



KAROON
Gas Australia Ltd



Karooon Gas Australia Limited
ABN 53 107 001 338

PROSPECTUS

For an issue of
20,000,000 Shares
at 20 cents each to
raise \$4 million with
10,000,000 free
attaching Options

Pictured on front cover:

Seismic trucks at Karoon Lease PEP162 (trucks not assets of Karoon Gas)

A tree which was reputedly one of the largest in the world, on Lease

PEP162 circa 19th century;

Aerial view of Lease PEP162.

CORPORATE DIRECTORY

Directors

[Robert M Hosking](#)

Executive Chairman

[Mark A Smith](#)

Executive Director and Exploration Manager

[Edward Munks](#)

Non-Executive Director and
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@hotmail.net.au

Website: www.karoongas.com.au

Share Registry

Computershare Investor Services Pty Limited

45 St Georges Terrace

Perth, Western Australia 6000

PO Box D182

Perth, Western Australia 6840

Tel: 1 300 557 010

Fax: (08) 9232 2033

Solicitors to the Issue

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

Investigating Auditors and Independent Accountants

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

Website: www.mitchellwilson.com.au

Independent Geologist

Mimosa Grand Pty Ltd

trading as Upstream Strategies

27 Madura Street

Travancore, Victoria 3032

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Fax: (03) 9370 4227

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Independent Solicitors

Campbell Horsfall and Associates

Lawyers

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IMPORTANT NOTES

Date of Lodgment

This Prospectus is dated 22 March 2004. It was lodged with ASIC on 22 March 2004. Neither ASIC nor ASX take any responsibility for the contents of this Prospectus.

Electronic/Paper Prospectus

The Company has issued both a printed and electronic version of this Prospectus. The electronic version may be accessed at www.karoongas.com.au. No Shares or Options 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 (whether in printed or electronic form) as the Shares and Options have only been qualified for issuance in Australia. Where this Prospectus has been dispatched to, or accessed electronically in, a jurisdiction outside Australia and that jurisdiction's securities legislation requires registration of this Prospectus, this Prospectus is provided for information purposes only. Non-Australian residents should refer to the "Additional Information" section on page 46 for further details.

No person is authorized to give any information or to make any representation in connection with the Offer. Any information or representation in relation to the Offer which is not contained in this Prospectus may not be relied on as having been authorized by the Company.

Applications

The Company reserves the right to refuse any Application, including an Application from a person where the Company has reason to believe that when the person was given the Application Form, he or she was not provided with a complete and unaltered copy of this Prospectus and any relevant supplementary or replacement prospectus. 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, either a printed or electronic version of this Prospectus (or both).

The Corporations Act prohibits any person passing the Application Form onto another person unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus.

Exposure Period

In accordance with Chapter 6D of the Corporations Act, this Prospectus is subject to an Exposure Period of seven days from the date of lodgment with ASIC. This period may be extended by ASIC for a further period of up to seven days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with Section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until the Exposure Period has expired. No preference will be given to Applications received during the Exposure Period, and all Applications received during the Exposure Period will be treated as if they were simultaneously received on the date the Offer opens.

Privacy

When submitting an Application Form, Applicants will be required to provide certain personal information on the Application Form for the purposes of enabling the Company to register that Applicant as the holder of a Share, to enter relevant information in the Company's register of members and to enable the Company to contact that Applicant. At all times, personal information may be required to be disclosed by the Company to the Australian Taxation Office, or other government authorities or agencies as required by law. Such information may be disclosed to the Company's accountants, financial advisers and others where the Applicant's authority has been received. All personal information so collected will be collected, used and stored by the Company for the purposes required by the Corporations Act or the Listing Rules, or for direct and permitted communication by the Company with the Applicant.

Definitions

Certain terms, including technical terms, are defined in the "Definitions, Glossary and Conversions" section on page 52.



1. LETTER FROM THE CHAIRMAN

22 March 2004

Dear Investor,

On behalf of the Board I take great pleasure in presenting Karoon Gas Australia Ltd ("Karoon Gas") and offer you the opportunity to become a Shareholder. In accepting this Offer you will enter the Australian energy market through this exciting new Coal Bed Methane ("CBM") energy exploration company.

Karoon Gas plans to explore for CBM, hydrocarbons and natural gas in the Narracan Trough in the Western Onshore Gippsland Basin. This opportunity allows Karoon Gas an entry into the expanding CBM/energy industry in Australia.

CBM production in Australia is an emerging growth industry, highlighted by the recent increase in CBM gas production in Queensland, where CBM accounted for approximately 23% of the total gas consumed during 2002 and 2003. The United States has been using CBM for many years and the CBM industry now accounts for an increasing percentage (approximately 6% to 8%) of the US domestic gas market. This growth has been aided by modern engineering and technological advances, which have created more reliable and economic drilling and extraction techniques, allowing customers to receive consistent supply and enhancing supply confidence to gas markets.

Karoon Gas Pty Ltd, a wholly owned subsidiary of Karoon Gas, is the registered holder of PEP162 and has lodged an application to become the registered holder of EL4537 ("Karoon Leases").

Funds raised from this Offer will fund drilling and results analysis in relation to the Karoon Leases which are situated in the Narracan Trough.

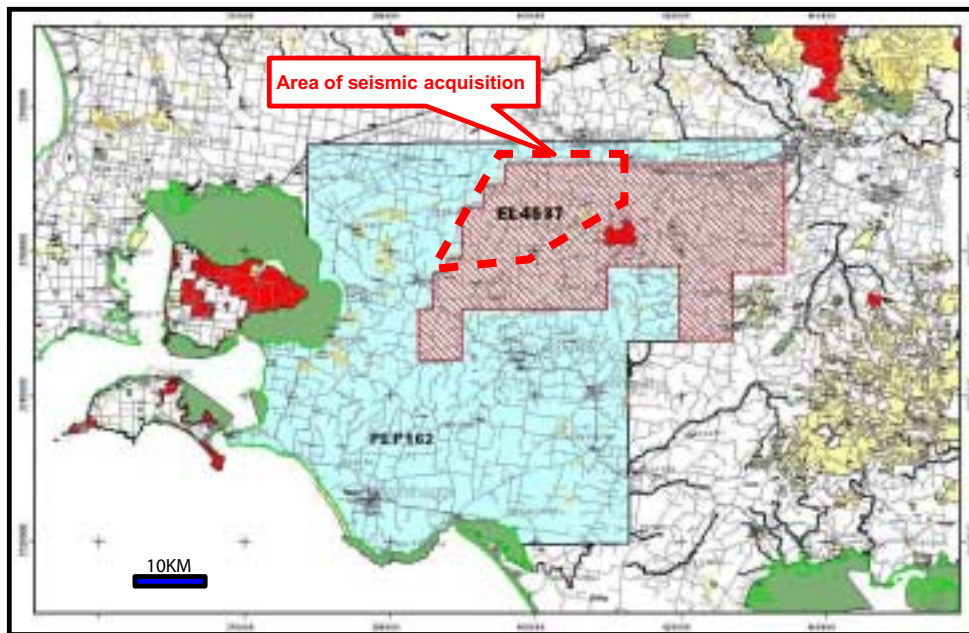
The Company's principal goal is to apply the many years of geological and geophysical experience of its directors and consultants to create a "greenhouse friendly" energy source and to provide profitable operations for Shareholders.

I look forward to your support and welcome you as a Shareholder of Karoon Gas.

Yours faithfully



Robert M Hosking
Chairman



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

2. CORPORATE PURPOSE

Karoon Gas's purpose is to:

Deliver high returns to Shareholders by applying disciplined technical and financial management to CBM and natural gas exploration and development.

Undertake exploration activities based on rigorous geotechnical analysis in the Western On-Shore Gippsland Basin/Narracan Trough.

Drive commercial developments of successful exploration activities based on solid economic, market and infrastructure analysis and planning.

Ensure the implementation of corporate governance principles and ensure that there is a disciplined commitment to:

- financial control systems;
- the safety of employees and contractors;
- the cultural heritage of our communities; and
- the environment.

Investment Highlights

Recent seismic surveys have identified the Narracan Trough within the area covered by the Karoon Leases as a deeper and possibly more prospective basin than previously interpreted. The trough is prospective for CBM and conventional oil and gas.

Geologists and geophysicists who have viewed the data believe that the high amplitude events shown on the seismic surveys are likely to arise from black coal beds.

The black coal sequence is interpreted to be at depths of between approximately 500 and 1200 metres of sufficiently shallow for commercial CBM development.

The interbedded coaly sequence appears to be approximately 300 to 400 metres thick, with individual coal seam thickness interpreted to vary from two to more than ten metres.

Old mines on the southern flank of the Narracan Trough provided Victoria's only source of commercial black coal from the state collieries between 1900 and 1950. Methane explosions in the mines provide evidence of the gas content of the coals.

3. THE OFFER

This Prospectus provides information on the Offer to subscribe for a total of 20,000,000 Shares at an issue price of 20 cents each with a capacity to accept oversubscriptions of up to a further 5,000,000 Shares. The issue price is payable in full upon Application for Shares.

Shares issued pursuant to the Offer will rank equally in all respects with existing Shares. The rights and liabilities attaching to Shares are further described in the "Additional Information" section on page 46.

For every two Shares issued to an Applicant, the Applicant will be issued a free attaching Option to subscribe for one Share at 20 cents each exercisable on or before 30 June 2006. The terms of the Options are detailed in the "Additional Information" section on page 46. Fractional entitlements to Options will be rounded down.

Public Offer

The Public Offer is open to public investors. The Public Offer is for a total of 20,000,000 Shares and 10,000,000 Options with a capacity to accept oversubscriptions of up to a further 5,000,000 Shares and 2,500,000 Options reduced by the number of Shares and Options subscribed for under the Priority Offer.

Key Dates

Date of Prospectus	22 March 2004
Despatch of Prospectus to Nexus Shareholders	30 March 2004
Opening Date	30 March 2004
Priority Offer Closing Date	19 April 2004
Public Offer Closes	19 May 2004
Expected Date for dispatch of holding statements	24 May 2004
Expected Date of ASX Quotation	31 May 2004

These dates are indicative only and may vary. Karoon Gas reserves the right to vary the Opening Date, Priority Offer Closing Date and Public Offer Closing Date without prior notice subject to the requirements of the Listing Rules and the Corporations Act.

Applicants are encouraged to apply as soon as possible after the Offer opens as the Offer may close earlier than the date specified above. The Company reserves the right not to continue with the Offer at any time before the allotment of Shares and Options to successful Applicants. The above dates are anticipated dates only. The dates the Shares and Options are expected to be issued and/or commence trading on the Official List may vary with any change to the Priority Offer Closing Date or Public Offer Closing Date.

Applications must be made on the Public Application Form enclosed with this Prospectus. Applications under the Public Offer must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares.

Further details of the Public Offer are set out below.

Priority Offer to Nexus Shareholders

By virtue of a prior arrangement with Nexus Energy, the Company has agreed to provide a Priority Offer to Nexus Shareholders. Under the Priority Offer, 5,000,000 Shares and 2,500,000 Options offered under this Prospectus will be made available for application by Nexus Shareholders in priority to public investors.

Nexus Shareholders who wish to subscribe for Shares pursuant to the Priority Offer must make an Application on the blue Priority Application Form enclosed with this Prospectus.

Further details of the Priority Offer are set out below.

Purpose of the Offer

The purpose of this Offer is to raise funds for use in the Company's exploration programs on PEP162 and EL4537, which are situated in the Western On-Shore Gippsland Basin. These exploration programs aim to discover CBM for use as mains gas for households and industry in Melbourne and the Latrobe Valley.

Capital Structure

After completion of the Offer the capital structure of the Company will be as follows:

Capital Structure	Minimum Subscription of 18,000,000 shares		Subscription of 20,000,000 Shares		Maximum Subscription of 25,000,000 shares	
	SHARES	OPTIONS	SHARES	OPTIONS	SHARES	OPTIONS
Shares Issued under this Prospectus	18,000,000	9,000,000	20,000,000	10,000,000	25,000,000	12,500,000
Seed Capital Shares Issued (1)	3,350,003	1,675,000	3,350,003	1,675,000	3,350,003	1,675,000
Consideration for Cancellation or Royalties (2)	3,000,000	1,500,000	3,000,000	1,500,000	3,000,000	1,500,000
Vendor Consideration (3)	15,000,000	7,500,000	15,000,000	7,500,000	15,000,000	7,500,000
Directors' Options		1,500,000		1,500,000		1,500,000
Total Shares /Options on Issue	39,350,003	21,175,000	41,350,003	22,175,000	46,350,003	24,675,000

Table 1

Notes:

(1) 3,350,000 Shares together with 1,675,000 free attaching Options were issued to seed capitalists at 10 cents each in December 2003. Funds raised from the issue were used for interim working capital. The additional three Shares are founder Shares that were issued upon incorporation of the Company.

(2) 3,000,000 Shares and 1,500,000 Options will be issued pursuant to a Deed of Termination between Karoon Gas, Karoon Gas Pty Ltd and Nexus Energy Aust NL dated 18 March 2004 in consideration for the cancellation of Karoon Gas Pty Ltd's obligations under

the Nexus Royalty Deeds. Refer to the "Material Contracts" section on page 47 for further details.

(3) 15,000,000 Shares and 7,500,000 Options were issued to Ropat Nominees Pty Ltd, a company associated with Robert Hosking, in consideration for the acquisition of Karoon Gas Pty Ltd by Karoon Gas. Of these Shares and Options, Ropat Nominees Pty Ltd has transferred 6,811,666 Shares and 3,405,833 Options to various parties who rendered services in connection with Karoon Gas Pty Ltd's operations and activities prior to its acquisition by Karoon Gas.

Application of Funds

The proceeds of the Offer will be used predominately to fund the further exploration and appraisal drilling of the Karoon Leases. The Company will use remaining funds to identify reserves and begin initiating CBM production, provided appraisal wells produce favorable results.

