and was listed on the ASX on 8 June 2004.

Karoon Gas's core focus and strategy is to identify, explore and develop acreage that is highly prospective for oil and gas . Karoon currently has two focus areas, the Browse Basin and the Western Gippsland Basin:

4.1 The Browse Basin

Overview

Karoon recently acquired the right to farm into, and has agreed to farm out, a 60% interest in, and farmed out two large (approx 2000 sq km each) Browse Basin Permits, WA-314-P and WA-315-P, immediately to the north of the Scott Reef /Brecknock fields. Risked reserves of gas in Karoon's acreage are estimated to be 30TCF with 300 million barrels of condensate. To provide some indication of the relative size of these risked reserves, Australia currently consumes 1TCF of gas per year valued at approximately AUD $3 billion wholesale. The United States consumes approximately 23 TCF per year for AUD $140 billion wholesale.

Assets

Pursuant to the Liberty Farmin Agreement, Karoon farmed into the Browse Basin Permits held by Liberty Petroleum in exchange for a wellhead royalty. The permits are offshore 290 kms northwest of Broome and Derby, Western Australia. Karoon Gas is earning a 100% interest in WA-314-P and WA-315-P by fulfilling the Year-2 minimum guaranteed work program of a 400 sq km seismic survey in each permit.

Karoon has subsequently farmed out 60% of its interest in the Browse Basin Permits to BG International Ltd, a major oil and gas exploration company, who have agreed to fund 90% of the minimum Year-2 and Year-3 work program commitments in accordance with the terms of the BG Farmout Agreement. Both Karoon and BG have an option to withdraw from the permits prior to undertaking the Year-3 drilling commitments.

The Directors believe that these permits offer potential for gas and condensate, sufficient to support a Liquefied Natural Gas (LNG) development that requires an approximate minimum economic quantity of 4TCF gas.

An independent report on the gas and condensate potential of the Browse Basin acreage and the oil and Coal Bed Methane (CBM) potential of the Karoon Leases has been prepared by a geological consultant engaged by the Company.

4.2 Western Gippsland Basin

Overview

The Western Gippsland Basin is a sedimentary Basin in Victoria's southeast, currently being explored by the Company using existing seismic information and recent well results from Karoon Gas's Megascolides-1 well. More exploration work is planned to build on the encouraging results from this well to date. The area has both CBM and oil and gas potential. The oil shows in the Crayfish Subgroup equivalent sands indicate the potential for a new oil prospect in this area.

In the past, CBM has been considered a waste product of coal mining. Over the past 25 years, however, CBM has begun to be viewed as a viable market replacement or at least a partial supply supplement for conventional gas in the retail gas market

Karoon Gas's EL4537 also contains a potentially commercial brown coal deposit. Independent assessment by an established geological consultant has confirmed a potential resource of up to 340 million tonnes including some inferior coal. Karoon Gas is currently evaluating development options in respect of this licence.

Assets

Karoon Gas (through its 100% owned subsidiary Karoon Gas Pty Ltd) has a 100% registered interest in PEP162 and EL4537, within the western on-shore Gippsland Basin of Victoria (Figure-1). The area of PEP162 is extensive, covering some 2950 sq km and overlays EL4537, which covers 635 sq km. The permits are 100 kms 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.

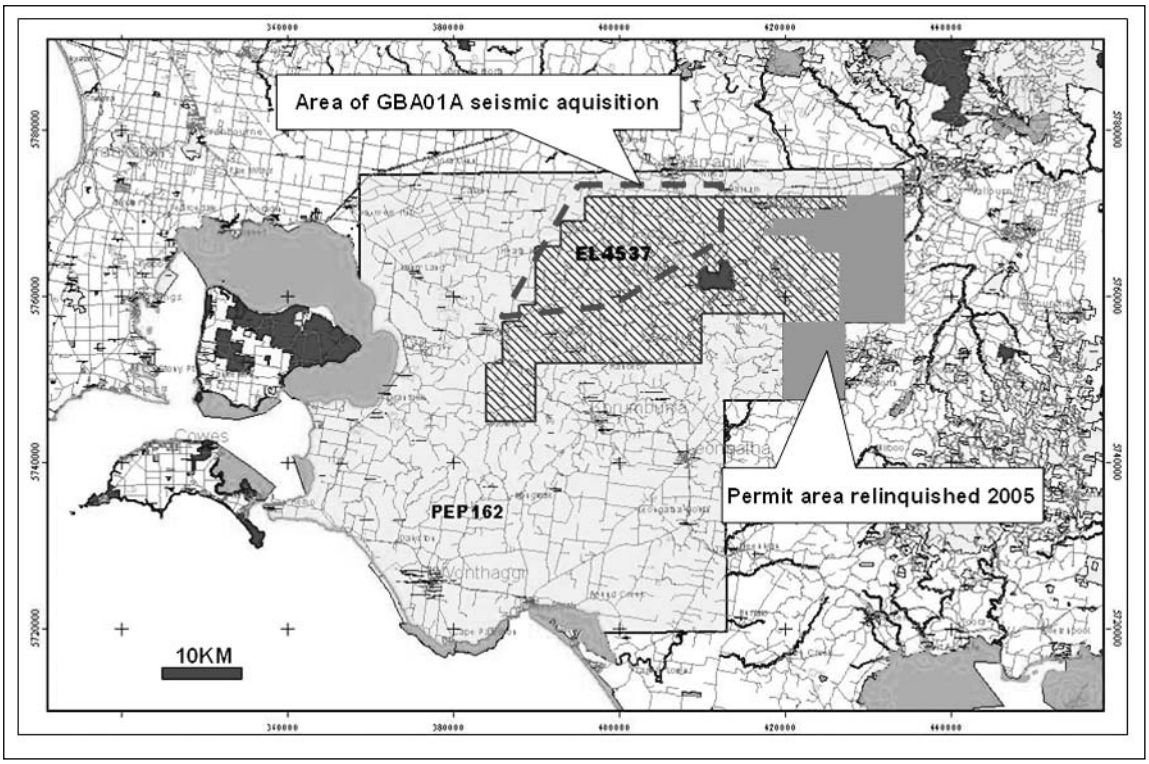


Figure-1: EL 4537 and PEP 162 Licence area locations.

Karoon Gas Pty Ltd has previously conducted exploration activities in Gippsland on its own behalf prior to its acquisition by Karoon Gas. Additional work was needed to prove any potential resource. After further analysis by Karoon Gas, large sections of interbedded black coal sequences were interpreted as being present in the Narracan Trough. Based on a comparison with key criteria from producing CBM fields, the conditions appeared favourable for the development of a potential CBM resource.

The results of the Megascolides-1 well confirmed the presence of gas-bearing black coal across the Narracan Trough. However, CBM is considered by the Company to be non-commercial at this drilling location. The oil zone intersected warrants further exploration to define oil prospects along the Northern Terrace area. Based on analogues of other CBM basins, the Company believes there is still potential for commercially productive areas to be explored.

Oil and gas pipelines from offshore producing Bass Strait wells pass very close to the northern boundary of PEP162 and EL4537, allowing for efficient and reasonably priced transport and processing cost of CBM and/or oil and gas accumulations.

5. GEOLOGICAL OVERVIEW

5.1 Browse Basin

The Browse Basin Permits (Figure-2) are located on the outer Scott Reef high of the Late Carboniferous-Cainozoic Browse Basin, considered one of the most active frontier exploration regions of Australia. The basin is a proven hydrocarbon province. It has minor oil discoveries on its eastern margin and major undeveloped gas/condensate fields on the central and outer parts of the basin.

The gas discoveries of the outer Browse Basin (Argus, Brecknock and Brewster and Scott Reef) are generally contained in Jurassic fluvio-deltaic sediments within large Jurassic/Triassic horst blocks of the Scott Reef high trend. Karoon Gas's Browse Basin Permits lie along this high trend in which seven leads have been identified.

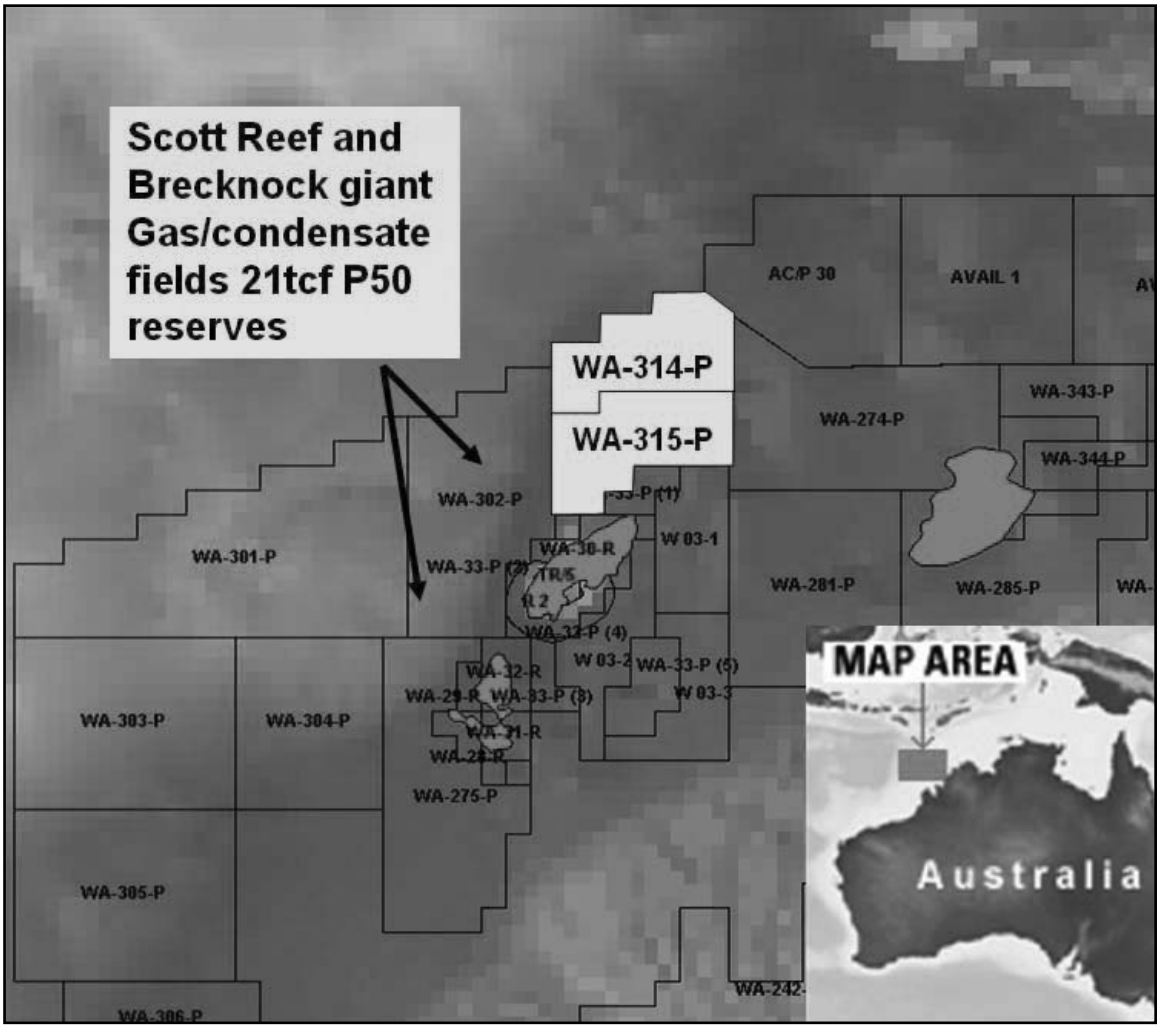


Figure-2: Permit location map showing the acreage position in Australasia and in elation to nearby fields.

Geological History

The Browse Basin developed during six major tectonic phases: Late Carboniferous to Early Permian extension; Late Permian to Triassic thermal subsidence; Late Triassic to Early Jurassic inversion; Early to Middle Jurassic extension; Late Jurassic to Early Tertiary thermal subsidence; and Late Miocene inversion. Initial extension caused half-graben geometries and the formation of distinct depocentres, such as the Caswell sub-basin which contains in excess of 15 km sedimentary section, and lies in 100 to 1500 metres water depth. Like the Scott Reef field, the Karoon permits lie along Scott Reef high on the Caswell and Seringapatam sub-basin margin (Figure-3).

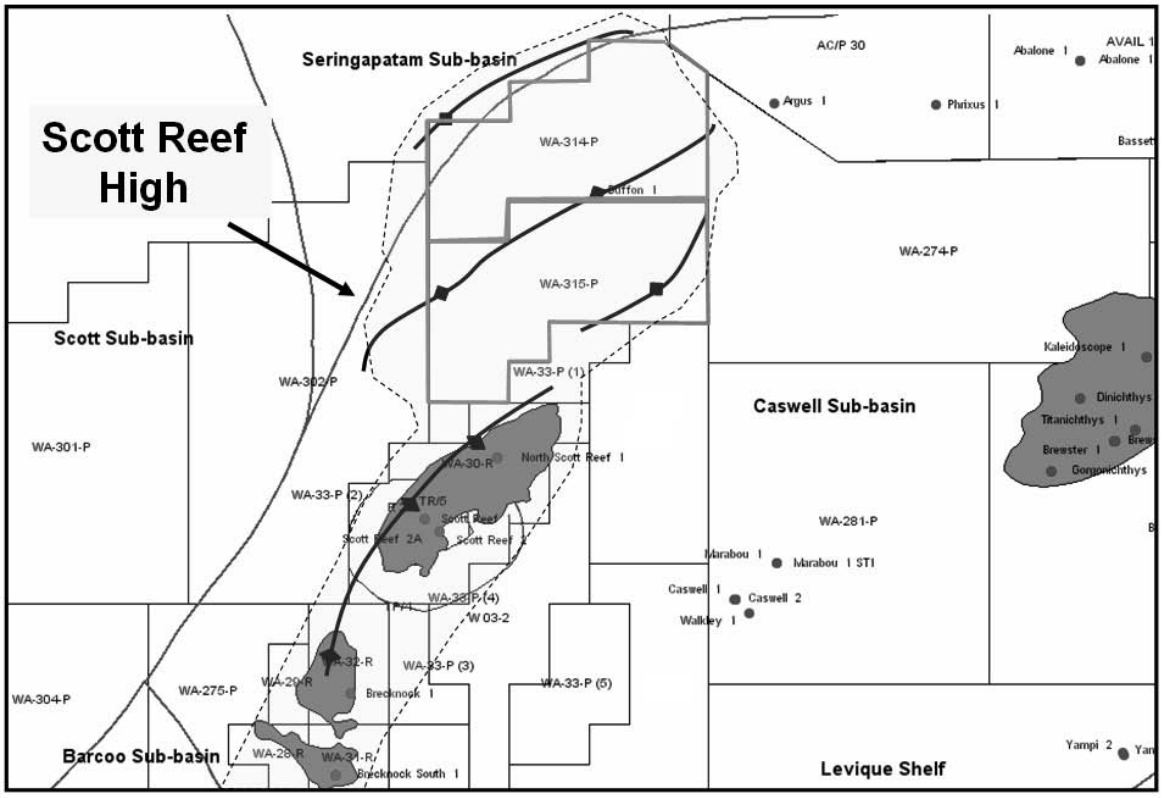


Figure-3: Permit map showing the Caswell sub-basin, petroleum wells and major structural trends.

According to previous studies, the Browse Basin developed from the Carboniferous in response to north-northwest extension. The Carboniferous section is predominantly fluvio-deltaic, followed by a transgressive marine Permian-Early Triassic section (Figure-4). Middle-Late Triassic rocks include fluvial and shallow marine clastics and minor carbonates. Late Triassic (Nome/Challis Fm) sediments may also be reservoirs, however they are difficult to predict due to poor well control over the Basin. Early-Middle Jurassic syn-rift

sediments, the Plover Formation, comprise deltaic and coastal-plain clastics and coal. Plover sediments formed a thick deltaic wedge throughout the Caswell sub-basin deposited across the Triassic/Jurassic horsts and thickening into the grabens. These deltaic sediments are likely to form the best reservoir sequence in the permits.

Widespread erosion occurred in the Callovian with Upper Jurassic sandstones in the Intra-Oxfordian (Montara Fm) as seen in the Argus-1 well are preserved off the high trends. Upper Jurassic shales onlap, drape and provide a thin regional seal across most pre-Callovian structures. Widespread transgression commenced in the Valanginian and peaked in the Turonian, and resulted in the deposition of thick open marine claystones, which are proven seals at the Scott Reef/Brecknock fields and are predicted to provide good seal for the structures in the Browse Basin Permits. The Early Cretaceous claystones provide a thick regional seal and contain potential oil-prone source rocks.

The Turonian-Tertiary section records a major progradational clastic-to-carbonate cycle.

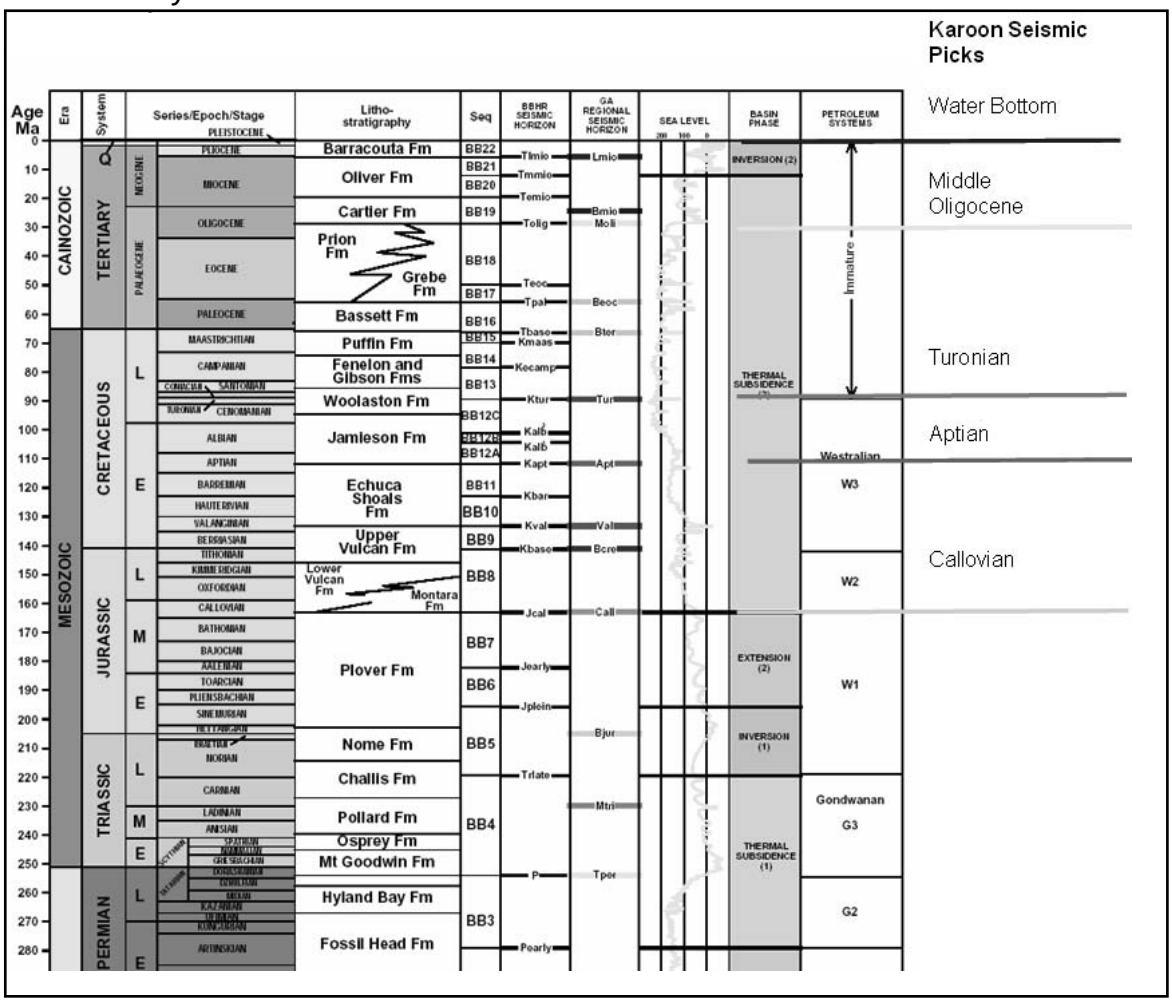


Figure-4: Geoscience Australia (GA) Techtonostratigraphic Summary showing the seismic horizons mapped by Karoon. From by Kennard, et al (2003)

Hydrocarbon Source Maturity and Timing

A considerable body of work on all aspects of source rock studies covering typing, maturation, timing and migration by companies and government groups has been carried out on the Browse Basin.

In general, gas and condensate are the most likely hydrocarbon types to be discovered within the areas covered by WA-314-P and WA-315-P. There is however considerable merit in the idea that oil may be present in these permits.

Potential source rocks exist throughout the Permian to Cretaceous succession. However, the primary source rocks of the Browse Basin are Early Cretaceous claystones (Echuca Shoals Formation) that not only provide a thick regional seal but also contain potential oil-prone source material. Sequence interpretation suggests that 'pods' of organic-rich rocks were deposited during stages of incremental flooding of the basin (within an overall transgressive cycle) during the Valanginian to Barremian. These rocks entered the oil window during the Late Cretaceous to Early Tertiary in the middle of the basin.

Source rocks have also been identified in Late Jurassic, Middle-Early Jurassic and Lower Cretaceous (Jamieson Fm). The available geochemical data for the Browse Basin would suggest that the true source potential of Late Jurassic rocks have not been adequately tested due to the location of wells relative to depocentres.

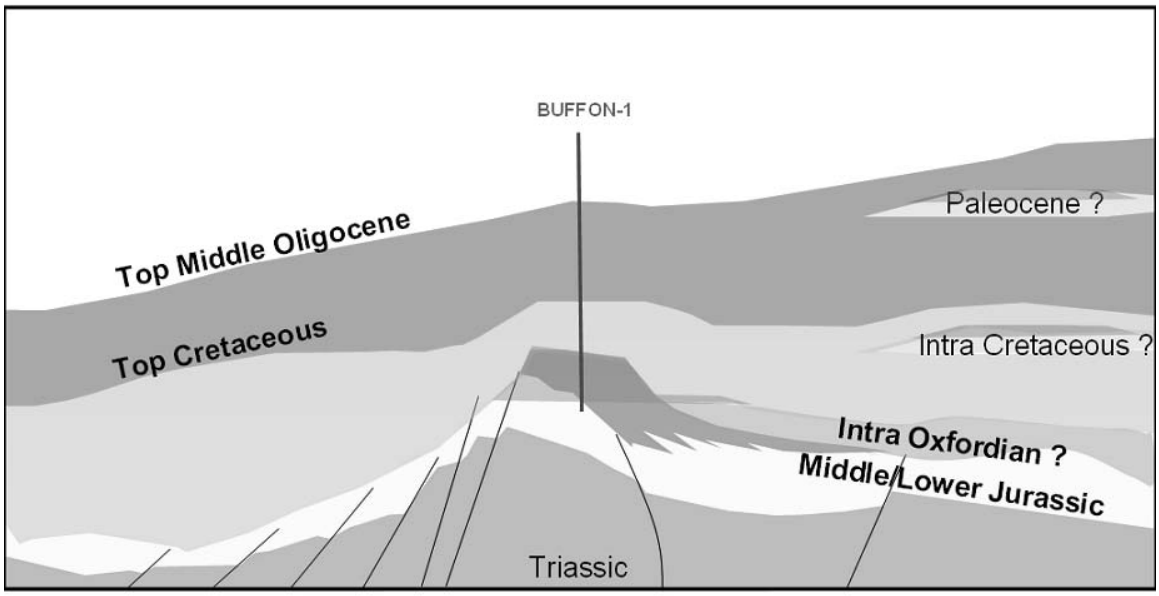


Figure-5: Play types in the permits.

