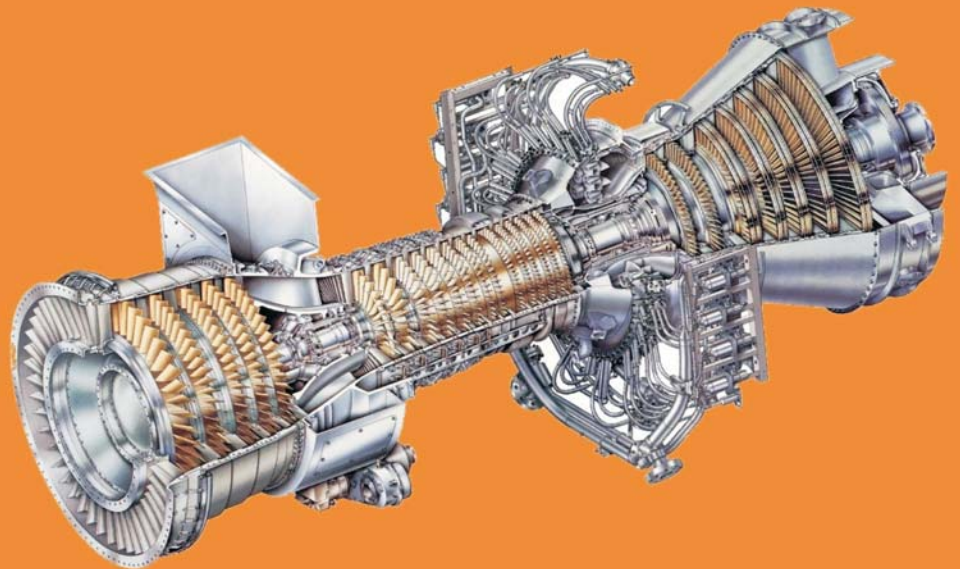
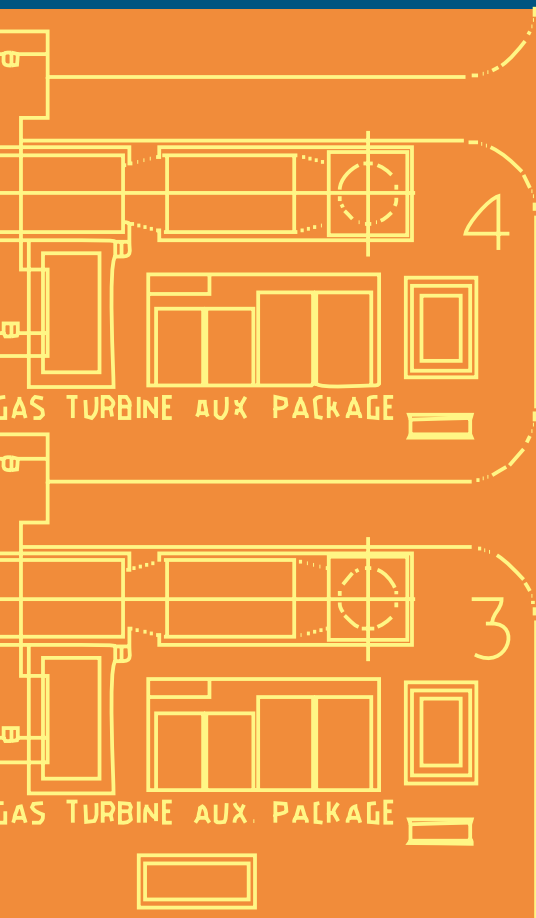




Eneabba Gas Limited

ACN 107 385 884



LEAD MANAGER TO THE OFFER

PROSPECTUS



Securities offered by this Prospectus should be considered to be speculative

(i) KEY TERMS & DATES

PUBLIC OFFER

This Prospectus provides information on the offer to subscribe for 40,000,000 Shares at an issue price of 25 cents per Share, with the capacity to accept oversubscriptions of up to a further 10,000,000 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.

There is one free attaching Option for every two Shares allotted. The Options are exercisable at \$0.30 each on or before 30 June 2009. The rights and liabilities attaching to both the Shares and Options are further described under Section 8 of this Prospectus.

Securities offered by this Prospectus should be considered to be speculative.

HOW TO APPLY

Applications for Securities must be made on an Application Form attached to and forming part of this Prospectus. Payment for the Shares must be made in full at the price of 25 cents per Share. Applications for Securities must be for a minimum of 8,000 Shares and 4,000 Options (\$2,000) and thereafter in multiples of 2,000 Shares and 1,000 Options (\$500).

Applicants should read the instructions on the Application Form before applying for Securities. Completed Application Forms may be lodged at any time after the Opening Date but by no later than the Closing Date (unless extended).

Cheques in Australian dollars, must be made payable to “**Eneabba Gas Limited – Share Issue Account**” and crossed “Not Negotiable”, must accompany each Application. Cash will not be accepted. **Application Forms must be** delivered or mailed to

Patersons Securities Limited
Level 23, Exchange Plaza
2 The Esplanade Perth WA 6000

or

Patersons Securities Limited
GPO Box W2024
Perth WA 6846

Key Dates & Indicative Timetable

Lodgement of Prospectus with ASIC	16 Dec 2005
Offer opens (Opening Date)	09 Jan 2006
Offer Closes (Closing Date)	30 Jan 2006
Holding Statements expected to be issued	08 Feb 2006
Trading of Shares on ASX expected to commence	17 Feb 2006

This timetable is indicative only. Subject to the requirements of the Listing Rules and the Corporations Act, the Company, in consultation with the Lead Manager reserves the right to vary the dates and times of the Offer without prior notice, which may have a consequential effect on other dates.

Applicants are encouraged to apply as soon as possible after the Offer opens as the Offer may close earlier than the date specified as the Closing Date above. The Company also reserves the right to withdraw the Offer at any time before allotment of Securities to successful applicants.

IMPORTANT NOTICE

This Prospectus is dated 16 December 2005 and a copy was lodged with ASIC on that date. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which the Prospectus relates.

No Securities will be allotted or issued on the basis of this Prospectus later than thirteen (13) months after the date of issue of this Prospectus. Securities allotted or issued pursuant to this Prospectus will be allotted or issued on the terms and conditions set out in this Prospectus.

The Company will apply to ASX within seven (7) days after the date of this Prospectus for admission to the Official List of the ASX and for permission for the Securities offered by this Prospectus to be listed.

Before deciding to invest in the Company, prospective investors should read the entire Prospectus and in particular, in considering the prospects for the Company, investors should consider the many risk factors that could affect the operational and financial performance of the Company as set out in Section 7 of this Prospectus. Prospective investors should carefully consider these factors in light of personal circumstances (including but not limited to financial and taxation requirements). The Company is a potential energy infrastructure company and accordingly, the risks of investing in the Company are significant and in turn, the Securities offered by this Prospectus, the price of which can fall as well as rise, should be considered speculative. We draw your particular attention to Section 7 of this Prospectus for details relating to investor investment and risk considerations. Prospective investors should seek professional advice from an accountant, stockbroker, lawyer or other professional adviser before deciding to invest in these Securities.

Certain words and terms used in the Prospectus have defined meanings that appear in the Glossary in Section 11 of this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by the Company in connection with the Offer.

Law may restrict the distribution of this Prospectus in jurisdictions outside Australia and persons who come into possession of this

Prospectus should seek advice on and observe the requirements of these laws. Persons who do not observe those requirements may violate securities laws. Any recipient of this Prospectus residing outside Australia should consult their professional advisers on requisite formalities. This Prospectus does not constitute an offer of the Securities in any place in which, or to any person to whom, it would not be lawful to do so. No action has been taken to register or qualify the Securities or the Offer or otherwise to permit a public offering of the Securities in any jurisdiction outside Australia.

In accordance with Chapter 6D of the Corporations Act, this Prospectus is subject to an Exposure Period of seven days from the date of lodgement 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. Potential investors should be aware that such examination may result in the identification of deficiencies in the Prospectus and, in those circumstances any Application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications for Securities received during the Exposure Period will not be accepted until the Exposure Period has expired and no preference will be given to persons who lodge their Application Forms during the Exposure Period.

This Prospectus will be issued in paper form and in electronic form that may be viewed online at the Company's website at www.eneabbagas.com.au or that of the Lead Manager, Patersons Securities Limited at www.psl.com.au. The Offer is available to persons receiving an electronic version of this Prospectus in Australia. There is no facility for on-line applications.

The Corporations Act prohibits any person from passing onto another person the Application Form unless it is attached to or accompanied by a complete and unaltered version of this Prospectus or the complete and unaltered electronic Prospectus (whether printed or remaining in an electronic medium).

During the Offer period, any person may obtain a free hard copy of this Prospectus by contacting the Company directly by telephoning on (08) 9321 0099 or by e-mail at admin@eneabbagas.com.au

Assets depicted in photographs and images in this Prospectus, unless otherwise stated, are not assets of the Company

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(ii) CHAIRMAN'S LETTER

Dear Investor

On behalf of my fellow Directors, I have great pleasure in presenting you with an opportunity to participate in the ownership and future growth of Eneabba Gas Limited. The Company, since 2003, has been focussed on assessing the feasibility of establishing a 168 MW power station (named Centauri 1) near Dongara, Western Australia. On completion, this power station will supply and service the local Mid West community and also metropolitan Perth.

We have great pleasure in now presenting the beginnings of a proposed multi-staged development of the Company to investors as follows:

- a gas fired turbine 168 MW power station project;
- capacity for off-peak power up to 168 MW available for local area supply;
- inputs of Capacity Payments from the IMO underpinning the Project;
- a potential for local energy plus a peak load energy supply to metropolitan Perth; and
- secure tenement acreage to be assessed for a future alternative fuel supply.

The Market Review by ACIL Tasman which is in Section 4 gives a background not only of the new Western Australian Energy Market, but reviews models and possibilities for this market. Eneabba Gas Limited's proposed development of the Centauri 1 power station, located on Steele Road Dongara, gives the Company an excellent location to potentially supply the anticipated growth in the Mid West Region of W.A.

As a future potential for commercial benefit, some twelve mining tenements, prospective for CSM have also been secured should the opportunity for an alternative fuel source for power station ultimately be economically viable.

My fellow Directors have had involvement in infrastructure development, utility companies and mining, both in Australia and overseas. We are inviting each prospective investor to join us with this exciting challenge and become a shareholder in Eneabba Gas Limited and the future energy development of Western Australia.

This Prospectus contains detailed information about Eneabba Gas Limited. Please consider this information carefully and ensure it has the potential to satisfy your investment needs before making your investment decision.

I commend this investment to you and look forward to welcoming you as a Shareholder in the Company.

Yours faithfully



Reg Gillard
Chairman

16 December 2005

(iii) INVESTMENT HIGHLIGHTS

The Company's corporate objectives and business plan have been formulated within a distinct commercial framework and subject to a favourable outcome to the current feasibility studies being conducted by the Company have the following features;

- (a) From 01 July 2006 the Western Australian Electricity Market will be totally managed under a new regime of the Independent Market Operator (IMO) and with a significantly different method of pricing and base support than any other mainland electricity market.
- (b) The modelling of the special IMO Market Rules undertaken on behalf of the Company by ACIL Tasman demonstrates a large range of potential options, risks, rewards and strategy for investments in the energy market, despite the IMO regime not yet having been fully established.
- (c) The impact of the current growth in the Mid West and major local resources developments, are expected to result in significant changes in the region from a shift in almost 100% agricultural, to 90% minerals and energy over the next 10 years. This has been the prime catalyst for EGL to meet these challenging and major infrastructure changes of which energy is a critical part.
- (d) The Company's proposed Centauri 1 Power Station 168 MW - a four unit, GE LM 6000 base load / peaking plant located outside the main geographical area of the SWIS energy market (6 km north east of Dongara), but still connected and operating under "metropolitan rules". The Company is proposing to source natural gas from the adjacent Parmelia pipeline as the initial fuel source for the power station.
- (e) Capacity Payment credits are available to the Company for 100MW and Capacity Payments of between \$12.75 million to \$15.0 million per year, subject to rules, performance and regulations as per the IMO Market Rules (applicable from 01

July 2006 – refer Section 4). This IMO registration and the Capacity Payments are for a term of 10 years plus (under the initial IMO reserve capacity special price arrangements for inaugural applicants) a further 5 years, subject to terms and conditions being met, supports the Project. (For further details on the IMO refer to Section 9.7)

- (f) The independent assessment of market models that are typical of 100MW (or approx 10% of the non Western Power generation capacity) of the W.A. Energy Market reviewed by ACIL Tasman indicates that changes in fuel supply, market certification and the effect on the W.A. Government funded "capacity credits" with and /or without bilateral contracts to guarantee the minimal base requirements of the market. (refer to Section 4)
- (g) The Company is in preliminary discussions with a significant W.A. based utility for a proposed gas transmission agreement including the possible connection to the Parmelia natural gas pipeline.
- (h) Subject to the Company's geological assessment of twelve tenements which have been granted under the Mining Act, a possible regional coal seam methane (CSM) project, that when licensed or operated by Joint Venture or other arrangement, could have the potential to deliver a lower cost alternative fuel source to the proposed power station.