The following table demonstrates the expected application of funds over the two years ending December 2005.

	Minimum Subscription	Full Subscription	Maximum Subscription
Exploration and Drilling EL4537, PEP162	\$2,000,000	\$2,000,000	\$2,000,000
Funds for use in identifying reserves and initiating CBM Production	\$685,000	\$1,095,000	\$2,095,000
Administration Costs & Working Capital	\$850,000	\$850,000	\$850,000
Costs of Issue	\$390,000	\$390,000	\$390,000
Less			
Funds available from seed capital contributors	\$335,000	\$335,000	\$335,000
Offer Proceeds	\$3,600,000	\$4,000,000	\$5,000,000

Table 2

Minimum Subscription

The minimum subscription to be raised pursuant to this Prospectus is 18,000,000 Shares to raise \$3,600,000.

Shares and Options 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.

Maximum Subscription

The Company has the capacity to accept oversubscriptions of 5,000,000 Shares.

As indicated in the table above, oversubscriptions accepted under the Offer will be applied to additional working capital for use in identifying reserves and initiating CBM production.

Dividends

Karoon Gas is in the exploration and appraisal stage and is not presently in a position to pay dividends.

While it is not obligatory for Applicants to quote their tax file number, tax will be withheld at a rate of 48.5% on unfranked and partially franked dividends if Australian resident investors do not quote their tax file number.

Applications for Shares – Public Offer

The Public Offer is for 20,000,000 Shares and 10,000,000 Options up to a maximum of 25,000,000 Shares and 12,500,000 Options (inclusive of oversubscriptions), reduced by the number of Shares and Options subscribed for under the Priority Offer.

If you wish to apply for Shares and Options in the Public Offer, you should complete the Public Application Form attached to this Prospectus.

Application for Shares – Priority Offer

The Company has agreed to provide a Priority Offer to Nexus Shareholders. 5,000,000 Shares and 2,500,000 Options offered under this Prospectus will be made available for application to Nexus Shareholders in priority to public investors.

The Priority Offer is **not** an entitlement.

The Company has agreed to provide a total of up to 5,000,000 Shares and 2,500,000 Options to Nexus Shareholders for which Applications are received by the Company in accordance with this Prospectus. In exercising its discretion, the Company will favour those subscribers making an early application for Shares and Options. The Directors will retain the absolute discretion in the final allocation process.

A Nexus Shareholder who wishes to participate in the Priority Offer, should complete the personalised loose leaf blue Priority Application Form accompanying this Prospectus. The Priority Application Form must be returned to Computershare Investor Services Pty Ltd at the address referred to in the section "How to Apply for Shares and Options", on page 12.

The Priority Offer will only apply to Applications received on or before the earlier of the Priority Offer Closing Date or the day upon which Applications for a total of 5,000,000 Shares and 2,500,000 Options are received from Nexus Shareholders and accepted by the Company, subject always to the right of the Company to close the Priority Offer early. Applications received after this date but before the Public Offer Closing Date will be treated as Applications under the Public Offer.

All Applications received prior to the earlier of the Priority Offer Closing Date or the day upon which Applications for a total of 5,000,000 Shares and 2,500,000 Options are received from Nexus Shareholders and accepted by the Company ("Minimum Allotment") will be met on a "first come first served" basis.

Shares applied for in excess of the Minimum Allotment and received prior to the Priority Offer Closing Date may be allotted at the absolute discretion of the Directors.

Nexus Shareholders may also apply for additional Shares and Options under the Public Offer by completing the Application Form entitled "Public Application Form" accompanying this Prospectus and sending the completed form to Computershare Investor Services Pty Ltd at the address referred to in the section "How to Apply for Shares and Options", below.

Shares not taken up by Nexus Shareholders pursuant to this Priority Offer will be made available to the general public for subscription under the Public Offer.

How to Apply for Shares and Options

Applications for Shares and Options can only be made by;

- completing the relevant Application Form included in this Prospectus in accordance with the instructions on the reverse side of the relevant Application Form; or
- printing and completing the Application Form included with the electronic Prospectus at www.karongas.com.au in accordance with the instructions on that website.

If an Application Form is incomplete or erroneously completed, or if the accompanying cheque is for the wrong amount, it may nevertheless be accepted by the Company. The decision by the Company whether to accept an Application shall be final, provided that no Applicant may be required to subscribe for Shares of a greater value than the amount of the accompanying cheque.

Applications must be for a minimum of 10,000 Shares (\$2,000) and thereafter in multiples of 1,000 Shares (\$200). A cheque made payable to "Karoo Gas Australia Ltd Share Offer" and crossed "Not

Negotiable" must accompany each Application. Cash will not be accepted.

Applications must be forwarded to:

Your stockbroker with instructions to send your Application to Computershare Investor Services Pty Limited (at the address below).

or

Computershare Investor Services Pty Limited
PO Box D182
PERTH WA 6840

or

Bell Potter Securities Limited
GPO Box 4718TT
MELBOURNE VIC 3001

or

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

or

Tricom Equities Limited
Level 31
360 Collins Street
MELBOURNE VIC 3000

Completed Priority Application Forms must be received by 5.00pm EST on 19 April 2004 and completed Public Application Forms must be received by 5.00pm EST 19 May 2004. However, the Company reserves the right at any time after the Opening Date, without prior notice, to extend the Offer or to close the Offer early. Accordingly, investors are urged to lodge their Application Forms as soon as possible.

Application Monies

Application Monies will be held in trust in a separate bank account on behalf of Applicants until the Shares and Options are issued. If any Application is rejected (in whole or in part), the amount tendered in respect of Shares and Options that have not been issued will be repaid to the unsuccessful Applicant, without interest.

Issue of Shares and Options

If the Company decides to accept your Application and issue the Shares and Options applied for, either in whole or in part, it will issue the Shares and Options and dispatch a holding statement to you as soon as practicable after the Priority Offer Closing Date or the Public Offer Closing Date (as the case may be), together with any Application Monies received in excess of the number of Shares issued to you. The issue of Shares and Options pursuant to this Prospectus is subject to ASX granting official quotation of the Company's securities and the minimum subscription being met.

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

ASX Listing

Within seven days after the issue of this Prospectus, Karoon Gas will apply to the ASX for the existing Shares and Options and the new Shares and Options issued under this Prospectus to be quoted on the ASX. Karoon Gas will apply for official quotation of Shares issued on exercise of Options within three business days of the issue of those Shares.

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

If the application is not made within seven days after the date of this Prospectus, or if the Shares and Options 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.

CHESS

The Company will apply to be admitted to participate in the Clearing House Electronic Subregister System (CHESS), in accordance with the ASX Listing Rules. On admission to CHESS, the Company will operate an electronic issuer sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together will make up the Company's principal register of Shares and Options.

The Company will not issue certificates to Shareholders or Optionholders. Following the Issue, the Company will provide each Shareholder and Optionholder with a holding statement (similar to a bank account statement) that sets out the number of Shares and Options issued to the Shareholder under this Prospectus. The holding statement will also inform Shareholders and Optionholders of their "Shareholder Reference Number". Shareholders will receive an explanation of sale and purchase procedures under CHESS with their holding statement. If a holding changes during a month, the holder will receive a new holding statement at the end of that month. Shareholders and Optionholders may also request holding statements at any other time, although the Company may charge an administration fee in this case.

Allocation

The Directors reserve the right to allot and issue any lesser number of Shares and Options than those applied for or to decline any Application. Where the number of Shares and Options is less than the number applied for, all surplus Application Monies will be returned without interest. Where no allotment or issue is made, the amount tendered on Application will be returned in full without interest.

No Shares or Options will be issued pursuant to this Prospectus later than 13 months from the date of the issue of this Prospectus. Shares will be allotted and issued pursuant to the exercise of Options on the terms and conditions on which the Options are issued.

Applicants will be sent their holding statement as soon as practicable after the allotment of Shares under this Prospectus.

Overseas Investors

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Shares or Options or the Offer, or otherwise to permit a public offering of the Shares and Options, in any jurisdiction outside Australia.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and, therefore, persons into whose possession this Prospectus comes (whether in printed or electronic form) should inform themselves on and observe any such restrictions. Failure to comply with relevant restrictions may constitute a violation of securities laws.

It is the responsibility of non-Australian resident investors to obtain all necessary approvals for the issue of Shares and Options to them under this Prospectus.

Underwriting

The Offer is not underwritten.

General Questions

Applicants with questions on how to complete the Application Form or who require additional copies of the Prospectus should telephone:

Sarah Callan at Bell Potter Securities Limited on 133 788;

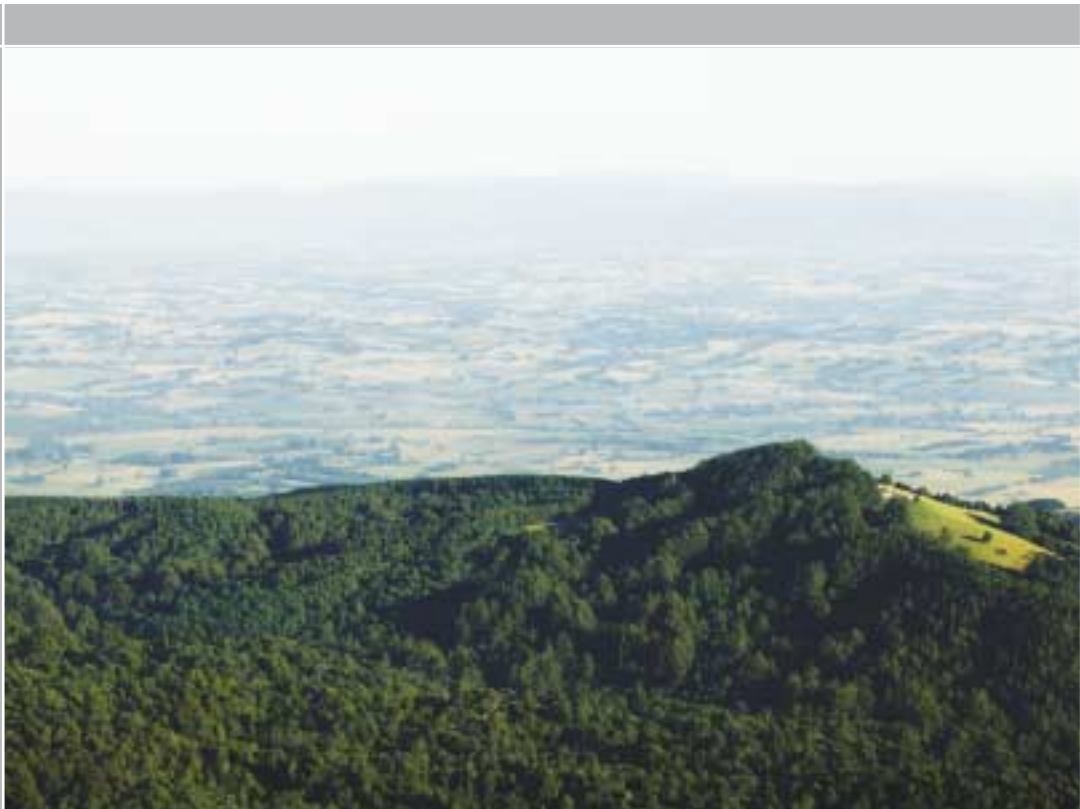
or

Amanda Roberts at Tricom Equities Limited on 1300 733 300;

or

Penny Kranz at E. L. & C. Baillieu Stockbroking Ltd on 1800 339 521;

or visit the Company's website at www.karoongas.com.au.



4. 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 nine years, most recently as a founding Director at Nexus Energy. 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 in preparation for listing on the ASX.

Robert has a background of 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 23 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 whilst with BHP Petroleum ("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 (having learnt from the ground up) 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 grown 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 include BHPP, ESSO and other large and small oil and gas industry organisations.

Edward Munks

B. Bus, FCPA, MAICD

Non-Executive Director and Company Secretary

Edward has a finance and commercial background with over 20 years' international experience with a range of industrial and resource companies. He has had considerable experience in a range of financial and business matters, from gas marketing in Asia and equity and debt capital raisings, to restructuring of corporate enterprises. He has also had considerable experience as a Chief Financial Officer with various listed companies in the past.

Edward is an accountant by training and prior to becoming associated with Karoon Gas, worked in a variety of commercial and financial roles as a State Manager with Brambles, as Chief Financial Officer and various other financial and commercial positions with Anzoil NL, Barrack Energy Limited, Arrow Petroleum

Limited, Home Energy Company Limited and the Baker Atlas Group. He is also currently a director of Original IT Investments and the Chief Financial Officer for Nexus Energy.

Edward is a Fellow of CPA Australia and a Member of the Australian Institute of Company Directors, the Society of Petroleum Engineers and the Petroleum Exploration Society of Australia.

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.

An audit committee has been established. It consists of two Directors. The role of the audit committee will be to:

- Monitor the administrative, operating, environmental and accounting control systems established by the Company.
- Liaise with the external auditors.
- Review the annual audit plan with the auditors.
- Review the information derived from the audit.
- Assess the performance of the auditors.

The auditors will have direct access to the Chairman of the audit committee.

5. COMPANY OVERVIEW

Background

Karoon Gas Australia Limited is a recently incorporated public company.

Karoon Gas's core focus and strategy is to explore the Western Gippsland Basin, a sedimentary Basin in Victoria's south east, using existing seismic information to assist in proving a potential commercial reserve of CBM and conventional oil and gas.

The Company's exploration acreage is 100% beneficially owned by Karoon Gas Pty Ltd, a wholly owned subsidiary of the Company. Historically the Narracan Trough has produced Victoria's only significant quantities of black coal. Total black coal output from the Narracan Trough was between 22 and 23 million tons between 1890 and 1960.

CBM Overview

CBM is a resource that in the past had been considered a waste product of coal mining. Over the past 25 years, CBM has begun to be a viable market replacement or a partial supply supplement for conventional gas in the retail gas market.