Reservoir

Reservoir facies within the Caswell Sub-basin are best developed within the fluvio-deltaic Middle-Lower Jurassic section (Plover Formation), and submarine fans of Berriasian (Brewster Sandstone), Barremian (M. australis sands of the Echuca Shoals Formation) and Campanian-Maastrichtian (Puffin sandstone) age (Figure-5). Potential reservoir sediments have also been encountered in the shallow marine sandstones of the Intra-Oxfordian (Montara Formation), the lowstand sands of the Intra-Cretaceous (Jamieson Formation) and carbonates of the Intra-Paleocene (Bassett Formation). The Scott Reef and Brecknock hydrocarbon accumulations are reservoired in syn-rift Early Jurassic to Triassic rocks within faulted anticlinal structures. In Buffon-1, regressive Middle Jurassic marginal marine claystones, minor oolitic limestones and siltstones grade vertically into the reservoir sandstones. These sandstones also constitute the main reservoirs for the gas/condensate accumulations at both Brecknock and Scott Reef. At Scott Reef the Early Jurassic (Hettangian-Aelenian) sandstone reservoir has an average porosity of 13%. At Buffon-1 the 66m of the three sandstone reservoir units have an average porosity of 12%.

Seal

The seal for the structure is the regionally developed transgressive Cretaceous marine shale section, proven to be effective at Scott Reef and Brecknock. In the Buffon-1 well this seal is composed of the thick (200m) Aptian to Late Aptian claystones and interbedded clay rich tuff. Upper Jurassic seals, such as the thin Oxfordian holomarine claystones and calcarenite seen at Scott Reef, may also be present on the flanks of the structure.

Well Results

Buffon-1

(1980) Gas Shows
Buffon-1 (Figure-6) is a faulted anticlinal feature that prior to drilling was interpreted to be a high relief fault block, possibly consisting of Middle-Lower Jurassic and Permo-Triassic sediments overlying relatively shallow Precambrian basement. Younger sediments were seen to arch over the block, with rollover extending up to the base of the Tertiary. The principal objective was the Middle-Lower Jurassic and Triassic sandstones, sealed by Cretaceous claystones.

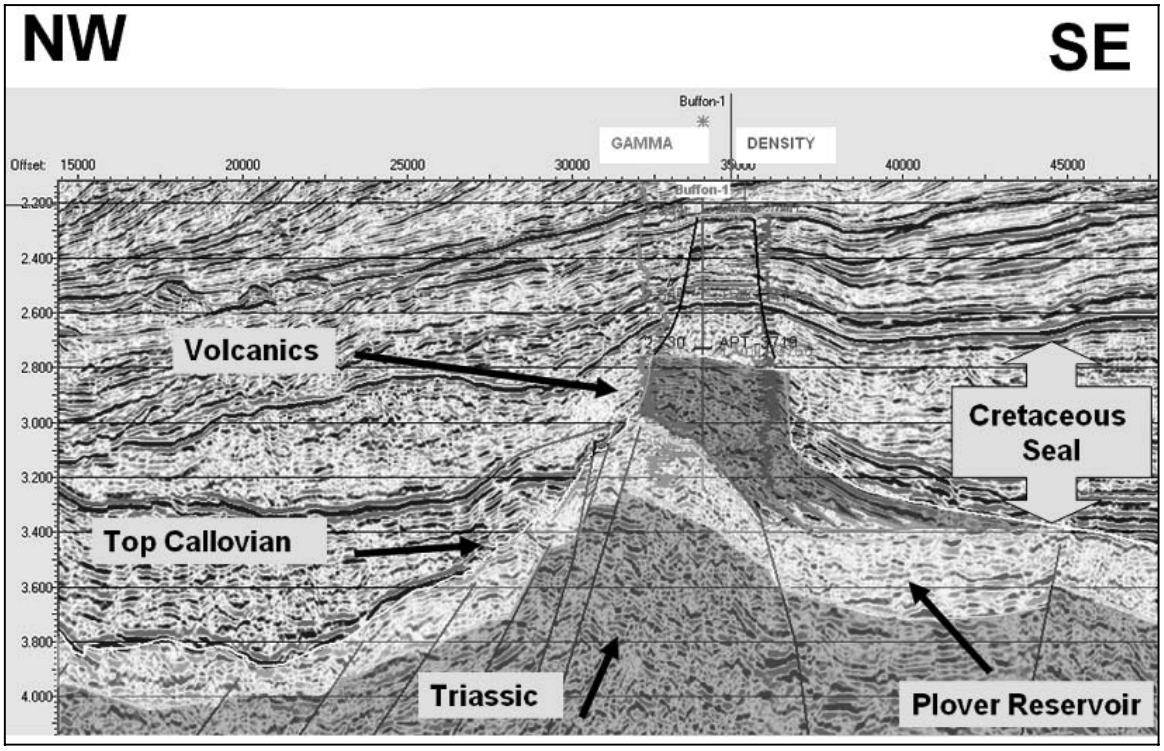


Figure-6: Buffon-1 well posted on BR98-117 seismic line. This clearly shows the Middle-Late Triassic structural high, draped with syn-rift Plover sediments, a volcanics cap overlain by a thick succession of Cretaceous claystones.

High gas readings (Figure-7) were recorded from thick Middle Jurassic (layered tuffs, fractured and altered basalt flows and pyroclastic material) beneath the regional Cretaeous claystone seal and breakup unconformity.

Gas readings were higher in Buffon-1 drilling through fractured volcanics than at the North Scott Reef-1 well during the drilling of that 600m gas column, both wells with similar mud weights. Mud weights had to be increased in Buffon-1 to control very high connection gas peaks. The progressively higher mud weights eventually resulted in mud losses into the formation of 300bbls. Subsequently a drill stem test conducted over the volcanics interval, 3737-4246 metres, flowed 12bbls/hr formation fluid (salt water) and gas. With the previous mud losses to formation, the drill stem test is considered a poor and inconclusive test of the formaton. Karoon interprets that the Buffon structure fractured volcanics are gas charged, the gas occupying fractures in the volcanics.

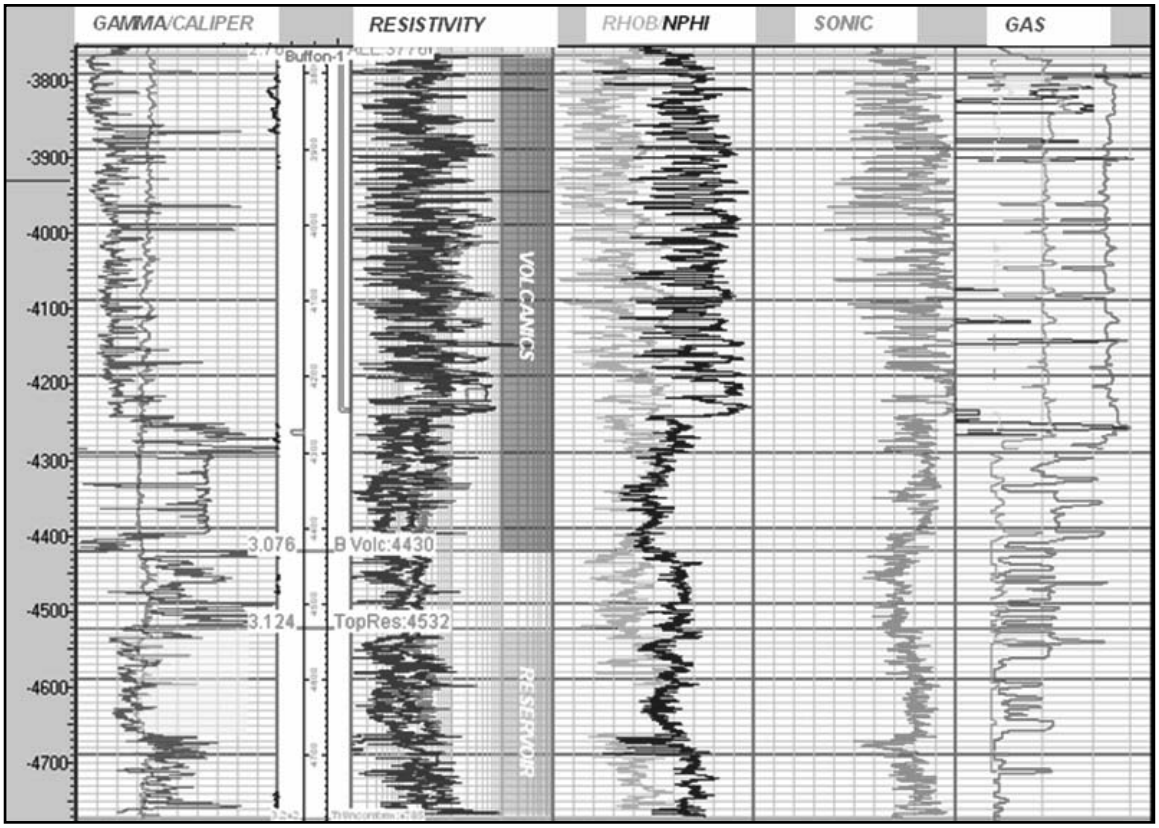


Figure-7: Buffon-1 well logs over the volcanics and reservoir section. Note the thick Toarcian to Pliensbachian (Early Jurassic) reservoir section at base and the continuous gas readings through the overlying Middle-Jurassic volcanics.

Scott Reef-1

(1971) Significant Gas Discovery.
Seismic surveys had indicated a large anticlinal trend extending from Scott Reef northeast to Seringapatam Reef in WA-315-P. It was interpreted to be a tilted Triassic fault block in an eroded arch that was onlapped by Early-Middle Jurassic sediments and draped by Cretaceous and younger claystones and fine grained carbonates. Scott Reef-1 and later Scott Reef-2 proved the presence of a 600m gas condensate column through the Jurassic and Triassic sections.

The Scott Reef structure has potentially large reserves in three main zones. These are in Scott Reef-1, 14092'-14130' (Av por 14%, Av SW 14%), 14233'-14334' (Av por 12%, Av SW 20%), 14350'-14380' (Av por 16% , Av SW 40%).

North Scott Reef -1

(1982) Gas Appraisal
This well (Figure-8) was drilled at the northern end of the faulted structural closure of the Scott Reef trap to show the extent of the Scott Reef field. Maximum gas readings were recorded in the interval 4165-4240 metres. The interval 4223-4283 metres was perforated and flowed 26 Mmscf/day gas on _" choke for six hours, then at 45 Mmscf/day gas on a 48/64" choke and finally for nine hours at 35 Mmscf/day gas on 40/64" choke. The well encountered 122.9 to 134.2 metres of Jurassic reservoir sandstones with hydrocarbon saturations ranging from 29-80%.

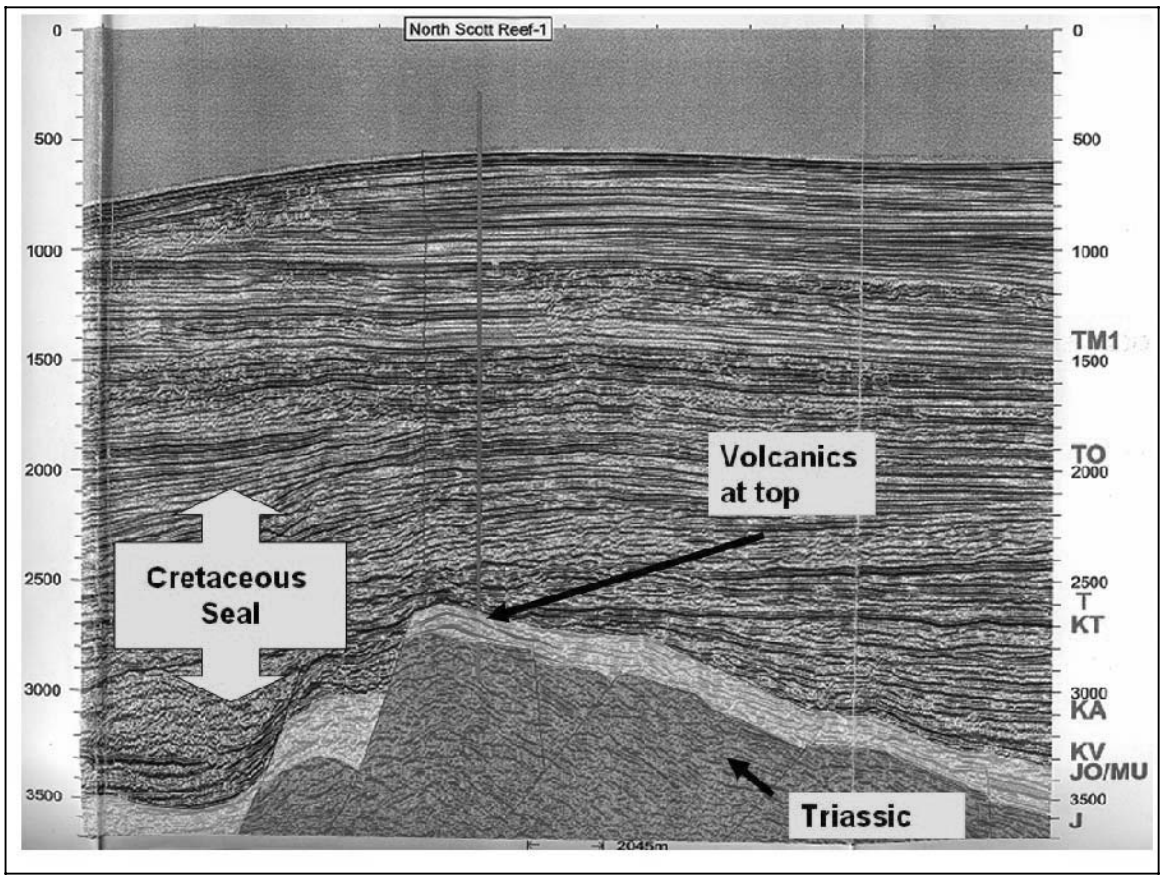


Figure-8: North Scott Reef-1 showing similar geological elements to Buffon-1.

Brecknock-1

(1979) Gas Discovery
Brecknock-1 was drilled to test Middle-Lower Jurassic and Triassic sandstones of the pre-breakup sequence, as encountered in the Scott Reef wells located to the north. The well penetrated a section ranging in age from Lower Pliocene to

Triassic/Jurassic. During drilling the highest gas readings were recorded from the interval 3983-3986 metres. Two gas bearing sands were present with the upper section (3829-3906.5 metres) with average gas saturation of 66% and porosity of 15%.

Argus-1

(2000) Gas Discovery
Located in the outer Browse Basin approx 95 km west of Basset-1, 45km northeast of Buffon-1 and 150km northeast of Scott Reef. The well objective was to test a large east-west structural closure within a fault block at the base of the Echuca Shoals Formation. The reservoir objective, Late Jurassic sediments (Oxfordian Montara Formation), were gas saturated and significantly over pressured, however they had poor porosity and permeability. A significant kick was taken in the main silty quartzarenite reservoir. The pressure at 4650mRT was recorded to be around 11200psi. This can be compared to MDT (Modular formation dynamics tester) pressures which were 11020psi. Both gas and condensate samples were recovered however logs indicate that reservoir quality is poor. The gas has been interpreted to be relatively mature with an inferred maturity of 1.5%VR and an “oily” character with a lower maturity of around 1.0%VR suggesting a mixed charge. According to researchers, gas charge has been sourced from deep, mature Permian and Jurassic aged sediments.

A Paleocene carbonate sequence at 3952mRT also showed small amounts of oil however no closure was mapped at this level and the oil was interpreted to be contained within a fracture zone.

Seismic and leads mapping

Seven leads (Figure-9) have been mapped using the various 2D seismic vintages that cover the permits. Line spacing is between 5 and 20km and is sufficient to delineate the larger structural features present. Older (1970s-1980s) seismic is of moderate to poor quality allowing only the main structural and stratigraphic features to be resolved and is inadequate for prospect development.

The latest BR98 Veritas seismic survey much improved to a point that may allow the sometimes complex structural and stratigraphic features of these permits to be resolved. However, the coverage and quality of the existing seismic data is considered inadequate to evaluate the seven leads to bring them up to a drillable prospect quality.

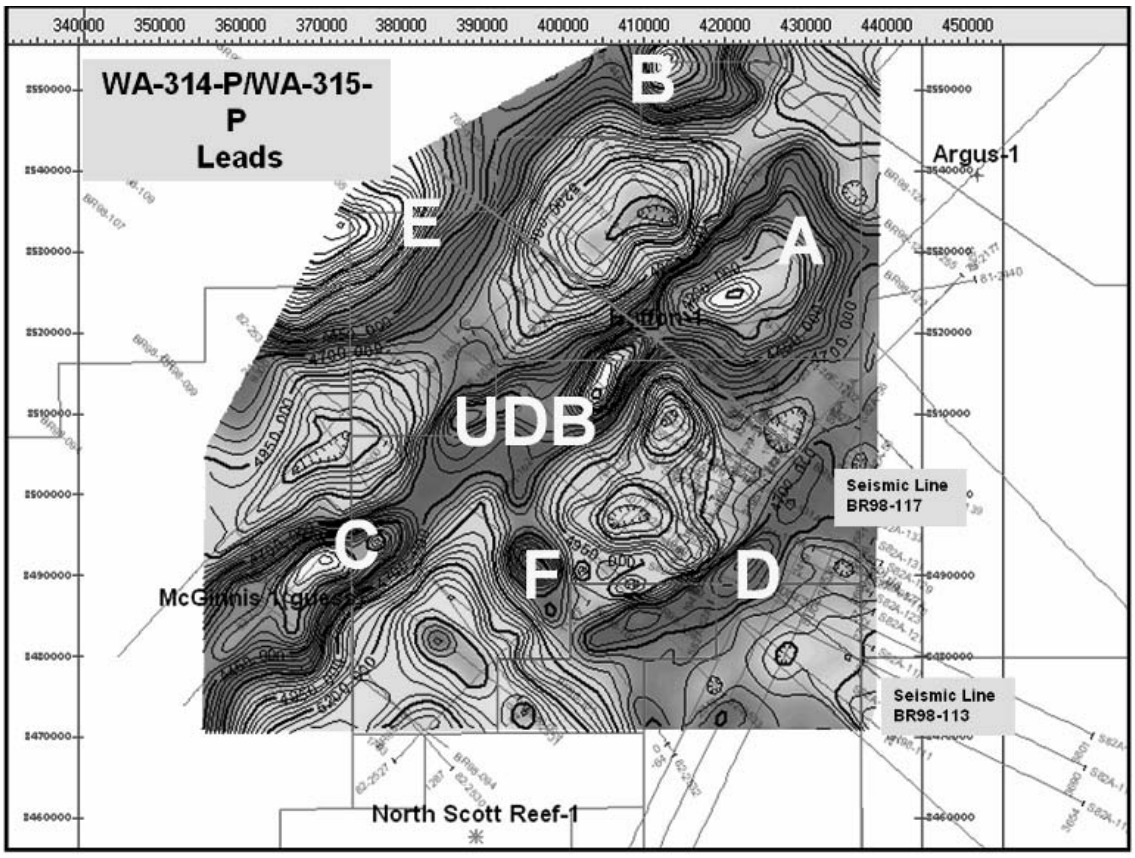


Figure-9: Prospect and lead mapping results.

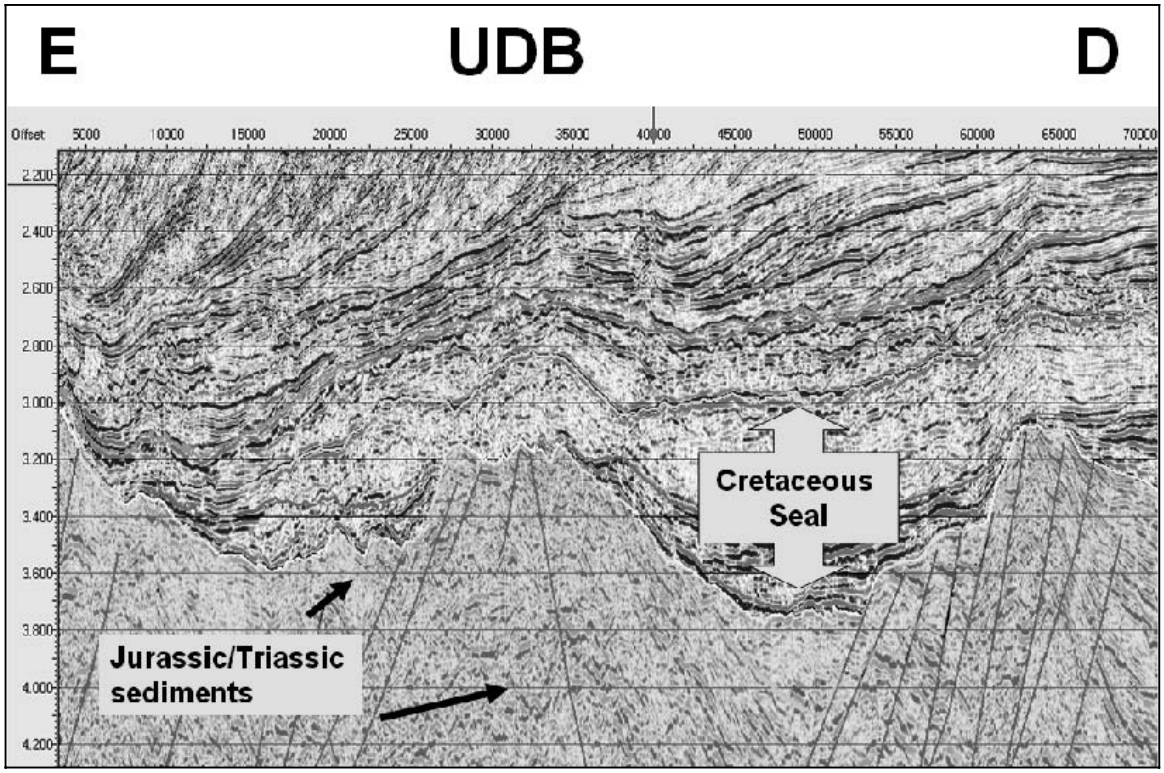


Figure-10: BR98-116 line showing the three leads: E, UDB and D. The good quality data shows the steeply dipping Triassic/Jurassic beds.

Leads time mapping was followed by detailed depth conversion which resulted in a pull-up of the western edge structures that lie in deeper water. A summary table below shows that these high relief structures range in size from 43 to 333 sq km.