The Local Government administrations of The Shire of Irwin and The Shire of Greenough have fully supported the Project and its development. Local infrastructure is at a level that does not impede the Project development.

The location of the proposed power station is outside the influence of 91% of W.A. power generation locations. This makes the Project a high priority for development and connection and this view is shared by the W.A. State Government and opposition parties, local community and potential customers.

(iv) Eneabba Gas Limited : MILESTONES & ACHIEVEMENTS

2003 / 2004

12 December 2003	Company formed, initial capital lodged for operations
10 May 2004	Establish gas turbine supplier tenders for Centauri 1 power station
02 October 2004	Office of Energy : Expression of Interest announced : EGL registers interest
13 October 2004	DoIR Grants Exploration licence E 70 / 2676
24 November 2004	Discussions with Irwin Shire Council on site and capacity of power station
06 December 2004	Eneabba Gas Lodges EoI to Office of Energy GE Aero Energy provided preferred Budget Turnkey Proposal for Centauri 1
10 December 2004	Initial discussions with APT Parmelia Pty Ltd re commercial transmission arrangements
12 December 2004	Seed Capital Information Memorandum produced, initial contact with investors
18 December 2004	Presentation to Minister of State Development re Project

2005

18 February 2005	Appoint SKM as engineering advisor for power station / SWIS interconnect
20 March 2005	GE Aero Energy Project Proposal presented for turnkey LM 6000 Gas turbines Lodge EGL / SKM SWIS interconnect proposal with Western Power
22 April 2005	Western Power advise Network Access Application allocated Network Applicant SW050316
12 May 2005	IMO official application date for EGL confirmed
01 June 2005	IMO Approval Registration as Market Rule Participant MGC 05 Registration as Market Generator Registration as Market Customer
23 June 2005	IMO Approval Conditional Certification of Reserve Capacity of 100MW, with a level of \$150,000 per MW per year Certified to start generation from 2008 / 09 year The EoI proposal is for 15 year period, conditions as per Rule 4.21 & 4.22
30 June 2005	\$1.05 million Seed Capital level achieved from sophisticated investors
02 August 2005	Corporate Governance: Appointment of Independent Non-Executive Chairman
20 August 2005	EPA environmental plan lodged for assessment
22 August 2005	Presentation to Minister (Hon Alan Carpenter MLA) re Centauri 1 Power Station
01 September 2005	Further discussions with APT Parmelia Pty Ltd re pipeline lateral
28 September 2005	EPA registers / announces EGL submission (assessment nos 1595)
3 October 2005	GE Aero Energy gas turbine Letter of Support received
27 October 2005	Power Station Land (400 Acres) secured by agreement and deposit paid
28 October 2005	Bi-lateral Energy Contract discussion starts with commercial customers
01 November 2005	Gas Supply contract discussion begins with commercial suppliers
15 November 2005	11 tenements granted by Minister and issued by DoIR : E 70 / 2658 E 70 / 2759 E 70 / 2760 E 70 / 2761 E 70 / 2762 E 70 / 2763 E 70 / 2764 E 70 / 2765 E 70 / 2785 E 70 / 2786 E 70 / 2798
December 2005	Supply final daily gas turbine peak load data to APT for pipeline design GE Aero Energy supply all technical data for site approval by Shire Negotiate Heads of Agreement / Supply contract with GE Aero Energy Survey Dongara site and position final location of all services Lodge initial development plan with Irwin Shire Council Gas Supply contract discussion with commercial parties re supply detail

(v) Eneabba Gas Limited : FUTURE ACTIVITIES & MILESTONES

2006

The following are the key milestones for the Company's continued development and commercialisation of the Project, amongst others;

January 2006	APT Parmelia Pty Ltd: Heads of Agreements : Lateral Pipeline Installation : Gas Transmission Agreement : Gas Storage Agreement
February 2006	Conclude land purchase at Dongara Negotiations re Centauri 1 project financing arrangements begins
March 2006	Shire approval of Land including zoning and services requirements EPA approvals lodged following Shire approval for zoning
May 2006	Mitchell Drilling Pty Ltd start core drilling programme on tenements

IMO Key Dates approved for development and commissioning

01 May 2006	Re-lodge certification of the details of plant for final build
07 July 2006	Finalisation of Finance
10 August 2006	Reserve Capacity Security Deposit Due (\$3,750,000 by 5.00 pm)
25 August 2006	All approvals finalized
09 October 2006	Start of Site preparation
06 November 2006	Start of Construction
February 2008	Installation of generating equipment complete
April 2008	Ready to start commissioning trials
May 2008	In service
01 July 2008	Capable of fully meeting Reserve Capacity Obligations

The achievement of the above milestone events has not been hampered or delayed despite the Company's current "junior status" within the W.A. Energy Market. The registration with the IMO as a "conditionally approved generator" is a significant event and is pivotal to the Company's next stage of Project assessment.

Notwithstanding the W.A. Energy Market being very tightly held (over 95% Western Power controlled), the progress made by the Company to date, despite this monopolistic control of both activity and applicable information, demonstrates the capabilities of EGL.

There are various risks and challenges to bring the Project to fruition (see Section 7 - Investment and Risk Considerations) but the Company is confident it can address and manage the various issues through to completion.

The Company has begun negotiation with parties for gas supply. Since any detailed negotiation is subject to confirmation of the gas turbine fuel delivery volumes, the inter day variability of energy "sent-out" load, pipeline specifications and the new SWIS supply management network control services, final arrangements cannot be negotiated until a more detailed specification is resolved. While the Company is aware that a fuel supply off-contract is critical, it is not in a position to commit until all technical details are satisfied.

(vi) BOARD of DIRECTORS & COMPANY SECRETARY

The names, particulars, qualifications and experience of the Directors in office at present are set out below.

CHAIRMAN: Reginald N. GILLARD

After practising as an accountant for over 31 years, during which time he formed and developed a number of service related businesses, Reg Gillard now focuses on corporate management, corporate governance and the evaluation and acquisition of businesses. He is a non-executive chairman of Perseus Mining Ltd, Caspian Oil & Gas Limited, Lafayette Mining Ltd, Moto Goldmines Ltd, Aspen Group Ltd and Pioneer Nickel Ltd. Reg has developed

close working arrangements with a number of substantial Australian, international and investment funds and has been responsible for and involved with the funding of several listed public companies. He has a Bachelor of Arts, is a Registered Company Auditor, Justice of the Peace, Fellow of the Certified Practising Accountants of Australia and a Fellow of the Australian Institute of Company Directors

DIRECTOR: Thomas L. C. GOH

Thomas holds a B.Sc degree in mathematics, and has acquired years of extensive experience in the petroleum exploration industry through working with seismic contractor companies (in Singapore), a major international oil company and an Australian group of companies in Australia. Operating in Southeast Asia and Pacific-rim regions, he rose to position of manager at an early age with a US seismic company before migrating in 1978 to Australia, where he had direct technical involvement in the economic

appraisals of both gas and oil discoveries. As director and general manager of a public listed oil & gas company, he continued contributing much of his technical expertise directly to joint ventures to achieve successful exploration objectives. Furthermore, he initiated several vital corporate strategies, which included technical evaluations, commercial negotiations, sale and acquisition of petroleum interests.

MANAGING DIRECTOR: Mark H. BABIDGE

In the past ten years Mark has actively run the corporate administration in the role Managing Director, General Manager or director of a number of public and private companies. He has managed utility companies in Australia and overseas, both major management roles have been with organisations whose turnover has exceeded A\$ 1.0 bn per annum. Mark has a science background plus a Graduate Diploma in Business Administration from the South Australian Institute of Technology (awarded the Prize for Marketing), attended the Advanced Management Programme (SEP-1983) Stanford University California and is a Fellow of the Australian Institute of

Management. He has held senior executive roles in many industries and undertaken "corporate doctor" management and mentoring of medium to large businesses. These have included being the President of the Board of Compania de Telefonos de Chile (Chile Telephone Company) residing in Chile for 3 years, CEO of Bond Chile, and assisting in the management of Minería San Jose / Minería El Indio (produced 250,000 ozs gold; 0.5 Mt copper p.a.) CEO's Representative / General Manager Telecom WA and advising a number of small business mining related enterprises in Australia.

COMPANY SECRETARY: Peter C. WOODS

Peter holds a B.Bus Degree in Accounting, is a CPA, Registered Tax Agent and Authorised ASIC agent. After performing various executive positions in the corporate sector as Financial Controller, Finance Director and Company Secretary for organisations over a period of 15 years, he established his own accounting practice in July 2003. He advises clients on administration, business and taxation matters across a broad range of industries in both Metro and Country locations in Western Australia. Initially involved in the advertising industry as Finance Director for the Perth office of a major Australian advertising agency with local turnover in excess of

\$20M, he resigned to establish his own agency with two associates. The partners, capitalising on their success, on-sold the agency after four years to another major Australian agency.

After divesting the advertising agency and prior to the set up of his Accounting Practice, Peter worked as Financial Controller / Group Accountant for a private hotel group with turnover in excess of \$20M and a capital base in excess of \$35m. He was responsible for the administration and finance functions of four WA hotels and one Victorian Hotel plus six other private companies.



Board of Directors of Eneabba Gas Limited

L to R: Thomas L Goh (Director), Mark H Babidge (Managing Director),
Reginald N Gillard (Chairman) and Peter C Woods (Company Secretary)

SECTION 1 - OFFER DETAILS

1.1 Introduction

This Prospectus provides information on the Offer to prospective investors to subscribe for 40,000,000 Shares at an issue price of 25 cents per Share, with the capacity to accept oversubscriptions of up to a further 10,000,000 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. One free attaching Option is allotted for every two Shares. The Options are exercisable at \$0.30 each on or before 30 June 2009. The Company will make application for the quotation of the Securities on ASX.

The rights and liabilities attaching to the Securities are further described in Section 8 of this Prospectus.

Securities offered by this Prospectus should be considered to be speculative

1.2 Offer

The Offer to prospective investors is to subscribe for 40,000,000 Shares and 20,000,000 Options, with the capacity to accept oversubscriptions of up to a further 10,000,000 Shares and 5,000,000 Options.

Applications for Securities must be made on an Application Form. Payment for the Shares must be made in full at the price of 25 cents per Share. Applications for Securities must be for a minimum of 8,000 Shares and 4,000 Options (\$2,000) and thereafter in multiples of 2,000 Shares and 1,000 Options (\$500).

Applicants should read the instructions on the Application Form before applying for Securities. Completed Application Forms may be lodged at any time after the Opening Date but by no later than the Closing Date (unless extended).

1.3 Purpose of the Offer

The Company is seeking to raise \$10,000,000 (with a Minimum Subscription of \$8,000,000 and oversubscriptions to a maximum of \$12,500,000) pursuant to the Offer. The Company's business objective is to complete the feasibility during the appraisal stage of the Project and thereafter and subject to all necessary regulatory approvals, finance and access to a fuel source, design, construct and operate a 168MW gas turbine power station, located in Dongara and supplying energy to SWIS. The Company will progressively appraise results obtained and invest funds according to the best potential outcome for all stakeholders

1.4 Key Dates & Indicative Timetable

Lodgement of Prospectus with ASIC	16 Dec 2005
Offer opens (Opening Date)	09 Jan 2006
Offer closes (Closing Date)	30 Jan 2006
Holding Statements expected to be issued	08 Feb 2006
Trading of Shares on ASX expected to commence	17 Feb 2006

This timetable is indicative only. Subject to the requirements of the Listing Rules and the Corporations Act, the Company, in consultation with the Lead Manager, reserves the right to vary the dates and times of the Offer without prior notice, which may have a consequential effect on other dates. Applicants are encouraged to apply for Securities as soon as possible after the Offer opens as the Offer may close earlier than the date specified above. The Company also reserves the right to withdraw the Offer at any time before allotment of Securities to successful applicants.

1.5 Capital structure

	Minimum Subscription		Full Subscription (no over Subscriptions)		Maximum Subscription (full over Subscriptions)	
	Shares	Options	Shares	Options	Shares	Options
Securities Issued under This Prospectus	32,000,000	16,000,000	40,000,000	20,000,000	50,000,000	25,000,000
Existing issued securities	71,260,004	52,480,000	71,260,004	52,480,000	71,260,004	52,480,000
Total Shares/Options On Issue	103,260,004	68,480,000	111,260,004	72,480,000	121,260,004	77,480,000
Market Capitalisation At \$0.25	\$25.8m		\$27.8m		\$30.3m	

For further details of the existing securities refer to Section 5 in the Investigating Accountant's Report. For details of the terms and conditions of Securities refer to Section 8.