CBM consists of one carbon molecule with four hydrogen molecules and is formed from natural bacterial activity during the coalification process, whereby organic matter, often peat, is converted to coal as a consequence of compaction and heat. CBM is a simple hydrocarbon that can be used as a natural gas and is a cost-effective and clean burning fuel, which is considered to be more environmentally friendly than oil or coal and requires very little processing. A major advantage of CBM is that it is stored in small fractures, coal grain surfaces or micropores. It is absorbed and held there by reservoir pressure and does not require a sealed trap, as conventional oil and gas accumulations do. The coal acts as the source, reservoir and seal for the methane.

Production of CBM involves drilling into coal seams and, if required, discharging the water that can naturally exist within the cleats of the coal bed to

release the gas. De-pressurising a coal seam can produce water of varying quality and volumes, its quality ranging from usable to saline.

The black coal in Karoon Gas's permits is likely to be high in gas content due to the high vitrinite reflectance ("Rv") and medium volatile matter (average 31%). Coals in PEP162 and EL4537 have an Rv of 0.5%-0.67% at the surface and are interpreted to be increasing in maturity to over Rv 1% at 1000m. The coals interpreted to be present in PEP162 and EL4537 are at depths of over 500m. Researchers have suggested that the best coals for CBM are low to medium volatile bituminous coals with volatile matter content of 14% to 31% and Vr of 1.1% to 1.9%. Higher ranked black coals (Rv >0.7%) have a larger microspore surface area and can hold significantly more methane per unit volume than lower ranked brown coals and often many sandstone reservoirs.

The Western Gippsland Basin Assets

Karoon Gas (through its 100% owned subsidiary Karoon Gas Pty Ltd) has a 100% registered interest in PEP162 and 100% beneficial interest in 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 800 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.

Karoon Gas Pty Ltd has previously conducted exploration activities on its own behalf. Additional work is needed to prove any potential resource. After further analysis by Karoon Gas it has been interpreted that there are large sections of interbedded black coal sequences present in the Narracan Trough. Based on a comparison with key criteria from producing CBM fields the conditions appear favourable for the development of a potential CBM resource.

Pictured: (from left) Rupert Sage (dec.), Leongatha farmer who witnessed one of Victoria's earliest oil wells being drilled in the 1920s as a school boy; Bob Hosking, Exec. Chairman Karoon Gas; Dr Bruce Moore, Head of Geology, University of Kentucky, USA, and Director of Geoflite (Aust) PL.



Up until 2000, the Department of Natural Resources and Environment was of the opinion that the Narracan Trough was approximately 1500m deep. Upon the completion of interpretation and evaluation of seismic and gravity surveys in recent years, however, it has been confirmed that the Narracan Trough is not only deeper, but possibly more prospective for CBM and conventional oil and gas than first thought.

It has only been through the persistent exploration efforts of Karoon Gas Pty Ltd, supported by the Victorian Government, that this potential has been discovered. The secondary conventional exploration play is from the equivalent reservoirs that are gas productive in the Otway Basin, South Australia. Source rocks capable of generating oil and gas are interpreted to be present. Nine leads have been identified from existing seismic surveys.

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

Early in 2000 the board of Bass Petroleum (Victoria) Pty Ltd (now Karoon Gas Pty Ltd), commissioned experienced petroleum geoscientist, Mark Smith, (now a Director of Karoon Gas) to review the prospectivity of PEP162 (then known as PEP131). The completed report concluded that:

- The geological setting of the permit is analogous to that of the Otway Basin, further west, which yields significant natural gas production in both Victoria and South Australia.
- The evidence from recent exploration has improved assessment of prospectivity PEP162 and has not identified any new factors that will reduce it.
- The area is unexplored by industry standards and is located in an area close to major infrastructure and markets.

Upstream Strategies has prepared the Independent Geologist's Report on the Coal Bed Methane potential of the Karoon Leases.

Karoon Gas intends completing geological and geophysical surveys and focusing on defining and drilling targets by the end of the second or third quarter of 2004.

The Narracan Trough will be the primary focus of Karoon Gas's exploration strategy.

Company Strategy

The principal objective of the Company is to generate value for Shareholders by utilising the Company's collective geological and geophysical expertise to discover CBM, oil and gas in commercial quantities. The Company plans to operate predominately in the Gippsland Basin exploring for CBM and in other sedimentary basins with existing oil and gas reserves, close to infrastructure and pipelines to markets.

Geotechnical surveys have already been conducted in the Narracan Trough and the Directors intend using their experience to capitalise on the results of the interpretation. The Company's geological/geophysical team collectively hold around 50 years of working experience in some of the most prolific oil and gas discovery areas in Victoria and around Australia.

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

Budgeted expenditures over the next year are set out in Table 2 on page 8.

Karoon Gas estimates that its total exploration expenditure for the two years ending 31 December 2005 will amount to approximately \$3.5 million. This budget includes Karoon Gas's exploration activities in the Western Gippsland Basin, Narracan Trough (EL4537 and PEP162).



6. GIPPSLAND BASIN OVERVIEW

Stratigraphy

The Karoon Leases are generally characterised by extensive outcrops of the Early Cretaceous-age Strzelecki Group rocks (Figure-2). 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.

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-3).

The upper Strzelecki Group is a later stage graben fill interval dominated by volcanoclastic 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-4). 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 Strzelecki.

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

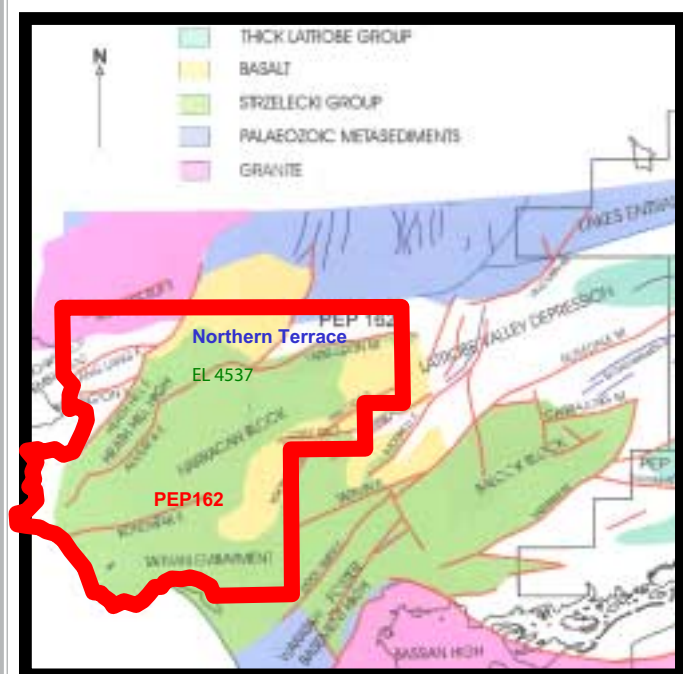


Figure 2:
Geological summary map-
EL 4537 Licence & PEP 162.
Shown are the main
outcropping units and
structural elements.

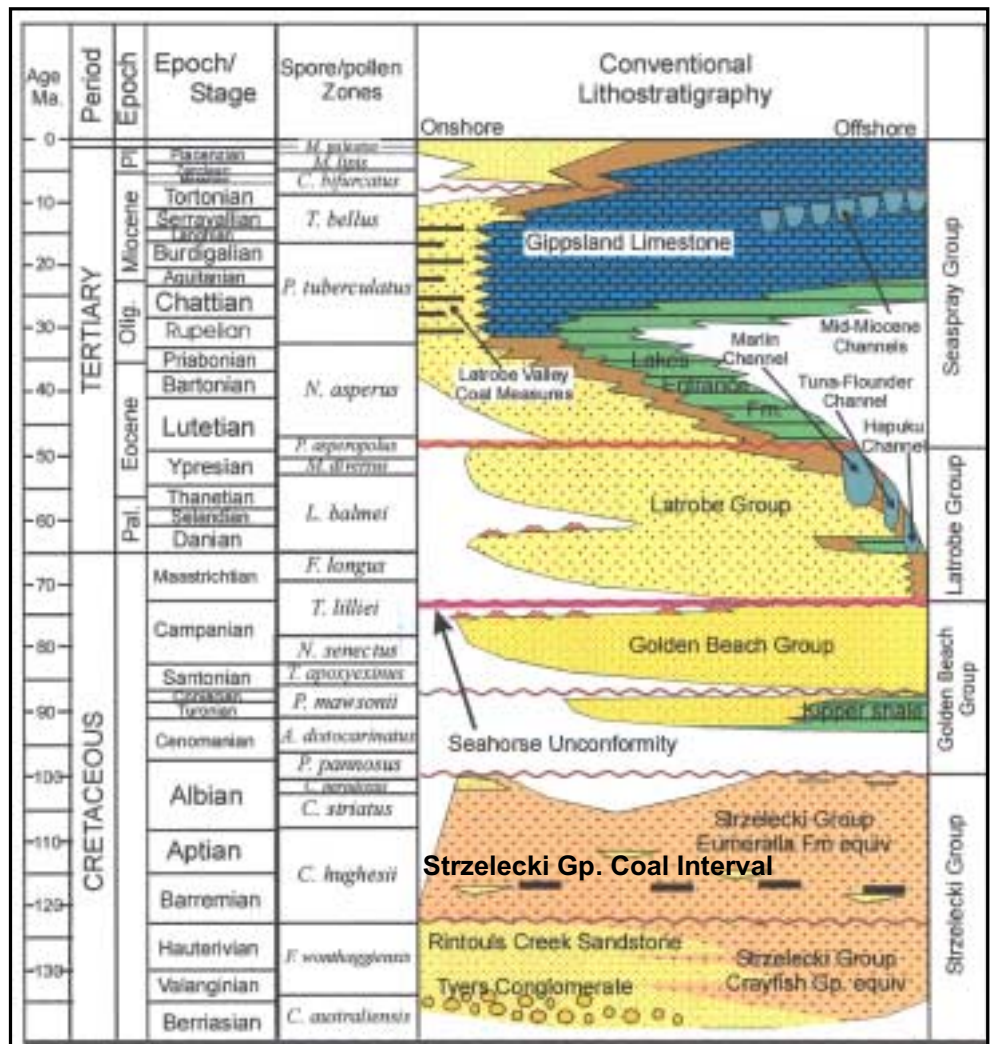


Figure 3: Gippsland Basin General Stratigraphy

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-5 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 north-west 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.

Two example seismic lines across the Northern Terrace show that an interval of multiple good high amplitude reflectors are present across the Northern Terrace (Figures 6 & 7). 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-8). Earthquake data collected by Government agencies clearly demonstrate this process.

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.

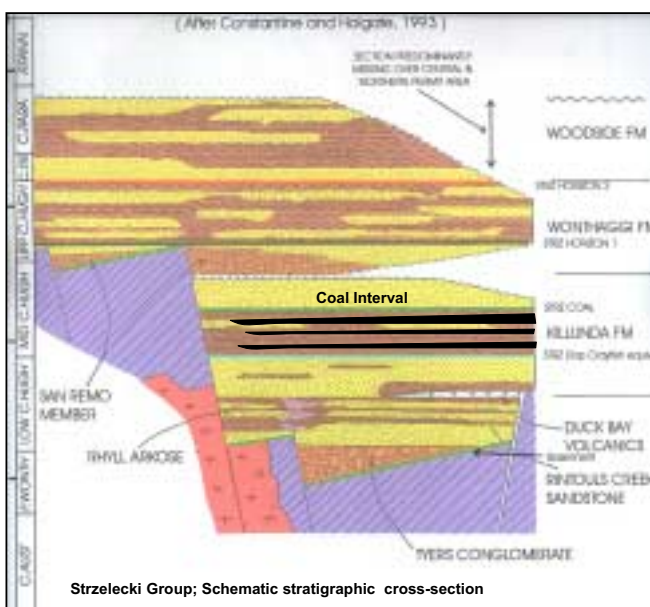
CBM resource assessment criteria

The potential for a CBM resource being present in the Karoon Leases has been assessed against a set of general industry criteria. Each of the criteria are discussed below.

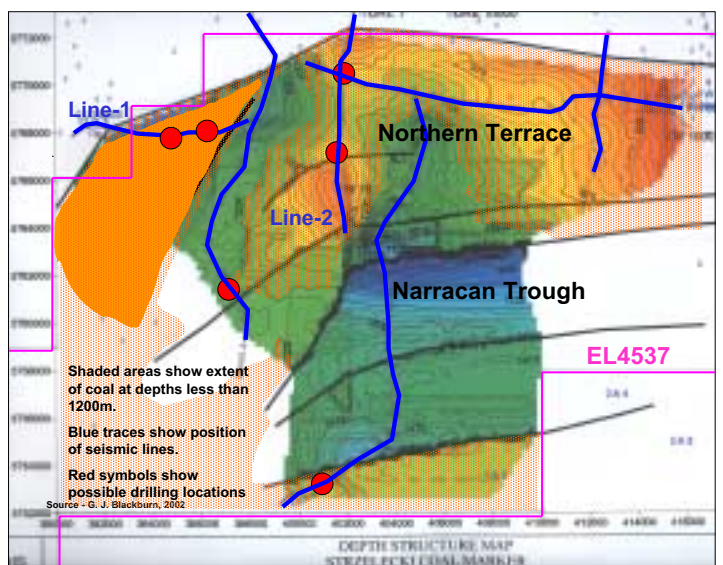
Preferred depth range

The preferred depth range for coals is between 300m and 1200m.

From seismic mapping at the Top Strzelecki Coal horizon, the central part of the Karoon Leases is deeper than 1200m. There is a large terrace, the Northern Terrace, developed around the depocenter where the depth to top coal is often less than 1200m. Using seismic surveys, gravity survey, surface geology and mine data, an estimate for coal interval depths and areas across the Karoon Leases has been made. Conservatively there are over 200 square kilometres of coal-bearing rocks in the Karoon Leases at depths less than 1200m.