Lead A – A very large and distinct lead mapped at base of Volcanics/Top reservoir level. This lead shows clear reservoir interval sub-crop beneath the regional Aptian seal at the northern end.

Lead B - Another large and distinct lead mapped at the northwestern edge of WA-314-P. It is hoped that infill seismic will help to better define its western limit. This lead is partially outside the permit area.

Lead C - A prominent tilted horst block closure that straddles the permit boundary with the crest of the structure well into WA-315-P. The results from Maginnis-1 in conjunction with high definition aeromagnetic data will help to delineate this lead and the relationship of rift volcanism to reservoir at this location.

Lead D - This lead (Figure-10) is in the southwest corner of WA-315-P on trend with Scott Reef. Latest depth conversion shows that the poor data quality and coverage is hampering definition of the northeastern spill point. The lead could be much larger than current estimates, as regional dip is to east in this area. A third of this structure lies outside the Browse Basin Permits.

Lead E - This is a very large structural high (Figure-10) with an area of approximately 330 sq km. This lead is on trend with the 'Mulga Bill' structure in WA-302-P. Infill seismic will help to define its western and northern limits.

Lead F - A smaller structure in the south of the permits near Seringapatam Reef is defined with limited seismic coverage. Seismic data suggests there may be a gas chimney over this structure.

Lead UDB (Updip Buffon) - This lead (Figure-10) was mapped after the drilling of Buffon-1 and called Leviathon. It is a large lead mapped at base of volcanics and Top reservoir level. Depth conversion has lifted its western end (in deeper water) to a size of approximately 80 sq km.

Karoon Gas Australia Ltd: Browse Basin Reserves Potential
Exploration Permits WA-314-P & WA-315-P

Prospect	Water Depth	Prospect Area	Risk Ranking	Gas In Place		Gas Recoverable		Condensate			
								Most Likely		High Case	
				Most Likely	High Case	Most Likely	High Case	Low Rate	High Rate	Low Rate	High Rate
								19bbls/ mmscf	43bbls/ mmscf	19bbls/m mscf	43bbls/ mmscf
	Metres	Sq Kms		Tcf	Tcf	Tcf	Tcf	mm bbls	mm bbls	mm bbls	mm bbls
Up-dip Buffon	575	83	Low	8.60	14.51	6.45	10.88	123	277	207	468
Prospect A	500	280	Med	17.14	49.58	12.86	37.19	244	553	707	1599
Prospect B	1300	43	Med	2.52	4.25	1.89	3.19	36	81	61	137
Prospect C	1250	127	High	7.35	12.41	5.51	9.30	105	237	177	400
Prospect D	480	132	Low	3.46	5.85	2.60	4.38	49	112	83	189
Prospect E	1500	333	High	45.58	76.90	34.18	57.68	649	1470	1096	2480
Prospect F	600	53	Med	3.90	6.58	2.93	4.94	56	126	94	212
Totals				88.6	170.1	66.4	127.6	1262	2856	2425	5485
	Million tonnes LNG equivalent			443	850	332	638				

bbls=barrels of oil mmscf=million standard cubic feet Tcf=trillion cubic feet

Figure-11: The deterministic reserve estimates for all leads mapped by Karoon. Quality and reliability of the results is dependant on seismic data coverage and quality and other geologic information. The risk ranking column defines Karoon's view of each lead as they are currently defined.

Risked reserves totals (Figure-11) are estimated to be approximately 30TCF with 300 million bbls condensate. This total risked reserves value reflects the uncertainty present until the wells are drilled.

5.2 Gippsland Basin

Stratigraphy

The Karoon Leases are generally characterised by extensive outcrops of the Early Cretaceous-age Strzelecki Group rocks (Figure-12). Thin intervals of Tertiary sediments and volcanics overlie part of the Strzelecki outcrop. In restricted areas around the margins of the Early Cretaceous grabens, Palaeozoic rocks outcrop or lie beneath the thin Tertiary or Cretaceous sections.

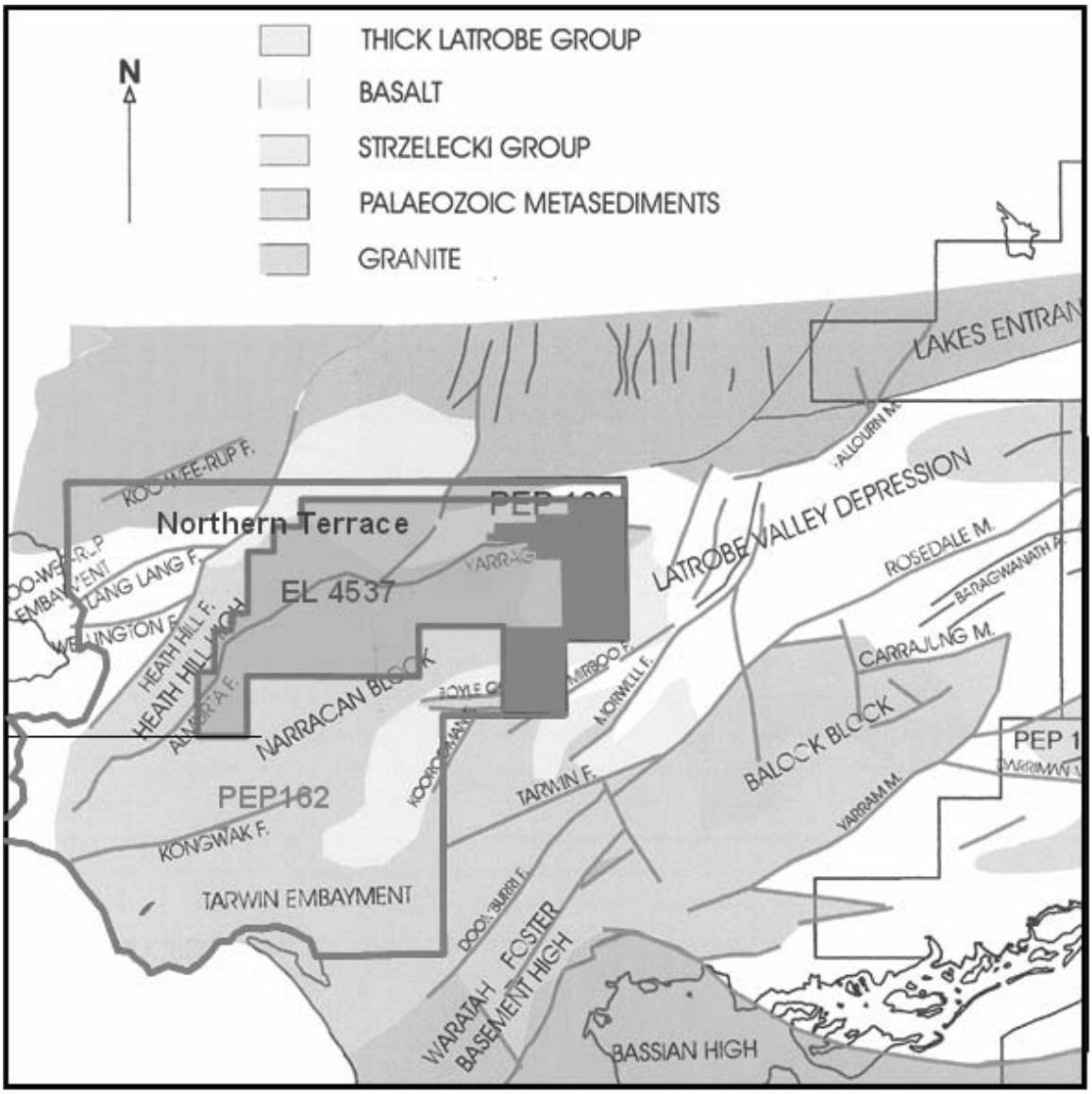


Figure-12: Geological summary map - EL 4537 Licence & PEP 162. Shown are the main outcropping units and structural elements.

The Strzelecki Group comprises the earliest known sediments in the Gippsland Basin, which were deposited in a series of generally northeast to southwest trending grabens and half grabens. The graben system extends to the east and underlies the giant oil and gas fields of Bass Strait. The same graben system extends to the west at least as far as the western end of the Otway Basin in South Australia. Basement outcrops, comprising Palaeozoic granites and metamorphic rocks occur to the north and south of the permit.

The Strzelecki Group is divisible into two distinct intervals. The lower Strzelecki interval is an early graben fill sequence of mainly continentally derived, quartz-rich fluvial sands, lake deposits and minor local coals and volcanics. It is analogous to the Crayfish Subgroup, prospective and productive in the Otway Basin (Figure-13).

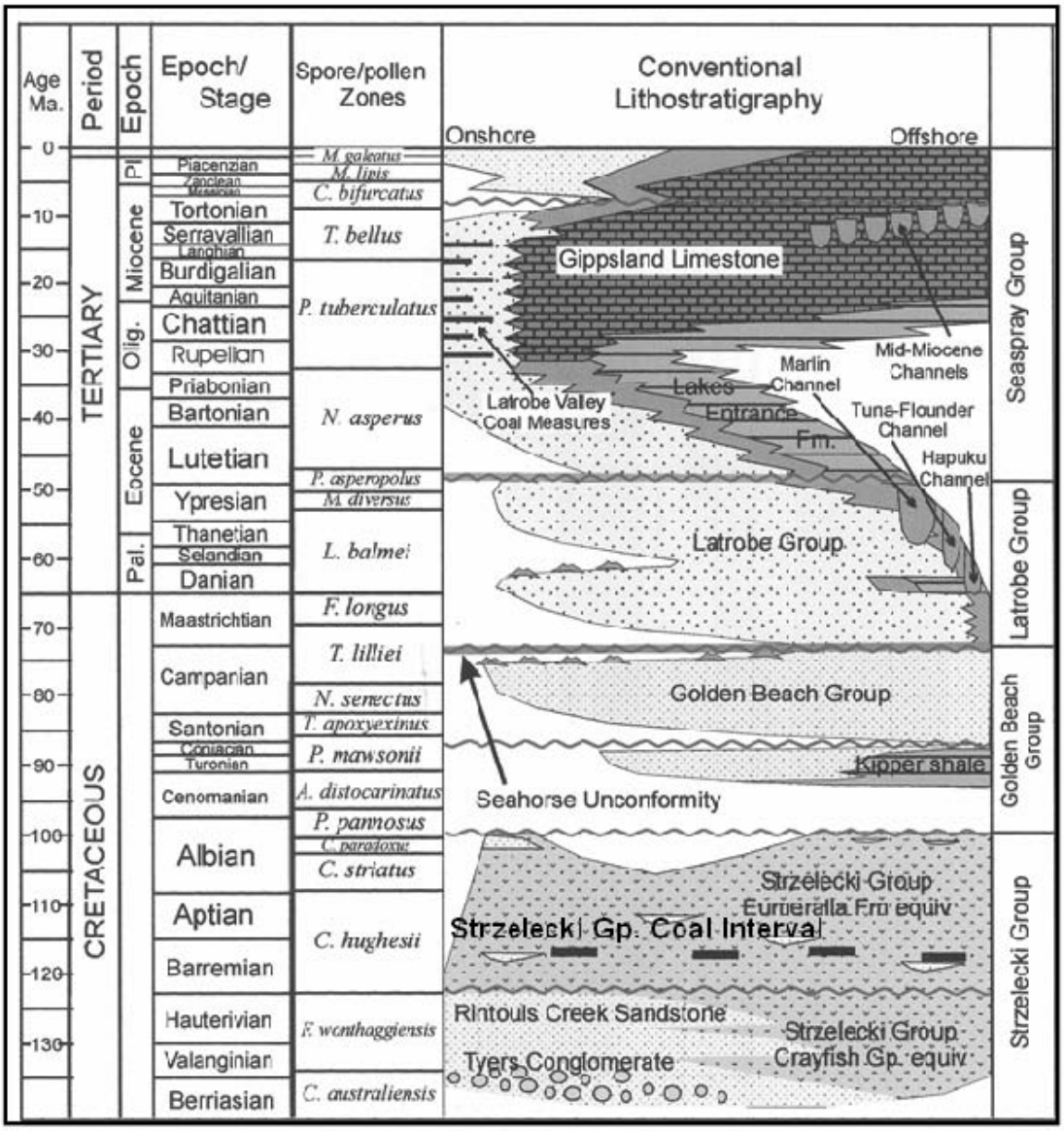


Figure-13: Gippsland Basin General Stratigraphy.

The upper Strzelecki Group is a later stage graben fill interval dominated by volcaniclastic derived sediments from andesitic/dacitic volcanic rocks erupting to the east. The resulting rock section is characterised by stacked fluvial sands, fine-grained overbank deposits and coal-rich intervals best developed near the base of the interval (Wonthaggi coals) (Figure-14). This depositional pattern is regionally persistent. The components of cratonic hinterland-derived claystones, quartzose sands and metamorphics is generally less than 20%, except in the basal units, compared with over 85% in the lower Strezelecki.

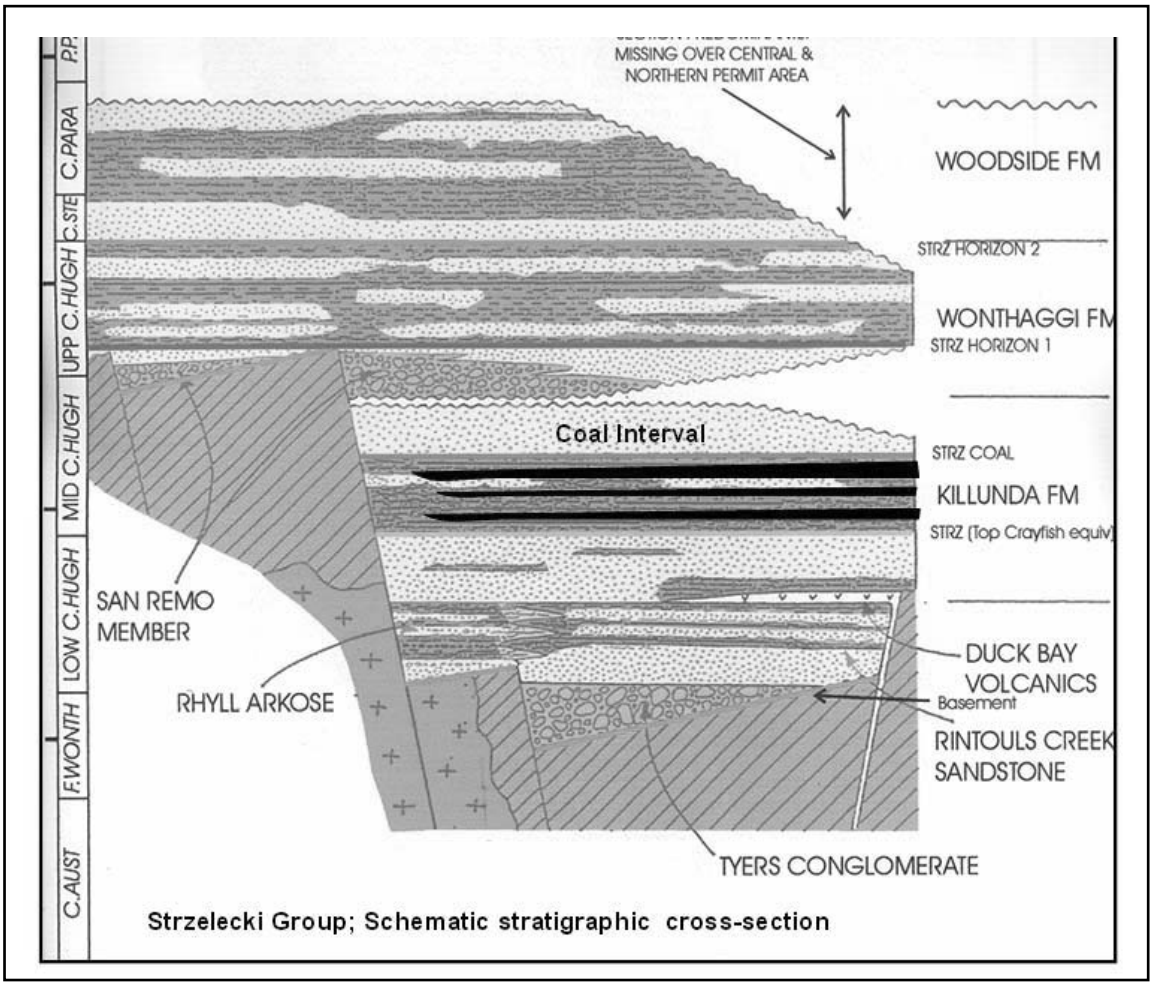


Figure-14: Detailed representative stratigraphic cross section for the Narracan Trough.

The presence of the large relative volumes of volcanoclastic material in the Upper Strzelecki coal-bearing interval is very important for CBM production. The volcanoclastic-dominated sandstones alter rapidly with burial, resulting in rocks of very low porosity and permeability that are, as such, very unlikely to provide a significant water source during production-related dewatering of the coals.

The Strzelecki coals are well developed in this licence area of the basin and were deposited during a regionally quiescent period of basin development. Seismic surveys indicate up to 400m of gross coal interval in the licence area. Equivalent, though less coaly intervals, can be seen right across the Gippsland and Otway basins elsewhere in Victoria.

Structural History

The structural history of this graben system is complex and is the result of the interplay of basement geology with tectonic forces associated with at least four tectonic regimes. The net structural effect in the area of the Karoon Leases can be characterised by early major graben development, then episodic Late Cretaceous and Tertiary inversion and uplift. The timing and magnitude of the later of these events is locally indicated by the deformation seen in the Late Tertiary coals of the Latrobe Valley, which are underlain by similar Strzelecki

Group filled grabens. It has been estimated that as much as 1500m of section has been removed over the surface of the Karoon Leases area. This is consistent with the regional geologic history of the area.

Where not excessive, structural deformation and faulting can greatly enhance coal permeability through the development of fracturing and close-spaced cleat development. The Northern Terrace area of the Narracan Trough (the focus area for exploration by the Company) contains a large area with well-developed coals (as indicated by the seismic) in a lightly structured and folded sequence.

Figure-15 shows a map generated from seismic surveys at the top of the coal interval in the area where the seismic has been acquired in the northwest of the Karoon Leases. The figure annotates a large area where the coals are at depths less than 1200m and as shallow as 800m near the terrace margins. Mine data has been used to constrain the map to the south.

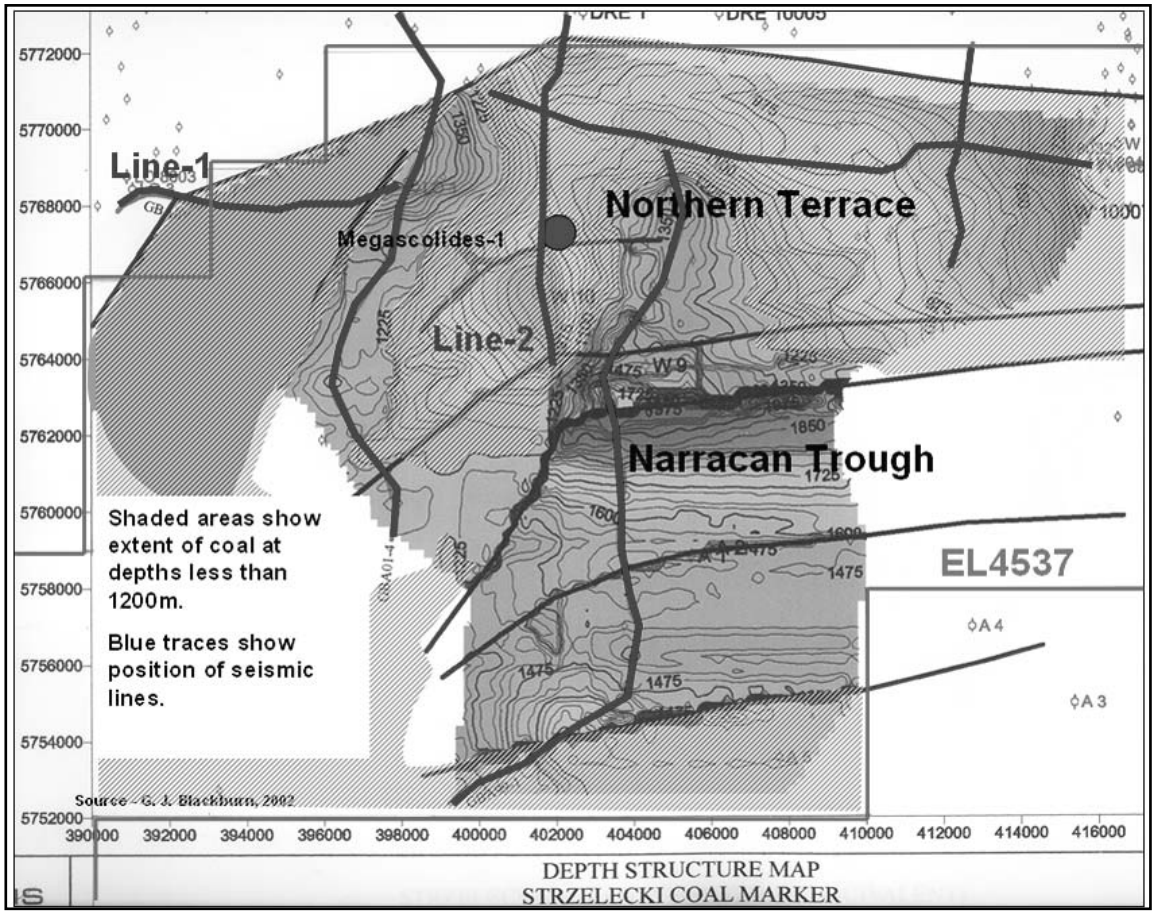


Figure-15

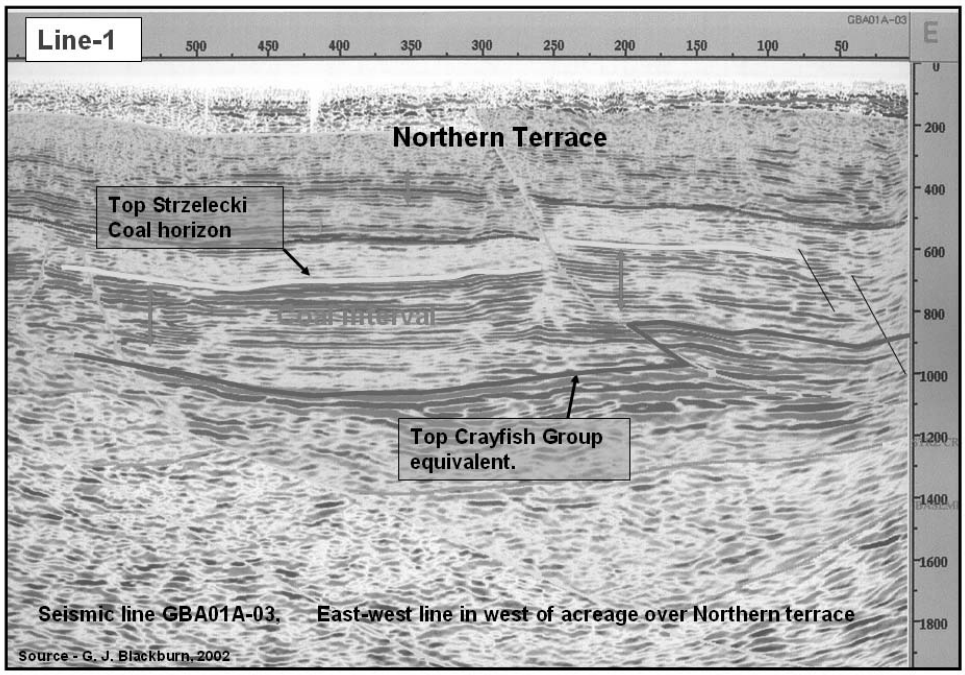


Figure-16

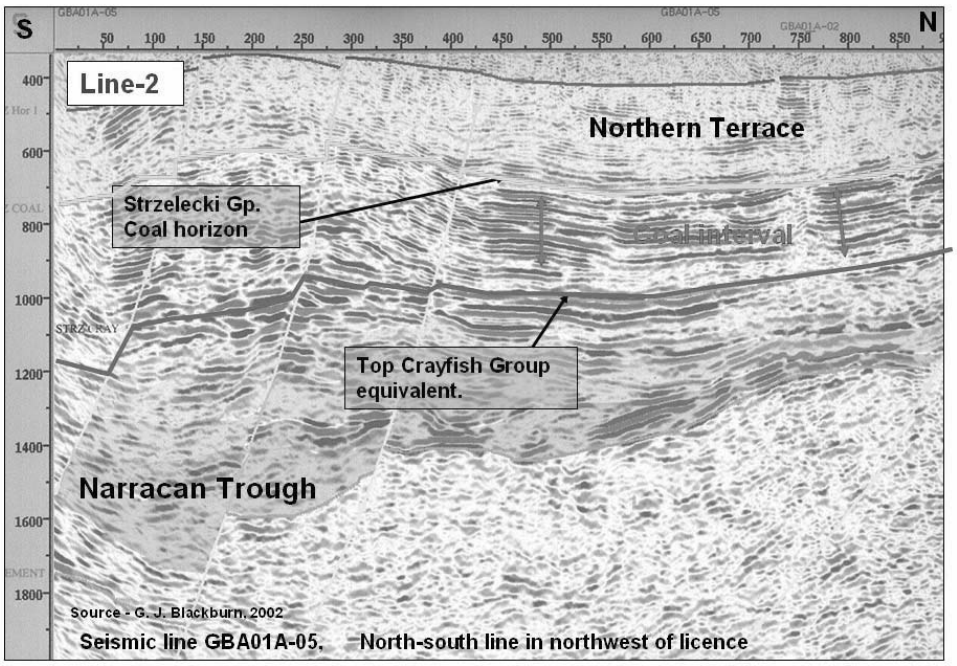


Figure-17

Two example seismic lines across the Northern Terrace show that an interval of multiple good high amplitude reflectors is present across the Northern Terrace (Figures 16 & 17). These are interpreted to mark the presence of the coals. Structural deformation is low, with a few faults cutting the sequence.