1.6 Application of funds

ITEM	Minimum Subscription	Full Subscription (no over Subscriptions)	Maximum Subscription (full over Subscriptions)
IMO capacity deposit	3,750,000	3,750,000	3,750,000
Power station land purchase & associated costs	1,318,770	1,755,000	1,755,000
Power station feasibility models	280,000	280,000	280,000
EPA & Dept submissions	220,000	220,000	220,000
Pipeline costs		941,270	2,994,270
Tenement costs & production tests	776,500	1,283,000	1,500,000
Administration & working capital	1,016,880	1,016,880	1,096,880
Costs of the issue	637,850	753,850	903,850
Total	8,000,000	10,000,000	12,500,000

Minimum Subscription is entirely sufficient for the proposed Centauri 1 power station pre-development feasibility and a final investment decision to be made. Additional working capital gives the Company the flexibility to invest funds in areas of the Project that maximise overall return, or enter into commercial arrangements with equipment suppliers.

The proceeds of the Offer will be used to fund the appraisal of the Project and undertake other preparatory work required to complete the feasibility of the Project of a 168MW gas turbine power station. The Company will use the funds raised by the Offer as detailed in the above table to progress the Project feasibility and for administration costs and working capital, rent, ASX fees & charges, share registry fees, salaries, wages, consultant's fees and other costs and overheads associated in running a public company. The above table demonstrates the expected application of funds over the two year period.

1.7 Minimum Subscription

The Minimum Subscription to be raised pursuant to this Prospectus is 32,000,000 Shares and 16,000,000 Options to raise \$8,000,000. No Securities will be allotted until the Minimum Subscription has been reached.

Should the 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.

Should the Minimum Subscription be reached, but further applications not reach the allotment of 40,000,000 Shares and 20,000,000 Options, then the additional application of funds shall be solely

apportioned to the expenditure on the power station. These levels and apportionment of expenditure are in the same percentage as indicated in the applications of funds table in Section 1.6 of this Prospectus.

Upon raising the Minimum Subscription, the Company will have sufficient funds to carry out its stated objectives as detailed in this Prospectus.

1.8 Maximum Subscription

The Company has the capacity to accept oversubscriptions of 10,000,000 Shares and 5,000,000 Options to raise a further \$2,500,000, or a total of \$12,500,000.

1.9 Dividends

The Company is currently in the appraisal stage of the Project and thus is not presently in the position to pay dividends. The payment of dividends by the Company in the future will depend upon the availability of distributable earnings, the Company's franking credit position, operating results, available cash flow, financial condition taxation position, future capital requirements and any other factors that the Directors may consider relevant.

While it is not obligatory for Australian Resident applicants to lodge their tax file number with the Company, in the event a dividend was declared and paid tax will be withheld at a rate of 48.5 % on unfranked and partially franked dividends if Australian residents do not quote their tax file number

1.10 Applications for Securities

If you wish to participate in the Offer, you should complete the Application Form attached to this Prospectus.

The Offer is for 40,000,000 Shares and 20,000,000 Options up to a maximum of 50,000,000 Shares and 25,000,000 Options (inclusive of oversubscriptions). If you wish to apply for Securities in the Offer, you should complete the Application Form attached to this Prospectus.

1.11 How to Apply for Securities

Applications for Securities can only be made by:

- (a) completing the Application Form included in this Prospectus in accordance with the instructions on the reverse side of the Application Form; or
- (b) printing and completing the Application Form included in the electronic Prospectus available at www.psl.com.au or www.eneabbagas.com.au in accordance with the instructions on the website.

If the Application Form is incomplete or wrongly completed, or if the accompanying cheque is for the incorrect 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. Applicants should read the instructions on the Application Form before applying for Securities. Completed Application Forms may be lodged at any time after the Opening Date but by no later than the Closing Date.

Applications for Securities must be made on an Application Form. Payment for the Shares must be made in full at the price of 25 cents per Share. Applications for Securities must be for a minimum of 8,000 Shares and 4,000 Options (\$2,000) and thereafter in multiples of 2,000 Shares and 1,000 Options (\$500).

Cheques in Australian dollars, must be made payable to **"Eneabba Gas Limited – Share Issue Account"** and crossed "Not Negotiable" must accompany each Application. Cash will not be accepted. Completed Application Forms and cheque(s) should be delivered or mailed to the Lead Manager, Patersons Securities Limited, or the Company in accordance with the instructions in this Prospectus

Completed Application Forms must be received by 5.00 pm AWST on 30 January 2006. However the

Company in consultation with the Lead Manager 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.

1.12 Application monies

Application monies will be held in trust in a separate bank account on behalf of the applicants until the Securities are issued. If any Application is rejected (in whole or part), the amount tendered in respect of the Securities that have not been issued will be repaid to the unsuccessful applicant, but without any payment of interest.

1.13 Issue of Securities

If the Company decides to accept your Application and issue the Securities applied for, either in whole or part, it will issue the Shares and Options and despatch a holding statement to you as soon as practicable after the Closing Date, together with any application monies received in excess of the number of Shares issued to you. The issue of Securities pursuant to this Prospectus is subject to the ASX granting Official Quotation of the Company's Securities and the Minimum Subscription being reached. It is the responsibility of applicants to determine their allocation prior to trading in Securities. Applicants who sell Shares or Options before they receive their holding statements will do so at their own risk.

1.14 ASX Listing

The Company will apply to ASX within seven days after the issue date of this Prospectus for admission to the Official List of the ASX and for Official Quotation of the Securities offered by this Prospectus. The Company 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 ASX may agree to grant Official Quotation to any Securities is not to be taken in any way as indication of the merits of the Company or the Securities 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 Securities are not granted Official Quotation within three months after the date of issue of this Prospectus, all application monies received pursuant to this Prospectus will be repaid without interest, in accordance with the requirements of the Corporations Act.



1.15 CHESS

The Company will apply to be admitted to participate in the Clearing House Electronic Sub-register System (CHESS), in accordance with the 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 make up the Company's principal register of shares and options. The Company will not issue certificates to Shareholders or Option holders. Following the Offer, the Company will provide each Shareholder and Option holder with a holding statement (similar to a bank account statement) that sets out the number of Shares and Options issued to the Shareholder and Option holder under this Prospectus. The holding statement will also inform Shareholders and Option holders of the "Shareholder Reference Number". Shareholders under CHESS will receive an explanation of sale and purchase procedures with their statement. If a holding changes during a month, the holder will receive a new holding statement at the end of that month. Shareholders and Option holders may also request holding statements at any other time, although the Company may charge an administration fee for additional statement.

1.16 Allocation

The Directors reserve the right to allot and issue any lesser number of Securities than those applied for or to decline any Application. Where the number of Securities is less than the number applied for, all surplus application monies will be returned without payment of interest. Where no allotment or issue is made, the amount tendered on Application will be returned in full without payment of interest. No Securities 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 statements as soon as practicable after allotment of Securities under the Prospectus

1.17 No forecasts

The Directors have considered the matters set out in ASIC Policy Statement 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the Company has no earnings record to date and the Project is still in the appraisal stage. Given that any production and energy development results are speculative at this stage, there are significant uncertainties associated with forecasting future revenues. On that basis any forecast or projected financial information would contain such a broad range of potential outcomes

and possibilities that it is not possible to prepare a reliable best estimate, forecast or prediction in this Prospectus.

1.18 Overseas investors

It is necessary that the responsibility of non-Australian resident investors obtain all required approvals for the issue of Securities to them under this Prospectus. This Prospectus does not constitute an offer of the Securities in any place which, or to any person to whom, it would not be lawful to do so. No action has been taken to register or qualify the Securities or the Offer, or otherwise permit a public offering of the Securities, 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 instructions may constitute a violation of securities laws

1.19 Underwriting

The Offer is not underwritten.

1.20 Restricted Securities

A proportion of the existing securities (refer Section 1.5) may be classified by the ASX as restricted securities and therefore will be subject to escrow and not be quoted on the ASX or traded for a particular period, in accordance with the Listing Rules of the ASX. None of the Securities issued pursuant to this Prospectus will be restricted securities.

1.21 Electronic Prospectus

This Prospectus is available on-line at www.eneabbagas.com.au and www.psl.com.au.

1.22 General questions

Applicants with questions on how to complete the Application Form or who require additional copies of this Prospectus should contact Eneabba Gas Limited directly by telephoning on (08) 9321 0099 or by e-mail at admin@eneabbagas.com.au or visit the Company's website at www.eneabbagas.com.au.

SECTION 2 - ENERGY BACKGROUND: WESTERN AUSTRALIA

2.1 BACKGROUND

The energy market in Western Australia is described in detail in Section 4 of this Prospectus by the independent expert, ACIL Tasman, who has had significant experience in advising both government and private sector operators in energy markets across Australia.

The ACIL Tasman Report summarises the opportunities in the W.A. Electricity Market (with the new legislation not operating until 01 July 2006) and also provides comment on the possible outcomes for the Company, should the prospect of CSM as an alternative fuel source be developed. ACIL Tasman has worked closely with the operators in the Moranbah CSM area in Queensland and this fuel source now supplies a number of gas fired power station generators in North Queensland. This general review gives an opportunity for investors to determine the possible impact of such alternatives, from an experienced practitioner in this area.

Since the IMO market operation does not activate until 01 July 2006, the ACIL Tasman independent review provides investors with comment that looks at all aspects of the W.A. Electricity Market, from a base case scenario to that of significant opportunities that may exist under the revised regulatory regime. The most significant change that will affect the W.A. Electricity Market from mid 2006 will be the reduction of the market dominance by Western Power. The Office of Energy currently lists only seven corporate electricity retailers operating in the market, but also indicating Western Power provides some 95% of this energy supply.

The new arrangements in Western Australia have a significant feature in the system of capacity payments that are set with, in conjunction with an energy price cap of \$150 / MWh and also a floor price minimum of minus \$150 / MWh, which is significantly different from other State regulatory systems. Combined with this, is for the approved new entrants into the market a capacity payment has been struck for each "proponent" approved by the IMO. In the case of EGL this capacity payment is based on the current maximum reserve capacity price of \$150,000 per MW per year. In the case of EGL, which has the Conditional Reserve Capacity assigned for 100MW, this equates to a maximum payment of \$15.0 million per annum, for a term of 10 years plus a further period of 5 years (subject to satisfaction of conditions of the IMO in Section 9.7).

Capacity payments apply to the approved MW capacity of the plant and are not related to the outgoing energy or despatched levels from the plant. In the event of an energy auction having to be held, then the capacity payment will be determined by the energy auction. If no auction is held, the capacity payment level will be set at 85% of the maximum cap level (thus for EGL, at present \$127,500 / MW) with the potential for variation of this amount, dependent on the quantum of bilateral contracts that the "generator" has in place.

Since the W. A. Electricity Market will not operate under the new regulations and legislation until 01 July 2006, the exact arrangements and operational items will not be actively tested and confirmed until the operations are under way. On this basis it is not possible for the Company to be precise as to the arrangements, exact costs and the energy prices that may be applicable at the time. In addition, the arrangements and rates that apply will be calculated at different times and at different rates depending on the time of the day that energy is delivered. It is because of these factors, the Company contracted ACIL Tasman, as a market expert in energy, to comment independently on the W.A. Electricity Market in Section 4 of this Prospectus.

2.2 THE SWIS NETWORK

Power outages in the Western Australian network

In early January 2004, Western Power announced that shortages in power might occur during a two-week period from 15 – 30 January. This was as a result of Epic Energy having a major unforeseen maintenance event on one of its gas line's generator turbines. This highlighted the weakness of the single Dampier – to - Bunbury pipeline and the State's dependence on that delivery system. This significant power shortfall activated the W.A. State Government to review and reassess the power system within Western Australia.

Supply Systems

In October 2004, the Office of Energy on behalf of the Minister of Energy, Hon Eric Ripper, requested Expressions of Interest (Eoi) as the first step of a comprehensive reform programme with an emphasis on attracting new, competitive power generation into the State.

The electricity supply industry in Western Australia comprises three systems, which are as follows:

- (a) the SWIS (South West Interconnect System), supplying the south west of the State and communities north to Kalbarri, south to Albany and east to the Goldfields;



Table - WESTERN AUSTRALIA : POWER PLANTS : CAPACITY : ENERGY GENERATED *

Fuel	kW Capacity		Energy Generated GWh				
			2003/04	2002/03	2001/02	2000/01	1999/00
South West Interconnect System (SWIS)							
Coal	330,000		2,376.0	2,359.4	2,148.4	2,285.6	1,817.6
Coal & Heavy Fuel Oil	1,040,000		6,128.0	6,451.8	6,679.2	6,250.5	6,788.4
Coal Gas & Fuel Oil	640,000		1,726.0	1,974.7	1,685.3	1,640.6	1,978.9
Distillate	62,000		5.0	0.9	0.1	1.9	0.4
Gas	448,000		2,213.0	924.5	770.3	882.4	676.3
Gas & Distillate	868,000		574.0	844.6	686.6	852.0	803.5
Hydro	2,000		0.0	0.0	0.0	1.7	6.5
Wind	22,000		62.0	68.5	54.4	0.0	0.0
Sub-total SWIS	3,412,000		13,084.0	12,624.4	12,024.3	11,914.7	12,071.6
Non-Interconnect System (NIS)							
Distillate	84,221		177.0	198.0	185.0	206.0	227.0
Gas & Distillate	15,265		42.5	42.7	43.2	41.1	41.9
Renewable	3,425		6.5	6.7	6.6	6.0	4.1
Sub-total NIS	102,911		226.0	247.4	234.8	253.1	273.0
TOTAL	3,514,911	63.77%	13,310	12,872	12,259	12,168	12,345
Private Capacity	1,996,910	36.23%					
TOTAL GENERATION W.A.	5,511,821	100.00%					

*EGL data

- (b) the NWIS (North West Interconnect System), which supplies major towns in the Pilbara; and
- (c) numerous smaller, regional non-interconnect power systems supplying electricity to remote towns and mining operations throughout the State.