Above: Figure 4: Detailed representative stratigraphic cross section for the Naraccan Trough



Above: Figure 5

Coal Rank

The optimum coal rank is 'low to medium volatile bituminous'.

From mine records the coal is a banded bituminous type with medium moisture and volatile hydrocarbon content. Volatile matter averages around 31%.

The geologic interpretation of the Northern Terrace is that similar to slightly higher rank coals are likely to be present, suggesting near optimal coal rank conditions.

Thermal maturity (Vitrinite Reflectance)

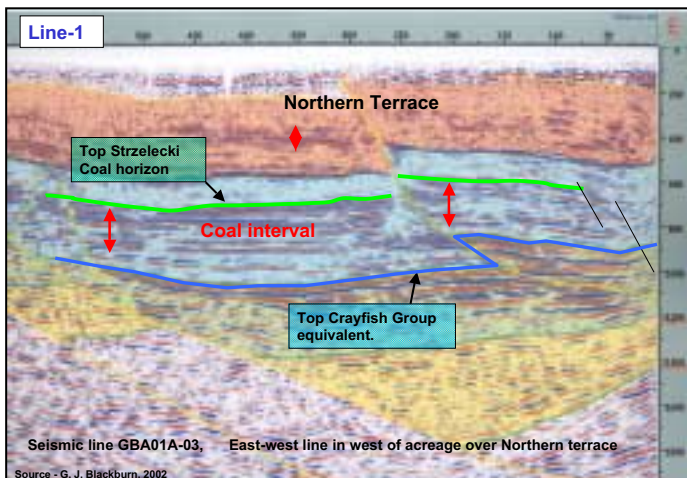
Preferred range of Rv% is 1.1% to 1.9%.

Reflectance levels between 0.5% and 0.67% have been determined over a wide area of the southern part of the Karoon Leases either at the surface or in shallow bore holes less than 300m.

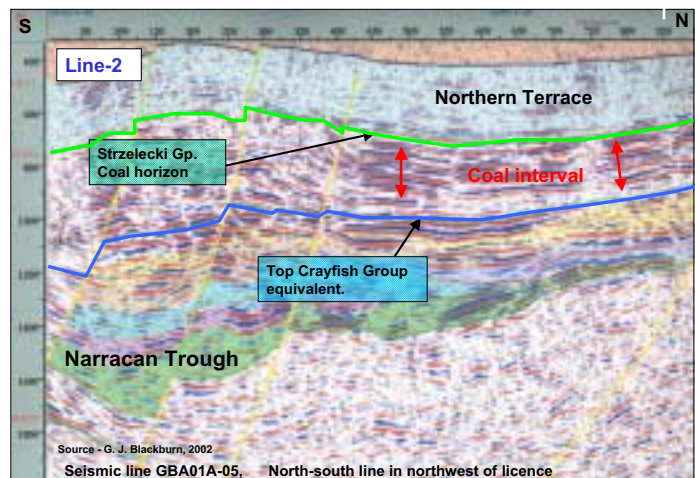
Vitrinite reflectance levels increase with depth. The rate of increase in the Strzelecki sequence has been determined from nearby wells. The reflectance gradient is approximately 0.4% per 1000m depth. Indicatively with targets between 900m and 1200m, the Vitrinite reflectance range is likely to be between 0.9% and 1.0%, close to optimum levels.



Above: Figure 8



Above: Figure 6



Above: Figure 7

Ash Content

Maximum allowable ash is 20% (air dry).

Documented ranges from mines and bores in Narracan Trough are between 4.9% and 14.2%, well within the allowable ranges. This provides a reasonable level of confidence that a similar range in ash content values is likely in the Northern Terrace target area.

Adjoining water bearing formations

Researchers believe that any coal with top or base contact with permeable rocks should be excluded from any resource assessment. As the coal is required to be depressurised to produce gas through water pumping, other water sources in the bore can dramatically reduce the effectiveness of the coal depressurising and increase costs.

Much of the Upper Strzelecki Group that contains the coal is composed of claystone and volcanoclastic sandstones, which alter rapidly with increasing depth of burial and temperature. The alteration process dramatically reduces porosity and permeability in these rocks. In the offshore Gippsland Basin the Upper Strzelecki rocks act as cross-fault seals for the Longtom Gas accumulation and Omeo Gas fields, demonstrating their low porosity and permeability characteristics.

In some areas closer to the basin edge, cleaner quartz sands are present. This introduces some element of risk for this issue.

Intensely deformed or faulted coals

Researchers believe that these coals should be excluded from CBM resource assessments.

Seismic in the area indicates that the Northern Terrace area of the Narracan Trough has low levels of deformation and faulting. The central Narracan Trough is much more highly faulted and has been downgraded in the Karoon Gas evaluation.

Thickness of individual coal seams

Minimum requirement 3m.

Mine data shows only one coal seam at 3m thick, with the rest typically being less than 1.7m.

No direct thickness information can be obtained from the seismic surveys, however the continuity of the seismic reflectors does provide a qualitative indication of thickness. From inspection of seismic over coals in other areas there is an established relationship between reflector continuity and coal thickness, where thick coals generally have much higher continuity. The Northern Terrace seismic shows good reflectors that are present over many kilometres, suggesting that thick coals are present.

Gas Content

With no wells drilled through the coal on the Northern Terrace there is no data on gas content or gas saturation that can be used to quantify any resource assessment at this stage.

Information from the coal mines show that there were a series of methane gas explosions in the mine, suggesting that there is at least some gas present in the coals. The coals in the mines are now preserved at generally shallow depths and are likely to be significantly degassed (having been previously buried to over 1500m). As such, this data provides only a qualitative indication of gas-saturated coals in the Northern Terrace target area.

Soil gas surveys carried out over a large portion of the Karoon Leases by previous operators show anomalous amounts of methane and other gasses seeping to the surface. The anomalies are generally located over areas of uplift. It is interpreted that current day uplift in some areas of the Karoon Leases may be slightly reducing the confining pressure on the coals, which are in turn slowly desorbing some of the adsorbed gas that migrates to the surface.

Both sources of information, while only quantitative, provide an indication that coal in the target area has some level of gas saturation.

CBM Assessment Summary

The review by Karoon Gas of the geology of the Karoon Leases and the comparison with industry assessment criteria indicates that from the available data, all the requirements for a CBM accumulation appear to be present. More data on the coals is now required to progress the evaluation.

The proposed wells are being designed to collect the remaining data required to define gas reserves and gauge their ability to produce. Specifically the wells will determine the number, depth and thickness of any coal seams present. Cores cut through the coal will be analysed to determine gas content, while saturation and other testing will define coal permeability in these wells.

This information will allow optimal forward evaluation and development plans to be developed.



7. INDUSTRY TRENDS

Karoon Gas believes that the demand in the Australian gas market for CBM is entering a period of high growth. Companies have recently been having exploration success in the Bowen and Surat Basins in Queensland. The diminishing supplies of conventional gas in the Cooper Basin, South Australia, provide an excellent opportunity for CBM exploration, supply and growth to the populated east coast of Australia. With the increased demand for gas and the recent decline in conventional gas resources in the Cooper Basin, the Directors of Karoon Gas believe the present Australian climate provides an ideal entry time into the gas market with a CBM resource, particularly in Victoria.

In previous years CBM gas was considered a useless by-product of coal mining. However, markets for CBM gas have now been developed. Large energy companies are looking at entering the industry at an upstream level to diversify against lower conventional gas reserves.

It is anticipated that local demand from potential gas users, such as power producers, will increase as it becomes essential for industry to scale down green house emissions and begin to produce power through more environmentally friendly sources of energy.

Current Markets

The current market for CBM has experienced a resurgence of interest over the previous years due to:

- A greater number of commercial discoveries close to markets.
- A greater acceptance of CBM reserves as being commercially reliable. This acceptance is mainly due to the entry into the market of large conventional gas suppliers, who wish to diversify their gas portfolio and provide themselves with backup to their conventional gas reserves.
- A more reliable gas supply that has created greater demand from downstream customers.

- Recent technological advancements, including more economical drilling, completion and transportation, has led to cost reductions and a greater willingness of customers to share the supply risk. Technological advances have also reduced capital costs for explorers/producers, making funds more available to drill potential prospects and confirm CBM reserves.

- Financial markets now appear to be supportive of the CBM industry.

- Recent events, such as the Longford gas plant fire and the Moomba plant explosion in the Cooper Basin, have created the opportunity for new gas supply alternatives to back up primary resources held by major gas suppliers.

The Karoon Leases are located 100kms from Melbourne and 20kms from the industrial centres located in the Latrobe Valley.

Modern Environmental Constraints

Should recent international agreements, such as the Kyoto Greenhouse Gas Emissions Protocol, be fully ratified by Australia, it is possible that Australian power producers will have to reduce their use of brown coal in power generation and find more environmentally friendly fuels to run their turbines. Emissions from black coal are 80% higher than those of natural gas, and brown coal emissions are one of the largest carbon dioxide contributors. CBM is a cleaner energy source than black/brown coal. The United States has successfully converted some power stations to gas turbine power. Producing CBM companies are already seeing a greater demand for their product as power stations and energy markets require greater supplies of gas.

Natural gas burning 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, Coal Bed Methane could be viewed as an attractive long-term replacement for Australia's usage of black/brown coal as a fuel source for power stations and energy markets.

Transport

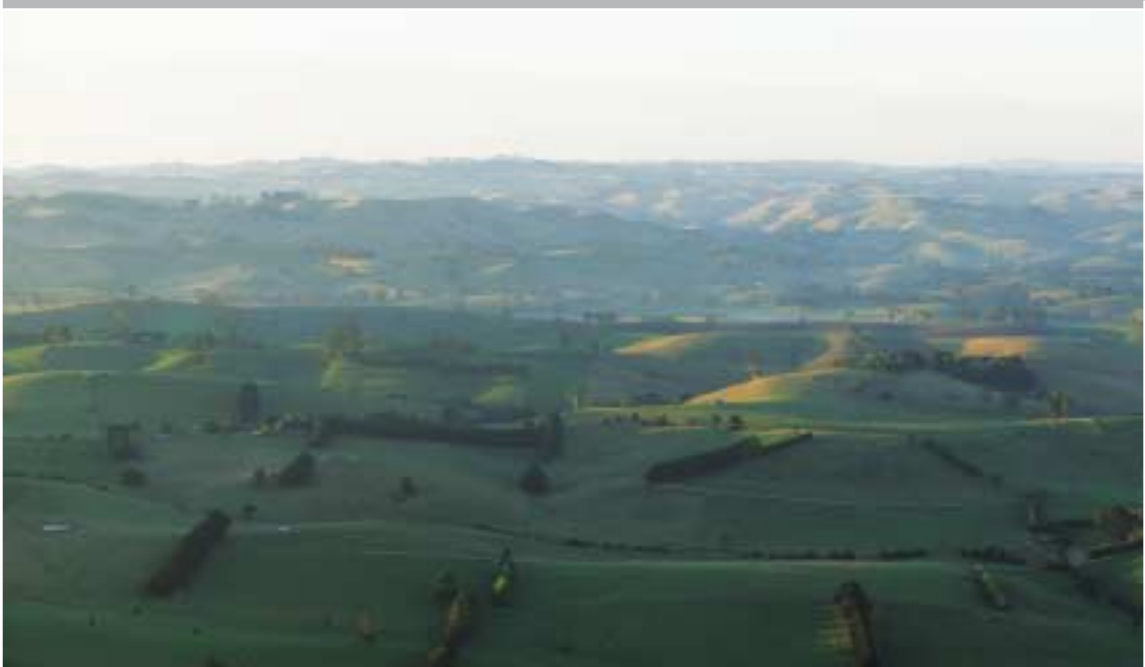
CBM can readily be supplied into existing infrastructure for use by households and industry. A key advantage of CBM is its ability to be used as normal gas for households and industry and its ability to be transported with conventional gas in existing pipelines, as normally CBM is a very pure form of methane. Over the coming years this will prove invaluable to CBM producers who can use existing infrastructure to transport their product.

There is currently a gas transport infrastructure system established in Victoria and over the east coast of Australia. This infrastructure brings gas reserves in from producing gas producers in the Gippsland, Cooper and Otway Basins. Existing pipelines that transport gas

run through the Karoon Leases, adding value to any discoveries made. The management of Karoon Gas believes this will prove to be invaluable for lowering capital infrastructure and development costs of any CBM that may be produced by Karoon Gas and delivered into nearby markets.

Conclusions

The current potential reduction of conventional gas supplies produced from Australia's major basins has provided the opportunity for companies holding potential CBM production assets to capitalize on increased demand for gas supplies from Australian industry and households. Factors such as increased reliability of production, technological advances in drilling and extraction and a worldwide push toward cleaner power production has resulted in a greater readiness on the part of investors to inject capital into CBM projects. This trend is likely to continue and to have a significant impact on the profitability of companies involved in CBM production.



8. EXPLORATION AND PRODUCTION STRATEGIES

The principal and immediate activity of Karoon Gas is CBM exploration and production in the Western On-Shore Gippsland Basin.

The Company has tenure (through its wholly-owned subsidiary Karoon Gas Pty Ltd) over prospective CBM acreage in the Western On-Shore Gippsland Basin. The strategy is to optimally explore and develop the CBM resource identified within this acreage.

Other exploration and development opportunities (CBM or conventional) will be identified and developed as required, based on the extensive knowledge and expertise of Company officers and advisers. Prospective acreage will be gained through government gazettals or via farm-in arrangements to currently held acreage.

The Company will target 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. CBM drilling in the Western Gippsland Basin fits this profile.
- Low to moderate drill depths for cost control.
- Proximity to infrastructure thus minimising development costs and maximising profits.
- Potential to supply the greater Melbourne market.
- Having follow-up potential, allowing geotechnical, engineering and commercial expertise to be built up and new developments to leverage off existing infrastructure.