Current day tectonic activity has produced a compressional regime in the area that results in reverse fault movement on the main faults that control the Narracan Trough. This activity has resulted in the uplift of Mount Worth and other high features in the area of the Karoon Leases (Figure-18). Earthquake data collected by Government agencies clearly demonstrate this process.

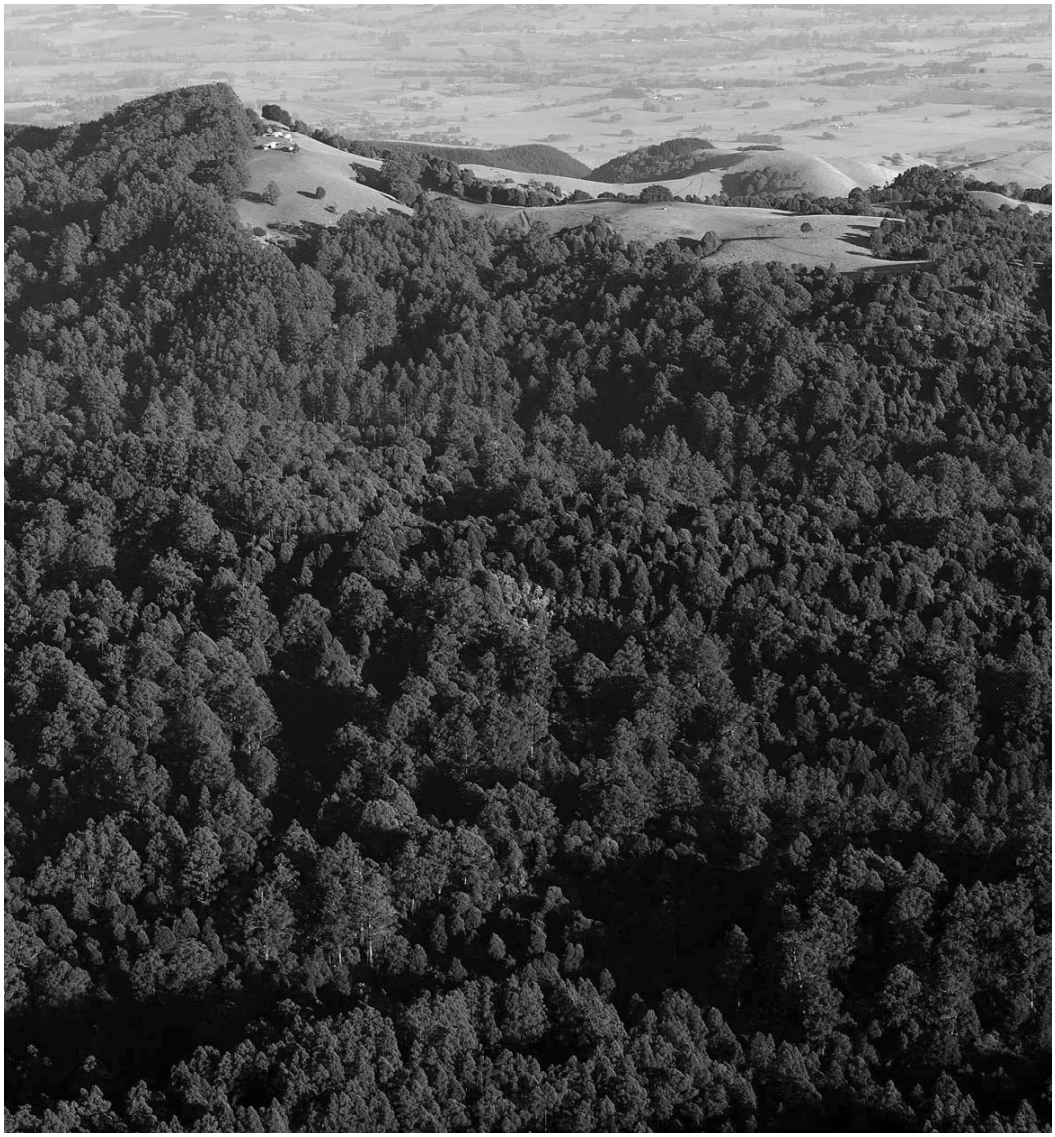


Figure-18

It is documented in technical literature that similar compressional regimes in other CBM areas often result in the development of areas of enhanced coal permeability, significantly improving the viability of the fields. The impact of this effect will be investigated as part of the exploration program and may enhance coal permeability in the Karoon Leases.

Thermal history

Local and regional thermal history studies have consistently interpreted a major heating event before the mid-Cretaceous and prior to the initial period of deformation/uplift variably expressed along the entire graben system. It is interpreted that prior to the mid-Cretaceous, the rocks within the Strzelecki Group grabens were likely to have matured and generated oil and gas. This is supported by the coal maturity data from the Wonthaggi, Korumburra and other coal fields which are preserved at maturity levels that can produce oil and gas. These coalfields are sited beside the main depocenter of the Narracan Trough where coal maturity levels are interpreted to be higher.

Megascolides-1 drilling results

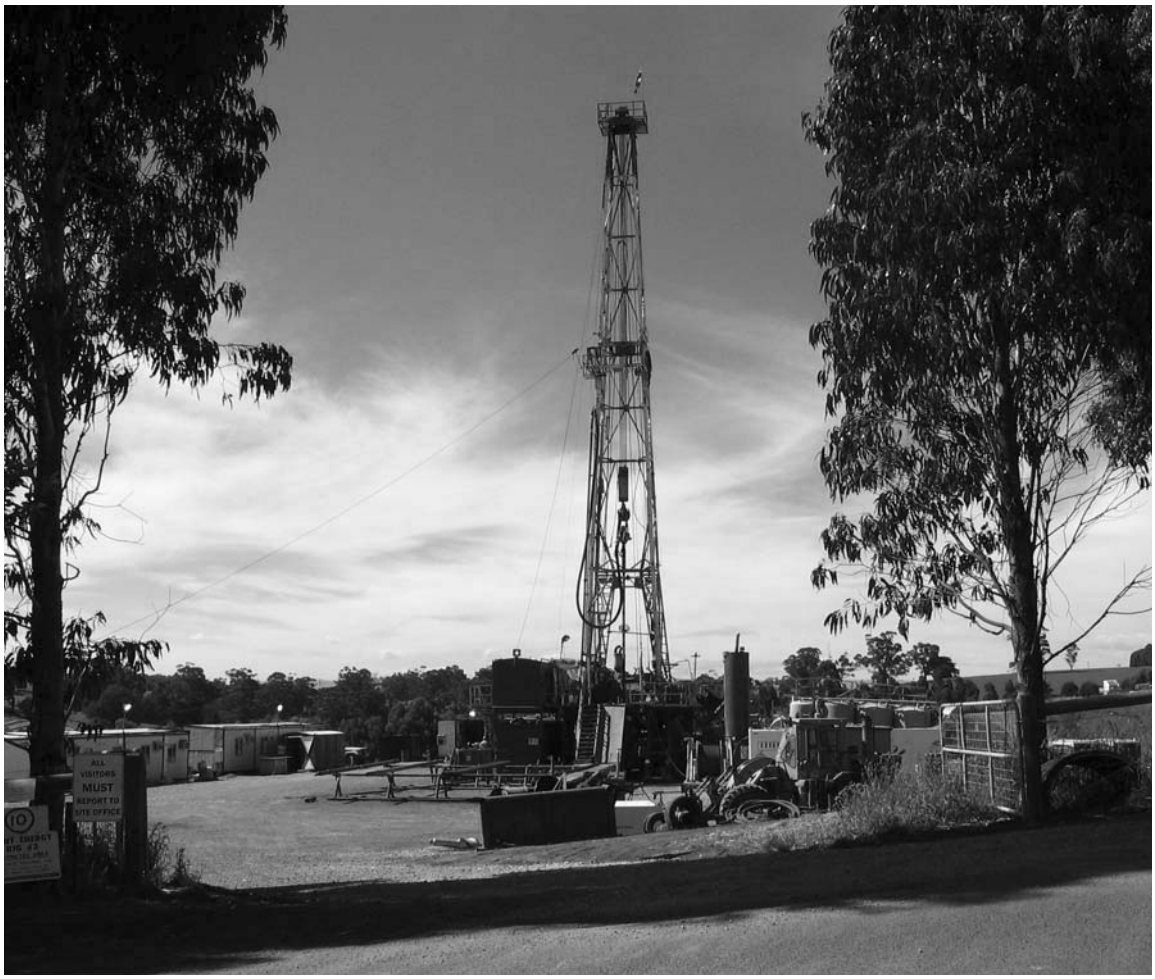


Figure-19: Megascolides-1 Drill Site, November/December 2004.

On 17 December 2004, Karoon completed drilling Megascolides-1 (Figure-19) within the Northern Terrace of the Narracan Trough. It was the first well drilled in the Trough and the presence of gas bearing black coals was confirmed. The well recovered a total thickness of 15m of black coal with a gas content of 100SCF per ton and approximate gas saturation of 30%. The well also identified a potential oil prospect at Top of Crayfish Subgroup equivalent level with 3 to 5 metres of net porous, permeable sands showing good fluorescence and high mud gas readings (Figure-20). Geochemical and petrophysical analysis of extracted oil shows that a waxy crude oil, with up to 60% saturation, is present in the reservoir with a porosity range between 12% and 15%.

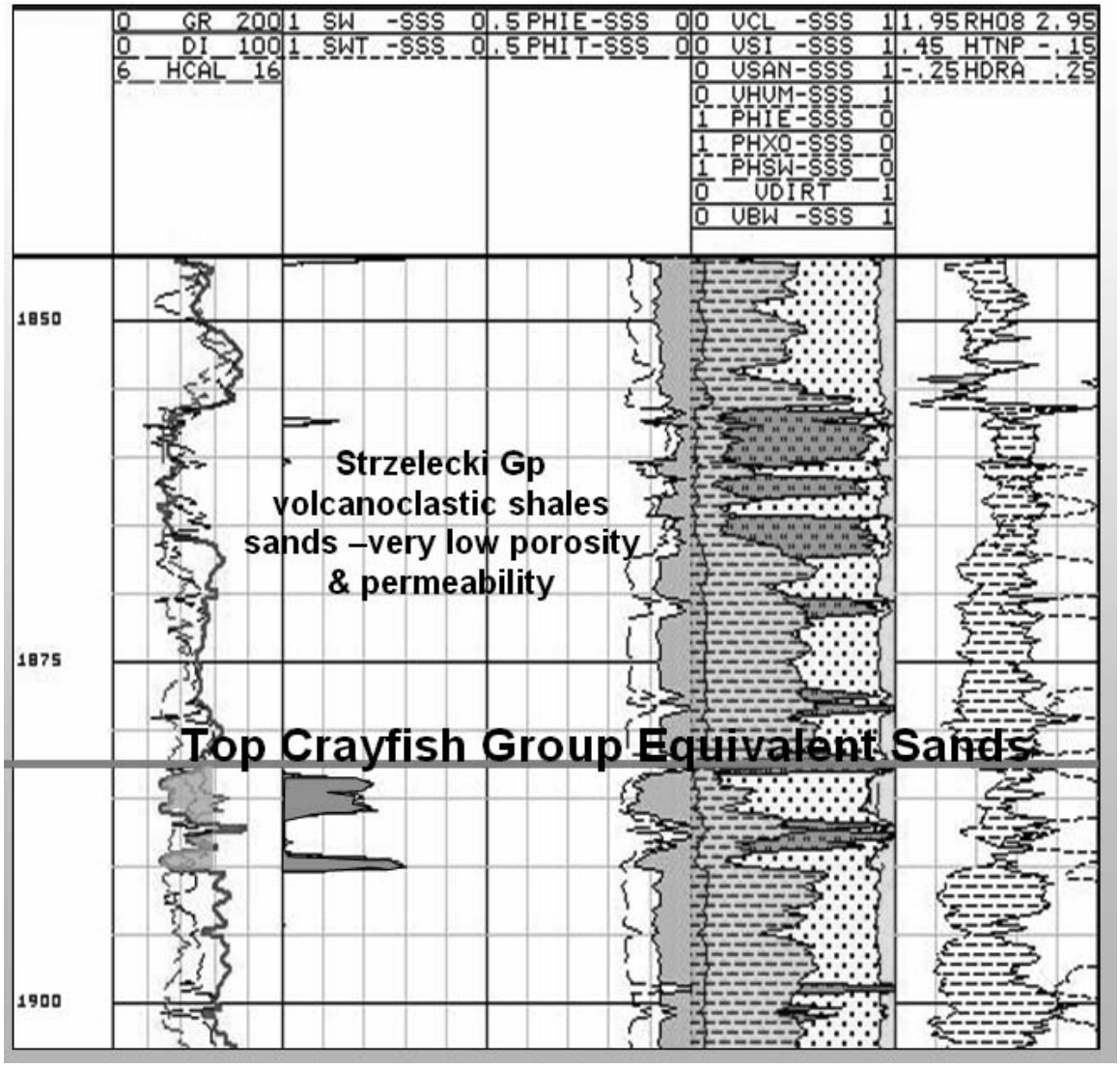


Figure-20: Petrophysical interpretation plot showing hydrocarbon saturation (highlighted in pink) and corresponding total (PHIT) and effective (PHIE) porosity.

The data from the well provides a sound basis for further CBM and oil exploration. The existing seismic grid is insufficient to define the oil zone structural closure or to map the extent of the coals.

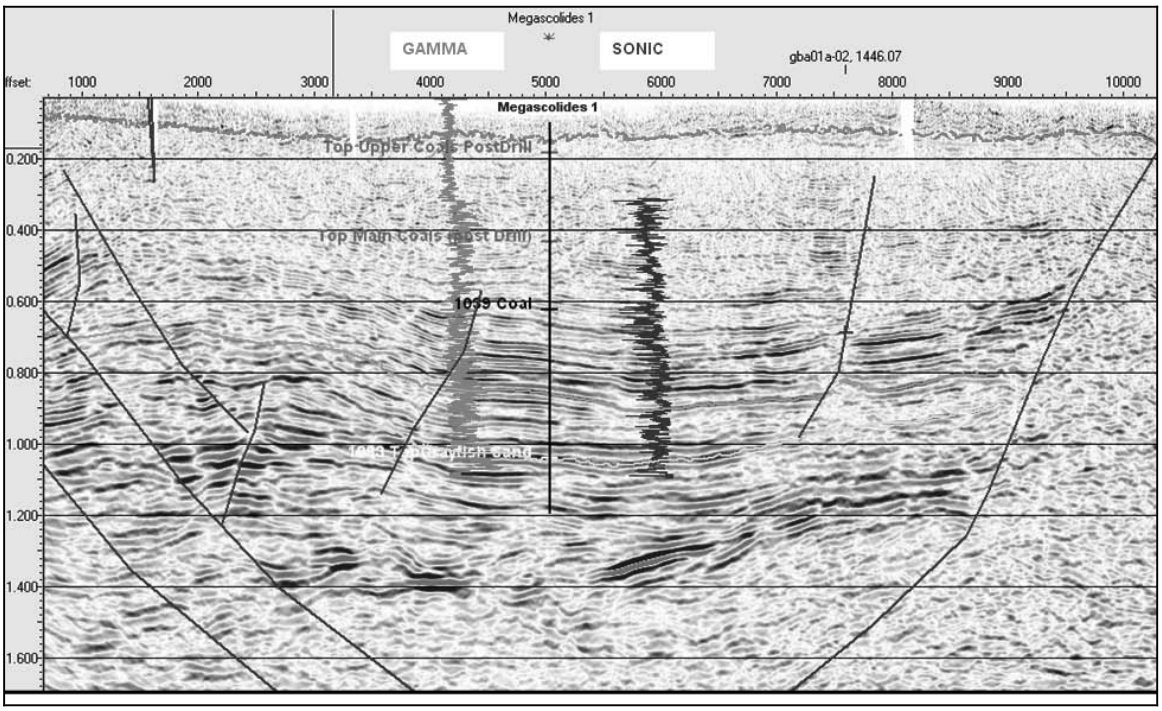


Figure-21: Megascolides-1 well against GBA01A survey data showing the position of the Top Crayfish Equivalent Group reservoir (in yellow).

Latest mapping (Figure-21) based on the results from the Megascolides-1 well show that prospect reserves now range between 2 and 13 million bbls in the one updip Megascolides lead identified to date (Figure-22).

UPDIP MEGASCOLIDES PROSPECT VOLUMETRIC ESTIMATES		
	Most likely	High Case
Top depth (m)	1783.00	1783.00
Spill point (m)	1883.00	1883.00
Trap height (m)	100.00	100.00
Area (Km sq.)	6.92	9.00
Oil Shrinkage Factor (Bo)	0.50	0.70
Porosity (ave %)	0.13	0.16
Oil saturation (So)	0.60	0.70
Reservoir P50 Net Sand (m)	3.00	5.00
Recovery factor	0.40	0.60
Volume In Place (stb mmbls)	5.09	22.19
Recoverable Volume (stb mmbls)	2.04	13.31

Figure-22: Updip Megascolides Lead volumetric estimate ranges.

6. INDUSTRY TRENDS

Australian West Coast Export LNG and Global LNG Markets

Recently there has been a major upward shift in current and forecast demand for LNG in global markets driven by a combination of increased economic growth in China, India, Japan, Korea and reduced local gas reserves in the United States, the European Economic Community and other established areas.

Karoon Gas believes that gas reserves greater than 4TCF located on Australia's northern and western margins have the potential to be commercial LNG projects. This has been a driving factor in Karoon Gas's acquisition of its interests in the Browse Basin Permits.

Karoon Gas is estimating a risked reserve potential of 30TCF of gas plus 300mmbl condensate in 7 large prospects in WA-314-P and WA-315-P. Economic calculations assuming a reserve of 4TCF would result in annual production of 4 million tonnes of LNG and 3.8mmbbls of condensate for a period of approximately 20 years.

Economic LNG Statistics

To provide an economic valuation, Australia uses approximately 1 TCF per year with an approximate wholesale value of A$3 billion per TCF. USA uses approximately 23TCF per year with an approximate wholesale value of A$6-7 billion per TCF. One million tonne of LNG equates to approximately 50BCF or 5% of 1TCF. Significant importing countries of LNG from 2006 onward are likely to be USA, India, China, South Korea, UK and other members of the European Economic Community.

Global unloading LNG terminal capacity is forecast to increase by 300% from 2003 to 2010.

Modern Environmental Constraints

Natural gas burning for power, particularly methane, provides significant environmental advantages over fossil fuels such as coal and oil. The relatively lower yield of carbon dioxide per unit of energy produced when burning methane compared with oil or coal is likely to help reduce the impact of the Greenhouse Effect as substantial fuel substitution is achieved. Accordingly, methane could be viewed as an attractive long-term replacement for the world's usage of black/brown coal as a fuel source for power stations and energy markets.

7. EXPLORATION AND PRODUCTION STRATEGIES

Company Strategy

The principal objective of the Company is to generate value for Shareholders by utilising the Company's collective geological, geophysical and buiness expertise to explore and commercialise conventional oil and gas, and CBM. The Company plans to operate predominately in Australia, exploring for oil and gas and CBM in sedimentary basins with existing oil and gas reserves, close to infrastructure and pipelines or other access to LNG global markets.

Karoon Gas will look to broaden its producing asset portfolio and access better methods by which it can improve the value of those assets.

Karoon Gas estimates that its total exploration expenditure for the two years ending 31 December 2006 will amount to approximately $15 million. This budget includes Karoon Gas's exploration activities in the Browse Basin acreage (WA-314-P and WA-315-P) and Western Gippsland Basin, Narracan Trough (EL4537 and PEP162).

The Company will target further opportunities that have the following characteristics:

- Ability to rapidly commercialise potential commercial reserves.
- Low to moderate technical risk.
- During the early growth stages of the Company the need to focus on lower risk projects is required to maximise the likelihood of success.
- Proximity to infrastructure, thus minimising development costs and maximising profits.
- Having follow-up potential, allowing geotechnical, engineering and commercial expertise to be built up and new developments to leverage off existing infrastructure.