Electricity generation in the SWIS

With an annual energy consumption of about 13,000GWh, the SWIS supplies electricity to approximately 830,000 retail customers, the majority of whom are located within the Perth metropolitan area.

The dominant participant in the industry is the State-owned Western Power which was established on 1 January 1995 under the *Electricity Corporation Act 1994 (WA)*. Since that time, Western Power has been exposed to competition through the provision of open access rights to its transmission and distribution systems to allow private generators to supply electricity to contestable customers. Western Power is the State's major generator, transmitter and distributor of electricity. Its main operations are the SWIS, the NWIS and a number of regional (isolated) power systems.

A number of private companies throughout the State generate electricity primarily to supply their own mining, mineral processing or other operations. There are also a number of privately owned transmission and distribution lines.

A number of mining and mineral processing loads, which are supplied by on-site generation, are also connected to the SWIS system.

Over the past three years, electricity consumption in the SWIS has grown on average by 3.2 % per annum. Since 1987, peak demand in the SWIS occurs in summer, principally as a result of cooling and growth in domestic air conditioner installations.

Generation in the SWIS is mainly powered by:

- (a) three coal-fired power stations, namely Collie, Muja and Worsley; and
- (b) eleven gas-fired power stations, being Alcoa Kwinana, Alcoa Pinjarra, Alcoa Wagerup, Kwinana, Mission Energy, Cockburn, Mungarra, Parkeston, Pinjar, South West Cogeneration Joint Venture and Southern Cross Energy.

Coal-fired plants in the SWIS are supplied from mines in the Collie Basin, which are operated by Griffin Coal Mining and Wesfarmers Premier Coal Limited.

Transmission

Electricity transmission and distribution in Western Australia is currently fully regulated by the *Electricity Transmission Regulations 1996* and the *Electricity Distribution Regulations 1997*. It is anticipated that the introduction of the Electricity Networks Access Code, will establish a new regulatory framework to facilitate third party access to covered networks. This includes all regional networks and feeder transmission lines.

Eneabba Gas Limited has lodged with Western Power (and been allocated in April 2005) a Network Application number, SW050316, for the Centauri 1 power station with a Declared Sent Out Capacity (DSOC) of 168MW with a base of 100MW peaking at 110MW, to be connected to the SWIS as a provider. While the nominal service connection date is 2008, this will be dependent on required upgrades to the local transmission system.

In early June 2005, the W.A. Minister of Energy, Hon Alan Carpenter announced that an additional \$20 million would be spent to boost the reliability of electricity supplies in country Western Australia. Part of this funding was specifically allocated to the Geraldton – Narngulu west feeder extension to Dongara, in the period 2005-2007

Restructure of Western Power

In March 2005 the W. A. Energy Minister announced that he would cap Western Power's generation capacity at its current maximum of approximately 3,200 megawatts. The Minister also added that Western Power would be allowed to invest in replacement generation capacity only for its ageing portfolio of power stations. A further announcement by the Minister on 30 May 2005 approved Griffin Energy's proposed Bluewaters power station, being a coal-fired power station of 200 MW capacity.

This statement also included the fact that the existing Muja A and B coal-powered stations are scheduled to be phased out by the end of 2007.

A further press release by the W.A. Minister of Energy in late June 2005, announced that agreement had been concluded with the opposition parties that Western Power would be split into four core units

and legislation would be activated in the Parliament. In return for the opposition support of the legislation, a guarantee was given that tariffs would not rise within the current term of government. Western Power is to be split into the four core units of generation, retail corporation, networks corporation and regional power delivery.

The W.A. State Government has undertaken that strengthened ring-fencing arrangements and market power mitigation are being implemented to minimise the potential for Western Power to misuse its market dominance and deter competitive entry and private companies investing in the Western Australian electricity sector. The IMO will oversee that process.

2.3 WHOLESALE ELECTRICITY MARKET AND THE INDEPENDENT MARKET OPERATOR

The establishment of new wholesale electricity market arrangements will have a significant impact on the electricity industry within the SWIS. The market will be operational from 01 July 2006.

A key feature of the wholesale electricity market is the establishment of the Independent Market Operator (IMO) from December 2004. This new Government-owned entity will be responsible for:

- (i) forecasting of longer-term demand, supply and generating requirements;
- (ii) operation and settlement of the Reserve Capacity Mechanism and Short Term Energy Market;
- (iii) processing of applications from parties seeking to participate in the market;
- (iv) administration of the Market Rules, including oversight of rule changes and monitoring of market participant's compliance with the rules; and
- (v) support of the Economic Regulation Authority in its market surveillance role.

The IMO is an independent entity with no commercial interest in the market and no connection to Western Power. This ensures transparency, fairness and confidentiality (where necessary) in the implementation of those processes.

The major mechanism for trading energy within the new wholesale electricity market will be through bilateral contracts between supplier and purchaser.



The IMO, however, is required to approve, register and certify participants and electricity generation plants prior to any participant gaining access to the SWIS.

In meeting the arrangements for supply of energy into the SWIS, Eneabba Gas Limited has completed all the preliminary arrangements and lodgements under the Reserve Capacity Mechanism with the IMO. This includes the following notifications:

- Registered as a Market Rule Participant :
RULE PARTICIPANT MGC 05 : 01 June 2005
- Registered as a :
MARKET GENERATOR : 01 June 2005
- Registered as a :
MARKET CUSTOMER : 01 June 2005
- Conditional Certified Reserve Capacity 100MW :
Centauri 1 Power Station : 23 June 2005

The Conditional Certification for the Centauri 1 Power Station gives an assignation of 100MW of capacity that applies to the Reserve Capacity Cycle that commences in January 2006 (i.e. for plant that will provide capacity during 2008-2009) and the initial Reserve Capacity Obligation commences on 01 July 2008.

2.4 MID WEST – REGION DEVELOPMENT

The Mid West Development Commission held a workshop in Geraldton in April 2005 which outlined a significant number of major projects for the region. Potential bilateral minerals power customers in the immediate region of Geraldton is attractive from an infrastructure viewpoint – potential for minerals processing, minerals beneficiation and mineral handling (loaders / reclaimers & ship-loaders) with potential of up to 50 Mtpa within the next decade, centred around Geraldton.

Eneabba Gas Limited has a strong desire to seek these operations as potential customers and as such sees a significant growth in energy requirements in this area in the near future.

SECTION 3 - PROPOSED CENTAURI 1 POWER STATION 168MW

This Prospectus does not include any firm projections for the Centauri 1 power station and the future energy customer base. The engagement of ACIL Tasman has provided a model that gives management an estimate of opportunities and also attempts to place a range of values attributed to the IMO Capacity Payments (see ACIL Tasman Market Report Section 4 p 13 - Item 4.3.3) that are an integral part of the conditional power station generating capacity approval. Any future commercial feasibility, the funding and detailed financial projections, will be subject to a separate and unique commercial proposal, specifically focussed on the feasibility and operation of that plant.

A separate funding, capital raising or other financial arrangement will be put in place at the time such a commercial proposal may be considered by the Company. This information is solely to advise the potential investors of the future intentions of the Company. This advised intention, also explains why certain timely and preliminary approvals and conditional certifications have been sought by the Company, should this future investment be activated by the Company.

In August 2004, the Company sought initial design and budget pricing indications from two gas turbine power station manufacturers. The basis of selection, apart from economical operation costs, was to have maximum flexibility of the generation plant, along with equipment capable of the meteorological requirements particular to the area. Operation and energy outputs of the plant would have to be maintained within the constraints of summer temperatures regularly in excess of 41° C.

In addition to the IMO specifications for SWIS energy supply, the Company also required the budget specification to meet the 100MW output on days where temperatures exceeded 45° C for up to 3 hours, being previously recorded meteorological data in the area. From those detailed enquiries, the Company selected GE Aero Energy as the preferred equipment provider, with the configuration selected being four (4) units GE LM6000 gas turbines (with "as built" model specifications to be agreed, once final gas testing had been undertaken).

The Company intends to appoint engineering and power station consultants, Sinclair Knight Merz Pty Ltd (SKM) to assist in further development of specification of the power station with GE Aero

Energy and also lodgements to Western Power for interconnect negotiation and transmission technical requirements. The Company lodged with the Office of Energy, an Expression of Interest in regard to the Wholesale Electricity Market and SWIS, on 06 December 2004. As detailed below under Rule 4.10.1, further lodgements were also made with the IMO to secure certification of a base load 100MW power station for connection to SWIS no later than July 2008.

While initial budget pricing and design parameters have been undertaken by the Company, the final detailed plant configuration has yet to be confirmed with GE Aero Energy. As a guide to prospective investors, the Company has been provided budget estimates for a "turnkey plant" that fall within the industry benchmark of approximate plant cost of \$1.0 million / MW of base load approved.

Final site selection for the Centauri 1 power station has indicated a general location of Steele Road, east of the Dongara Township, with close proximity to the existing transmission network and with a road network adjacent.

Basis of design

Location	area near Dongara, Western Australia
Elevation	50 m
Design Range	10° C – 40° C (see comments below Rule 4.10.1)*
Rel Humidity	20% - 100%
Primary Fuel	Natural Gas
Secondary Fuel	Coal Seam Methane (CSM)
Seismic zone	UBC Zone 2
Wind	100 MPH (160 KPH)
Sound prox	85dBA at 1.0m horiz : 1.5m vert
Sound in field	65 dBA at 150 yds (125 m)

EPA Submission

EGL has appointed Strategen to act as the Company's environmental consultants to continue the process with the EPA of Western Australia. The Company has lodged the initial Section 38 (1) Referral Application with the Department.

Land Purchase Option Agreement

A subsidiary of EGL, Eneabba Energy Pty Ltd, has signed a Land Purchase Option Deed with F.J. Burton which gives EEPL an option to purchase approximately 162 hectares (400 acres) and as such has secured the freehold land for the Project.



Summary of plant, as submitted to IMO:

Rule 4.10.1

Available capacity from the four (4) turbines at the Centauri 1 Power Station

**The EoI submitted by EGL allows for a continuous base load of 100MW supply and a “buffer” oversupply of an additional 10MW. The current meteorological data combined with “typical CSM” gas supply analysis anticipates that at 41°C (the specification of supply at peak temperature) some 28.9MW per gas turbine (115.6MW) can be achieved and should EGL desire to install evaporative coolers instead of air coolers that capacity could increase to 32.3MW for each of the four gas turbines (total of 129.2MW). Considering this flexibility,*

EGL also considered under this Reserve Capacity Mechanism at a peak load at 41°C allowable at 130MW capacity, but only a Capacity of 110MW for SWIS.

In regard to non-summer temperatures the proposed base of each of the GE LM6000 gas turbines, may be capable of generation of an average 40MW – 42MW. This would give the Centauri 1 Power Station some 160MW – 168MW capacity. An existing GE LM6000 gas turbine unit in operation at Kambalda has already established similar outputs. EGL understands that the new model LM6000 PD Sprint can achieve a nominal output of 46.9MW, somewhat above existing operational units.

Since EGL has yet to finally complete technical tests; this data and final model selection is yet to be confirmed. EGL has, on the above basis, sought certification from the Office of Energy under Rule 4.11 & 4.12 at the temperature of 41 °C level for two levels of preliminary Capacity.

SWIS	100MW standard delivery
	110MW on-demand

Total Capacity	130MW peak temperature
	160MW off-season

Term of delivery contract as submitted to IMO with EoI

The EoI submitted by Eneabba Gas Limited, is proposed on the basis of a 15 year time period, when it is presented within the auction period and also participate in the special pricing arrangements as indicated in Rule 4.21 & 4.22

GE Aero Energy

GE Aero Energy has indicated that it would assist in the following areas to move the project to its development phase.

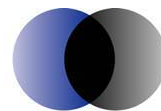
- LM6000 equipment production, based on current forward predictions, would be able to accommodate project schedule.
- GE Aero Energy would be interested and has the capacity to undertake construction and associated project management for the installation and commissioning of our proposed scope of supply in accordance with as yet to be determined agreements.
- GE Aero Energy would be interested and able to support the ongoing operations and / or maintenance of the proposed plant after commissioning in accordance with as yet to be determined operations and maintenance agreement.
- GE Aero Energy, in conjunction with GE Oil & Gas, would be interested in assisting with the supply of gas compression equipment that may be needed on the gas field development as well as fuel gas booster compression requirements.
- GE Aero Energy would be willing to facilitate discussions with the appropriate GE Capital businesses on the matter of potential project funding as the project definition phase is further developed.