***Pictured:** Bob Hosking, and Peter Moore, M.D. of Geoflite (Aust.) Pty Ltd, who conducted a low altitude airborne high resolution multispectral survey to map fractures and joints of PEP162 in 1998 (pilot unknown).*

9. 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 advisers prior to subscribing for Shares and Options.

The Shares and Options 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 and Options.

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 policies, including those regarding land access, environmental regulations, taxation and royalties.

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.

Financing

In order to expand its business, the Company may be required to raise additional equity or debt capital in the future. There is no assurance that it will be able to raise such capital when it is required or that terms associated with providing such capital will be satisfactory to the Company.

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 or gas.

If gas and/or CBM is discovered within the Karoon Leases, 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.

If the Company is successful in the discovery of economic reserves of petroleum or gas, 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 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 endeavors – to discover commercial quantities of gas in the Narracan Trough and other basins, there can be no guarantee that the Company's exploration program will be successful. Economically recoverable gas reserves can be affected by many factors including and, in addition to:

- advances in CBM/ petroleum recovery techniques;
- the determination of porosities and coal and gas situations in the reservoir sands based on existing well controls;
- the permeability of reservoir sands/coal seams and determination of well flow rates;
- the determination of gross rock volumes, which are based on seismic 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 licences 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 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 which 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. In its initial stages, the Company will rely heavily 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.

10. INDEPENDENT GEOLOGIST'S REPORT

This report has been prepared by Peter Nicholls of Upstream Strategies pursuant to a request from Karoon Gas Australia Ltd ("Karoon Gas") for an independent technical review of the Coal Bed Methane ("CBM") prospectivity and potential in certain areas in which Karoon Gas has an interest. The focus of this discussion is the area where the seismic data has been acquired and Karoon Gas is considering exploration drilling locations (Figure 5).

Summary of Findings

Peter Nicholls has reviewed the CBM exploration interests of Karoon Gas in EL4537/PEP162, and is satisfied that the area is appropriate for CBM exploration in that:

- There is coal in the acreage and seismic evidence for the presence of coal at the suggested drilling locations.
- There is evidence for coals that are sufficiently thick and at depths which are within the range of feasible economic extraction.
- Estimates for gross coal interval thickness ranges from 400m to 600m, with individual coal bed thickness in the range from less than 10m to 50m.
- The coal is black coal of a quality that is conducive to cost-effective CBM extraction.
- The coal seams lie within low permeability volcanoclastic lithologies, which is an ideal setting for CBM extraction with low water production.

Furthermore, the exploration programme outlined by Karoon Gas of exploration drilling is a reasonable and appropriate next step toward determining CBM prospectivity in the acreage.

The potential for conventional oil and gas accumulations had been briefly assessed. There is, however, insufficient stratigraphic and seismic data to define a drilling target at this time. With data from CBM exploration and development these targets can be further evaluated.

Overview of Coalbed Methane

CBM is natural gas formed through either natural bacterial activity, or during the coalification process, in which organic matter is turned into coal as a consequence of compaction and heat associated with burial. Unlike conventional natural gas reservoirs, where gas is trapped in the pore or void space of a rock such as sandstone, methane formed and trapped in coal is adsorbed onto the coal grain surfaces or micropores and held in place by reservoir pressure. The coal therefore acts as a source, reservoir and seal for the methane, and unlike conventional gas, requires no structural or stratigraphic trapping.

Key Elements for CBM Prospectivity

Presence of Coal

The geological setting is given in the reports by IERS (Australia) Pty Ltd (2003) and Blackburn (2002). The Wonthaggi Formation in the Strzelecki Group is a section that commonly contains coal seams, as far west as the Otway basin in Western Victoria to the Gippsland Basin in the east. That coal is present within EL4537/PEP162, as evidenced by the coal mines near Korumburra and Wonthaggi, which have extracted coal from this interval. These coals are described as a banded bituminous coal with volatile matter up to 36% (Edwards et al, 1944), and contain coal seam gas as evidenced by the reports of fatal explosions in the mines due to methane released from the coal during mining. Indications are it would be a suitable coal for CBM at greater burial depths.

Seismic in the north of EL4537/PEP162 shows high amplitude events at about 600mSec to 900 mSec on line GBA01A-03. Similar high amplitude events exist on the other seismic lines at similar depths. Unfortunately, there is no direct seismic tie to the Wonthaggi coal fields, but the most likely interpretation is that the high amplitude events are lateral equivalents of the Wonthaggi coal seams (Blackburn 2002). Coal seams are the most likely lithology in this section to give

sufficient contrast to generate such high amplitude reflections, and the trend of the bedding on line GBA99-01 is shallowing to the south, toward the coal mines. Similarly, the coal seams are getting progressively deeper going north from Wonthaggi (Edwards et al, 1944).

Coal Depth and Thickness

Empirical data indicates that gas content is highest and production rates most favorable between about 300m and 1200m depth (Miyazaki and Korsch, 1993), although in conditions of low horizontal stress, dry coal can produce high volumes at much greater depths (Kuuskraa V.A. and Wyman R.E., 1993). In PEP162, the high seismic amplitudes indicate the presence of coal-significant coal seams at a depth of from 400m in places to >1500m (400mSec to > 900mSec) in the north of the block, and the coal seams mined around Wonthaggi are at a depth of less than 500m. There appears to be large areas of PEP162, particularly in the north, where the Wonthaggi Formation coal is at the optimal depths for CBM. It is possible the areas where the coal is deeper may also be suitable, if areas of low horizontal stress can be identified.

The preferred minimum coal seam thickness for CBM production is around 3m (Miyazaki and Korsch, 1993), but this is reducing with improved technology, e.g. horizontal completions. The coal seams mined around Wonthaggi vary from less than a 1m to 3 m thick. Seismic amplitudes indicate a coaly section of about 400m to 600m total thickness, with individual coaly bands around 10m to 50m thick. Given this evidence there is a reasonable chance of coal seams above 3m in the north. The seismic, however, is unable to resolve thicknesses less than 10m, so determining the individual coal seam thickness would require exploration drilling.

Coal Quality

Coal rank (or maturity) is a measure of the degree of coalification, and can be measured by vitrinite reflectance ("R_v"). The higher ranked black coals (R_v>0.7%) have a larger micropore surface area and

can hold significantly more methane per unit volume than lower ranked brown coals and often many sandstone reservoirs. The rank also impacts the permeability of the coal, and therefore the gas deliverability. Permeability is a function of cleat, or natural fracture system, as well as other fractures such as joints or fault sets. In general, cleat is best developed in medium to low volatile bituminous, high vitrinite (R_v 1.0% to 2.0%), low-ash content coals. Permeability can be reduced by high in situ stresses and secondary mineral infilling of the cleat system. Miyazaki and Korsch (1993) suggest the best coals for CBM are low-to-medium volatile bituminous coals with volatile matter content of 14% to 31% and V_r of 1.1% to 1.9%.

The Wonthaggi Formation coals are described as banded bituminous coal with from 25% to 36% volatile matter (average around 31%). The measured V_r at the surface in EL4537/PEP162 ranges from 0.5% to 0.67%, and will increase to over 1% at around 1000m depth (Blackburn, 2002). There are indications of inversion on the Almurta fault, which would lead to higher maturities due to greater original burial depths. The indications are that Wonthaggi Formation coals at 800m to 1200m depth will be approaching optimal maturity for CBM.

Gas Content and Deliverability

The quantity of gas contained in a coal seam is difficult to determine unless the gas sorptive isotherm has been determined in a laboratory from a sample. From this the volume of gas produced per tonne of coal can be calculated. Miyazaki and Korsch (1993) show that Permian black coal in Australia varies from 0 to >500 scf/tonne, and assumed an average of 353 scf/t for their calculations. The coal quality in PEP162 as discussed above would support an assumption of between 200 and 350 scf/t. Exploration drilling and sample analysis would be required to refine this further. The deliverability is a function of the permeability and therefore related to coal quality as outlined above. Areas of high stress and associated permeability reduction due to secondary mineral infilling can reduce deliverability. The seismic mapping indicates areas in

the north of PEP162 with relatively minor structuring, giving confidence of retaining permeability.

There are additional geologic controls on the potential deliverability of gas from the coal seams. A key influence is the permeability of the overlying and underlying lithologies. If they are permeable and water bearing, and the coal seam pressure is reduced due to gas production, the water from the adjacent layers can flow into the coal seam and be produced in preference to the gas. The ideal situation is to have the coal encased in impermeable layers. The Upper Strzelecki in EL4537/PEP162 is described as tight volcanoclastic sandstones, siltstones and shales with low permeabilities (Blackburn 2002), which is ideal for gas production with little, if any, water influx.

Conventional Oil and Gas Prospectivity

There has been very little conventional oil and gas exploration conducted in EL4537/PEP162, however there is some evidence for each of the elements of a petroleum system in the Lower Strzelecki Group within EL4537/PEP162 (RBT 1998 and Blackburn 2002). A number of potential reservoir sequences with observed porosity have been identified, and the Wonthaggi formation has sealing potential. Coals and lacustrine sediments of the Strzelecki Group have identified source potential and are mature for hydrocarbon generation. The strong gas shows in Tarwin Meadows 1 to the south of EL4537/PEP162 are evidence of a working petroleum system. In addition, the Lower Strzelecki Group is equivalent in time and similar in depositional history to the productive Crayfish sequence of the Otway basin (Norvick and Smith 2001), making this area of interest by analogy. Although there is clearly structuring in EL4537/PEP162, there is insufficient data to map structural or stratigraphic traps.

The CBM exploratory drilling will provide data to increase the knowledge of the conventional oil and gas potential, and quantify further the petroleum system elements outlined above.

Conclusions

The geological and geophysical evidence suggests that the acreage held by Karoon Gas is prospective for CBM, and that the next step would be exploration drilling to verify the depth and suitability of the coal for commercial CBM extraction. There is also potential for deeper conventional oil and gas targets although there is insufficient data to determine if any drilling targets are present at this time.

Declarations

Peter Nicholls received a Bachelor of Science (Hons, 1st class) from the University of Melbourne. He has been involved in the upstream petroleum industry for more than 23 years as a geophysicist, explorationist and economist, primarily for BHP Billiton, and as a consultant to Nexus Energy Ltd. During that time he has worked on a number of coal and more recently, CBM projects in Victoria and Queensland.

Peter Nicholls and Upstream Strategies have no conflict of interest in the preparation of this report. This report was commissioned by Karoon Gas with payment for services rendered.

Yours Faithfully,

Upstream Strategies



Peter Nicholls

References

Blackburn G.J. 2002. Geological Review and Seismic Mapping Report. PEP162 Western Onshore Gippsland Basin. Unpublished report for Nexus Energy

Edwards A.B, Baker G., and Knight J.L. 1944. The Geology of the Wonthaggi Coalfield, Victoria. Australasian Institute of Mining and Metallurgy. Proceedings New Series No 13454

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Kuuskräa V.A. and Wyman R.E., 1993 – Deep Coal Seams: An Overlooked Source for Long-Term Natural Gas Supplies. SPE 26196. SPE Gas Technology Symposium, Calgary 28-30 June 1993.

Mavor M. and Nelson C.R. 1997. Coalbed Reservoir Gas-in-Place Analysis. Gas Research Institute Report Number GRI-97/0263

Miyazaki S. and Korsch R.J., 1993 Coalbed Methane Resources in the Permian of Eastern Australia and their tectonic Setting. APEA Journal, 1993,161-175

Norvick M.S. and Smith M.A., 2001 Mapping and Plate Tectonic Reconstruction of Southern and Southeastern Australia and implications for Petroleum Systems. APEA Journal, 2001,15-35

RBT Petroleum Associates Pty. Ltd., 1998 Geophysical and Geological Review of the Hydrocarbon Prospectivity of PEP-131, Onshore Gippsland Basin, Victoria Australia. Unpublished report for Bass Petroleum Pty Ltd.

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.



11. INDEPENDENT SOLICITOR'S REPORT

This report has been prepared for inclusion in a Prospectus to be dated on or about 22 March 2004 for the issue by Karoon Gas Australia Limited A.C.N. 107 001 338 ("Karoon Gas") of 20,000,000 fully paid ordinary shares at an issue price of 20 cents per share and 10,000,000 options exercisable at 20 cents each on or before 30 June 2006.

This report relates to Victorian Petroleum Exploration Permit 162 and Mineral Exploration Licence EL4537 in which Karoon Gas or its wholly owned subsidiary, Karoon Gas Pty Ltd, A.C.N. 056 976 642 ("Karoon") has an interest ("Tenements"). A summary of the key terms of, and relevant details about, the Tenements is contained in Schedule 1 annexed to this report.

1. Searches

On 13 February 2004, we conducted searches of the register maintained under the Petroleum Act 1998 (Vic) at the Minerals and Petroleum Division of the Department of Primary Industry ("DPI").

On 13 February 2004, we conducted searches of the register maintained under the Mineral Resources Development Act 1990 (Vic) at the DPI.

On 13 February 2004, we conducted a search of the Register and Schedule of Native Title Claims at the National Native Title Tribunal at the Melbourne Division.

This report is based on the result of our searches and review of correspondence and other material provided to us by Karoon Gas. A list of the correspondence and contracts provided to us by Karoon Gas is set out in Schedule 2 annexed to this report.

2. Karoon Gas Petroleum Tenements

2.1 Petroleum Exploration Permit 162 (formerly PEP 131)

On 25 May 2001, the State Government of Victoria granted Bass Petroleum (Victoria) Pty Ltd (A.C.N. 056 976 642) (now Karoon Gas Pty Ltd) Petroleum Exploration Permit 162 ("PEP162") for a period of five (5) years with effect from 14 May 2001 in respect of an area on-shore Victoria in the Gippsland Basin. The grant of PEP162 was based on the following work programme.

Year	Work Program
1	60 Km Seismic Survey
2	Geological and geophysical studies
3	40 Km Seismic Survey
4	Drill one well
5	Data Review

Year 1 and 3 of the approved work programme are declared to be key objects of the work program for the purpose of Section 27 of Petroleum Act 1998 (Vic). The permit holder must complete as a minimum the key objects of the work program during the five (5) years of PEP162.