8. OVERVIEW OF EXPLORATION PROGRAMMES

WA-314-P and WA-315-P

In May 2005 the Company in joint venture with BG International will operate an extensive high-resolution aeromagnetic survey over the permits and surrounding wells to delineate the distribution of thick volcanics in the permit areas. This data will allow a more cost-effective 3D seismic program to be implemented.

A seismic vessel has been tentatively booked for August 2005 to carry out a 3D seismic program over the most prospective leads. The aeromagnetic and seismic data will allow a far higher quality interpretation of the prospects to be carried out, from which the drilling prospects will be developed.

It is anticipated that the two-well drilling program could occur in mid-2006.

EL4537 and PEP162

In October 2005, 290 km of 2D conventional 60-fold seismic data is planned to be acquired over EL 4537 and PEP 162 to identify and delineate thicker shallower coals and to identify oil play leads and prospects. The survey will infill the existing data set, providing dense coverage over the Northern Terrace and will extend to the east and south of the EL4537 permit to provide low-density reconnaissance of conventional hydrocarbon leads interpreted from gravity interpretation.

9. EFFECT OF PLACEMENT ON THE COMPANY

Capital Structure

The capital structure of the Company following the completion of the Placement both without the effect of the SPP and assuming the SPP is fully subscribed and that no Options on issue as at the date of this Prospectus are converted is as follows:

Capital Structure		
	Shares	**Options**
Existing securities on issue	43,704,703	23,135,550
Shares Issued under this Prospectus	10,000,000	-
Total Shares /Options on Issue without SPP	**53,704,703**	**23,135,550**
Shares to be offered under SPP	2,500,000	-
Total Shares/Options on Issue with Fully Subscribed SPP	**56,204,703**	**23,135,550**

Note: Options on issue currently comprises:

(1) 13,720,550 listed Options exercisable at 20 cents each on or before 30 June 2006;
(2) 7,500,000 unlisted Options exercisable at 20 cents each on or before 30 June 2006;
(3) 1,500,000 Directors Options exercisable at 25 cents each on or before 30 June 2007; and
(4) 415,000 unlisted Options exercisable at 125 cents each on or before 30 June 2006.

Unaudited Consolidated Statements of Financial Position

The consolidated financial position of the Company following completion of the Placement and assuming the maximum amount of $3 million is raised pursuant to the SPP will be as follows:

	Auditor Reviewed 31.12.04 $	Notes	Unaudited Proforma 31.12.04 $
CURRENT ASSETS			
Cash assets	1,867,247		16,867,247
Receivables	184,033		184,033
Other financial assets	38,525		38,525
TOTAL CURRENT ASSETS	**2,089,805**		**17,089,805**
NON CURRENT ASSETS			
Property, plant and equipment	121,455		121,455
Exploration and evaluation expenditure	2,498,080		2,498,080
Other	197,669		197,669
TOTAL NON CURRENT ASSETS	**2,817,204**		**2,817,204**
INTANGIBLE ASSETS			
Goodwill on Acquisition	157,621		157,621
TOTAL INTANGIBLE ASSETS	**157,621**		**157,621**
TOTAL ASSETS	**5,064,631**		**20,064,631**
CURRENT LIABILITIES			
Payables	660,073		660,073
TOTAL CURRENT LIABILITIES	660,073		660,073
TOTAL LIABILITIES	660,073		660,073
NET ASSETS	**4,404,557**		**19,404,557**
EQUITY			
Contributed equity	4,727,731		19,727,731
Accumulated losses	(323,174)		(323,174)
TOTAL EQUITY	**4,404,557**		**19,404,557**

10. INVESTMENT CONSIDERATIONS

An investment in Karoon Gas involves a significant degree of risk. Prospective investors should carefully consider the following risks and should consult with their own professional advisors prior to subscribing for Shares.

The Shares offered by this Prospectus carry no guarantee with respect to return of capital or payment of dividends. Therefore the following matters, in addition to other matters described in this Prospectus, must be carefully considered by any potential investor before any decision is made to apply for Shares.

The following matters are a non-exhaustive list of the risks that may have a material effect on the financial position and performance of the Company and the value of its securities, as well as the Company's exploration, development and mining activities.

General Risks

Stockmarket Conditions

The market price of the Shares when quoted on ASX will be influenced by international and domestic factors affecting conditions in equity and financial markets. These factors include unpredictable influences on the market prices in general and on petroleum exploration companies in particular. Neither Karoon Gas nor its Directors warrant the future performance of the Company or any return on an investment in the Company

General Economic Conditions

Both domestic and world economic conditions may affect the performance of the Company. Factors such as inflation, currency fluctuations, commodity prices and forces of supply and demand (particularly for gas), industrial disruption and political decisions (inside and outside Australia), can all have a marked impact on the Company. The Company's future income, asset values and share price can be affected by these factors, and, in particular, by the market price for any gas that the Company may produce and sell.

Government Policies

The Company's business may be impacted by new and changing governmental policy, including those regarding land access, environmental regulations, taxation and royalties.

Government and Legislation

The Company's operations will require approvals from regulatory authorities. Such approvals may not be granted or may only be granted subject to terms and conditions unacceptable to the Company. Investors should also be aware that exploration leases and permits are sometimes subject to an obligation to surrender a portion of the land held under the permit at the same time that the permit is due for renewal. If the Company fails to obtain the required approvals, or a lease or permit renewal, on suitable terms and conditions, it may not be able to continue or expand its operations.

Introduction of new legislation or regulations, amendments to existing legislation or regulations, the application of developments in existing common law or the interpretation of those laws could have material adverse effect on the Company.

Government action including delays, changes in policy or interpretation, including relation to such areas as taxation, environmental regulation, royalties, rate applications, production and exploration licensing may adversely affect the Company's operations.

Taxation

In addition to the normal level of income tax imposed on all industries, the mining industry is required to pay government royalties, indirect taxes and other imposts that generally relate to revenue or cash flows. Industry profitability can be affected by changes in government policies.

Legal

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions that govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and ultimately, the financial performance of the Company and its securities.

Specific Risks

Exploration and Production Risks

Investment by Karoon Gas in exploration does not provide any certainty that there will be a discovery of reserves of petroleum.

If oil and gas, and/or CBM are discovered within the permits and leases Karoon Gas has interests in, there is no certainty that such hydrocarbon discoveries will

be economically recoverable. Therefore there is a risk that there may not be commercial return on the capital invested in the exploration of the Karoon Leases or the Browse Basin Permits.

If the Company is successful in the discovery of economic reserves of petroleum, development and production from the reserves will be subject to technical, financial, legislative and other factors prevailing at that time. These factors will effect the decision to proceed to production and the profitability of recovery.

Lease Specific Operational Risks

Further exploration activities are necessary in the Browse Basin and Narracan Trough. These exploration activities will be subject to normal industry risks beyond the control of the management including industrial disruption, adverse climatic conditions, equipment failure and accidents.

While the Company aims – and it's experienced management team will use their best endeavours – to discover commercial quantities of oil and gas in the Browse Basin and Narracan Trough and other basins, there can be no guarantee that the Company's exploration program will be successful. Economically recoverable oil and gas reserves can be affected by many factors including and, in addition to:

- advances in recovery techniques;
- the determination of porosities and coal and gas situations in the reservoir sands;
- the permeability of reservoir sands/coal seams and determination of well flow rates;
- the determination of gross rock volumes, which are based on seismic and well data;
- the interpretation of seismic data can be uncertain due to the quality of the data and the uncertain velocity variations across the structure; and
- variations in the geological distribution and continuity of reservoir sands.

Access to Land

There is no guarantee that current or future applications, extensions or renewals of the Karoon Leases or other permits in which the Company has an interest or potential interest will be approved. Licence applications may result in a requirement for the Company to commence negotiations with the relevant landholders or indigenous representative bodies to gain access to the underlying land. There is no guarantee that such negotiations will be successful. Accordingly, delays may be experienced in gaining access to land that is subject to the Company's licences.

Licences are subject to a number of State-specific legislative conditions including payment of rent and meeting minimum annual expenditure commitments. The renewal of the term of a granted licence may be subject to the discretion of the relevant Minister and may trigger Native Title negotiation rights. The inability to meet these conditions or the triggering of negotiation procedures at any of the Karoon Leases or other licences held by the Company in the future could affect the standing of a licence or restrict its ability to be renewed, adversely affecting the operations, financial position and performance of the Company.

The majority of the areas in which the Company wishes to carry out exploration activities are located on freehold lands covered by granted permits, and therefore the Company does not anticipate experiencing significant delays in gaining access to those areas.

Environmental Risks

Oil, gas and CBM exploration, development and production can be environmentally detrimental, requiring environmental rehabilitation and damage control at a substantial cost. The Company intends on conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations, but may have to contribute to the cost of any rectification for any contamination caused by its operations or for rehabilitation work.

Karoon Gas will endeavour to take precautionary measures to minimise the impact on flora, fauna, wildlife and soil of the land that is covered by the Karoon Leases or the marine environment covered by the Browse Basin Permits by identifying, testing and monitoring information collected.

Karoon Gas intends on maintaining its environmental integrity by using electric pumps in the production of CBM, identifying local springs, and ensuring resultant water from drilling and production is disposed of in accordance with its legal obligations. Karoon Gas will endeavour to dispose of saline water responsibly and reuse potable water sensibly.

Where possible, the Company will take out insurance cover for potential liabilities arising from accidental escape of gases from its operations. However, insurance of all risks relative to gas and CBM exploration and production is not always available and the costs can be excessive.

Native Title

Native Title recognises the title rights of indigenous Australians over areas where those rights have not been lawfully extinguished. The Native Title Act 1993 (Commonwealth), ensuing State Native Title legislation, subsequent legislative amendments (including the Native Title Amendment Act 1998 (Commonwealth)) and Aboriginal heritage legislation may affect the granting, or renewal of, and access to licences over land where a Native Title claim has been registered or

Aboriginal site recognised. In proceeding with a licence application, the applicant must observe the provisions of native title legislation, a process that could take a number of years and involve significant expense.

There may be areas over which legitimate Native Title rights exist. In such cases, the nature of the Native Title may be that any consent to the grant of a licence required to be given by the native title holders is withheld or only granted on conditions unacceptable to the Company.

When exercising a right or permission for access to any land, Karoon Gas will be required by law not to disturb physical evidence of human occupation of pre-historic or historic significance without specific statutory permission. The Company has not undertaken any research, investigations or enquiries that would be necessary for it to form an opinion as to whether any such evidence exists on any land covered by the Karoon Leases.

At this point in time, it is difficult to quantify the financial or other impact (if any) that these matters may have on the Company's operations, financial position and performance.

Reliance on Key Personnel

The Company's success largely depends on the core competencies of its Directors and their familiarity with, and ability to operate in, the oil and gas industry. The Company is reliant on its Executive Directors whose services have been secured by the Company for a period of three years from 4 March 2004.

Exploration and Appraisal Expenditure

Exploration and appraisal is a process subject to unforeseen contingencies. Further, the exploration program must be flexible enough to respond to results obtained. The actual scope and cost of the exploration program may differ substantially from the proposals set out in this Prospectus.

Farmin and Farmout Obligations

Failure to comply with its obligations under the Liberty Farmin Agreement or the BG Farmout Agreement, including the requirement to meet expenditure and work commitments, may lead to forfeiture of the Company's interests in the Browse Basin Permits.

Additional Requirement for Capital

Additional funding will be required for further exploration, appraisal and development of the Browse Basin Permits and Karoon Leases in the form of debt or equity, or a combination of both. While the Company is confident that it will be able to obtain any necessary additional funding on commercially acceptable terms, there can be no assurance the company will be able to secure any such additional finance on commercially acceptable terms, or at all. Any additional equity raising may dilute the holding of Shareholders. Any failure or delay in obtaining additional finance (when required) may have material adverse affect on the profitability of the company. If the Company is unable to obtain additional financing when required and be on acceptable terms, it may be required to reduce the scope of its operations or forced to hold off on any planned expansions.

11. INDEPENDENT GEOLOGISTS REPORT

Independent Evaluation of the Petroleum Prospectivity of the Exploration Tenements WA-314-P and WA-315-P (Browse Basin, offshore Western Australia), EL4537/PEP 162 (Western Gippsland Basin, onshore Victoria).

Introduction

Karoon Gas Australia Limited (KAR) is the operator of a petroleum exploration permit in the Gippsland Basin, Victoria (EL 4537/PEP 162), where it holds 100% equity. Karoon is also earning 100% equity in two permits (WA-314-P and WA-315-P) in the Browse Basin, Western Australia. Currently one prospect in the Gippsland Basin and seven leads in the Browse Basin are receiving ongoing technical refinement to bring them to drillable status.

Prospect Portfolio

Permit & Basin	***Prospect or Lead***	***Potential recoverable hydrocarbons (Unrisked – Most Likely Case)***
EL 4537 / PEP 162 (Gippsland Basin, Onshore Vic.)	*Updip Megascolides Prospect*	*2.04 mmbls Oil (based on pre-drill mapping)*
WA-314-P (Browse Basin, Offshore W.A.)	*Updip Buffon*	*6.45 TCF gas plus 277mmbls condensate*
	Lead C (part)	*5.5 TCF gas plus 237mmbls condensate (2.25 TCF gas plus 117mmbls condensate)**
	Lead D (part)	*2.6 TCF gas plus 112mmbls condensate (1.7 TCF gas plus 75mmbls condensate)**
	Lead F	*2.9 TCF gas plus 120mmbls condensate*
WA-315-P (Browse Basin, Offshore W.A.)	*Lead A*	*12.9 TCF gas plus 550mmbls condensate*
	Lead B (part)	*1.9 TCF gas plus 81mmbls condensate (1 TCF gas plus 40mmbls condensate)**
	Lead E (part)	*34.0 TCF gas plus 1470mmbls condensate (22.6 TCF gas plus 980mmbls condensate)**

** Note: Volumes within brackets refer to that part of theLead which lies within the bounds of the permit*

BROWSE BASIN

Introduction

The WA-314-P and WA-315-P permits lie within relatively deep waters (380-1500m) some 350 km from the northern Western Australian coastline of the Kimberley region. The permits lie along the Scott Reef trend on the western side of the Browse Basin, which contain the large gas discoveries of Brecknock, Brecknock South and Scott Reef. Woodside is considering plans for the development of these discoveries within the Browse Gas Project, which may take the form of a major gas production hub. Technology for future development of these remote gas reserves is being accelerated (Ronalds, 2005), as global demand for gas is projected to outstrip supply. Even with Australian production quadrupling its current output by 2011, new customers for gas are expected to add to a surging global demand over this same period, and keep the demand for the Australian LNG industry strong (Ball & Schneider, 2005).

Permits

Karoon Gas Australia Ltd farmed into WA-314-P and WA-315-P in May 2003, which were originally awarded to Liberty Petroleum Corporation on 12 November 2001, but were under suspension at the time of farmin. Under the farmin agreement between the two companies, KAR as the operator may earn 100% equity in the permits by fulfilling the Year-2 work programme for the permits, in exchange for a small overriding royalty on any discovery. KAR has been granted an overall extension of the entire permit term by the Government, which now expires in November 2009, as well as an extension for the 2nd Year of the permit term which requires the 3D seismic acquisition completed by 11 November 2005.

In April 2005 a farmin deal with BG International Ltd (a subsidiary of BG Group plc formally known as British Gas plc), a company incorporated in England, whose registered office is in Berkshire United Kingdom, will be the Operator and will earn a 60% equity in the permits by funding the following work program:

***A) Year-2 work program ending 2005** - 100% of the cost for a permit wide high resolution Aeromagnetic survey and purchase of additional 2D seismic and 90% of the cost of acquisition, processing and interpretation of a minimum of 400 sq km of a 3D seismic survey in each permit.*

***B) Year-3 work program commencing 2005** - 90% of the cost of drilling of one well in each permit.*

Both Karoon and BG will undertake a prudent exploration program over the permits and have options to withdraw prior to the 3D seismic prior to drilling of the exploration wells.

The estimated gross cost of the exploration program is:
o 2D seismic and Aeromagnetic survey – A$2.9million
o 3D seismic – A$11.4million
o Two exploration wells – A$57.2million

The following table details the work programme, with minimum work requirements for <u>each</u> of the permits WA-314-P and WA-315-P.

Permit Year & Term	Permit Renewal Date	Minimum Work Requirements	Estimated Expenditure $A (Indicative Only)
1 Primary	11 Nov 2002	Seismic interpretation	200,000
2 Primary	11 Nov 2005	Acquire 400 km^2 of 3D seismic	3,400,000
3 Primary	11 Nov 2006	Drill one (1) well	16,000,000
4 Secondary	11 Nov 2007	Geological, geophysical and Geochemical studies	1,000,000
5 Secondary	11 Nov 2008	Drill one (1) well	16,000,000
6 Secondary	11 Nov 2009	Drill one (1) well	16,000,000

Exploration History

Browse Basin exploration was initiated in 1963 with an aeromagnetic survey conducted by Woodside (Lakes Entrance) Oil N.L. Quite early in the basin's exploration history, major gas discoveries were made along the western side of the basin (Scott Reef trend), at a time when companies assisted by Government subsidies on petroleum exploration wells, were out looking only for oil. Gas discoveries were considered an unfortunate consolation prize at this time. The Browse Basin became branded as gas prone and large operators turned their attention elsewhere along the North West Shelf. Small oil discoveries and shows have subsequently been made, but so far, these are restricted to Cretaceous and Paleocene reservoirs, which have not been actively explored along the Scott Reef trend. Predictions of rising gas prices and demand have turned exploration focus back to gas as well as oil, and helped initiate a new round of drilling in recent years within the basin.

The significant well results in this part of the northern Browse Basin are summarised in Appendix 1. It can be seen that the basin has experienced a sporadic drilling history, with a resurgence during 2000. These large gas discoveries, in water depths that were once prohibitive for development, are now closer to being produced as technology for deep water gas production has finally become a reality.

Geological History

A geological history for the Browse Basin is provided by KAR in the overview of the Browse Basin permits in an earlier section of this prospectus. For the purposes of this report, the reader is referred to this section as it provides a summary of the nomenclature used in referring to the stratigraphy and basin features.

Petroleum Prospectivity

Reservoir

The fluvio-deltaic Middle-Lower Jurassic section (Plover Formation) provides the main reservoir facies in this part of the basin. Secondary reservoir facies have been found within the Cretaceous at various levels within the Echuca Shoals formation, and in the Paleocene to Late Cretaceous Jamieson Formation and the Puffin Formation. Much detailed seismic interpretation (preferably a combination or regional 2D and detailed 3D) would be required to define any potential plays based on these reservoir facies, which can occur as detached sand lobes within generally shale-prone turbidite like facies.

The Scott Reef, Brecknock and Brecknock South gas fields are contained within Jurassic (Plover Formation) to Triassic reservoir section. At Buffon 1, the Early Jurassic reservoir sands are relatively thin and interbedded when compared to the time equivalent section at Scott Reef, which is more proximal in regard to the position of the paleo-shoreface. Porosity is fairly comparable between wells, with an average porosity of 12% at Buffon 1 and 13% at Scott Reef for the same Early Jurassic section (see Figure-23). Porosity values plotted against sub-sea floor depth show a trend for this outer Scott Reef trend that is better than the basin average. Early hydrocarbon charge of this outer trend may be responsible for this better than average preservation of porosity.

Permeability measured at wells is generally low, however, test data at Scott Reef trend wells shows that this does not hamper flow rates greatly (Figure-24). Scott Reef 2A and Brecknock 1 had the lowest permeability of wells along this trend.

Leads within the KAR permits could be expected to encounter similar Early Jurassic reservoir to Buffon 1, and possibly also Triassic shoreface sands such as those encountered at Brecknock 1 (11% porosity at 4165mKB).

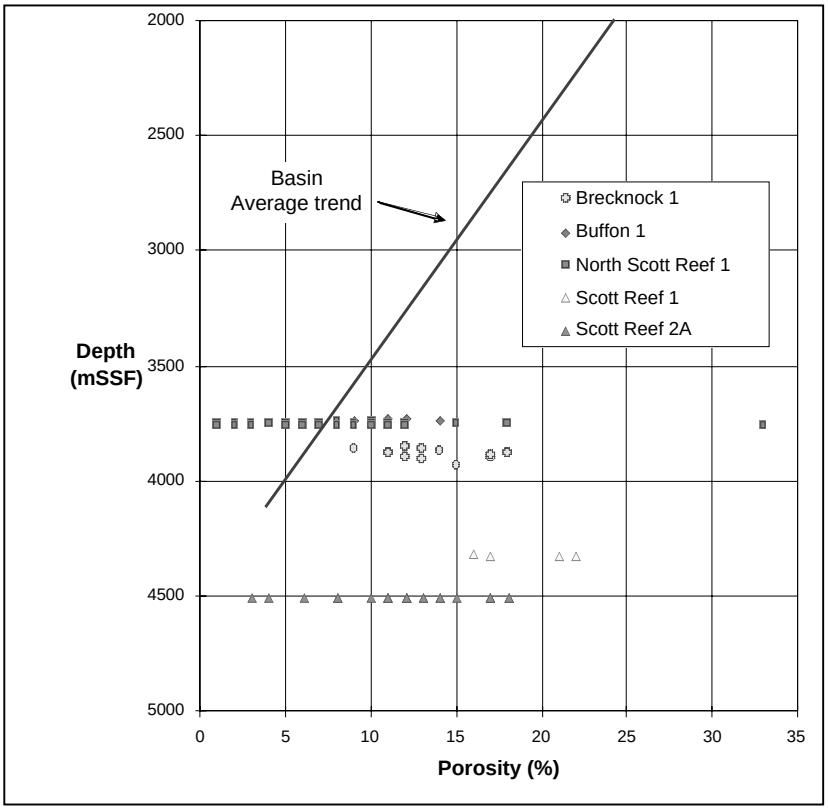


Figure-23: Porosity versus depth (sub-seafloor) for the Scott Reef trend.