Market Assessment of the Centauri 1 Power Project

An independent market assessment for inclusion
in a proposed Prospectus
relating to the listing of Eneabba Gas Limited

Prepared for Eneabba Gas Limited

26 October 2005



ACIL Tasman

Economics Policy Strategy



Reliance and Disclaimer

The professional analysis and advice in this report has been prepared by ACIL Tasman for the exclusive use of the party or parties to whom it is addressed (the addressee) and for the purposes specified in it. This report is supplied in good faith and reflects the knowledge, expertise and experience of the consultants involved. The report must not be published, quoted or disseminated to any other party without ACIL Tasman's prior written consent. ACIL Tasman accepts no responsibility whatsoever for any loss occasioned by any person acting or refraining from action as a result of reliance on the report, other than the addressee.

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ACIL Tasman shall not be liable in respect of any claim arising out of the failure of a client investment to perform to the advantage of the client or to the advantage of the client to the degree suggested or assumed in any advice or forecast given by ACIL Tasman.

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Executive summary

The primary purpose of this report is to provide Eneabba Gas Limited (EGL) with an independent assessment of the expected potential outcomes of the Centauri 1 Project in the context of the new electricity market arrangements in Western Australia. The report focuses on the market outlook for the proposed Centauri 1 gas-fired power station in terms of utilisation, capacity payments and electricity prices received, under different fuel costs.

The Centauri 1 Project

The Centauri 1 Project comprises a proposed open-cycle gas-fired power station, Centauri 1, with installed capacity of around 168MW and certified reserve capacity of 100MW for the 2008–09 Capacity Year

An associated coal seam methane gas (CSM) project is proposed by EGL to provide fuel to the Centauri 1 power station. The CSM project may possibly provide additional gas for third-party sale. The Eneabba CSM project is at an early stage of investigation, and the suitability of local coal measures to produce CSM at commercial rates has not yet been established. Accordingly we have not undertaken any assessment of the performance of the CSM project.

The power station project is not dependent on the CSM project: it could be developed by using natural gas purchased from the nearby Dampier to Bunbury Natural Gas Pipeline (DBNGP) or the APT Parmelia pipeline. Because of the uncertainty in relation to CSM supply, we have adopted a base case model in which the Centauri 1 power station will operate on pipeline gas purchased at prevailing market prices.

Regional Setting

The Centauri 1 Project is to be located near the town of Dongara, Shire of Irwin, in the Mid West Region of Western Australia.

The Mid West Region has a diverse economy built around mining, agriculture, fishing and tourism. The region has well-established physical and social infrastructure to service industry. Around 49,700 people live in the Mid West, with nearly half of the population living in the town of Geraldton.

There are a number of major projects planned or recently underway in the Mid West with several projects scheduled to come into production in the next five to ten years.

Access to adequate and reliable electricity supply for large users has been identified by local developers as a crucial infrastructure issue for further industrial development in the Mid West.

The WA Electricity Market

There are three regional electricity networks in WA— the South West Interconnected System (SWIS), the North West Interconnected System (NWIS) and the Esperance System. The Centauri 1 Project is located in the northern part of the SWIS—a part of the network known as the North Country Region (NCR).



The WA electricity market is currently undergoing major reforms, through a process which commenced in 2001 and is ongoing. A competitive wholesale electricity market covering SWIS is scheduled to be fully operational by mid-2006. Connection to the NCR transmission system would allow the Centauri 1 Project to trade electricity through the Short Term Energy Market (STEM).

The design of the WA market differs in a number of respects from that of the Eastern Australian National Electricity Market, or NEM. Perhaps most significantly, the WA market will make explicit capacity payments to generators who provide reserve capacity, and separate payments for energy. As a result, maximum electricity prices in the WA market are set much lower than in the NEM, and will show much less volatility. This is particularly significant for low merit-order peaking plant, which will rely heavily on reserve capacity payments to provide an adequate revenue stream.

Centauri 1 Project in the WA electricity market

As a result of an Expression of Interest process conducted in late 2004, the WA Independent Market Operator (IMO) has granted the Centauri 1 project 100MW of Conditional Reserve Capacity Certification for the 2008–09 capacity cycle. Subject to the satisfaction of certain conditions, this certification will result in the Centauri 1 plant receiving capacity payments in 2008–09. Its ability to secure capacity payments in subsequent years will be influenced by the level of bilateral capacity contracts that EGL is able to obtain, and by whether or not the IMO conducts reserve capacity auctions.

As an open-cycle gas turbine plant, the natural mode of operation of the Centauri 1 power station will be as a provider of peaking services. The plant's revenue will therefore be heavily influenced by Reserve Capacity payments it receives, augmented by payments for energy traded through the STEM.

If the plant has access to a continuous supply of CSM, it could be bid into the market on a basis that would result in much higher levels of utilisation. However, maximising dispatch of the plant will not necessarily maximise revenue, since higher levels of dispatch will reduce average STEM prices. Furthermore, to the extent that the operators potentially have the alternative of selling CSM to third parties, rational dispatch of the plant will see it operate only when the implied value of the CSM fuel is greater than the price that could be realised by diverting it to pipeline sales.

Modelling the performance of the Centauri 1 Project

The market performance of the Centauri 1 power station has been analysed using ACIL Tasman's model of the WA electricity market (*WA PowerMark*). The model provides estimates of future STEM prices and dispatch for each generating unit on a half-hourly basis, over a time horizon of 30 years.

Two scenarios are modelled:

- a Base Case (Pipeline Supply) scenario in which a fuel price of \$2.90/GJ is used in the model
- a CSM Supply scenario in which a minimum fuel price of \$1.90/GJ is used in the model.

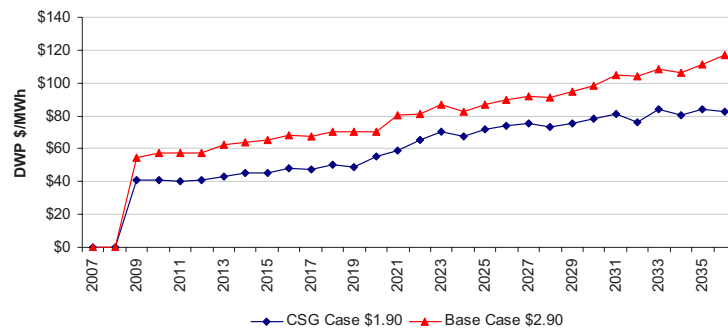


Variants of both scenarios have been run in which the amount of certified reserve capacity post 2008–09 is increased to 145MW (from the base assumption of 100MW).

The results are summarised below.

ES Figure 1 shows the average dispatch-weighted prices (again in nominal \$/MWh) received by the Centauri 1 plant. Both cases show prices significantly above the average STEM price—as expected for peaking plant. Average prices are significantly higher under the Base Case than the CSG Case because at higher fuel prices the plant is dispatched only when prevailing market prices are relatively higher. In general, higher levels of plant dispatch result in lower average dispatch weighted prices.

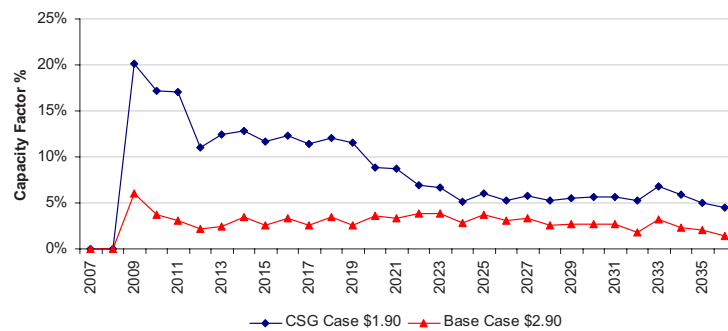
ES Figure 1: **Centauri 1 Dispatch-Weighted Prices (\$/MWh, nominal)**



Data source: ACIL Tasman modelling

ES Figure 2 shows the capacity factor for the Centauri 1 plant (or in other words, the level of plant dispatch actually achieved as a percentage of time the plant is available for dispatch).

ES Figure 2: **Centauri 1 capacity factor (plant dispatch as % available)**



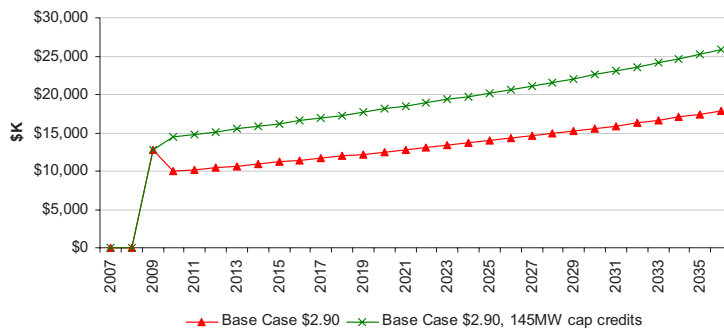
Data source: ACIL Tasman modelling



Under the Base Case model, capacity factor is typically limited to around 2–3%. With the lower fuel price of \$1.90/GJ under the CSM Case, the plant achieves much higher levels of utilisation—up to 20% initially but declining to around 5% over time as more independently-operated peaking plant enters the market.

The level of capacity payments potentially received by the Project will depend on the level of capacity credits held, and will be independent of fuel cost. The modelled capacity payments are therefore the same under both the Base Case and the CSM Case. The Base Case scenario has 100MW of capacity credits available to the project throughout the modelling period. This is in line with the level of Conditional Certified Reserve Capacity granted by the IMO as a result of the recent Expression of Interest process. However, given the nominal capacity of the plant proposed to be installed, we consider that it would be reasonable for the Centauri 1 Project to target significantly higher levels of capacity credits of around 145MW. The impact of this strategy on the level of capacity payments received is illustrated in ES Figure 3. The higher level of capacity credits would boost revenues by around \$5 million per year initially, rising to \$8 million by the end of the modelling period.

ES Figure 3: **Centauri 1 capacity payments (\$ thousand, nominal)**

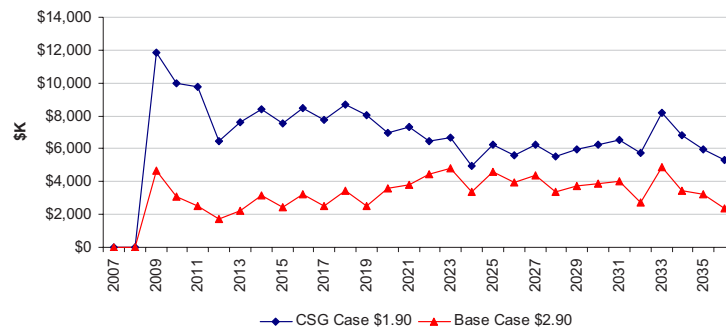


Data source: ACIL Tasman modelling

ES Figure 4 shows the annual payments potentially received by the Centauri 1 plant for sales of energy into the STEM under the Base Case and CSM Case. Despite lower average dispatch-weighted prices received under the CSM Case, the higher capacity factors achieved result in significantly increased revenue from electricity sales.



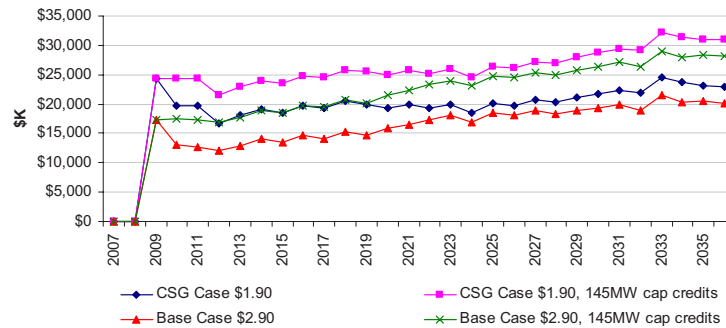
ES Figure 4: Centauri 1 energy revenues (\$ thousand, nominal)



Data source: ACIL Tasman modelling

ES Figure 5 summarises the total market revenue potentially received by the Centauri 1 plant from both capacity payments and sales of energy into the STEM under the two cases, and with assumed Capacity Credits post 2008–09 of 100MW and 145MW.

ES Figure 5: Centauri 1 total market revenue (\$ thousand, nominal)



Data source: ACIL Tasman modelling

Major conclusions from modelling

The main conclusions arising from this analysis are as follows:

- While **fuel price** and **plant capacity factor** will have a significant impact on future revenue performance of the plant, a more critical issue is the level of **capacity credits** achieved through bilateral contracts for capacity.
- In order to justify the capital cost associated with installation of plant with a nominal capacity of around 168MW, **capacity payments** based on more than 100MW of Capacity Credits will be required.
- There may be opportunities for the Centauri 1 Project to optimise the way in which the Centauri 1 plant is bid into the market so that the combination of



energy sales and prices received is revenue maximising. Such a bidding strategy is likely to change over time as new independently-operated plant comes into the market.

- To the extent that the Centauri 1 Project is able to secure **contracts for energy** (as distinct from bilateral contracts for capacity) covering a significant part of the plant capacity—for example by selling electricity directly to one or more major customers—there may be opportunities to enhance revenue performance. However, it must be recognised that in the long run, customers that have access to the STEM market are unlikely to contract for energy at prices offering a premium to the market.