An application has been made by the permit holder to vary the work program by drilling one (1) well in year three and carrying out the 40 Km Seismic Survey in year four.

2.2 Exploration Licence 4537

On 6 March 2003, the State Government of Victoria granted Nexus Energy Aust N.L. (A.C.N. 090 835 608) ("Nexus") Exploration Licence 4537 ("EL4537") for all minerals and coal (brown or black) in respect of an area on shore Victoria in the Narracan Trough Gippsland Basin.

EL4537 is for a five (5) year term. Only low impact exploration work may be undertaken in the licensed area until EL4537 has an approved work plan.

The licensee of EL4537 must expend in connection with its exploration a minimum of :

- \$81,600 in the first year of the term of the licence
- \$103,800 in the second year of the term of the licence
- \$121,500 in the third year of the term of the licence
- \$121,500 in the fourth year of the term of the licence
- \$148,200 in the fifth year of the term of the licence

Nexus sold EL4537 to Karoon under a sale agreement dated 19 February 2003 for nominal consideration. Under section 33(1) of the Mineral Resources Development Act 1990 (Vic), an exploration licence can not be transferred in the first year of its term and accordingly EL4537 could not be transferred to Karoon until 6 March 2004. On 12 March 2004 we lodged a transfer of EL4537 and application for ministerial consent to that transfer.

To secure its interests under the sale agreement with Nexus for EL4537, Karoon has taken a mortgage of Nexus' interest in EL4537.

3. Royalties

Royalties will be payable on the Tenements only in the event of production from production licences issued over the area of the Tenements and will be payable as follows:

3.1 Royalties Due to Royalty Holders of PEP162.

Pursuant to an agreement dated 23 February 2000, a gross overriding royalty of two (2) percent of all recovered petroleum from PEP162 is payable by Karoon to the Royalty Holders specified in the agreement. A list of these Royalty Holders is contained in item 3(d) of Schedule 2 annexed to this report.

Pursuant to an agreement dated 30 August 2002, a further royalty of two (2) per cent of net profits from all minerals including hydrocarbons derived from PEP162 is payable by Karoon to Nexus. We are instructed that Karoon Gas and Karoon have entered into a deed with Nexus to cancel this royalty on the terms described in section 13 "Additional Information" in the Prospectus.

3.2 Royalties Due to Royalty Holder of EL4537

Under an agreement dated 30 August 2002, Karoon will pay to Nexus a two (2) per cent royalty of the quarterly net profits being the total proceeds of sale of all minerals derived from EL4537.

We are instructed that Karoon Gas and Karoon have entered into a deed with Nexus to cancel this royalty on the terms described in section 13 "Additional Information" in the Prospectus.

3.3 Royalties Due under State Legislation

Under the Petroleum Act 1998 (Vic), a royalty is payable to the State of Victoria at the rate of ten per cent (10%) of the value of petroleum produced at the well head.

Under the Mineral Resources Development Act 1990 (Vic), the holder of a mining licence must pay royalties to the State of Victoria at the rate of 2.75 percent (2.75%) of the net market value of production.

4. Native Title

On 1 January 1994 in response to a decision of the High Court on 3 June 1992 in *Mabo v Queensland (No 2)*, the Commonwealth introduced the Native Title Act 1993 ("NTA"). The objectives of the NTA (as amended) are to provide for the recognition and protection of native title; establish ways in which future dealings affecting native title may proceed and set standards for those dealings (including granting native title claimants a "right to negotiate" in respect of certain dealings such as the grant of mining tenements); establish a mechanism for determining claims to native title; and to provide for the validation of past acts (i.e. grants of mining tenements) invalidated because of the existence of native title.

There are no valid native title claims recorded against either of the Tenements, which are both over freehold title. Any native title will have been extinguished by the valid grant of freehold title.

It should be noted that Crown land has been excised from EL4537. PEP162 is a renewal of a permit, which was issued prior to the introduction of native title legislation.

However, the following should also be noted:

- (a) the absence of native title claims does not necessarily mean that native title does not exist in areas on the Tenements where native title has not been extinguished;
- (b) the area covered by the Tenements is substantial and may include areas of Crown land over which native title may continue to exist;
- (c) to the extent there is a native title claim over (part of) the Tenements, Karoon Gas may need to comply with the "right to negotiate" procedures in the NTA in respect of any renewals of the Tenements or the grant of production tenements.

5. Legislative Regime

5.1 Petroleum Act 1998 (Vic)

The Petroleum Act 1998 (Vic) and the Petroleum Regulations 2000 (Vic) regulates onshore petroleum exploration and development activities (excluding transmission pipelines).

The Petroleum Act governs licensing, registration and approvals and provides for compensation, rehabilitation and royalties for onshore petroleum operations. Additionally, the Act provides that petroleum exploration and development have regard for economic, social and environmental interests.

5.2 Mineral Resources Development Act 1990 (Vic)

The Mineral Resources Development Act 1990 (Vic) ("MRDA") governs mineral exploration and mining industry. The MRDA applies to all minerals, including in Coal Bed Methane.

The MRDA deals with registration, licensing and approvals, and other matters including compensation, rehabilitation and royalties for mineral exploration and development. The MRDA promotes an economically viable mining industry, which makes optimal use of mineral resources in a way that is consistent with the economic, social and environmental objectives of Victoria. There are regulations and guidelines, which also apply to mineral exploration and development activities.

5.3 Aboriginal Heritage Legislation

The Aboriginal and Torres Strait Islander Heritage and Protection Act 1994 (Cth) provides for the preservation and protection from injury and desecration of areas and objects in Australia and in Australian waters that are of particular significance to Aboriginal people in accordance with Aboriginal tradition.

The Archeological and Aboriginal Relics Preservation Act 1972 (Vic) governs the preservation of archeological areas and Aboriginal relics in Victoria. A registrar of archeological areas is kept under this legislation, although this registrar is not exclusive.

We have no instructions to search the registrars maintained under Aboriginal Heritage legislation for the purpose of preparing this report.

6. Other

Other legislation, which may impact on mining and petroleum activities, includes the Reference Areas Act 1978 and the National Parks Act 1975. We are not aware of any circumstances by which this legislation will prevent Karoon Gas carrying out its proposed activities.

7. Qualifications

The report has been prepared by Campbell Horsfall, who holds a Practising Certificate under the Legal Profession Practice Act 1996 of Victoria. Mr Horsfall had extensive experience in oil and gas law, having practiced at BP Australia Limited, BHP Petroleum Pty Ltd and Japan Australia LNG (MIMI) Pty Ltd.

8. Consent

Campbell Horsfall & Associates have consented to the insertion of this report in the prospectus and have not withdrawn this report prior to the lodgment of this prospectus with ASIC.

Yours sincerely,


CAMPBELL HORSFALL & ASSOCIATES

Schedule 1

Schedule of Material Mineral Tenements

Tenement Details

Tenement Number	PEP162	(formerly PEP131) Licence Document has issued	Term: 5 years
Granted/Pending?	Granted	Granted Date: 14/5/2001	Expiry Date: 15/05/2006

Holder Details

Registered Holder and Share
 Karoon Gas Pty Ltd A.C.N. 056 976 642 (100%)
 Permitted Activities
 To carry out Petroleum Exploration in the permit area

Expenditure Details

Year	Work Program
1	60 Km Seismic Survey
2	Geological and geophysical studies
3	40 Km Seismic Survey
4	Drill one well
5	Data Review

Operating Conditions

Performance Bond Nil
 Annual Rental \$1,622.50

Conditions

Standard conditions imposed

Agreements and Encumbrances

Registered Agreements Nil
 Royalty 10% of the value of petroleum at the well head.

Encumbrances

(1) Royalty Agreement (2%) dated 30 August 2002 between Karoon Gas Pty Ltd (formerly Nexus Energy (Victoria) Pty Ltd) A.C.N. 056 976 642 and Nexus Energy NL A.C.N. 090 835 608

(2) Royalty Agreement (2%) dated 23 February 2000 between Karoon Gas Pty Ltd A.C.N. 056 976 642 and Ropat Nominees Pty Ltd A.C.N. 005 077 270, Viv Taylor Medical Pty Ltd A.C.N. 009 997 559, Echo Beach Trading Pty Ltd A.C.N. 073 344 117, Echo Beach Pty Ltd A.C.N. 006 159 726, Thin Air Pty Ltd A.C.N. 006 819 183, Machlo Nominees A.C.N. 005 665 805, Geoff Atkins, Geekie Superannuation Fund, Peter Turnbull, Wilmit Nominees Pty Ltd A.C.N. 052 503 385, Ailmoc Pty Ltd, Korrawa Agencies A.C.N. 007 443 147, John & Sue Purser, and Chris Haslam.

Native Title Details

No registered claims.

Comments and Standing

Good standing.

Schedule of Material Mineral Tenements

Tenement Details

Tenement Number	Exploration License 4537	Licence Document has issued	No	Term: 5 years
Granted/Pending?	Granted	Granted Date: 6/3/2003		Expiry Date: 5/3/2008

Holder Details

Registered Holder and Shares
 Nexus Energy Aust (NL) A.C.N. 090 835 608 (100%)
 Permitted Activities
 To carry out exploration activities for all minerals

Expenditure Details

- \$81,600 in the first year of the term of the license,
- \$103,800 in the second year of the term of the license
- \$121,500 in the third year of the term of the license
- \$121,500 in the fourth year of the lease
- \$148,200 in the fifth year of the term of the license

Operating Conditions

Conditions	Standard conditions proposed; low impact exploration work only.
Annual Rental	\$15.00 per hectare
Performance Bond	Nil

Agreements and Encumbrances

Registered Agreements: Nil

Royalty ten per cent

Encumbrances

- (1) Sale Agreement and Mortgage to Karoon Gas Pty Ltd A.C.N. 056 976 642. dated 19 February 2003
- (2) Royalty Agreement (2%) between Karoon Gas Pty Ltd A.C.N 056 976 642 and Nexus Energy (Aust) A.C.N. 090 835 608 dated 30 August 2002
- (3) Part of the area of the permit is unavailable for searching exploration or mining under Section 6 of the MRDA (includes National State and Wilderness Areas).
- (4) Part of the permit may be exempted from being subject to Exploration and Mining License (significant environmental importance, recommendation of the land conservation council or orderly and optimal development of mineral resources).
- (5) There are a number of work authority permits which relate to quarrying operations on the area subject to EL 4537.

Native Title Details

No registered claims.

Comments and Standing

Good standing.

Schedule 2

1. Correspondence provided by the Company :

Letter to Kouresh Mehin, Manager Petroleum Resources Petroleum Development Branch Victoria DPIE dated 9 February 2004.

2. Contracts supplied by the Company

(a) Agreement between Nexus Energy Aust. NL A.C.N. 090 835 608 and Karoon Gas Pty Ltd A.C.N. 056 976 642 dated 19 February 2003 for the purchase and sale of EL4537 and transfer between those companies of EL 4537 dated 11 March 2004.

(b) Mortgage Agreement in respect of EL4537 dated 19 February 2003 from Nexus Energy Aust. NL to Karoon Gas Pty Ltd.

(c) Royalty Agreement between Karoon Gas Pty Ltd (formerly Nexus Energy (Victoria) Pty Ltd) A.C.N. 056 976 642 and Nexus Energy NL A.C.N. 090 835 608 over PEP162 dated 30 August 2002.

(d) Royalty Agreement dated 23 February 2000 between Karoon Gas Pty Ltd A.C.N 056 976 642 and Ropat Nominees Pty Ltd A.C.N 005 077 270, Viv Taylor Medical Pty Ltd A.C.N. 009 997 559, Echo Beach Trading Pty Ltd A.C.N. 073 344 117, Echo Beach Pty Ltd A.C.N. 006 159 726, Thin Air Pty Ltd A.C.N. 006 819 183, Machlo Nominees A.C.N. 005 665 805, Geoff Atkins, Geekie Superannuation Fund, Peter Turnbull, Wilmit Nominees Pty Ltd A.C.N. 052 503 385, Ailmoc Pty Ltd, Korrawa Agencies A.C.N. 007 443 147, John & Sue Purser and Chris Haslam over PEP 162.

(e) Royalty Agreement between Karoon Gas Pty Ltd A.C.N. 056 976 642 and Nexus Energy NL A.C.N. 090 835 608 over EL 4537 dated 30 August 2002

(f) Transfer of shares in Karoon Gas Pty Ltd from Nexus Energy Australia NL A.C.N. 090 835 608 to Ropat Nominees Pty Ltd A.C.N. 005 077 270 dated 1 December 2003.

(g) Deed of Cancellation of Royalty between Nexus Energy Aust NL A.C.N. 090 835 608, Karoon Gas Pty Ltd A.C.N. 056 976 642 and Karoon Gas Australia Ltd A.C.N. 107 001 338 dated 17 March 2004.

12. INDEPENDENT ACCOUNTANT'S REPORT

1.1 INTRODUCTION

This report has been prepared at the request of the directors for inclusion in a prospectus ("the Prospectus") to be dated on or about 22 March 2004 relating to the issue by Karoon Gas Australia Ltd (Karoon or "the Company") of 20,000,000 ordinary shares at an issue price of 20 cents per share with 10,000,000 free attaching options to raise \$4,000,000 ("the Offer").

The primary purpose of the Offer is to:

- a) Fund the exploration, appraisal drilling and development of the Company's PEP162 and EL4537;
- b) Provide funds for the administration of the Company;
- c) Provide working capital for the first two years.

1.2 BACKGROUND INFORMATION

The principal activity of the economic entity during the period was the exploration for oil and gas in Australia. The parent entity was incorporated on 11 November 2003, so comparative figures are not available as at the date of this report.

We were appointed as auditors of the Company on 22 January 2004.