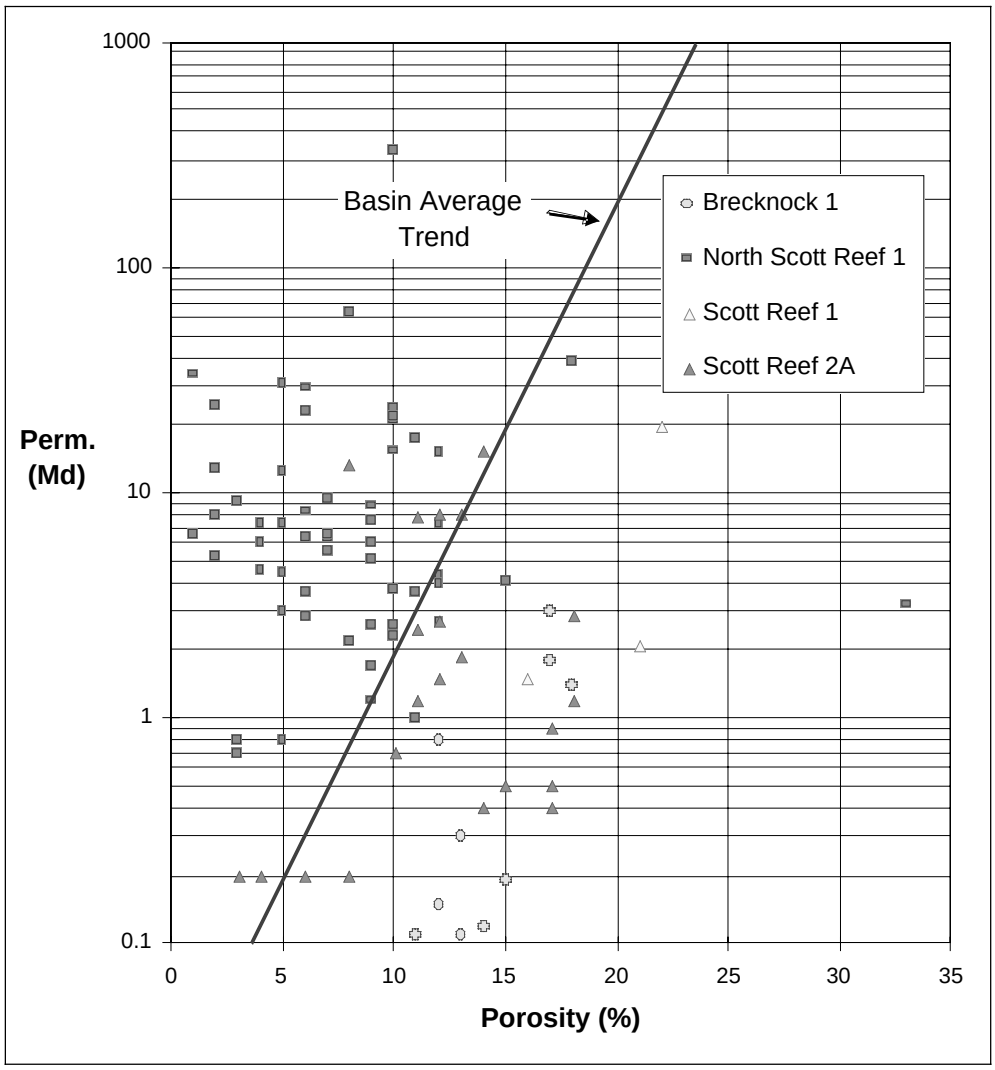


Figure-24: Porosity versus Permeability for the Scott Reef trend.

Seal

The seal for most of the structures within the permits and associated discoveries is the regionally extensive Paleocene to Valanginian marine shale section. At the Buffon 1 well location, the section comprises 200 m of Aptian claystones which are underlain by weathered clay rich Jurassic volcanics that could also be expected to provide seal. The Scott Reef field has Cretaceous seal as well as Jurassic marine claystones and calcarentites.

Current seismic mapping shows that the regional Cretaceous seal thins and is probably absent in the far west of the permits. Leads with faulted Jurassic/Triassic objectives in this part of the region would have to rely on Jurassic intra-formational seals or possible marls and calcilutites in the overlying Tertiary sediments.

Source and Charge

In general the WA-314-P and WA-315-P permits are well positioned on this outer basinal trend to receive hydrocarbon charge. Good source rocks from the Cretaceous to Permian (Blevin et al., 1998) are adjacent to the Scott Reef trend, which is proven to be charged (numerous large gas accumulations). Oil charge to this area has not yet been established by any well penetrations along this trend, however, indications from gas ratio analysis at Buffon 1 (volcanic section) suggest that perhaps the entire Buffon feature is within closure, and that the well intersected the gas/condensate or oil leg (albeit within volcanics at this location). Oil accumulations at the Cornea and Caswell features, as well as oil shows at Argus 1 give support to the idea that the northern Browse Basin is likely to reveal further oil accumulations. Fluid inclusion studies of paleo-oils from the Northern Browse Basin has shown that the most likely source of oils from Brewster 1A, Argus 1 and Dinicthys 1 is the Echuca Shoals Fm., while condensates from Heywood 1 and North Scott Reef 1 are most likely derived from Jurassic claystones (Volk et al*, 2005). Both source intervals exist in mature grabens around the Scott Reef High.*

Seismic coverage and Lead Mapping

A grid of 2D seismic is available over the permits, ranging in vintage from 1970s to 1990s surveys. Line spacing is ranges between 5 and 20km and is sufficient to delineate the larger structural features present. The earlier 1970s lines are of moderate to poor quality allowing only the main structural and stratigraphic features to be resolved.
The more recent 1990s surveys are of good quality and allow the main structural and stratigraphic features of these permits to be resolved.

The current 2D seismic grid is only adequate for the definition of the leads discussed below. It would need to be supplemented with the acquisition of new 3D seismic data and additional purchase of 2D open-file lines, to bring the definition of these leads up to the status of drillable prospects.

The depth conversion used for defining the leads is based on laterally varying interval velocities derived from the 2D seismic velocities and the well data. Checkshots from Scott Reef 1, North Scott Reef 1, Buffon 1, Brecknock 1 and Argus 1 were used for the well velocity information.

The velocity intervals calculated were:
1. Water bottom to Mid-Oligocene marker
2. Mid-Oligocene marker to Turonian marker
3. Turonian marker to Aptian
4. Aptian to Callovian
5. Callovian to base Volcanics (where present)

Away from the reef areas around Scott Reef and the Seringapatam Reef, there is a very uniform velocity versus depth relationship. No variable water velocity correction was made. Only one line goes over the top of drowned Seringapatam Reef (within the WA-315-P permit), which lies approximately 450 metres below the surface. Over a large part of the permits the seafloor gradient is reasonably flat so should have only a minor effect on the robust features that have been mapped. The water layer was converted with a constant velocity of 1500 metres per second.

Evaluation of Prospects

Play Types

1. Classic plays of Jurassic/Triassic highs below thick Cretaceous seal.

2. Late Cretaceous or Early Tertiary detached sand lobes similar to those with oil accumulations at Caswell and Adele.

The Leads mapped by KAR are all faulted Jurassic/Triassic highs of play type 1. Detailed mapping of Late Cretaceous ponded turbidites has been done in the area (Benson et al*, 2004) of the Caswell Sub Basin. Similar features could be expected in the vicinity of the KAR permits within the Paleocene section which has only been penetrated on structural highs to date. Mapping of such leads may be possible in future with improved seismic coverage.*

Discussion of Leads

Updip Buffon (WA-314-P)

Seismic character suggest possible Triassic reservoir below the Callovian unconformity, however, high seismic amplitudes at the top of this unit could indicate an intermediate volcanic over Triassic, similar to the adjacent Buffon 1 well.

Lead A (WA-315-P)

This feature is on a high trend between the Buffon and Argus wells, towards the eastern side of the permit. It has a steeply dipping and faulted section below the Callovian unconformity, which is possibly Early-Middle Jurassic/Triassic reservoir. Unlike Argus 1, Oxfordian section is not interpreted to be present at this structure. Argus 1 had poor reservoir characteristics within the Oxfordian Montara Fm. (low porosities and permeability). There is also the possibility of relatively thin volcanic flows on the eastern side of the feature, as supported by high amplitudes at the Callovian unconformity in this area, and the presence of thick volcanics at Argus 1.
Gas shows within the Paleocene at Argus 1 raise the possibility of sands possibly related to those intersected at Caswell being present as isolated basin floor fans in this area. Anomalous amplitudes within the Paleocene section support this possibility.

Lead B (WA-315-P)

Mapping indicates a large lead in the northwest part of the permit. Closure would need to be defined on the western side by additional seismic lines. There is only a thin Cretaceous regional seal mapped, and the prospect would have to rely on this and marls or calcilutites within overlying Tertiary Limestones.

Lead C (WA-314-P)

This lead is probably the updip extension of the McGinnis structure drilled by BHPP in 2000. The well encountered no Oxfordian reservoir or hydrocarbon indications and a thicker than anticipated section of volcanics. The well reached total depth in volcanics and did not test possible reservoirs of the underlying Middle-Early Jurassic or Triassic section. Lead C is close to the peak of a magnetic anomaly associated with the volcanics. It is possible that this indicates a thicker section of volcanics around this area, and further work will be needed to determine the prognosed depth of underlying Jurassic/Triassic sediments.

Lead D (WA-314-P)

This lead looks to have steeply dipping Triassic below the Callovian unconformity, and Plover Formation on the western flank of the structure. It is to the northeast, on the same trend as the Colbert structure within WA-33-P(1) in the Scott Reef area.

Lead E (WA-315-P)

Lead E is a large structure on the far western side of WA-315-P extending into the BHPP acreage of WA-302-P. KAR seismic mapping does not extend far enough to the west to define the area of closure, however, published BHPP maps (Jason et al*., 2004) do indicate a sizeable closure at the Callovian marker. There is a possibility that porosity and permeability may be marginally better preserved in this western area than along the Scott Reef trend, as there is less overburden (albeit deeper water).*

A major risk with this prospect is the lack of Cretaceous regional seal (as mapped), and the prospect would have to rely on intra-formational Jurassic/Triassic seals, or marls and calcilutites within overlying Tertiary Limestones.

Lead F (WA-314-P)

Seismic definition immediately over this lead is poor, however, closure seems to be indicated. The poor seismic quality may be due to a gas chimney over the structure.

Future Exploration

KAR's farminee within WA-314-P and WA-315-P (BG) is planning to acquire a high resolution aeromagnetic survey to start in May 2005 over the permits. The interpretation of this data set may help to better understand the distribution of any volcanics associated with the Leads. A 1200 sq km 3D seismic survey is then planned, which will form the basis for positioning of two wells to be drilled in 2006, to fulfill commitments within the work programme. KAR and BG are also purchasing infill seismic data to supplement the existing data set, which when added to the planned 3D data will adequately define the 7 leads in the permit and allow for other exploration concepts (e.g. Cretaceous sand distribution) to be examined.

GIPPSLAND BASIN

Introduction

EL4537 is a Minerals and Coal Bed Methane (CBM) lease contained within the larger PEP 162 conventional Petroleum Exploration permit, onshore Gippsland Basin (Eastern Victoria).

Much of the background to the Gippsland Basin acreage has been covered by the Karoon Gas Australia Ltd prospectus (2004) and the enclosed Independent Geologist Report (Nichols, 2004). Since this time the Megascolides 1 well has been drilled (spudded November, 2004) to test a subtle anticline at the Strezlecki 1 seismic horizon (Blackburn, 2002), which appears to have been associated with inversion along the Yarragon Monocline.

Megascolides 1 results

The Megascolides-1 well was spudded on the 17th November 2004 within the EL 4537/PEP 162 permits. It drilled to a Total Depth of 2000 metres and intersected 15 metres of net coals (mostly less than 1 metre thick), and had interpreted oil shows at the top of the Crayfish Group equivalent sandstone. Two thin beds (3 metres thick each) had Sw determined from log analysis between 42-65% at the Top Crayfish Subgroup sandstone. Log interpretation states that reservoir quality is generally good, but permeability for the flow of oil is yet to be established.

Remaining Prospectivity

A map at the Top of the Crayfish Subgroup (based on previous mapping) shows that there is remaining updip potential at the Megascolides structure. Approximately 20 metres of difference remains between the previous maps and the drilled depth of the Top Crayfish Subgroup at the well location. Depth maps obviously need to be revised with the results of the well before volumes can be quoted according to these results. The current seismic grid over the crest of the structure is inadequate to accurately define the feature.

Future Exploration

Exploration is intended to continue within the remaining areas of PEP 162 to define other conventional oil and gas plays, while the results of the Megascolides 1 well are being used to refine mapping of coal and potential CBM plays within EL 4537.

Conclusions

Within the KAR tenements examined here, the potential exists for the accumulation of gas and/or oil in sealed traps which are likely to be in quantities sufficient to be commercial.

Declarations

Sources of information

The preparation of this report has relied upon technical and financial information supplied by Karoon Gas Australia Ltd (operator of the above mentioned permits), and public domain data and publications detailed in the bibliography. A draft of this report was supplied to KAR for comment regarding any errors of fact.

Limitations and risk

Exploration for hydrocarbons is an inherently speculative undertaking. To date there are no direct methods of determining the presence of hydrocarbons prior to drilling of an exploration well. Indirect methods, such as interpretation of seismic data and associated geological interpretation (even when accurately carried out), are still only indications of structure and lithology. There is always the risk that any potential trap may not contain hydrocarbons by virtue of inaccuracies in location or unforeseen problems with timing of hydrocarbon generation or migration, lack of effective seal or reservoir, or later disruption of the trap. A potential trap may also contain non-commercial volumes due to

adverse reservoir conditions or inadequate charge of hydrocarbons. In this report, discussion of potential traps (Leads), including structures, features and culminations, and of related hydrocarbon volumes, should not be taken to imply that a commercial accumulation is known to exist.

Independence

Adenmere Pty Ltd is not operating under an Australian financial services licence in providing this report.

Jennifer Baird and Adenmere Pty Ltd has no conflict of interest in the preparation of this report. This report was commissioned by Karoon Gas Australia Limited with payment for services rendered. Neither Adenmere Pty Ltd nor any of its directors or employees has any beneficial interest in Karoon Gas Australia Ltd, nor in any of the permits which are the subject of this report, nor in any adjacent permits.

Date of report

This report is dated 6th May 2005.

Consent

Adenmere Pty Ltd consent to the issue of this Prospectus with our Independent Geologist's Report in the form and context in which it is included, and advise that they have not withdrawn such consent as of the date of lodgement of the Prospectus with the Australian Securities and Investments Commission.

Qualifications

Jennifer Baird received a Bachelor of Science (Hons.) and Doctor of Philosophy (Ph.D.) from Monash University in 1990, with a thesis on the palynology and sedimentology of the eastern margin of the Gippsland Basin. She has been involved in the upstream petroleum industry for 18 years as a geologist/geophysicist (explorationist), initially working for Shell Development Australia. For the past 11 years, Jennifer has consulted to the Australian oil and gas industry through her private companies, having worked as an explorationist for most of the active Australian and overseas participants in the sector, across most of Australia's explored basins. Jennifer is a member of the Petroleum Exploration Society of Australia, where she has served, in the past as a committee member.

Bibliography

Ball, A.L & Schneider, K.M. ***2005****. The Asia Pacific LNG Market: Issues and Outlook. The APPEA Journal, 45 (1), 165-174.*

Benson, J.M., Brealey, S.J., Luxton, C.W., Walshe, P.F. and Tupper, N.P. ***2004****. Late Cretaceous Ponded Turbidite Systems: A New Stratigraphic Play Fairway in the Browse Basin. The APPEA Journal, 44 (1), 269-286.*

Blackburn, G.J. ***2002****. Geological Review and Seismic Mapping Report, PEP 162, Western Onshore Gippsland Basin. Unpublished report for Nexus Energy.*

Blevin, J.E., Boreham, C.J., Summons, R.E., Struckmeyer, H.I.M. and Loutit, T.S. ***1998****. An effective Lower Cretaceous Petroleum System on the North West Shelf: Evidence from the Browse Basin. 397-420. In:* The Sedimentary Basins of Western Australia 2*. Eds. P.G. & R.R. Purcell.*

Nichols, P. ***2004****. Independent Geologist's Report. Karoon Gas Australia Limited IPO Prospectus, 30-33.*

Ronalds, B.F., ***2005****. Towards Development of Australia's Large Deepwater Gas Fields. The APPEA Journal, 45 (1), 35-43.*

Volk, H., Brincat, M.P., George, S.C., Kennard, J.M., Edwards, D.S., Boreham, C.J., Ahmed, M. and Lisk, M. ***2005****. Clues to Fill Histories of Gas Fields in the Caswell Sub-Basin – Evidence From the Distribution and Geochemistry of Palaeo-oils. The APPEA Journal 45 (1), 679 (Poster Display).*

Appendix 1: Relevant Northern Browse Basin well results

Date	Well name	Reservoir section	HC type	Comments
1971	*Scott Reef 1*	*Early-Mid Jurassic*	*Gas (200m column)*	*Approx: 13TCF gas & 129mmbls condensate recoverable*
1977	*Caswell 1*	*Late Campanian*	*Strong oil shows*	
1978	*Scott Reef 2A*	*Middle Jurassic*	*Gas*	*Poor reservoir*
1979	*Brecknock 1*	*Mid-Lower Jurassic & Triassic*	*Gas (78m column)*	*Approx: 5TCF gas recoverable*
1980	*Buffon 1*	*Late Jurassic volcanics*	*Strong gas shows*	*Possible column*
1982	*North Scott Reef 1*	*Middle Jurassic*	*Gas*	*Proved extent of greater Scott Reef field with 600m relief on structure*
1983	*Caswell 2*	*Mid Campanian*	*Oil recovered on DST*	*Stratigraphic trap*
1996-1997	*Cornea 1, 1B & 2*	*Early Cretaceous*	*Oil*	
1997	*Cornea South 1 & 2*	*Early Cretaceous*	*Oil*	
1998	*Cornea field wells Focus 1, Hammer 1, Macula 1, Sparkle 1, Stirrup 1, Tear 1*	*Early Cretaceous*	*Oil*	
1998	*Adele 1*	*Late Cretaceous & Jurassic?*	*Undisclosed. Oil & Gas?*	
2000	*Brecknock South 1*	*Plover Fm (Mid Jurassic)*	*Gas (134m gross column)*	*Approx: 4TCF Gas*
2000	*Dinicthyus 1*	*Jurassic?*	*Gas & cond.*	*22MMscf/day gas & 1,300bbls/d Cond.*
2000	*Titanicthyus 1*		*Gas & cond.*	
2000	*Gorgonicthyus 1*		*Gas & cond.*	*Reported to be a large accumulation*
2000	*Argus 1*	*Oxfordian (Vulcan Fm)*	*Oil shows & 240m gross gas column in Jurassic*	*Poor Jurassic reservoir, oil shows in Paleocene*
2000	*Crux 1*	*Early-Late Jurassic*	*Gas (280m gross column)*	*Approx: 2.5TCF gas 75mmbls Cond.*
2001	*Marabou 1*	*Mid Campanian*	*22 m Oil or gas column? (no logs run)*	

12. SOLICITOR'S REPORT – VICTORIAN PERMITS

4 May 2005

Board of Directors
Karoon Gas Australia Limited
Suite 7A
34 Lochiel Avenue
Mt Martha, Victoria 3934

James McLaren
Direct line
+61 3 9643 4322
Partner
James Fahey

Dear Sirs

Proposed capital raising

1. BACKGROUND

1.1 In relation to a proposed capital raising ("Capital Raising") by Karoon Gas Australia Limited ("Karoon Gas"), Mallesons has been instructed to conduct a limited due diligence regarding Karoon Gas' interest in:

(a) *Victorian Petroleum Exploration Permit 162 ("PEP 162"); and*

(b) *Victorian Mineral Exploration Licence 4537 ("EL 4537").*

2. SCOPE, METHODOLOGY AND LIMITATIONS OF INVESTIGATIONS

2.1 In carrying out our investigations we:

(a) *reviewed all information provided to us by Karoon Gas (an index to which is set out in the Annexure); and*

(b) *made external enquiries as outlined in sections 4 and 5, below.*

2.2 Other than as is expressly stated in this letter, we have made no other investigations nor sought to summarise Karoon Gas' material obligations under any applicable law.

3. NO OPINION

3.1 We express no opinion as to whether Karoon Gas should proceed with the Capital Raising or whether any person should make any investment decisions regarding Karoon Gas. These are commercial decisions for Karoon Gas and any person proposing to make an investment decision regarding Karoon Gas, respectively.

4. TENEMENT SEARCHES

4.1 PEP 162

On 2 May 2005, we conducted searches of the register maintained under the Petroleum Act 1998 (Vic) ("Petroleum Act") in respect of PEP 162. The results of our searches are summarised in the following table:

Information searched		Information provided on register
1	Registered holder	Karoon Gas Pty Ltd (ACN 056 976 642).
2	Term	PEP 162 was originally granted on 22 February 1993. On 25 May 2001 it was renewed for a period of five years from 14 May 2001. The term of PEP 162 has been extended on two occasions and PEP 162 is now set to expire on 13 August 2007.
3	Work program	The original work program for PEP 162 was varied on 2 March 2004. The work program registered on PEP 162 is as follows: *Year* — *Work Program* *1* — *60 Km Seismic Survey* *2* — *Geological and geophysical studies* *3* — *Drill one well* *4* — *40 Km Seismic Survey* *5* — *Data Review* We note, however, that on 24 June 2004 the work program conditions were suspended for a period of three months from 14 March 2004 until 13 June 2004. On 23 March 2005 the work conditions for Year 4 of the Permit were suspended for a period of 12 months until 13 August 2006.
4	Pending applications	None registered.
5	Encumbrances	None registered.
6	Other registered instruments	None registered.

We note that registration of an interest does not provide indefeasible title under the Petroleum Act. We have not been provided with any information that indicates that Karoon Gas Pty Ltd is not the legal and beneficial holder of PEP 162. However, we are aware of two royalty agreements in respect of PEP 162. These agreements are discussed in section 6.1, below.

Under the Petroleum Act, a petroleum exploration permit authorises the holder to:

(a) carry out exploration in the permit area for petroleum (being naturally occurring hydrocarbons or a mixture of hydrocarbons that are not within a deposit of coal or oil shale); and

(b) do any thing in that area that is necessary for, or incidental to, that purpose.

4.2 EL 4537

Register searches

On 29 April 2005, we conducted searches of the register maintained under the Mineral Resources Development Act 1990 (Vic) ("MRD Act") in respect of EL 4537. The results of our searches are summarised in the following table:

Information searched		Information provided on register
1	Registered holder	Karoon Gas Pty Ltd (ACN 056 976 642) (EL 4537 was originally granted to Nexus Energy Australia NL and subsequently transferred to Karoon Gas Pty Ltd pursuant to an instrument of transfer which was registered on 14 September 2004).
2	Term	EL 4537 was granted on 6 March 2003 for a term of five years.
3	Expenditure requirements	*An instrument of variation was registered on 11 March 2005 varying the expenditure that the licensee must expend in connection with the exploration of the land subject to EL 4537. Pursuant to the instrument of variation, the licensee must expend a minimum of:* ***Year*** — ***Expenditure requirement*** *1* — *$81,600* *2* — *$103,800* *3* — *$142,000* *4* — *$142,000* *5* — *$205,500*
4	Pending applications	None registered.
5	Encumbrances	None registered.
6	Other registered instruments	An instrument of partial cancellation of licence was registered on 11 March 2005 reducing the size of the land subject to EL 4537. Pursuant to section 33A of the MRD Act, on the second anniversary of the initial registration of an exploration licence, the Minister must, unless he or she decides otherwise, cancel the licence in relation to at least 25% of the total number of graticular sections covered by the licence.

We note that registration of an interest does not provide indefeasible title under the MRD Act. We have not been provided with any information that indicates that Karoon Gas Pty Ltd is not the legal and beneficial holder of PEP 162. However, we are aware of a royalty agreement in respect of PEP 162. This agreement is discussed in section 6.2, below.

Under the MRD Act, an exploration licence entitles the holder to carry out exploration for minerals (including hydrocarbons contained in coal or oil shale) on the land covered by the licence.