Summary of opportunities and risks

The Centauri 1 Project has locational advantages that present market opportunities, while at the same time facing a number of market risks.

Locational advantages

- **Access to coal resources:** EGL holds exploration licences in the project area over coal resources which are a potential source of CSM as fuel for the Centauri 1 power station.
- **Access to natural gas facilities:** the Project site is close to major gas transmission pipelines, gas processing and underground storage facilities, which offer flexibility in relation to fuel sourcing and CSM production management.
- **Regional growth potential:** the Project is located in a region with significant economic growth potential, particularly mining and mineral processing developments. These developments could boost demand for electricity and/or gas supply, thereby creating opportunities for direct sales of electricity and gas by the Project.
- **Local transmission networks support potential:** the Project is located in an area where the provision of more generation capacity may offer electricity transmission system network benefits by alleviating or deferring the need for major new transmission investment, so relieving the pressure on the north-south transmission system from Perth.

Electricity market risks

- **Competitor risk:** the future performance of the Centauri 1 Project may be affected by the actions of competitors in the electricity market, including new-entrant generators, over which EGL will have no control.
- **WA Electricity Market Rules risk:** there is uncertainty with regard to the final form and interpretation of the WA Market Rules, with the possibility that changes will arise that could impact on the Centauri 1 Project.
- **Reserve Capacity payments risk:** there is uncertainty regarding the level of future Reserve Capacity payments as well as the ability of Centauri 1 power station to access those payments.



- **Bilateral contracts risk:** in the absence of a reserve capacity auction, bilateral contracts for capacity are needed to secure Capacity Credits and thereby to receive reserve capacity payments.
 - EGL is presently negotiating to secure contracts for both capacity and energy for the Centauri 1 power station
- **Network connection risk:** there is a risk that EGL will be unable to secure a network connection agreement with WPC, or to secure such an agreement within a timeframe that will allow the Conditional Certified Reserve Capacity granted by the IMO to be converted into Certified Reserve Capacity.

Gas supply risks

- **CSM supply risk:** testing has yet to be undertaken to establish the viability of CSM production in the project area
 - This risk is mitigated by the availability of pipe line natural gas as an alternative fuel, although potentially at a higher cost.
- **CSM regulatory risk:** because WA legislation lacks specific provisions for CSM exploration and production, EGL's entitlements to CSM could be disputed by holders of coincident petroleum exploration permits.
 - This risk could be mitigated by negotiating a cooperation agreement with the petroleum exploration permit holders involving "strata title" access to the CSM and conventional exploration targets
- **CSM production characteristics risk:** CSM production wells typically have limited flexibility to shut off or reduce production to meet variable fuel offtake requirements. CSM is therefore not normally well-suited to use in peaking power plant.
 - The Centauri 1 Project's location in relation to gas pipeline and storage infrastructure potentially mitigates this risk.



1 Introduction

1.1 Background to the Project

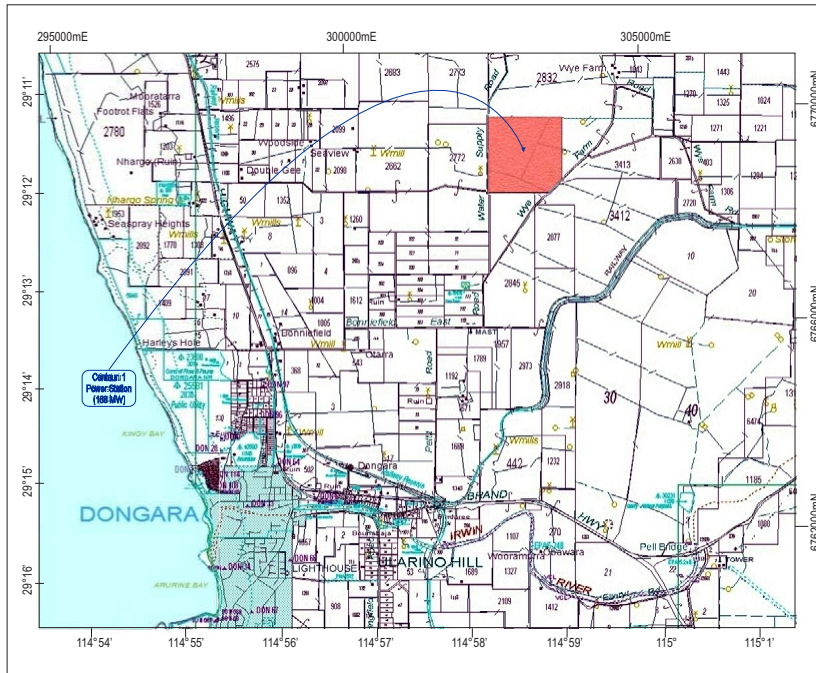
Eneabba Gas Limited (EGL) proposes to develop the Centauri 1 Power Station on a 15–30 ha site near Dongara in the Mid West region of Western Australia. The station will have an installed capacity of approximately 168MW (4*42MW units) and a peak summer day (41°C) capacity of 115 to 130MW. For purposes of reserve capacity certification by the WA Independent Market Operator (IMO), EGL has offered 100MW of capacity for certification, with a potential peaking capacity of 110MW on demand. Capacity in excess of these levels, up to the nominal capacity level of the plant, would be offered on an as-available basis depending on meteorological and plant operating conditions.

The proposed power station will be sited on Steele Road Dongara, some 6km from the town. The location is shown in Figure 1.

EGL proposes to operate the Centauri 1 power station on coal seam methane (CSM) that it intends to produce from its exploration tenements over the Cattamarra Coal Measures, adjacent to the power station site. The CSM production and collection system will extend across several exploration tenements, east and south east of the township of Dongara.

Collectively, the Centauri 1 power station and CSM production facilities are referred to in this report as the “Centauri 1 Project”.

Figure 1 **Centauri 1 Power Station: area of interest**



Data source: EGL



1.2 Purpose and scope of this report

The purpose of this report is to provide EGL with an independent review of the electricity market arrangements in Western Australia as they are likely to affect the Centauri 1 Project, and in particular market outlook for the proposed Centauri 1 gas-fired power station. This report will be included as an independent market expert's report in the prospectus for the proposed public listing of Eneabba Gas Limited.

The analysis has been undertaken using *WAPowerMark*, a model of the Western Australian electricity market independently developed by ACIL Tasman.

The report provides short summary descriptions of the power station and coal seam methane production components of the Centauri 1 Project, based on information provided to ACIL Tasman by the proponents. It then provides a discussion of the electricity and gas market context in which the project would operate. Finally it presents the results of different modelling scenarios designed to assess the impacts of key uncertainties on future performance of the Centauri 1 power station, together with a discussion of the key risks and opportunities facing the project.

2 Project description

2.1 Centauri 1 Power Station

The Centauri 1 power station as proposed will comprise four gas turbines with an installed capacity of approximately 168MW (4*42MW units) and a peak summer day (41°C) capacity of 115 to 130MW depending on final specification of the generation units. For purposes of reserve capacity certification by the WA Independent Market Operator (IMO), EGL has offered 100MW of capacity for certification, with a potential peaking capacity of 110MW on demand. Capacity in excess of these levels, up to the nominal capacity level of the plant, would be offered on an as-available basis depending on meteorological and plant operating conditions.

2.1.1 Proposed operating mode

EGL indicates that they propose to operate three turbines continuously with the fourth as standby, providing back-up in the event of a forced outage of one of the other three units, and available to provide additional output when market conditions permit. EGL has proposed operation as follows:

- For purposes of capacity certification, a nominal 100MW supply potential with the capacity to generate an additional 'buffer' supply of 10MW; or
- Market dispatch of total capacity of 130MW with a peak rating of 160MW off season.

2.1.2 Fuel options

The gas turbine generator sets at the Centauri 1 power station will be capable of operation using either natural gas or liquid hydrocarbon fuel. The quantity of fuel required annually will depend on the level of dispatch achieved by the station. If the entire 168MW were to be operated as base load plant, fuel requirement would around 5.5PJ/a. As capacity factor declines below base load levels fuel requirements will decrease proportionately.



Coal seam methane

EGL propose to operate the Centauri 1 power station using coal seam methane (CSM) produced from its exploration tenements over the Cattamarra Coal Measures, adjacent to the power station site. However there has been only limited investigation into the suitability of these coal measures for CSM production. Until the necessary exploratory investigations are undertaken to establish the technical and economic parameters of the proposed CSM project, it is not possible to say whether CSM will provide a viable, reliable and economic fuel source for the Centauri 1 power station. Accordingly, our analysis does not assume CSM availability, but rather looks to the alternative fuel sources that could supply the power project.

Pipeline gas alternative

The site of the Centauri 1 power station near Dongara is favourably located in terms of access to conventional natural gas from either the Dampier – Bunbury Natural Gas Pipeline (DBNGP) or the Parmelia Pipeline and associated Mondarra underground gas storage facility.

EGL has had initial discussions with pipeline operators regarding both purchase of natural gas for power station operations (as an alternative to Eneabba CSM) and sale of excess gas into the pipeline system, and has provided ACIL Tasman with information on indicative pipeline gas buying and selling prices that have been used in our modelling of the performance of the Centauri 1 power station.

2.2 Coal Seam Methane project

2.2.1 What is Coal Seam Methane?

Coal Seam Methane (CSM) is hydrocarbon gas—predominantly methane but commonly including variable, small amounts of other hydrocarbons and inert gases—that occurs naturally in coal seams. It is also called coal bed methane (CBM) in the United States.

Unlike conventional gas, which typically occurs at considerable depths, CSM is found at relatively shallow depths of 200 to 1,000 metres. This makes it possible to use smaller, cheaper drilling rigs to drill for CSM.

Methane is the main component of natural gas that is used for industrial, commercial and domestic purposes. After basic treatment (dehydration and compression) CSM is able to be incorporated in pipeline quality gas streams, and is indistinguishable from conventional natural gas.

2.2.2 Coal seam methane production in Australia

CSM production technology is well-developed in the United States where production of CSM has grown strongly for the past 15 years, and now accounts for some 9% of US gas production—approximately twice Australia's total domestic gas consumption.

In Australia, production has grown strongly in recent years, particularly in Queensland where more than 45PJ/a (approximately 40% of State demand) will be sourced from coal seams during 2005. In NSW production rates now stand at about 4 PJ/a from non-mine associated sources. If current plans and contract commitments are realised, production will increase to at least 80 PJ/a in Queensland over the next few years and possibly 15 to 20 PJ/a in NSW.

Despite the developments in CSM production in Queensland and New South Wales, there has been little attention so far to the potential of CSM production in



Western Australia. EGL's proposed CSM exploration and production program is among the first attempts to harness CSM in WA.

2.2.3 Eneabba CSM project status

The Eneabba CSM project is at an early stage of investigation.

Exploration and production tenures

EGL has secured twelve exploration licenses under the *Mining Act 1978* over areas of the northern Perth Basin that are known to be coal-bearing. We have not reviewed the terms of these tenements, but understand that they allow EGL to explore for hydrocarbon gas associated with coal seams. Under the provisions of the *Mining Act*, the holder of an exploration license has priority to apply for a mining lease, but does not have an automatic right to be granted a mining lease: any such application must go through a process of consideration leading to a recommendation either to grant or reject the application.

Land covered by exploration licenses held by EGL is also subject to exploration permits held by other parties under the *Petroleum Act 1967*. There are no explicit regulatory provisions in Western Australia designed to address competing rights of petroleum and mining exploration tenement holders to gas contained in coal seams. We understand that EGL is seeking co-operative agreement with the petroleum title holders in order to clarify rights and obligations. Until such arrangements are settled there is, in our opinion, a risk that EGL's entitlements to CSM could be disputed by the petroleum exploration permit holders.

Technical evidence of CSM resources

The Cattamarra Coal Measures in the areas held under exploration license by EGL have in the past been subject to exploration for coal, as a result of which the extent of coal development in the area is reasonably well understood. We understand that data is available from numerous coal exploration wells drilled in the area.

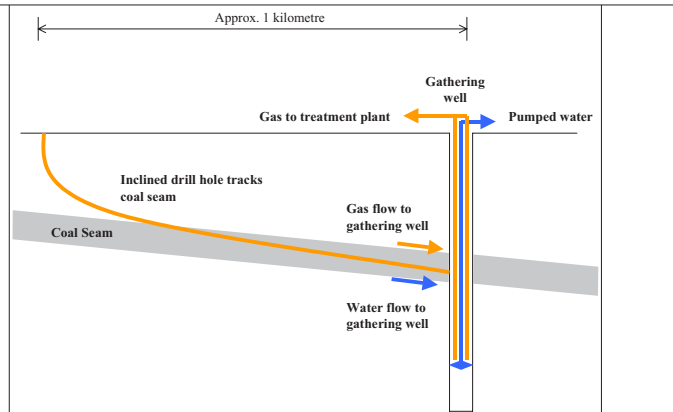
However we are informed that no information is available on gas content, gas composition, coal seam permeability or levels of gas saturation in the coal seams. Such information is fundamental to the evaluation of the CSM potential of the coal measures in the tenements held by EGL, and until such time as EGL's exploration program provides measurements of these and other relevant technical parameters it is not possible to reliably assess the prospects for establishing commercially viable CSM production in the Centauri 1 Project area.

