



Karoon Gas Australia Ltd

31 January 2005

KAROON GAS AUSTRALIA LIMITED

ACTIVITIES

Exploration Permits

PEP 162 and EL 4537 Karoon interest 100%

During the quarter the Megascollides #1 well was drilled in the Narracan Trough to a total depth of 2000m. The objectives of the well were to determine the Coal Bed Methane (CBM) and conventional oil and gas potential of the Strzelecki and Crayfish Group equivalent sections respectively.

The well was successful in confirming the presence of gas bearing black coal across the permit area. Core analysis is continuing with the coal core section having just finished desorbing gas. Further analysis is continuing and interpretation of the results, expected in February will aid in CBM testing decisions on the well.

The well was also successful in identifying a potential oil play near the Top of the Crayfish Group equivalent section with the well intersecting approximately 3m of net porous sands. Cuttings from the well showed good hydrocarbon fluorescence and high gas readings. Interpretation of the well data shows that the well penetrated the oil zone down dip and possible out of closure on a structural high. Additional seismic is being planned to map the updip extent of the Megascollides structure and other targets for drilling to confirm the oil potential of this new play.

Karoon's planned seismic acquisition program will delineate both CBM and oil targets, covering the whole of the Narracan trough which is contained in PEP-162.

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EL 4537 Brown Coal Resources Karoon interest 100%

As reported previously the company has an In-situ Coal Resource Estimate in EL4537 as follows;

Measured	50	million tonnes
Indicated	210	million tonnes
Inferred	80	million tonnes

TOTAL	*340	Million tonnes
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* contains coal and inferior coal.

The deposit is located in the Yarragon area under a thin cover of sands and clays.

The company is investigating the commercial potential of this resource

WA-314-P and WA-315-P Karoon interest 100%

During the quarter Karoon acquired the exclusive rights to explore and earn a 100% interest in the exploration permits WA-314-P and WA-315-P in the Browse Basin offshore North Western Australia. Karoon has secured a 6 months extension for the Year 2 work commitments on the permits from the Designated Authority. The year-2 work program is to conduct a 400sq km 3D seismic survey by the 11th of May 2005.

Karoon is currently in the process of farming out equity in the permits. To date there has been serious interest by a number of large companies.

Corporate

During the quarter the company has recommenced screening a number of new venture opportunities now that the WA-314-P and WA-315-P opportunity has been captured.

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Karoo Gas Australia Ltd

ABN

53 107 001 338

Quarter ended ("current quarter")

December 2004

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors		
1.2	Payments for (a) exploration and evaluation	(1,699)	(2,143)
	(b) development		
	(c) production		
	(d) administration	(163)	(273)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	40	80
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other - GST refunds	47	105
Net Operating Cash Flows		(1,813)	(2,269)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects		
	(b)equity investments		(1)
	(c) other fixed assets	(83)	(89)
1.9	Proceeds from sale of: (a)prospects		
	(b)equity investments		
	(c)other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material)		
Net investing cash flows		(83)	(90)
1.13	Total operating and investing cash flows (carried forward)	(1,896)	(2,359)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,896)	(2,359)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1	1
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows		1
	Net increase (decrease) in cash held	(1,895)	(2,358)
1.20	Cash at beginning of quarter/year to date	3,762	4,226
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	1,867	1,867

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	326
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors Fees included in 1.23 : \$ 15,896
Consulting Fees included in 1.23 : \$ 309,876

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	500
4.2 Development	Nil
Total	500

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	96	77
5.2 Deposits at call	1,771	3,686
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	1,867	3,763

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased	WA-314-P WA-315-P	Direct Direct	Nil Nil	100% 100%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference ⁺securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 ⁺Ordinary securities	41,663,503	26,663,503		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow				
7.5 ⁺Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	20,831,750 1,500,000	13,331,750	<i>Exercise price</i> 20 cents 25 cents	<i>Expiry date</i> 30 June 2006 30 June 2007
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date:31 January 2005....
(Company secretary)

Print name: ..Hector Peeters.....

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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Note 1

+ See chapter 19 for defined terms.

Schedule of Exploration Permits

Held by the Consolidated Entity

At 31st December 2004

<u>Exploration Permits</u>	<u>Basin</u>	<u>Interest %</u>
PEP 162	Gippsland	100
EL 4537	Gippsland	100
WA-314-P	Browse	100
WA-315-P	Browse	100

+ See chapter 19 for defined terms.