5. NATIVE TITLE

*We have undertaken searches of the registers of native title claims and registered native title interests maintained by the National Native Title Tribunal ("**NNTT**"). Our search results have indicated that part of the land which forms EL 4537 and PEP*

*162 is also subject to the Gunai/Kurnai native title determination application (No. VID 6007/98). Part of PEP 162 is also subject to the Gunai/Kurnai/Boonewrung native title determination application (No. VID 6005/98) (together, "**the Claims**").*

From our public searches, claim number VID 6007/98 is taken to exclude any rights or interests in minerals, petroleum or gas where the Crown in right of the Commonwealth, a State or Territory wholly owns the minerals, petroleum or gas. However, this exclusion is not contained in claim number 6005/98.

As the Claims relate to the land subject to both EL 4537 and PEP 162, it is possible that agreement may need to be reached with the registered native title claimants pursuant to the requirements of the Native Title Act 1993 *(Cth) before production activities may commence on the land. Depending upon the tenure history of the land on which Karoon Gas wishes to construct its infrastructure and engage in production activities, it may be necessary to seek an Indigenous Land Use Agreement with the registered native title claimants for the use of the land concerned. Obtaining such an agreement can lead to time and cost implications for Karoon Gas. However, these impacts may be ameliorated if native title is found to have been extinguished on the land on which Karoon Gas proposes undertaking its activities.*

6. ROYALTY ARRANGEMENTS

6.1 PEP 162

Karoon Gas has provided us with copies of:

(c) *the Overriding Royalty Deed between Ropat Nominees Pty Ltd, Viv Taylor Medical Pty Ltd, Echo Beach Trading Pty Ltd, Echo Beach Pty Ltd, Thin Air Pty Ltd, Machlo Nominees, Geoff Atkins, Geekie Superannuation Fund, Peter Turnball, Wilmit Nominees Pty Ltd, Ailmoc Pty Ltd, Kurrawa Agencies, John & Sue Purser and Chris Haslam ("Royalty Holders") and Karoon Gas Pty Ltd, dated 23 February 2000 ("PEP 162 Overriding Royalty Deed");*

(d) *the Royalty Agreement between Karoon Gas Pty Ltd and Nexus Energy NL, dated 30 August 2002 ("PEP 162 Royalty Agreement").*

Under the terms of the PEP 162 Overriding Royalty Deed, Karoon Gas Pty Ltd is obligated to pay to the Royalty Holders (in proportions as allocated under the PEP 162 Overriding Royalty Deed):

- a gross overriding royalty of 2% of all petroleum produced and recovered from the area of land subject to PEP 162; and
- a gross royalty of 2% of the revenue derived from the ownership and operation of gas storage facilities located in the area of land subject to PEP 162.

We note that, under the terms of the PEP 162 Overriding Royalty Deed, Karoon Gas Pty Ltd has charged its interests in PEP 162 to secure its obligations to the Royalty Holders under the PEP 162 Overriding Royalty Deed.

Under the terms of the PEP 162 Royalty Agreement, Karoon Gas Pty Ltd is obligated to pay to Nexus Energy NL 2% of the net proceeds of sale of petroleum derived from the area of land subject to PEP 162.

We note that neither the PEP 162 Overriding Royalty Deed nor the PEP 162 Royalty Agreements has been registered under the Petroleum Act.

6.2 EL 4537

Karoon Gas has provided us with a copy of the Royalty Agreement in Respect of EL 4537 between Karoon Gas Pty Ltd and Nexus Energy NL, dated 30 August 2002 ("EL 4537 Royalty Agreement").
Under the terms of the EL 4537 Royalty Agreement, Karoon Gas Pty Ltd is required to pay to Nexus Energy NL 2% of the net proceeds of sale of minerals derived from the area of land subject to EL 4537.
We note that the EL 4537 Royalty Agreement has not been registered under the MRD Act.

6.3 Deed of termination of royalty arrangements

Karoon Gas has provided us with copies of:

(a) *the Deed of Termination between Karoon Gas, Karoon Gas Pty Ltd and Nexus*

(b) *the Deed between Karoon Gas, Karoon Gas Pty Ltd and Nexus Energy NL, dated 1 June 2004 ("Cancellation Deed").*

Under the terms of the Deed of Termination, Karoon was required to issue shares and options in Karoon to Nexus Energy Australia NL in consideration for the termination of Nexus Energy NL's rights under each of the PEP 162 Royalty Agreement and the EL 4537 Royalty Agreement.
We note, however, that the Deed of Termination was cancelled pursuant to the Cancellation Deed. According to the recitals of the Cancellation Deed, the Termination Deed was cancelled because the proposed issue of shares and options in Karoon to Nexus Energy Australia NL under the Termination Deed was "unable to be satisfied by reason of the imposition of certain escrow restrictions".
Accordingly, on the basis of the information that has been provided to us by Karoon Gas, the PEP 162 Royalty Agreement and the EL 4537 Royalty Agreement are still on foot.

7. CONSENT

We confirm that we consent to the inclusion of this letter in any documents to be provided to potential investors in Karoon Gas in respect to the Capital Raising.
Please do not hesitate to contact us if you require any further information in relation to the above.

Annexure - information provided by Karoon Gas

PEP 162

	Document description
1	*Overriding Royalty Deed between Ropat Nominees Pty Ltd, Viv Taylor Medical Pty Ltd, Echo Beach Trading Pty Ltd, Echo Beach Pty Ltd, Thin Air Pty Ltd, Machlo Nominees, Geoff Atkins, Geekie Superannuation Fund, Peter Turnball, Wilmit Nominees Pty Ltd, Ailmoc Pty Ltd, Kurrawa Agencies, John & Sue Purser and Chris Haslam and Karoon Gas Pty Ltd, dated 23 February 2000*
2	*Royalty Agreement between Karoon Gas Pty Ltd and Nexus Energy NL, dated 30 August 2002*
3	*Deed of Termination between Karoon Gas, Karoon Gas Pty Ltd and Nexus Energy NL, dated 17 March 2004*
4	*Deed between Karoon Gas, Karoon Gas Pty Ltd and Nexus Energy NL, dated 1 June 2004*
5	*Letter from Philip Roberts, Director, Minerals and Petroleum Regulation, Department of Primary Industries, dated 22 March 2005, regarding the suspension and extension of conditions (work requirements) for PEP 162.*
6	*Letter from Leah Diamantopoulos, Senior Tenements Officer, Department of Primary Industries, dated 29 June 2004, regarding the suspension of conditions and extension of term for PEP 162.*
7	*Letter from Sue Brown, Minerals and Petroleum Regulation, Department of Primary Industries, dated 11 February 2003, acknowledging that PEP 162 is in good standing.*

EL 4537

	Document description
1	*Royalty Agreement in Respect of EL 4537 between Karoon Gas Pty Ltd and Nexus Energy NL, dated 30 August 2002*
2	*Letter from Joanne Wood, Senior Client Services Officer, Mineral and Petroleum Tenements, Department of Primary Industries, dated 20 April 2005, regarding the variation of EL 4537*
3	*Letter from Joanne Wood, Senior Client Services Officer, Mineral and Petroleum Tenements, Department of Primary Industries, dated 17 September 2004, regarding the transfer of EL 4537 from Nexus Energy Australia NL to Karoon Gas Pty Ltd*

13. SOLICITOR'S REPORT – WESTERN AUSTRALIAN PERMITS

6 May 2005

The Directors
Karoon Gas Australia Limited
Suite 7A
34 Lochiel Avenue
MT MARTHA VIC 3934

Dear Sirs

REPORT ON EXPLORATION PERMITS

*This Report has been prepared for inclusion in a prospectus (**Prospectus**) to be issued by Karoon Gas Australia Limited (**Company**) on or about 13 May 2005 offering for subscription approximately 10,000,000 fully paid ordinary shares in the Company at an issue price of $1.20 each (**Placement**).*

1. SCHEDULE OF EXPLORATION PERMITS

The schedule to this Report (the **Schedule**) contains details of the petroleum exploration permits (**Exploration Permits** or **EP**) situated off the north-west coast of Western Australia in which the Company has an interest as at the date of this Report.

Information contained in the Schedule is based upon searches of publicly available records maintained by the Western Australian Department of Industry and Resources (the **Department**).

As a result of, and based upon, those searches, in our opinion the Schedule contains an accurate statement as at 28 April 2005 (being the date on which those searches were carried out) of the nature of title, registered holder and status of each of the Exploration Permits.

2. COMMONWEALTH EXPLORATION PERMITS

*The Exploration Permits are located in the area beyond the 3 nautical mile limit to the outer limit of the continental shelf. This area is regulated by the Petroleum (Submerged Lands) Act 1967 (Cth) (**Commonwealth Act**). Under this Act, a body is established which consists of the Commonwealth Minister administering the Act and the Minister responsible for the State concerned (**Joint Authority**). The Joint Authority can delegate its power under the Commonwealth Act to a Minister of the State (**Designated Authority**).*

An EP granted under the Commonwealth Act authorises the holder to explore for petroleum and to carry on such operations and execute such works as are necessary for that purpose in the permit area on conditions determined at the discretion of the Joint Authority.

The initial term of an EP is 6 years. In addition, the EP holder may apply to renew for a further period of 5 years no more than half of the existing blocks of the exploration permit. If an EP holder has complied with the conditions of the permit and the legislation, the application for renewal is to be granted as of right. If the applicant has not complied with those conditions, the Joint Authority has the discretion to grant or refuse the renewal application.

Where an EP holder has not complied with a condition of the title or an applicable statutory provision, the Joint Authority may cancel some or all of the blocks of the exploration permit.

A transfer of, or dealing with, an exploration permit is of no force until it has been approved by the Designated Authority.

*The EP holder may make an application over a block or blocks in which a petroleum pool has been identified for that area to be declared a location (**Location**). However, petroleum may be recovered only under and in accordance with a production licence. The EP holder in respect of one or more blocks constituting a Location may, within a defined application period, apply to the Designated Authority for the grant by the Joint Authority of a production licence over 1 or more of those blocks.*

3. NATIVE TITLE

3.1 Background to native title and the Native Title Act 1993 (Cth)

As a result of the decision handed down in June 1992 by the High Court of Australia in *Mabo & Ors v The State of Queensland (No 2) (1992) 175 CLR 1* (**Mabo**), Australian common law recognises a form of communal native title rights to land and waters where:

(a) Aboriginal claimants can prove a continuous and substantial connection with the land or waters in accordance with the Aboriginal group's traditional laws and customs; and

(b) The native title rights have not been lawfully extinguished by inconsistent government legislation or executive action.

The content of the native title rights held by an Aboriginal group in relation to particular land or waters depends on the traditional laws acknowledged by, and the traditional customs observed by, that group. Where native title rights exist in relation to particular land or water, inconsistent rights and titles (including mining tenements) granted to others in respect of that land or water may be invalid.

As a result of Mabo and the operation of the Racial Discrimination Act 1975 (Cth) (**RDA**), the validity of mining tenements granted after 31 October 1975 (the date of commencement of the RDA) was rendered uncertain.

In response to this uncertainty, the Federal Government enacted the Native Title Act 1993 (**NTA**). The main objects of the NTA are to:

(a) provide for the recognition and protection of the native title;

(b) validate the grant of mining tenements before 1 January 1994 that might otherwise have been invalid because of the existence of native title;

(c) provide for procedures to be followed in relation to certain “future acts” (such as the grant of mining tenements) occurring after 1 January 1994 which may affect native title; and

(d) establish procedures by which native title claims and claims for compensation can be made (including the “right to negotiate”) and provide mechanisms for determining those claims.

In relation to any native title rights over the ocean, in 2001 the High Court held in *Commonwealth v Yamirr* that native title could exist over the sea and the seabed but that there could be no exclusivity to the native title as it would be inconsistent with the common law public rights of navigation and fishing and the right of innocent passage.

3.2 Standing of Commonwealth Exploration Permits

The NTA provides that future acts relating to "offshore places" being land or waters which are beyond the limits of a state or territory are valid.

Future acts in this context include granting offshore exploration licences and renewals and extensions of offshore exploration licences.

The “right to negotiate” provided for in the NTA does not apply to future acts which occur on offshore places. Native title holders and registered native title claimants affected by an "offshore future act" are, however, afforded the same procedural rights as other persons holding corresponding rights and interests in relation to the offshore place concerned (eg holders of commercial fishing licences). Where such procedural rights exist the validity of any future act will be conditional upon these procedural rights having been afforded.

The occurrence of a future act in relation to an offshore place does not result in the extinguishment of native title unless it involves the compulsory acquisition of native title rights and interests.

4. NATIVE TITLE CLAIMS

Native title claims may be initiated in the Supreme Courts of the various States and Territories, in the Federal and High Courts, or in the NNTT.

Our searches conducted with the NNTT and discussions held with the Department indicate that there are no native title claims which affect the Exploration Permits.

The following qualifications apply to our review of native title claims affecting the Exploration Permits:

(a) the records held at the Department and NNTT and available to be searched are not necessarily complete or up to date; and

(b) it is always possible that further claims for native title rights may be made in the future in respect of the area covered by the Exploration Permits. We have not undertaken the legal, historical, geographical, anthropological and ethnographic research that would be necessary to form an opinion as to whether or not such claims, if made, would succeed and, if they did succeed, what the implications would be for the Company.

5. VALIDITY OF EXPLORATION PERMITS AND FUTURE RENEWALS OR EXTENSIONS

As the grant of each of the Exploration Permits constitutes a "future act" in relation to an offshore place we are of the opinion that each grant was valid (in so far as the existence of native title would otherwise render them invalid).

Likewise extensions of the terms of the Exploration Permits constitute future acts in relation to offshore places and are valid (in so far as the existence of native title would otherwise render them invalid).

6. COMPANY'S INTEREST IN THE EXPLORATION PERMITS

*Each of the Exploration Permits are currently registered in the name of Liberty Petroleum Corporation (**Liberty**) but are subject to a farmin agreement (**Liberty Farmin Agreement**) with the Company registered against the Exploration Permits, pursuant to which the Company may earn a 100% interest in each of the permits.*

*The Exploration Permits are also the subject of a farmout agreement between the Company and BG International Limited (**BG**) pursuant to which BG has the right to earn a 60% interest in the Exploration Permits, conditional upon the Company first acquiring its interest under the farmin agreement with Liberty. This agreement is not registered against the Exploration Permits, although we are instructed that application for registration by BG has been, or is being, made.*

Summaries of each of the above agreements are included in section 14 of the Prospectus.

7. SCOPE OF INVESTIGATION

For the purposes of this Report, our enquiries have been limited to:

(a) searching publicly available records at the Department and NNTT; and

(b) discussions with the Department and NNTT.

8. SCOPE OF OPINION

This Report:

(a) relates only to the laws of the State of Western Australia and the federal laws of the Commonwealth of Australia in force at the date of this Report; and
(b) is strictly limited to the matters it deals with and does not extend, by implication or otherwise, to any other matter.

9. ASSUMPTIONS

For the purpose of giving this Report, we have assumed:

(a) that the information provided to us by the Department is correct and up-to-date as at 28 April 2005;

(b) that the information provided to us by the NNTT is correct and up-to-date as at 2 May 2005;

(c) that each Exploration Permit has been validly granted and extended by the relevant Minister and that all appropriate procedural rights of the nature described in section 3.2 of this Report have been observed in relation to any such grant or extension. The good standing of the Exploration Permits and the holder's and Company's interests in the permits are both subject to the holder, the Company and BG International (as appropriate) continuing to comply with the terms and conditions of the Exploration Permits under the provisions of the Commonwealth Act and any regulations made pursuant to the Commonwealth Act;

(d) that the relevant Minister responsible for administering the Commonwealth Act, and each of the Ministers' delegates, have been validly appointed and have acted within the scope of their respective powers, authorities and discretions in granting and extending the Exploration Permits and in registering, authorising, approving or granting any permission or consent in relation to any dealing or proposed dealing affecting the Exploration Permits;

(e) the accuracy and completeness of any instructions and information we have received from the Company and any of its directors, officers, employees, agents or representatives; and

(f) that the registered holder and, where applicable, the Company have complied fully with the terms and conditions of the Exploration Permits and all applicable provisions of the Commonwealth Act and any regulations made pursuant to the Commonwealth Act, and all other relevant legislation, regulations and guidelines relating to the Exploration Permits.

The making of the above assumptions indicates that we have assumed that each matter the subject of those assumptions is true, correct and complete in every particular. That we have made an assumption in this Report does not imply that we have made any enquiry to verify that assumption or that we are not aware of any circumstances which might affect the correctness of the assumption. No assumption specified is limited by reference to any other assumption.

10. QUALIFICATIONS

This Report is subject to the following qualifications:

(a) we have only made the enquiries described in section 7 above;

(b) we have not made any enquiries as to whether there are any procedural rights of the nature described in section 3.2 which the Minister must observe under the NTA before granting or extending the term of the Exploration Permits, or, indeed, whether the Minister has observed any such rights or complied with any other procedures that may be required under the NTA in relation to such grant or extension;

(c) the nature and enforcement of obligations under any contracts referred to in this Report may be affected by the discretion of courts to grant or withhold relief by way of injunction, specific performance or other equitable remedy, by statute of limitation, by estoppel and similar principles, by laws concerning insolvency, bankruptcy, liquidation, receivership, administration or reorganisation, and by other laws affecting creditors' rights generally;

(d) we have relied on the accuracy and completeness of the Department and NNTT searches and on the assumption that they remain current. We note that the records disclosed by those searches may not be up-to-date and, in particular, documents affecting the Exploration Permits may not have been filed with the Department immediately or, even if filed, may not have been available for immediate inspection at the time the searches were conducted;

(e) to the extent that any opinion or conclusion is based on the searches referred to in (d) above, that opinion or conclusion is given as at the date of the relevant search. The

searches were conducted on 28 April 2005 (in the case of the NNTT searches) and 2 May 2005 (in the case of the Department searches);

(f) there may be equitable or other interests in existence affecting the Exploration Permits which for various reasons are not discoverable by search or enquiry but which may be enforceable against a holder of any interest in the relevant tenements; and

(g) we do not express any opinion as to, and have made no investigation of, the laws of any jurisdiction other than Western Australia and the Commonwealth of Australia.

11. RESPONSIBILITY STATEMENT AND CONSENT

Except for this Report (including the Schedule), Fearis Salter Power Shervington have not been involved in the preparation of any part of the Prospectus.

In accordance with section 716 of the Corporations Act, Fearis Salter Power Shervington have given and have not, before the lodgement of the Prospectus with the Australian Securities and Investments Commission, withdrawn their consent to the issue of the Prospectus with this Report included in the form and context in which it is included.

Yours faithfully

_____

FEARIS SALTER POWER SHERVINGTON

SCHEDULE

Tenemen	***Locality***	***Status***	***Registered Holder***	***Date of Grant***	***Date of Expiry***	***Area (Blocks)***	***Registered Dealings***	***Notes***
WA-314-P	*Browse Basin*	*Current*	*Liberty*	*12/11/01*	*11/11/09*	*24 blocks*	*Liberty Farmin Agreement*	*A1, B1-4, C1, D1-5*
WA-315-P	*Browse Basin*	*Current*	*Liberty*	*12/11/01*	*11/11/09*	*24 blocks*	*Liberty Farmin Agreement*	*A1, B1-4, C1, D1-5*

Notes:

A NATIVE TITLE CLAIMS

1. There are no native title claims affecting the Exploration Permits.

B ENDORSEMENTS

1. Direction 15 for Schedule – Specific Requirements as to Offshore Petroleum Exploration and Production 1995 as amended by Amendments 1SL/967-7 and 2SL/96-7 issued 13/11/01.

2. Direction 19 for Schedule – Specific Requirements as to Offshore Petroleum Exploration and Production 1995 as amended by Amendment 1SL/02-03 issued 16/5/03.

3. Direction 22 for Schedule – Specific Requirements as to Offshore Petroleum Exploration and Production 1995 as amended by Amendment 1SL/03-04 issued 22/10/03.

4. Direction 23-Petroleum (Submerged Lands) Act 1967 Direction for Prohibition of the Workplace Use of Asbestos issued 14/1/04.

C RENTAL

1. The search shows that all rental currently due has been paid to the Department.

D CONDITIONS

1. Subject to paragraph 2 below, during the term of the permit set out in the first column of the table in paragraph 5 below, and in relation to the work requirements in the fourth column of the table, the permittee:

(a) shall carry out the work specified in the minimum work requirements set out for each year, in the year so specified;

(b) may carry out all or part of the work specified in the minimum work requirements of a subsequent year or years;

(c) may carry out work in addition to the work specified in the minimum work requirements to a standard acceptable to the Delegate of the Designate Authority.

2. The permittee shall not commence any works or petroleum exploration operations in the permit area except with and in accordance with the approval in writing of the Delegate of the Designated Authority.

3. For the purposes of this paragraph, any work to be carried out or carried out in accordance with paragraph 1(b) shall, if the Delegate of the Designated Authority, in his discretion by instrument in writing so approves, be credited for work against a subsequent year or years.

4. During the first three (3) year period of the term of the permit, the permittee must complete each component of the work programme specified in the minimum work requirements, in the designated year.

5. On commencement of the fourth permit year the secondary work programme becomes guaranteed on a year by year basis. Once a year has commenced the permittee must complete all the work specified for that year.

Year of Term of Permit	Permit year Starts	Permit Year Ends	Minimum Work Requirements	Estimated Expenditure Constant Dollars (indicative only) A$
First	12/11/01	11/11/02	Seismic re-interpretation	200,000
Second	12/11/02	11/11/05	400km^2 3D Seismic Survey	3,400.000
Third	12/11/05	11/11/06	Drill One (1) Well	16,000,000
Fourth	12/11/06	11/11/07	Geological, geophysical and geochemical studies	1,000,000
Fifth	12/11/07	11/11/08	Drill One (1) Well	16,000,000
Sixth	12/11/08	11/11/09	Drill One (1) Well	16,000,000

Note: The minimum work requirements for the second year of the permit have been amended since the date of issue of the permit and are as set out in the table above. The condition requiring completion of the minimum work requirements for year two of the permit has been suspended a number of times and the date for completion of the year two work programme is now as set out in the third column of the table above. As a result the dates for each subsequent year of the permit have been adjusted accordingly.

14. MATERIAL CONTRACTS

The Directors consider that certain documents entered into by the Company since listing on the ASX are material to the Placement or the operation of the Company or otherwise may be relevant to prospective investors in the Company. A summary of each of these documents is set out below.

Royalty Agreements

By Deed dated 23 February 2000, Bass Petroleum Pty Ltd (now Karoon Gas Pty Ltd) entered into a royalty agreement with a number of parties in relation to PEP 131 (now 162). Under this royalty agreement, Karoon Gas Pty Ltd is required to pay to those parties a 2% royalty of petroleum produced from PEP162 together with a 2% royalty of gross revenue derived from the ownership of underground storage facilities located in the area of PEP162. Under the terms of the Deed Karoon Gas Pty Ltd has charged its interests in PEP 162 to secure its obligations to pay the royalties.

By Deed, Nexus Energy (Victoria) Pty Ltd (now Karoon Gas Pty Ltd) entered into a royalty agreement with Nexus Energy Aust NL in relation to Victorian PEP162. Under this royalty agreement, Karoon Gas Pty Ltd is required to pay a 2% net profits royalty of the total proceeds of sale of all minerals (including hydrocarbons) derived from the area of PEP162.