Proposed drilling method

EGL propose to use a vertical-to-in-seam drilling approach, similar to that adopted by CH4/BHP Billiton at Moranbah. The technology involves use of advanced directional drilling and guidance capabilities to enable an inclined in-seam hole to intersect a vertical gathering hole located approximately 1 -1.5 km away. The method is schematically illustrated in Figure 2.



Figure 2 Schematic cross section of CSM production method used by CH4



The long passage through the coal seam means that there is a large gathering area from which gas can desorb. The fact that the vertical gathering hole is down dip means that water can drain naturally to the low point, reducing pumping requirements. Compared to “conventional” CSM wells the vertical-to-in-seam method can result in considerably higher gas flow rates that tend to improve production economics.

3 Regional setting

The proposed Centauri 1 Power Station will be located in the Shire of Irwin in the Mid West region of Western Australia. The following sections provide a brief outline of the demographics and economy of each of these areas.

3.1 Shire of Irwin

There are around 3,000 people living in the Shire of Irwin which represents six per cent of the population of the Mid West. Nearly all people live in the combined coastal towns of Dongara and Port Denison with the remainder living in scattered rural hamlets throughout the shire.

The Shire of Irwin affords a good standard of living in Dongara and Port Denison with affordable housing and a number of new housing developments under way. The town is experiencing population growth as a result of its proximity to Geraldton and coastal lifestyle.

The Shire of Irwin has relatively older population. 14.7 per cent of the population are over the age of 65 compared to 11.4 per cent in Western Australia. This is due to its attraction to retired people seeking affordable beach style living close to the major service centre of Geraldton.



Table 1 **Selected social comparators: Shire of Irwin, Geraldton and Western Australia**

	Irwin	Geraldton	Western Australia
Population (2004)	3,040	19,051	1,982,204
Population growth	1.7	-2.1	1.7%
Proportion population aged 15 – 44 (2003)	41.5	36.7	44
Median age (2004)	38*	32	35.8
Average individual taxable income (2002)	\$34,859	34,778	\$38,309

Data source: Australian Bureau of Statistics * 2001 figure

3.1.1 Economy

The economy of the Shire of Irwin has its foundation in the agricultural sector particularly the wool and grains industries. While the minerals and energy sector now dominates in terms of economic value, the agricultural sector continues to underpin the local economy and the rock lobster fishing and processing, and tourism industries also provide an important and growing contribution.

Small amounts of gypsum and limestone are mined in the Shire. In addition, condensate, crude oil and natural gas are all produced as per Table 2. The total value of minerals and energy production in the Shire of Irwin was \$161 million in 2004. Mineral sand deposits have been discovered in the south of the Shire and there are plans to commence mining in the near future.

Table 2 **Minerals and energy production: Shire of Irwin (2004)**

Product	Volume	Value (\$)
Gypsum	6,169 t	123,422
Limestone	152,721 t	411,665
Condensate	864 kL	20,300
Crude oil	470,974 kL	148,226,701
Natural gas	117,741 t	13,178,337
Total		\$161,963,115

Data source: Department of Industry and Resources

3.1.2 Infrastructure

The Shire of Irwin has good road transport links to the north and south via the Brand Highway and inland via the Midlands Highway. Rail links to Geraldton and Perth run close to the town of Dongara and there is a small marina capable of handling small vessels associated with the recreation and commercial fishing industry at Port Denison.

Most major infrastructure is provided for in nearby Geraldton including Geraldton Port, Narngulu Industrial Estate, Geraldton Airport, and the Narngulu rail depot.

There is a basic level of social infrastructure in the Shire of Irwin including a medical centre located in Dongara and a high school which caters for children from kindergarten to year 11. All other facilities are located outside of the Shire at Geraldton.



3.2 The Mid West Region

Around 49,700 people live in the Mid West Region with nearly half of the population living in the town of Geraldton. Geraldton is a modern regional city with a high standard of living and a wide range of social infrastructure. Geraldton is the major commercial, administrative and service centre in the region.

There is a good stock of high quality and affordable housing with a number of housing developments under construction along the coastal strip. The median house sale price in 2004–05 was \$195,000 which represents a 40.3 per cent increase on the previous year. In comparison the average house sale price in the Perth metropolitan area over the same time period was \$297,000 showing a 16.5 per cent increase.

Table 3 **Median house sale and rental prices: 2004/05**

	Median sale price	Growth 2004-2005	Five year growth	Median weekly rent
Geraldton	195,000	40.3%*	9.1%	\$112
Perth	297,000	16.5	na	\$189

Data source: Real Estate Institute of Western Australia

3.2.1 Economy

The Mid West Region has a diverse economy built around mining, agriculture, fishing and tourism. In 2003–04 the Gross Regional Product of the Mid West was \$2.5 billion which represents 2.8 per cent of Western Australia's Gross State Product.

The minerals and energy sector dominates the Mid West Region economy. In 2004, the value of minerals and petroleum production in the Mid West was \$1.7 billion as illustrated by Table 4. By comparison, the agriculture sector contributes around \$550 million per year with the grains industry contributing most of this value.



Table 4 Minerals and energy production: Mid West (2004)

Product	Volume	Value (\$)
Copper	470 t	1,519,036
Chromite	248,969 t	33,185,550
Clay	11,199 t	1,150,828
Construction materials	17,016 t	39,903
Gem and semi precious stones	42,584 t	12,180
Gold	333,296.087 kg	594,765,445
Gypsum	6,617 t	128,350
Ilmenite	132,215 t	13,552,820
Synthetic rutile	180,626 t	93,552,878
Rutile	70,197 t	42,074,018
Zircon	240,840 t	155,714,299
Iron ore	1,301,226 t	43,956,535
Limestone	229,624 t	617,966
Cobalt	411,873 t	23,041,828
Nickel	25,280 t	476,621,305
Pigment	2,575 t	703,040
Silver	33,961 kg	10,006,567
Talc	133,915 t	11,754,883
Vanadium	220 t	3,624,201
Total minerals		\$1,506,021,632
Condensate	1,006 kL	267,633
Crude oil	470,974 kL	148,226,701
Natural gas	148,291 t	15,901,604
Total petroleum		\$164,395,938
Total minerals and petroleum		\$1,670,417,570

Data source: Department of Industry and Resources

Increased investment in downstream minerals processing and the continued improvement of the region's major infrastructure including the deepening of the Geraldton Port, the expansion of Narngulu Industrial Estate, the development of Oakajee Industrial Estate and the completion of the Geraldton freight and transport corridor are supporting continued economic and social development in the Mid West.

A wide variety of mineral and petroleum products are mined and processed in the Mid West including gold, mineral sands, iron ore, nickel, crude oil and natural gas. With a number of new developments scheduled to come on line in 2005 and 2006, the value of mining and mineral processing is expected to increase significantly.

3.2.2 Infrastructure

The Mid West Region has well-established physical and social infrastructure to service industry.

Transport infrastructure

The Brand Highway provides good road transport access to the north and south. There are rail links to Perth via either the Dongara or Mullewa lines and there is also a rail link to Eneabba.

The Port of Geraldton is a substantial facility capable of handling Handymax size ships. It comprises six land backed berths including a grain terminal as well as facilities capable of handling minerals, livestock, fertiliser, fuel and general cargo. There are plans for a number of infrastructure developments at the Port including a rail unloader, the upgrade of berths and the construction of a new berth. A



transport corridor providing a direct transport link to the Port for both road and rail is due for completion at the end of 2005.

Geraldton Airport is the principal airport in the Mid West with regular daily services between Perth and Geraldton and the North West.

Industrial land

The main area of industrial land is located at Narngulu Industrial Estate, 13 km south of Geraldton and catering for a wide range of industries. Construction of a new Liquid Fertiliser Facility at Narngulu is scheduled to begin in late 2005. The State Government has also identified Oakajee, 23 km north of Geraldton, as a potential major industrial estate and possible deep water port development.

Energy infrastructure

Four natural gas pipelines service the Mid West region: the Parmelia Pipeline (Dongara-Pinjarra), the Dampier-Bunbury Natural Gas Pipeline, the Goldfields Gas Pipeline (North West Shelf-Kalgoorlie) and the Mid West Gas Pipeline (Geraldton-Mt Magnet).

Western Power provides electricity to the Mid West by 132 kV line connecting to the main SWIS transmission grid. Geraldton, Chapman Valley, Golden Grove, Three Springs and Eneabba each have 132 kV zone substations from which power is distributed by 33 kV line to Dongara, Kalbarri, Northampton, Mullewa, Narngulu, Geraldton and Greenough.

Water

The primary water resource in the Mid West is the Northern Perth Basin which holds around 150 GL.

Social infrastructure

The Mid West region accommodates Curtin University, Central West College of TAFE, two senior high schools, seven district high schools and 22 primary schools. There are also several non government schools including two secondary schools, three primary and secondary colleges, and six primary schools. Agriculturally-based secondary education is available at Morawa and Tardun.

There are two major hospitals located in Geraldton. District hospitals are located in Northampton, Morawa, Three Springs, Meekatharra and Mullewa with nursing posts located throughout the region.

3.2.3 The Mid West Region's Comparative Advantages

The Mid West Region has a number of comparative advantages that make it a favourable investment location:

- Strong regional economic growth performance with major established, competitive industries and unprecedented industrial development
- Access to markets through the Port of Geraldton and via road and rail transport to the Port of Fremantle and the interstate rail network
- Proximity to natural resources such as minerals and energy deposits
- Extensive industrial land and infrastructure including the Narngulu Industrial Estate and the proposed Oakajee Industrial Estate



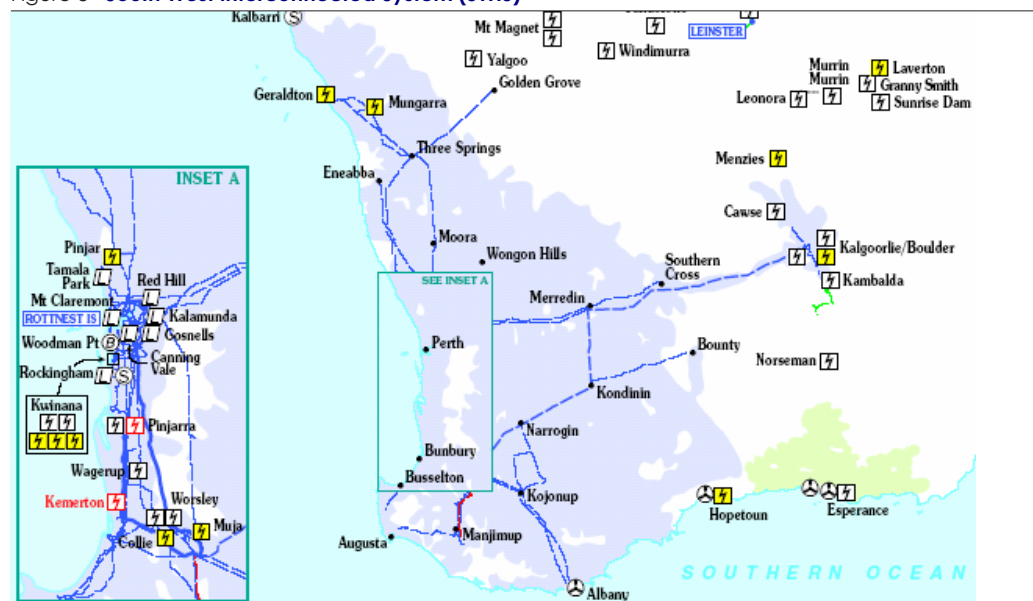
- Excellent level of infrastructure, much of which has been recently upgraded
- Access to competitively priced natural gas from four major transmission pipelines
- A skilled workforce
- A regulatory environment supportive of industrial development and actively promoting investment in the Mid West
- A relaxed coastal lifestyle with access to an affordable and quality housing stock

4 Overview of the Western Australian electricity market

4.1 Background

There are three electricity networks in WA. These are the South West Interconnected System (SWIS), North West Interconnected System (NWIS) and the Esperance System. While there are some privately owned electricity transmission and distribution networks within the State (primarily in the Pilbara) Western Power owns the major electricity networks supplying the public. Western Power also owns and operates 28 isolated power systems.

Figure 3 South West Interconnected System (SWIS)



Map source: WA Office of Energy

The Centauri 1 Project is located in the northern part of the SWIS.



4.2 The wholesale electricity market

4.2.1 Organisation and regulation

A competitive wholesale electricity market covering the SWIS is scheduled to be fully operational by mid-2006.

The reform process commenced in earnest in August 2001 when the Electricity Reform Task Force (ERTF) was established. The ERTF's final report was presented in October 2002, and in December 2003 the Government formally accepted the recommendations of the ERTF and announced the establishment of and Electricity Reform Implementation Steering Committee supported by the Electricity Reform Implementation Unit (ERIU).

The ERIU released the final Market Rules in October 2004.

An Independent Market Operator (IMO) has been established as the main body responsible for day-to-day management of market operations.