1.3 SCOPE OF THE REPORT

Historical Financial Information

We have performed a review of the historical financial information of Karoon Gas Australia Ltd for the period from registration to 31 January 2004 as set out in Appendix 1. This financial information comprises the statement of financial position as at 31 January 2004 and the statement of financial performance, statement of cashflows and significant notes to the financial statements for the period then ended. The directors of Karoon Gas Australia Ltd are responsible for the historical financial information.

We have reviewed the historical financial information in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the historical financial information is not presented fairly in accordance with the measurement requirements (but not all the disclosure requirements) of applicable Accounting Standards and other professional reporting requirements in Australia.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports" and was limited to enquiries of the directors and personnel of Karoon Gas Australia Ltd, review of Directors' Minutes and relevant contracts, analytical review procedures applied to the financial data, the performance of limited verification procedures and comparison for consistency in application of Accounting Standards and policies.

These review procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion on the historical financial information.

Pro Forma Financial Information

We have also performed a review of the pro forma financial information of Karoon Gas Australia Ltd as set out in Appendix 1. This financial information comprises the pro forma statement of financial position and significant notes thereto. The directors of Karoon Gas Australia Ltd are responsible for the pro forma information.

The purpose of the pro forma statement of financial position is to show the financial effects on the Company as if the following significant transactions undertaken or proposed to be undertaken by the Company had taken place as at 31 January 2004:

- i) Issue of 20,000,000 ordinary shares at 20 cents per share to raise \$4,000,000 pursuant to the Prospectus

Our review was on the same basis as that adopted for the review of the historical financial information above.

1.4 STATEMENTS

Historical Financial Information

Based on the scope of our review, which is not an audit, nothing has come to our attention that would require any modification to the historical financial information of Karoon Gas Australia Ltd, as set out in Appendix 1, in order for it to present fairly in accordance with the measurement requirements (but not all the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of Karoon Gas Australia Ltd as at 31 January 2004 and its financial performance and cashflows for the period then ended.

Pro Forma Financial Information

Based on the scope of our review, which is not an audit, nothing has come to our attention that would require any modification to the pro forma financial information of Karoon Gas Australia Ltd, as set out in Appendix 1, in order for it to present fairly in accordance with the measurement requirements (but not all the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of Karoon Gas as at 31 January 2004, as if the material transaction in Appendix 1 (Note 1) had taken place as at 31 January 2004.

1.5 SUBSEQUENT EVENTS

To the best of our knowledge and belief, and based on the work we have performed as described in the scope paragraphs above, there have been no material transactions or events subsequent to 31 January 2004, other than those included in our report, which would require comment on, or adjustment to, the financial information referred to in our report or that would cause such information included in this report to be misleading.

1.6 DISCLOSURES

Mitchell Wilson & Partners does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this matter. Mitchell Wilson & Partners is the ongoing auditor of the Company and will receive a professional fee for the preparation of this report.

The Partners of Mitchell Wilson & Partners do not hold nor have any interest in any ordinary shares of the Company.

Consent for the inclusion of the Independent Accountant's Report in the Prospectus in the form and context in which it appears has been given. At the date of this report consent has not been withdrawn.

Yours faithfully,


MITCHELL WILSON & PARTNERS
D J MITCHELL
Partner

261-271 Wattletree Road
MALVERN VIC 3144

Dated this 4th day of March 2004

Appendix 1

STATEMENT OF FINANCIAL PERFORMANCE

	Reviewed 1 Dec 2003 to 31 Jan 2004 \$
Revenue from ordinary activities	-
Employee expenses	-
Consultancy fees	-
Insurance	-
Data purchase expenses	-
Advertising expenses	-
Other expenses from ordinary activities	7,696
Loss from ordinary activities before related income tax expense	(7,696)
Income tax expense relating to ordinary activities	-
Net loss	(7,696)
Total changes in equity from non-owner related transactions	(7,696)

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	Reviewed 31 Jan 2004 \$	Pro Forma 31 Jan 2004 \$
CURRENT ASSETS			
Cash assets	2	14,961	4,014,961
Receivables		25,494	25,494
Other assets		-	-
Total current assets		40,455	4,040,455
NON CURRENT ASSETS			
Exploration and evaluation expenditure	3	252,117	252,117
Intangibles		170,297	170,297
Total non-current assets		422,414	422,414
Total assets		462,869	4,462,869
CURRENT LIABILITIES			
Accounts payable and borrowings	4	230,353	230,353
Provisions		-	-
Total current liabilities		230,353	230,353
Total liabilities		230,353	230,353
NET ASSETS		232,516	4,232,516
EQUITY			
Contributed equity	5	210,003	4,210,003
Retained profits/(losses)		22,513	22,513
TOTAL EQUITY		232,516	4,232,516

Appendix 1

STATEMENT OF CASHFLOWS

	Reviewed 11 Nov 2003 to 31 Jan 2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts in the course of operations	3
Cash receipts from related entities	70
Cash payments in the course of operations	(93)
Net cash used in operating activities	(20)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash proceeds from issue of fully paid shares	60,000
Payments of loan to related entities	(45,000)
Net cash provided by financing activities	15,000
Net increase in cash held	14,980
Cash at the beginning of the financial period	(19)
Cash at the end of the financial period	14,961

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of the historical statements of financial position, financial performance and cashflows, and the pro forma statement of financial position are set out below:

Basis of Accounting

The financial statements have been prepared in accordance with the measurement requirements (but not all the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia using the accrual basis of accounting, including the historical cost convention.

The financial statements have also been prepared on a going concern basis.

Exploration, Evaluation and Development Expenditure

Costs incurred during the exploration, evaluation and

development stages of specific areas of interest are accumulated. Such costs are written off unless the Directors consider that the costs are expected to be fully recouped through the successful development of the project, or where activities to date have not reached a stage to allow reasonable assessment regarding the existence of economically recoverable reserves. Costs are written off as soon as a project has been abandoned or is considered to be non-commercial.

Expenditure is not carried forward in respect of any area of interest unless the Company's rights of tenure to that area of interest are current. Once production commences, expenditure accumulated in respect of areas of interest will be amortised on a unit of production basis against the economically recoverable resources.

Farm-out Arrangements

Where part of an interest is farmed out in consideration of the farminee(s) undertaking to incur expenditure on behalf of the farminee(s) and the entity in the area of interest, exploration expenditure incurred and carried forward prior to farm-out continues to be carried forward without adjustment, unless the terms of the

farm-out are excessive based on the diluted interest retained. Any cash received in consideration for part of an interest is treated as a reduction in the carrying value of the exploration expenditure carried forward. Where the value of the consideration received exceeds the carrying value, the excess consideration is recognised as gain.

Cash

Cash includes deposits, which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis, net of outstanding bank overdrafts.

Valuation of Non-Current Assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amounts at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. Unless otherwise stated, in assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Employee Entitlements

Liabilities for wages and salaries and annual leave are recognised and are measured as the amounts expected to be paid when the liabilities are settled.

Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when the timing differences arise.

Revenue Recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is

recognised on receipt in respect of interest and at the time of issue of invoice in relation to other revenue.

Receivables

All trade debtors are recognised at the amounts receivable, as they are due for settlement after no more than 30 days.

Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

Trade and other credits

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Pro Forma Transactions

The pro forma statement of financial position has been derived from the historical statement of financial position as at 31 January 2004 as adjusted to give effect to the following significant transactions that have occurred or are proposed to occur after 31 January 2004:

- i) Issue of 20,000,000 ordinary shares at 20 cents per share to raise \$4,000,000 pursuant to the Prospectus.

The pro forma statement of financial position has been prepared on the basis that the Offer will be fully subscribed.

	Reviewed 31 Jan 2004 \$	Pro Forma 31 Jan 2004 \$
NOTE 2 - CASH ASSETS		
Cash at bank and on hand	14,961	4,014,961
Reconciliation of movement in cash:		
Opening balance		14,961
Shares issued pursuant to the Prospectus		4,000,000
Share issue expenses		-
Closing Balance	14,961	4,014,961
NOTE 3 – EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation expenditure	252,117	252,117
Reconciliation of movement in exploration and evaluation expenditure:		
Opening balance	-	-
Acquisition of PEP 162 Exploration licence	252,117	252,117
Closing Balance	252,117	252,117
NOTE 4 - ACCOUNTS PAYABLE AND BORROWINGS		
Accounts payable	226,600	226,600
Amounts owing to director related entities	3,753	3,753
	230,353	230,353
NOTE 5 – CONTRIBUTED EQUITY		
Issued and paid up capital	210,003	4,210,003
Less: Share issue expenses	-	-
	210,003	4,210,003
Reconciliation of movement in contributed equity:		
Opening balance		210,003
Shares issued pursuant to the prospectus		4,000,000
Receipt of outstanding subscription monies		-
Share issue expenses		-
		4,210,003
Movement in issued ordinary share capital:	Number	\$
Date	Details	
14 November 2003	Shares issued to JP Morgan	500,000
11 November 2003	Initial issue of shares	3
1 December 2003	Shares issued to Karoon Gas Pty Ltd	15,000,000
29 January 2004	Shares issued to Jenny Emmet	50,000
30 January 2004	Shares issued to Mark Fairthorn	50,000
Balance as at 31 January 2004		15,600,003
Pro Forma adjustments:		
Shares issued pursuant to the Prospectus		20,000,000
Balance per report		35,600,003
NOTE 6 – RELATED PARTY TRANSACTIONS		
Details regarding directors; shareholdings, remuneration and transactions with the Company are set out on Page 50 of the Prospectus		

13. ADDITIONAL INFORMATION

Incorporation

The Company was incorporated in Victoria on 11 November 2003.

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) 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.

(d) Transfer of Shares

Shareholders may transfer Shares by a proper transfer effected in accordance with the SCH Business 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 SCH Business Rules, or if the transfer is not in registrable form.

(e) 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 and Options. It is the responsibility of non-residents to obtain all necessary approvals so that they may legally subscribe for (and be issued) the Shares and Options. 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 and Options to the Applicant.

Material Contracts

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.

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 PEP162. Under this royalty agreement, Karoon Gas Pty Ltd is required to pay a 2% NET royalty of the total profit of sale of all minerals (including hydrocarbons) derived from the area of PEP162.

By Deed, Karoon Gas Pty Ltd purchased EL4537 from Nexus Energy Aust NL for nominal consideration. The recitals to this deed provide that by a sale and purchase agreement dated 30 August 2002, Ropat Nominees Pty Ltd agreed to purchase all the shares in Karoon Gas Pty Ltd from Nexus Energy Aust NL with the intention that EL4537 was to be owned by Karoon Gas Pty Ltd, however, the application for EL4537 was mistakenly made in the name of Nexus Energy Aust NL. Under Victorian legislation, EL4537 was incapable of being formally assigned to Karoon Gas Pty Ltd in the first year of its term. This period expired on 6 March 2004 and the Company has made the necessary applications to effect the transfer of EL4537 to Karoon Gas Pty Ltd.

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 royalty of the total profits of sale of all minerals (including hydrocarbons) derived from the area of EL4537.

In respect of the Nexus Royalty Deeds, on 17 March 2004 the Company, Karoon Gas Pty Ltd and Nexus

Energy Aust NL entered into a Deed of Termination whereby, upon the Company raising \$3,600,000 under the Prospectus (being the minimum subscription under this Prospectus) and gaining admission to the Official List:

(a) the Company will issue, to Nexus Energy Aust NL 3,000,000 Shares and 1,500,000 Options under this Prospectus; and

(b) the Nexus Royalty Deeds will be terminated.

This Prospectus hereby constitutes an offer to Nexus Energy Aust NL (independent of and separate to the Public Offer and the Priority Offer) in relation to 3,000,000 Shares and 1,500,000 Options on the terms described above for the purposes of Chapter 6D of the Corporations Act.

The Company has an outstanding intercompany loan to Karoon Gas Pty Ltd for \$50,000. The loan is interest free and repayable upon success of this Issue. The loan is not formally documented.

Karoon Gas Pty Ltd has an outstanding debt of \$226,000 (as at 31 January 2004) to Ropat Nominees Pty Ltd, a company in which Robert Hosking is a director and shareholder for management and consulting services and reimbursement of certain costs and expenses. This debt will be paid upon success of the Issue.

Terms and Conditions of Options

The terms and conditions of the Options are as follows:

1. Entitlement

1.1 Each Option entitles the holder to subscribe for and to be allotted one Share, credited as fully paid.

1.2 Shares issued on the exercise of Options will rank equally with all existing Shares on issue as at the date of exercise and will be subject to the provisions of the Constitution and any escrow restrictions imposed on them by the ASX.

2. Exercise of Options

2.1 The expiry date of each Option is 30 June 2006. ("Option Expiry Date").

2.2 The exercise price of each Option is \$0.20 ("Exercise Price").

2.3 Each Option is exercisable by the holder signing and delivering a notice of exercise together with the Exercise Price in full for each Option exercised to the Company's share registry.

2.4 Remittances must be made payable by cheque to "Karoon Gas Australia Limited" and the cheque should be crossed "Not Negotiable".

2.5 Options not exercised on or before the Option Expiry Date will lapse.

3. Quotation

3.1 The Company intends to apply to the ASX for official quotation of the Options. The Company gives no assurance that ASX quotation will be granted.

3.2 The Company will make application to the ASX for official quotation of the Shares issued on the exercise of the Options, if other Shares of the Company are listed on the ASX at that time. Such applications will be made within three business days of the issue and allotment of Shares pursuant to the exercise of

Options. The Company gives no assurance that ASX quotation will be granted.

4. Future Issues of Shares

4.1 Optionholders may only participate in new issues of securities to holders of Shares if the Option has been exercised and Shares allotted in respect of the exercised Option before the record date for determining entitlement to the new issue.

4.2 The Company must give to Optionholders at least nine business days' (as that term is defined in the Listing Rules) notice of any new issue before the record date for determining the entitlement to that new issue in accordance with the Listing Rules of the ASX.

4.3 There will be no change to the Exercise Price or the number of Shares over which the Option is exercisable in the event of the Company making a pro rata issue of Shares or other securities to Shareholders (other than a bonus issue).