On 30 August 2002, Karoon Gas Pty Ltd entered into a royalty agreement with Nexus Energy Aust NL in relation to application for Exploration Licence 4537 (now granted). Under this royalty agreement, Karoon Gas Pty Ltd is required to pay a 2% net profits royalty of the total proceeds of sale of all minerals (including hydrocarbons) derived from the area of EL4537.

Liberty Farmin Agreement

On 5 February 2005 Karoon Gas entered into a farmin agreement with Liberty pursuant to which Karoon Gas acquired the exclusive right to earn a 100% interest in WA-314-P and WA-315 P.

In order to earn its interest, Karoon Gas must meet the Year-2 work commitments for the Browse Basin Permits which primarily comprise a 3D survey of approximately 400 sq km of each permit. Additionally an overriding royalty is payable to Liberty of 1.5% on production of oil and gas for a period of five years increasing to 2% after that period of production time.

BG Farmout Agreement

On 13 April 2005 Karoon Gas entered into a farmout agreement with BG International pursuant to which BG International has the right to earn a 60%

interest in Karoon Gas's interest in the Liberty Farmin Agreement and the Browse Basin Permits.

In consideration of BG International earning its interest under the agreement, BG International must:

(a) meet 100% of the cost of a permit-wide high-resolution aeromagnetic survey and purchasing additional 2D seismic data over both Browse Basin Permits;

(b) meet 90% of the cost of acquisition, processing and interpretation of a minimum of 400 sq km of a 3D seismic survey in respect of each Browse Basin Permit with the balance of the costs being met by Karoon; and

(c) meet 90% of the cost of drilling one exploration well on each Browse Basin Permit with the balance of the costs being met by Karoon subject to the requirement for BG International to pay on any unplanned cost commitments.

The BG Farmout Agreement is subject to obtaining approval under the Foreign Acquisitions and Takeovers Act 1975 (Cth) for BG International to enter into the BG Farmout Agreement and acquire an interest in the Permits.

In the event that Karoon Gas does not meet its share of expenditure obligations under the BG Farmout Agreement, BG International may elect to dilute Karoon's interest.

BG International may withdraw from the BG Farmout Agreement at three stages. The first being after the completion of the aeromagnetic and 2D seismic survey, the second being after the completion of the 3D seismic survey and the third being after the completion of the wells.

BG Joint Operating Agreement

On 13 April 2005 Karoon Gas and BG International entered into a joint operating agreement for the purposes of governing the conduct of operations on the Browse Basin Permits and the ongoing relationship of the parties in relation to those operations. To the extent that the BG Farmout Agreement is inconsistent with the Joint Operating Agreement the terms of the BG Farmout Agreement apply. This is relevant to the liability for the payment of joint operating costs.

Under the Joint Operating Agreement all costs, liabilities and produced petroleum and credits are to be borne and accrue in proportion to the parties' respective percentage interests in the Browse Basin Permits. The initial percentage interests of the parties are deemed to be:

Karoon Gas	40%
BG International	60%

As operator under the agreement, BG international is responsible for, amongst other things, maintaining the Browse Basin Permits in good standing and conducting exploration on behalf of the parties in accordance with approved exploration programmes.

The Joint Operating Agreement contains other provisions usual for an agreement of this nature including provisions relating to the development to production of a discovery on the Browse Basin Permits, the operation of sole risk projects, the dilution or assignment of the interest of a defaulting party to the non-defaulting party in the event of a default and rights of first refusal in relation to the sale of a party's percentage interest.

The Joint Operating Agreement is subject to the parties obtaining any necessary regulatory approvals for the dealings evidenced by the agreement under the Petroleum (Submerged Lands) Act 1967 (Cth).

Lead Manager Agreement

The Company has engaged E. C. & L. Baillieu Stockbroking Ltd to act as Lead Manager in relation to the Placement and the SPP on a "best endeavours" basis. The Lead Manager will receive a placement fee of 6% of the total funds raised under the Placement and a handling of 3% of funds received from acceptances under the SPP which it has facilitated.

15. ADDITIONAL INFORMATION

Rights Attaching to Shares

The following is a summary of the rights and liabilities attaching to Shares. This summary is not extensive and does not constitute a definitive statement of the rights and liabilities of Shareholders. A copy of the Constitution can be obtained, at no cost, from the Company's registered office during normal business hours.

(a) **Voting Rights**

Every Shareholder present in person or by proxy, attorney, or representative will have one vote on a show of hands, and, on a poll, one vote for every Share held and for each partly paid Share held, a fraction of one vote equal to the proportion which the amount paid or credited on that Share (excluding any amount paid up in advance of the relevant due date for payment) bears to the total amounts paid and payable (excluding amounts credited) on that Share.

(b) **Dividend Rights**

Subject to any special rights or restrictions attached to a class of Shares (at present there are none), the Directors of the Company may from time to time declare a dividend out of the profits of the Company in accordance with the Corporations Act. Subject to any special rights, dividends are payable as a proportion equal to the proportion which the amount paid and credited bears to the total amount paid and payable.

(c) **Dividend Policy**

The Company does not yet have a dividend policy. The Company has no immediate intention to declare or distribute dividends. The payment of any future dividends will depend upon the success of the Company's activities and its future profitability and financial position.

(d) **Rights of Winding up**

Subject to the Corporations Act, the Listing Rules and any rights or restrictions attached to a class of Shares, on a winding-up of the Company, the liquidator may (with the sanction of a special resolution of Shareholders) distribute among the Shareholders the whole or any part of the property of the Company and may also decide how to distribute the property as between Shareholders or different classes of Shareholders and settle any dispute concerning the distribution.

(e) **Transfer of Shares**

Shareholders may transfer Shares by a proper transfer effected in accordance with the ASTC Settlement Rules or an instrument in writing in the usual form or in any other form approved by the Directors from time to time. The Directors may refuse to register a transfer of Shares in the circumstances permitted under the Listing Rules or the ASTC Settlement Rules, or if the transfer is not in registrable form.

(f) **General Meetings**

Every Shareholder is entitled to receive a notice of and to attend and vote at general meetings of the Company. All notices, accounts and other documents must be forwarded to Shareholders as prescribed by the Company's Constitution or the Corporations Act.

Constitution

The Constitution is incorporated into this Prospectus by reference, in accordance with Section 712 of the Corporations Act. A copy of the Constitution can be obtained, at no cost, from the Company's registered office.

The Constitution deals with such matters as transfer of shares, alterations of share capital, share buy-backs, variation of class rights, meetings of Shareholders, polls, appointment and removal of directors, remuneration of directors and the Listing Rules.

Non-Residents

Non-residents of Australia should consult their professional advisers as to whether any formalities need to be observed (either by themselves or the Company) in subscribing for Shares. It is the responsibility of non-residents to obtain all necessary approvals so that they may legally subscribe for (and be issued) the Shares. The return of a completed Application Form by a non-resident will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained and that the Company may lawfully issue the Shares to the Applicant.

Interests Fees and Benefits

Other than as set out below or elsewhere in this Prospectus, no:

- director of the Company; or
- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation and distribution of this Prospectus; or

- promoter of the Company; or

- underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Placement, has or had within two years before the date of this Prospectus, any interest in:
  - the formation or promotion of the Company; or
  - any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Placement; or
  - the Placement.

No amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of the above persons as an inducement to become or to qualify him or her as a Director or for services rendered by him or her in connection with the formation or promotion of the Company or the Placement.

(a) On 4 March 2004, the Company engaged Ropat Nominees Pty Ltd, a company controlled by Robert Hosking, to procure that Mr Hosking provide the services of managing director to the Company. The consultancy fee is $195,000 per annum. The term of the consultancy agreement is three years.

(b) On 1 March 2004, the Company entered into a lease with Ropat Nominees Pty Ltd, a company controlled by Robert Hosking, in relation to an office for the Company's use. An annual rent of $25,000 is payable by the Company and the term of the lease is three years.

(c) On 4 March 2004, the Company engaged IERS (Australia) Pty Ltd, a company controlled by Mark Smith, to procure that Mr Smith provide the services of exploration manager to the Company. Under the terms of the agreement Mr Smith is required to devote 50% of his working time to the affairs of the Company. The consultancy fee is $100,000 per annum. The term of the consultancy agreement is three years.

(d) Directors are not required under the Company's Constitution to hold any Shares in the Company. At the date of this Prospectus, Directors of the Company, or companies with which the Directors are associated, held Shares and Options in the Company as indicated in the table below.

	Shares		Options		Directors Options	
Director	**Direct Holding**	**Indirect Holding**	**Direct Holding**	**Indirect Holding**	**Direct Holding**	**Indirect Holding**
R M Hosking	10,001	8,188,334	5,000	4,094,167	500,000	-
G Atkins (1)	150,000	-	75,000	-	-	--
M A Smith	10,000	1,200,000	5,000	600,000	500,000	-

Note:

(1) It is proposed that subject to Shareholder approval Mr Atkins be issued 500,000 Options exercisable at $1.35 each on or before 30 June 2007.

(e) The Company's Constitution provides that the Directors are entitled to be remunerated for services rendered as Directors. The Directors have agreed that directors fees of $25,000 per annum will be paid to each of the other non-executive Directors. In addition to the remuneration paid to the Directors, they are entitled to reimbursement for all travelling expenses properly incurred in connection with the affairs of the Company, including to and from all meetings of Directors and members of the Company.

(f) Adenmere Pty Ltd has been (or will be) paid a fee of approximately $7,200 (excluding GST) for preparing the Independent Geologist's Report in section 6 of this Prospectus, and for other work undertaken for the Company over the past two years has been paid $7000 (excluding GST).

(i) Mallesons has been (or will be) paid a fee of approximately $8000 (excluding GST) for preparing the Solicitor's Report on Victorian Permits in Section 6 of this Prospectus, and has been paid $5000 (excluding GST) for other work undertaken by the Company over the past two years.

(j) Fearis Salter Power Shervington has been (or will be) paid a fee of approximately $25,000 (excluding GST) for overseeing the due diligence process, reviewing this Prospectus and preparing the Solicitor's Report on Western Australian Permits in Section 7 of this Prospectus, and for work undertaken for the Company over the past two years has been paid approximately $140,000 (excluding GST).

(k) The Lead Manager will receive a placement fee of 6% of the total funds raised under the Placement and a broker handling fee of 3%. In respect of the SPP as described in Section 2.

Consents

The following persons have given their written consent to be named in this Prospectus and have not withdrawn such consent before lodgement of this Prospectus with ASIC:

(a) Adenmere Pty Ltd has consented to be named as Independent Geologist for the Company and to the inclusion of its Independent Geologist's Report in this Prospectus in the form and context in which it is included, and to references to that report and statements based on that report, elsewhere in this Prospectus.

(b) Mitchell Wilson and Partners have consented to be named as Auditors.

(c) Mallesons have consented to being named as Reporting Solicitors (Victoria) and to the inclusion of their Solicitor's Report on Victorian Permits in the Prospectus in the form and context in which it is included.

(d) Computershare Investor Services Pty Limited has consented to being named as Share Registry.

(e) E.C. & L. Baillieu Stockbroking Ltd has consented to being named as Lead Manager.

(f) Fearis Salter Power Shervington has consented to be named as Solicitors to the Issue and Reporting Solicitors (Western Australia) and to the inclusion of their Solicitor's Report on Western Australian Permits in the Prospectus in the form and context in which it is included, and to references to that report and statements based on that report, elsewhere in the Prospectus.

Other than as disclosed above, none of the abovementioned persons have been involved in the preparation, or authorised or caused the issue of this Prospectus.

Expenses of the Offer

It is estimated that the expenses of the Placement will be approximately $900,000.

Legal Proceedings

The Company is not involved in any legal proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company.

16. DEFINITIONS, GLOSSARY AND CONVERSIONS

$	Australian Dollars (all amounts in this Prospectus are in Australian Dollars).
Anticline	A fold in the rocks in which the beds are convex upwards.
Applicant(s)	Person(s) who submit valid Application Forms.
Application Form	The application form that accompanies this prospectus.
Application Monies	Monies accompanying an Application Form (at $1.20 per Share).
ASIC	The Australian Securities & Investments Commission.
ASTC Settlement Rules	The ASX Settlement and Transfer Corporation Pty Ltd Settlement Rules
ASX	Australian Stock Exchange Limited (ACN 008 624 691).
Basin	A segment of the earth's crust that has down warped and in which sediments have accumulated.
BCF/bcf	Billion cubic feet of gas (thousand million) at atmospheric pressure and temperature.
BG Farmout Agreement	The farmout agreement dated 13 April 2005 between BG International and Karoon Gas.
BG International	BG International Limited, a limited liability company incorporated in England with registered number 009 022 39.
Browse Basin Permits	Exploration Permits for Petroleum Nos WA-314-P and WA-315-P.
Board	The Board of Directors of the Company.
CHESS	Clearing House Electronic Sub-register System.
Cleat	A joint, or system of joints, along which coal fractures.
Closing Date	5.00pm WST on 23 June 2005.

Coal Bed Methane or CBM	Natural Gas (mostly methane) contained within coals.
Constitution	The Constitution of the Company.
Company or Karoon Gas	Karoon Gas Australia Ltd (ACN 107 001 338).
Core	A cylindrical piece of rock taken as a sample by a special hollow drill bit.
Corporations Act	Corporations Act of 2001 (Commonwealth).
Cretaceous	A period of geological time between about 135 and 65 million years ago.
CSG	Coal Seam Gas.
CSM	Coal Seam Methane.
Director	A member of the Board of Directors of the Company.
Directors' Options	Option to subscribe for Shares at 25 cents each exercisable on or before 30 June 2007 issued pursuant to the ESOP.
EL	Victorian Exploration Licence.
ESOP	Employee Share Option Plan.
General Meeting	The general meeting of Shareholders to be held on 26 May 2005.
Geotechnical	Geological and Geophysical.
Gippsland Basin	A sedimentary basin containing Tertiary and Cretaceous sediments in Victoria's south east.
Gp	Group.
GST	Goods and services tax.
High Volatile	Coal with more than 31% of volatile matter analysed on a dry, mineral-matter-free basis.
Hydrocarbon	An organic compound of hydrogen and carbon that includes oil, gas and condensate, commonly referred to as petroleum.

Isopach Map	A map that represents the thickness of a unit (coal) by means of lines drawn through points of equal thickness.
Joint Operating Agreement	The joint operating agreement dated 13 April 2005 between Karoon Gas and BG International.
Jurassic	A period of geological time approximately 195 to 135 million years ago.
Karoon Leases	PEP162 and EL4537.
Lead Manager	E.C. & L. Baillieu Stockbroking Ltd.
Leads	Potential Petroleum traps that have been identified but have not been adequately defined.
Liberty	Liberty Petroleum Corporation.
Liberty Farmin Agreement	The farmin agreement dated 5 February 2005 between Karoon Gas and Liberty.
Listing Rules or ASX Listing Rules	The listing rules of ASX, as amended from time to time.
Lower Cretaceous	An epoch in time of 144 to 65 million years ago.
M or m	Metres.
MDT	Modular formation dynamics tester.
MMscf	Million standard cubic feet.
Methane	The lightest hydrocarbon gas; CH4.
Migrate	The movement of hydrocarbons through rocks.
Options	Options to subscribe for Shares.
Optionholder	A holder of Options.
Opening Date	The first date for the processing of completed Application Forms, which is 26 May 2005.
Permeability	The capacity of a rock (coal) to transmit a fluid.
PEP	Victorian Petroleum Exploration Permit.

Placement	The placement of approximately 10,000,000 Shares at an issue price of $1.20 to Professional and Sophisticated Investors pursuant to this Prospectus.
Porosity	The ability of a rock to contain a fluid in interstices.
Pinchout	A Strategraphic trap formed by the thinning to zero of a permeable sandstone between two layers of impermeable rock.
Prospects	Geological or geophysical anomalies that have been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
Professional or Sophisticated Investors	Professional or sophisticated investors which do not require disclosure in relation to an offer of securities pursuant to Sections 708(8) and 708(11) of the Corporations Act respectively.
Reserves	Quantities of economically recoverable hydrocarbons estimated to be present within a trap, classified as proven, probable, or possible.
Rv	Vitrinite Reflectance, a measure of the thermal maturity of organic material in a rock.
SCF	Standard Cubic Feet.
Seismic Survey	The gathering of data on the subsurface by a particular geophysical method that uses shock waves.
Shareholder	A holder of Shares.
Share	A fully paid ordinary Share in the capital of the Company.
SPP	The Share Purchase Plan announced by the Company to the ASX on 27 April 2005.
Source Rocks	A geological formation that contains sufficient organic matter such that when under sustained elevated pressures and temperatures, the organic matter is converted to hydrocarbons.

Subscribers	Persons being Professional or Sophisticated Investors who have signed letters of commitment to subscribe for Shares in the Placement subject to Shareholder approval.
TCF/tcf	Trillion Cubic Feet.
Tonne	Metric tonne (1000 kilograms).
Vitrinite	An oxygen-rich particle composed of humic matter.

17. DIRECTORS CONSENT

This Prospectus has been issued by the Company and each director has consented in writing to the lodgement of this prospectus with ASIC.

Robert M Hosking
Executive Chairman

18. APPLICATION FORM

This Application Form relates to the Placement of approximately 10,000,000 Shares at $1.20 per Share pursuant to a Prospectus dated 12 May 2005. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus. The Prospectus contains information about investing in the Shares and it is advisable to read the Prospectus before applying for Shares. A person who gives another person access to this Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary Prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary Prospectus (if applicable) and a Application Form, on request and without charge.

No of Shares applied for: .....

Brokers Stamp

Application monies at $1.20 per Share: .....

Title Given Names/Company Name Surname/ACN

....

Joint applicants or account designation

....

....

Postal Address .....

City/Town ..... State ..... Postcode.....

Email Address .....

Contact Name ..... Daytime Contact No. .....

CHESS Details ..... PID .....HIN .....

Tax File No/Exemption Category

Applicant 1 Applicant 2 Applicant 3

....

Payment Details Drawer	Bank	Branch	Amount
.....	.....	.....	$.....
.....	.....	.....	$.....

DECLARATION

By lodging this Application Form and a cheque for the application money the Applicant hereby:

a) applies for the number of Shares specified in the Application Form or such lesser number as may be allocated by the Directors and the corresponding number of Options as determined under the Prospectus;

b) agrees to be bound by the Constitution of the Company; and

c) authorises the Directors to complete or amend this Application Form where necessary to correct any errors or omissions.

18. APPLICATION FORM

This Application Form relates to the Placement of approximately 10,000,000 Shares at $1.20 per Share pursuant to a Prospectus dated 12 May 2005. The expiry date of the Prospectus is the date which is 13 months after the date of the Prospectus. The Prospectus contains information about investing in the Shares and it is advisable to read the Prospectus before applying for Shares. A person who gives another person access to this Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary Prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary Prospectus (if applicable) and a Application Form, on request and without charge.

No of Shares applied for: .....

Brokers Stamp

Application monies at $1.20 per Share: .....

Title Given Names/Company Name Surname/ACN

....

Joint applicants or account designation

....

....

Postal Address .....

City/Town ..... State ..... Postcode.....

Email Address .....

Contact Name ..... Daytime Contact No. .....

CHESS Details ..... PID .....HIN .....

Tax File No/Exemption Category

Applicant 1 Applicant 2 Applicant 3

....

Payment Details Drawer	Bank	Branch	Amount
.....	.....	.....	$.....
.....	.....	.....	$.....

DECLARATION

By lodging this Application Form and a cheque for the application money the Applicant hereby:

a) applies for the number of Shares specified in the Application Form or such lesser number as may be allocated by the Directors and the corresponding number of Options as determined under the Prospectus;

b) agrees to be bound by the Constitution of the Company; and

c) authorises the Directors to complete or amend this Application Form where necessary to correct any errors or omissions.

NOTES

1. Enter the number of Shares you wish to apply for.
2. Enter the total amount of application monies payable. To calculate this amount, multiply the number of Shares you are applying for by the issue price for each Share (i.e. $1.20 cents).
3. Enter the full name(s) of all legal entities that are to be recorded as the registered holders.
4. Enter the postal address for all communications from the Company.
5. Enter the name and telephone number of the person who should be contacted if there are any questions with respect to this Application.
6. If you are CHESS sponsored, enter your Participant Identification Number (PID) and Holder Identification Number (HIN), otherwise leave this box blank and a Shareholder Reference Number (SRN) will be allocated to you on issue.
7. Enter the tax file number(s) of the Applicant(s) - this is not mandatory.
8. Unless otherwise agreed by the Company, payment must be made to **"Karoon Gas Australia Ltd Placement"** by cheque drawn or payable on a bank within Australia, crossed **"Not Negotiable"** and be in Australian dollars. Receipt of payment will not be acknowledged.
9. This application form does not need to be signed. Return of this application form with the required application monies will constitute acceptance of that number of Shares stated on this Application Form.

If you have received an Application Form without a complete and unaltered copy of this Prospectus, please contact the Company who will send you, free of charge this Prospectus (or both).

Please note that if an Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors as to whether to accept an Application Form, and how to construe, amend or complete it, shall be final. An Application Form will not be treated as having offered to subscribe for more Shares than is indicated by the amount of the accompanying cheque. Please deliver the completed Application Form (accompanied by a cheque for the application monies) at any time prior to Closing Date to:

E.L. & C. Baillieu Stockbroking Ltd
27th Level
360 Collins Street
MELBOURNE VIC 3000

Applications must be received by the Closing Date.

Please telephone Liza Kay on (03) 5974 1044 if you have any questions with respect to this Application Form.

Applications are for Shares as detailed in the Prospectus dated 12 May 2005.

CORRECT FORMS OF REGISTRABLE TITLE

Note that only legal entities are allowed to hold securities. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities

acceptable to the Company. At least one full name and the surname is required for each natural person. Application Forms cannot be completed by persons under 18 years of age. Examples of the correct form of registrable title are set out below:

Type of Investor	**Correct Form of Registrable Title**	**Incorrect Form of Registrable Title**
Trusts	Mr John David Brown <John David Brown A/C>	John Brown Family Trust
Deceased Estates	Mr John David Brown <Est John David Brown A/C>	John Brown <Deceased>
Partnerships	Mr John David Brown and Mr Michael James Brown	John Brown & Son
Clubs/ Unincorporated Bodies	Mr John David Brown <ABC Tennis Association A/C>	Brown Investment Club or ABC Tennis Association
Super Funds	John Brown Pty Ltd <Super Fund A/C>	John Brown Superannuation Fund

KAROON GAS AUSTRALIA LTD
(ACN 056 976 642)

PROSPECTUS

for the placement of approximately 10,000,000 Shares at $1.20 each
to Professional and Sophisticated Investors
to raise approximately $12,000,000

The issue is not underwritten.

This Prospectus provides important information to assist investors in deciding whether or not to invest in the Company and should be read in its entirety, together with the Application Form attached to this Prospectus.

If, after reading this Prospectus, you have any questions about the Shares being offered under this Prospectus or any other matter relating to an investment, you should consult your professional advisor.

The Shares offered under this Prospectus are only available to the Subscribers and should be considered speculative.