5. Participation in a Reorganisation of Capital

In the event of any reconstruction or reorganisation (including consolidation, sub-division, reduction or return of the capital of the Company), the rights of the Optionholder will be changed in accordance with the Listing Rules.

6. Adjustment for Bonus Issue

If there is a bonus issue ("Bonus Issue") to Shareholders, subject to the Listing Rules the number of Shares over which an Option is exercisable will be increased by the number of Shares which the Optionholder would have received if an Option had been exercised before the record date for the Bonus Issue ("Bonus Shares"). The Bonus Shares must be paid up by the Company out of the profits or reserves (as the case may be) in the same manner as in the Bonus Issue and, upon issue, rank equally in all respects with the other Shares of that class on issue as at the date of issue of the Bonus Shares.

7. Advice of Adjustments

The Company must give notice to an Optionholder of any adjustment to the number of Shares which the Optionholder is entitled to subscribe for or be issued on exercise of an Option or the exercise price per Option in accordance with the Listing Rules.

8. Notices

Notices may be given by the Company to Optionholders in the manner prescribed by its Constitution for the giving of notices to Shareholders and the relevant provisions of the Constitution apply with all necessary modification to notices to an Optionholder.

9. Right to Accounts and to Attend Meetings.

Optionholders will be sent all reports and accounts required to be laid before Shareholders in general meetings and all notices of general meetings of Shareholders and will have the right to attend, but not to vote, at those meetings.

Employee Share Option Plan

Karoon Gas has established an Employee Share Option Plan ("ESOP").

The purpose of this plan is to allow the Directors to grant to Directors, officers and employees options to acquire Shares as an incentive to improve the Company's performance and return to Shareholders.

The total number of options granted under the ESOP at any time may not exceed 10% of the issued capital of the Company from time to time. All Shares issued upon exercise of the options issued under the ESOP will rank equally with other fully paid Shares.

Restricted Securities

Certain current members of the Company are likely to be required by ASX to enter into restriction agreements in respect of some or all of the Shares and Options held by them, pursuant to which these Shares will be escrowed for a period of time by ASX.

The Shares and Options likely to be affected include:

- Shares and Options issued to the contributors of seed capital; and
- Shares and Options issued in consideration for acquisition of Karoon Gas Pty Ltd.

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 Offer,

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 Offer; or
- the Offer.

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 Offer.

(a) On 4 March 2004, the Company engaged Ropat Nominees Pty Ltd, a company in which Robert Hosking is a director and shareholder 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 4 March 2004, the Company entered into a lease with Ropat Nominees Pty Ltd, a company in which Robert Hosking is a director and shareholder, 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 in which Mark A Smith is a director and shareholder, 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 Table 3, below.

(e) The Company's Constitution provides that the Directors are entitled to be remunerated for services

rendered as Directors. The Directors have agreed that, in the first year, directors fees of \$25,000 per annum will be paid to 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) Karoon Gas Pty Ltd owes Ropat Nominees Pty Ltd, a company controlled by Robert Hosking, \$226,000 for management and consulting services and reimbursement of certain costs and expenses. This debt will be repaid upon success of this Issue.

(g) Mitchell Wilson and Partners has been (or will be) paid a fee of approximately \$10,000 for preparing the Independent Accountant's Report section of this Prospectus, and for other work undertaken for the Company over the past two years, has been paid approximately \$2,000.

(h) Mimosa Grand Pty Ltd trading as Upstream Strategies has been (or will be) paid a fee of approximately \$4000 for preparing the Geologists Report section of this Prospectus, and has not undertaken any other work for the Company over the past two years.

(i) Campbell Horsfall and Associates has been (or will be) paid a fee of approximately \$4,000 for preparing the Independent Solicitor's Report section of this Prospectus, and has not undertaken any work for the Company over the past two years.

Director	Shares		Options		Directors Options	
	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding
R M Hosking	1	8,188,334	-	4,094,167	500,000	-
E Munks	1	250,000	-	125,000	500,000	-
M A Smith		1,200,000	-	600,000	500,000	-

Table 3

(j) Fearis Salter Power Shervington has been (or will be) paid a fee of approximately \$35,000 for overseeing the due diligence process and reviewing this Prospectus, and has not undertaken any work for the Company over the past two years.

The Directors may subscribe for Shares under this Prospectus.

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) Mimosa Grand Pty Ltd, trading as Upstream Strategies has consented to be named as Independent Technical Consultant 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 Investigating Auditors and Independent Accountant to the Company and to the inclusion of its Independent Accountant'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.

(c) Campbell Horsfall and Associates have consented to being named as Independent Solicitors and to the inclusion of its Independent Solicitor's Report 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.

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

(e) Fearis Salter Power Shervington has consented to be named as Solicitors to the Issue.

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 Offer will be \$390,000.

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.

Electronic Prospectus

Pursuant to Class Order 00/44 ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus on the basis of a paper prospectus lodged with ASIC and the issue of Shares in response to an electronic Application Form, subject to compliance with certain provisions.

If you have received this Prospectus as an electronic prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Company at email: basspetrol@hotmail.net.au or telephone 03 5974 1044 and the Company will send to you free, either a hard copy or a further electronic copy of the Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies received will be dealt with in accordance to Section 722 of the Corporations Act.

14. 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

An application made on a valid Application Form.

Application Form

Either a Public Application Form or a Priority Application Form.

Application Monies

Monies accompanying an Application Form (at \$0.20 per Share).

ASIC

The Australian Securities & Investments Commission.

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. It is in such basins that hydrocarbons can be found.

BCF/bcf

Billion cubic feet of gas (thousand million) at atmospheric pressure and temperature.

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.

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.

EST

Eastern Standard Time.

Exposure Period

The seven-day period after the date of lodgment of the Prospectus (which may be extended by ASIC by up to a further seven days).

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.

Issue or Offer

The offer of 20,000,000 Shares at an issue price of 20 cents each together with 10,000,000 free attaching Options pursuant to this Prospectus, with the ability to accept oversubscriptions for up to 5,000,000 Shares and 2,500,000 Options.

Jurassic

A period of geological time approximately 195 to 135 million years ago.

Karoo Leases

PEP162 and EL4537.

Leads

Potential Petroleum traps that have been identified but have not been adequately defined.

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.

Methane

The lightest hydrocarbon gas; CH₄.

Migrate

The movement of hydrocarbons through rocks.

Nexus Energy

Nexus Energy Ltd (ACN 058 818 278).

Nexus Royalty Deeds

The deeds described in the "Additional Information" section on page 47 pursuant to which Karoon Gas Pty Ltd owes royalties to Nexus Energy Aust NL in relation to PEP162 and EL4537.

Nexus Shareholder

A shareholder on the register of members of Nexus Energy Ltd (ACN 058 818 278) as at 5.00pm EST on 22 March 2004 entitled to receive the Offer with a registered address in Australia.

Offer Price

20 cents per Share.

Official List

The official list of the ASX.

Options

Option to acquire a Share on the terms and conditions outlined in this Prospectus granted to Applicants on the basis of one Option for every two Shares issued to the Applicant under this Prospectus.

Optionholder

A holder of Options.

Opening Date

The first date for the processing of completed Application Forms, which is 30 March 2004.

Permeability

The capacity of a rock (coal) to transmit a fluid.

PEP

Victorian Petroleum Exploration Permit.

Priority Application Form

The blue loose leaf application form which accompanies this Prospectus, as described in "The Offer" section, on page 6.

Priority Offer

A priority entitlement offer under this Prospectus to Nexus Shareholders, as described in "The Offer" section, on page 6.

Priority Offer Closing Date

5.00pm EST on 19 April 2004.

Porosity

The ability of a rock to contain a fluid in interstices.

Pinchout

A Stratigraphic 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.

Prospectus

This Prospectus dated 22 March 2004 including any electronic or online version of this Prospectus.

Public Application Form

The application form which is attached to or accompanies this Prospectus, as described in "The Offer" section, on page 6.

Public Offer

An offer to the public as described in "The Offer" section, on page 6.

Public Offer Closing Date

5.00pm EST on 19 May 2004.

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.

Seed Capital Shares

3,335,000 Shares issued by the Company in consideration of providing working capital to the Company.

Seismic Survey

The gathering of data on the subsurface by a particular geophysical method, which uses shock waves.

Shareholder

A holder of Shares.

Share

A fully paid ordinary Share in the capital of the Company.

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.

TCF/tcf

Trillion Cubic Feet.

Tonne

Metric tonne (1000 kilograms).

Vitrinite

An oxygen-rich particle composed of humic matter.

15. DIRECTOR'S 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

Mark A Smith

Edward Munks





16. PUBLIC APPLICATION FORM

This Public Application Form relates to the issue of 20,000,000 Shares and 10,000,000 free attaching Options in Karoon Gas Australia Ltd at 20 cents per Share pursuant to a Prospectus dated 22 March 2004. 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 Options of the Company and it is advisable to read the Prospectus before applying for Shares. A person who gives another person access to this Public 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 Public Application Form, on request and without charge.

No. of Shares applied for:.....	
---------------------------------	--

Application monies at 20 cents per Share:	Broker's Stamp
---	----------------

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 Account	Branch	
.....	\$.....
.....	\$.....

DECLARATION

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

- 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;
- agrees to be bound by the Constitution of the Company; and
- 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. Applications must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares.
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. 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 Share Offer**" 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, either a printed or electronic version of 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 the Public Offer Closing Date to:

Computershare Investor Services Pty Limited
PO Box A182
PERTH WA 6840

or

Bell Potter Securities Limited
GPO Box 4718TT
MELBOURNE VIC 3001

or

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

or

Tricom Equities Limited
Level 31
360 Collins Street
MELBOURNE VIC 3000

Applications must be received by the Public Offer Closing Date.

Please telephone the Computershare Investor Services Pty Limited on 1300 557 010 if you have any questions with respect to this Application Form.

Applications are for Shares as detailed in the Prospectus dated 22 March 2004.

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
(ABN 53 107 001 338)

PROSPECTUS

for an issue of 20,000,000 Shares at 20 cents each to raise \$4 million with
10,000,000 free attaching Options

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 relevant Application Form accompanying this Prospectus.

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

The Shares and Options offered under this Prospectus should be considered speculative.

PRIORITY APPLICATION FORM

This Priority Application Form relates to the issue of 20,000,000 Shares and 10,000,000 free attaching Options in Karoon Gas Australia Ltd at 20 cents per Share pursuant to a Prospectus dated 22 March 2004.

Only Nexus Shareholders, being those shareholders on the register of members of Nexus as at 5.00pm EST on 22 March 2004 with a registered address in Australia, are eligible to participate in the Priority Offer.

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 Options of the Company and it is advisable to read the Prospectus before applying for Shares. A person who gives another person access to this Priority 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 Priority Application Form, on request and without charge.

No. of Shares applied for:.....

Broker's Stamp

Application monies at 20 cents 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.....
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Tax File No / Exemption Category		
Applicant 1	Applicant 2	Applicant 3
.....

Payment Details			
Drawer	Bank Account	Branch	
.....	\$.
.....	\$.

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.

Capitalised terms in the Application Form have the meaning given to them in the Prospectus.

NOTES

1. Enter the number of Shares you wish to apply for. Applications must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares.

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. 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 "Karoo Gas Australia Ltd Share Offer" 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, either a printed or electronic version of 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 the Priority Offer Closing Date to:

Computershare Investor Services Pty Limited
PO Box A182
PERTH WA 6840

or

Bell Potter Securities Limited
GPO Box 4718TT
MELBOURNE VIC 3001

or

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

or

Tricom Equities Limited
Level 31
360 Collins Street
MELBOURNE VIC 3000

Applications must be received by the Priority Offer Closing Date.

Please telephone the Computershare Investor Services Pty Limited on 1300 557 010 if you have any questions with respect to this Application Form.

Applications are for Shares as detailed in the Prospectus dated 22 March 2004.

.....

Karoon Gas Australia Ltd

SUPPLEMENTARY PROSPECTUS

1. IMPORTANT NOTICE

This Supplementary Prospectus is dated 1st April 2004 and was lodged with ASIC on that date. This Supplementary Prospectus supplements the Prospectus issued by Karoon Gas Australia Ltd on 22nd March 2004 and lodged with ASIC on that date (the "**Original Prospectus**"). No previous supplementary prospectus has been lodged with ASIC in relation to the Offer.

Neither ASIC nor ASX takes any responsibility for the contents of this Supplementary Prospectus or the Original Prospectus.

This Supplementary Prospectus is to be read together with the Original Prospectus. Terms used in this Supplementary Prospectus have the same meaning as in the Original Prospectus unless otherwise defined or the contrary intention appears.

2. CLARIFICATION

The Company wishes to clarify that the rights attaching to the Karoon Leases are as follows:

- EL4537 – permits the Company to explore for all minerals including oil shale, coal and, in addition, hydrocarbons which are contained in oil shale or coal such as coal bed methane gas but not any other form of hydrocarbon.
- PEP162 – permits the Company to explore for petroleum being hydrocarbons occurring in gaseous, liquid or solid state but not hydrocarbons occurring within a deposit of oil shale or coal such as coal bed methane gas.

The Company's exploration for coal bed methane gas will therefore be carried out on the area the subject of EL4537 which is shown on page 5 of the Original Prospectus. Oil and natural gas exploration will be carried out on the area the subject of PEP162 which includes the area the subject of EL4537 as shown on page 5 of the Original Prospectus.

3. CONSENT

Each of the Directors has consented to the lodgement of this Supplementary Prospectus with ASIC.

Signed for and on behalf of Karoon Gas Australia Ltd (ABN 53 107 001 338)

Robert M Hosking
Director
1st April 2004

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7A, 34 Lochiel Ave Mt Martha Vic. 3934
PHONE: 03-59741044 FAX: 03 59 741644.
MOBILE: 0414 667 844.
EMAIL: basspetrol@hotmail.net.au