4.2.2 Generators

Currently the generation sector is dominated by Western Power Corporation (WPC) with a total installed capacity on the SWIS of 3,140MW. In addition to plant it owns, WPC has a number of power purchase agreements (PPAs) with private co-generation plants for supply of their excess energy to the market.

WPC's dominant market position has begun to change with entry of new players in the generation market. Alinta is constructing two low-cost 140MW co-generation plants associated with Alcoa's Pinjarra alumina plant, and has recently announced another plant at Wagerup. Other independent producers include two large wind farms—Emu Downs (40MW, Stanwell Corporation) and Walkaway (90MW, Alinta).

4.2.3 Network provider

A network business unit in WPC will be responsible for operation of the network, including both transmission and distribution.

4.2.4 Retailers and users

The Office of Energy currently lists seven retailers operating in the WA market. Again, WPC's position is dominant, currently accounting for over 95% of energy supply to users. This dominant position is expected to erode gradually as other generators such as Alinta make energy available, and as more energy becomes available through bilateral contracts and with the establishment of the Short Term Energy Market (STEM).

4.3 Market structure

The new WA market has a number of key elements that distinguish it from other markets, in particular the National Electricity Market (NEM) in Eastern Australia:

- Bilateral contracts which include all forms of energy and capacity contracts between market participants (similar to financial hedges associated with trading in the Eastern Australian NEM but with contracts for both capacity and energy)
- Short term energy market (STEM) which is a daily forward market for energy run by the IMO. The STEM will allow market participants to trade around



their bilateral energy position. This is similar to the NEM except that it is more like a pure energy market with much lower ceiling and floor prices.

- Balancing and ancillaries provided by WPC under instruction from System Management
- A capacity market, including capacity auctions run by the IMO from time to time to supplement capacity when necessary.

The market for capacity and explicit capacity payments are features that strongly distinguish the WA market from the eastern Australian NEM, which does not have separate capacity payments. One outcome of the WA system is that prices for energy operate in a much narrower band than the NEM where prices must be allowed to run out to very high levels in order to provide adequate market signals for investment in peaking plant. Thus in the WA market the energy price cap has been set at \$150/MWh and price floor of minus \$150/MWh, compared with a cap of \$10,000/MWh and a floor of minus \$1,000/MWh in the NEM.

4.3.1 Bilateral contracts

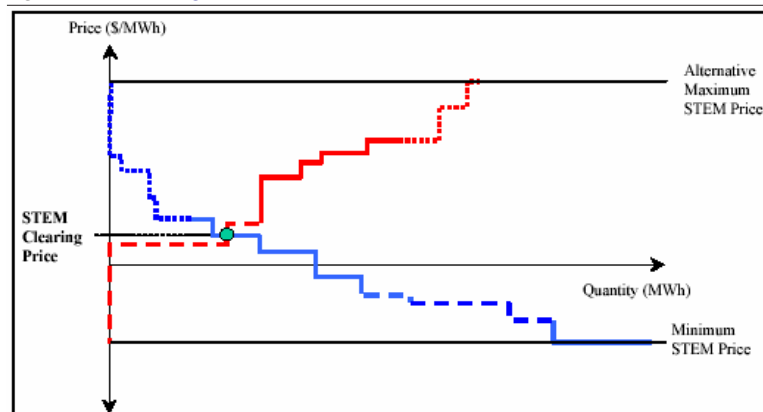
Bilateral contracts form a critical part of the market structure and include all forms of energy and capacity contracts between market participants. The terms and conditions in these bilateral contracts will be entirely negotiated and agreed between the contract counterparties.

4.3.2 STEM market

The STEM is a daily forward market for energy run by the IMO that allows market participants to trade around their bilateral energy position. The market allows for retailers to bid in all their expected demand whether or not it is covered by bilateral contracts. The market is settled for each half hour trading interval.

The offers to supply energy from generating portfolios and the bids to use energy from retailers and other users are used to construct supply and demand curves. The STEM price and quantity are determined where the curves intersect. This is illustrated in Figure 4.

Figure 4 Balancing STEM offers and bids



Data source: WA Office of Energy, Wholesale Electricity Market Design Summary



4.3.3 The capacity market

Reserve capacity auctions may be required to ensure that there is adequate capacity available each year to meet forecast system peak demand plus an adequate reserve margin.

If the IMO decides that additional capacity will be required beyond that in existence or proposed by market participants, capacity auctions will be held to procure capacity required two years ahead. Generators and demand side management projects awarded capacity credits at auction will thereby be entitled to capacity payments, the cost of which will be recovered from customers. Generators with capacity credits will be obliged to make that capacity available to the STEM and to participate in centralised outage planning.

Capacity payments apply to the MW capacity of plant and are not related to dispatch levels. Capacity payments are presently capped at a maximum of \$150,000/MW/a although this figure may be varied by the IMO in future. In the event of a capacity auction, the capacity payment level will be determined by the auction. If no auction is held, the capacity payment level will be set at 85 per cent of the maximum cap level (therefore \$127,500 at present).

4.3.4 Capacity refunds

Providers of certified capacity who fail to make that capacity available on demand will face financial penalties in the form of refunds to the IMO.

Different refund rates will apply at different times of day and at different times of year. The aim is to make refunds relatively small at times when the SWIS has abundant capacity while making them quite high at times when non-compliance creates a high risk of load curtailment.

While the basic refund will be determined for each trading interval, limits will be imposed on the total refund required. For capacity procured at auction the maximum refund over the term of the obligations cannot exceed the value of the original payments over the term of the contract. For capacity credits through bilateral contracts there is, however, no guarantee that the cap on annual refunds will not exceed negotiated payments for capacity.

4.3.5 Market settlements

The IMO will be responsible for settling the STEM and the balancing arrangements.

4.4 Demand and supply of electricity in the SWIS

Energy supply and losses on the SWIS for the past five years are shown in Table 5. Between 1999–00 and 2003–04 electricity sales increased from 11,091GWh to 12,365GWh or 2.7% per year. The increase in summer peak demand has been far greater at 4.6% per year.

Coal use for generation in the SWIS has remained relatively static over the five year period at around 4.7 million tonnes per year (mtpy) while gas use has increased from 36.1PJ to 41.9PJ, an increase of 3.8% per year.

Table 5 shows that sales by generators other than Western Power, although still only a minor part of the market, have grown by around 24.8% per year over the past 5 years and in 2003–04 constituted around 4.4% of the total market and about 8.1% of the contestable customer load.



Table 5 Energy supply on the SWIS from 1999–00 to 2003–04 (GWh)

Production and distribution	Units	1999-00	2000-01	2001-02	2002- 03	2003- 04	Av Growth (%pa)
Electricity sales and production							
Energy sales by WPC	(GWh)	11,091	11,439	11,501	11,862	12,355	2.7%
Energy sales by others	(GWh)	233	240	271	386	566	24.8%
Total sales	(GWh)	11,323	11,679	11,772	12,248	12,921	3.4%
Winter demand	MW Gen	2,156	2,243	2,223	2,308	2,406	2.8%
Summer demand	MW Gen	2,508	2,538	2,473	2,719	3,004	4.6%
Installed winter capacity WPC	MW Gen	3,150	3,150	3,172	3,172	3,412	2.0%
Sent out by WPC power stations	(GWh)	11,231	11,099	11,210	11,686	12,152	2.0%
Energy purchased	(GWh)	816	1,340	1,288	1,193	989	4.9%
Total sent out by WPC	(GWh)	12,047	12,439	12,498	12,879	13,141	2.2%
Energy sent-out by others	(GWh)	253	261	295	419	602	24.2%
Total energy sent-out	(GWh)	12,300	12,700	12,793	13,298	13,742	2.8%
Line losses	%	7.9%	8.0%	8.0%	7.9%	6.0%	-6.9%
Fuel used by WPC in SWIS generation							
Coal	('000 t)	4,729	4,605	4,718	4,931	4,747	0.1%
Gas	(TJ)	36,061	38,284	36,281	38,597	41,870	3.8%
Energy contained in fuel	(PJ)	141	140	142	148	153	2.1%
Thermal efficiency generated	%	31.6%	31.3%	31.4%	31.0%	32.0%	0.3%

Source: WPC Generation Status Review (GSR), WPC Annual Reports and ACIL Tasman Analysis

ACIL Tasman estimates that some 15,000 customers using approximately 8,500GWh per year and constituting 66% of the electricity sales on SWIS are now contestable.

4.4.1 New capacity requirements

In order to meet increasing demand, potentially 1,550MW of additional generating capacity will be required in the SWIS. Western Power has estimated that an additional 830 to 1,000 MW will be required by 2014 to meet this growth. In addition, up to 720 MW of ageing Western Power generation plant will need to be replaced. These additional generation needs are being addressed through an electricity generation strategy comprising a two stage public procurement process and the separate replacement of Western Power's ageing units.

New and committed plant

The following lists recently commissioned and committed power plant in the SWIS:

- The initial stage of public procurement resulted in the construction of a 260 MW gas fired power station at Kemerton which is due for completion by the end of 2005.
- The second stage of power procurement will involve the construction of a 320MW gas fired combined cycle power station on a site adjacent to Western Power's Cockburn Power Station which will begin operation by late 2008.
- Alinta Power Services is constructing two cogeneration plants to be sited at Pinjarra. The first of these is expected to reach full production during 4Q2005 and the second in December 2006. Each will have a capacity of 140 MW.



- Alinta has recently constructed the largest wind farm in Western Australia near Geraldton. It comprises 54 turbines with total capacity of 90 MW.
- Griffin is building an 80 MW wind power generator at Emu Downs south of Geraldton. This is planned to enter service in October 2006.

Proposed new plant

Other proposed new generation capacity includes the following projects:

- EGL's proposed Centauri 1 power station, the subject of this report.
- Griffin Energy has environmental approval to construct two 200 MW coal fired power stations at Collie, with plans for a third unit of the project collectively known as Bluewaters. The Bluewaters Power Station will supply dedicated customers on the proposed Coolangatta Industrial Estate as well as supply excess capacity to the SWIS. The first unit is planned to enter service in September 2008 with the second and third plants in 2010 and 2012.
- Alinta has announced plans for the construction of two 162 MW gas turbine plants at Wagerup. The gas turbine plants are scheduled to be in production by October 2007. Current plans are to convert the gas turbine plant to co-generation operations through addition of heat recovery steam generators, to supply steam to Alcoa's expanded Wagerup alumina refinery. Alcoa's recently announced deferral of the Wagerup expansion may impact on timing of the co-generation conversion, but should not in our view affect the Stage 1 open cycle gas turbine plant.
- Perth Energy has announced plans for a gas-fired combined cycle power station to be built in the Kwinana area, with a capacity of 120 MW, scheduled to enter service in 2006/07.

4.5 Electricity supply and demand in the Mid West

In addition to SWIS-connected power stations at Geraldton and Mungarra (both gas turbine stations owned by WPC) there are currently a number of private suppliers in the Mid West that are either associated with minerals developments or are contracted to supply power to towns outside the SWIS on behalf of Western Power.

Recent new power generation connections to the grid in the Mid West region include the Alinta Wind Farm near Geraldton and Griffin Energy's Emu Downs wind farm.

4.5.1 Mid West Region transmission and distribution system

Much of the power consumed in the Mid West region is delivered by a 330/132kV transmission system from Perth, which supplies electricity from the large power stations located south of Perth.

The 330kV line extends as far north as the Northern Terminal Load Area (south of Pinjar). The Centauri 1 Project region lies within the North Country Load Area, which is serviced by a 132kV transmission system.

The North Country Region (NCR) load area supplies a range of mining and industrial loads, as well as many rural centres and the main population centre of Geraldton. WPC notes¹ that at present

¹Western Power Corporation, Networks Business Unit: "2005 Transmission and Distribution Annual Planning Report", April 2005.



“heavy reliance is placed upon the use of generating plant at Mungarra and Geraldton to maximise the network capacity ... [WPC plans] to continue to use this generating capacity to defer major transmission reinforcement works for as long as possible.”

WPC further notes that:

“Due to the limited amount of spare capacity within this network, any additional loads, or higher than forecast load growth, will accelerate the need for major transmission reinforcements.”

The lack of transmission capacity in the NCR is said by WPC to pose a major impediment to the development of renewable energy projects in the NCR, to the potential development of coal fired base load power generation utilising coal resources located north of Perth, to the provision of electricity supply to proposed large industrial and mining loads, and to facilitating the future retirement of ageing generating plant at Geraldton and Mungarra.

WPC reports that the findings of a preliminary study indicates that a major 330kV transmission network reinforcement into the NCR is the preferred option compared with further 132kV reinforcements for economic, technical and environmental reasons. A number of substations within the North Country Load Area are said by WPC to be sensitive to industrial and mining developments.

4.5.2 Demand for electricity in the Mid West

Access to adequate and reliable electricity supply for large users has been identified as one of the crucial infrastructure issues for further industrial development in the Mid West². There are a number of major projects planned or recently underway in the Mid West with many projects scheduled to come into production in the next five to ten years.

4.5.3 Issues for location of additional power supply in the Mid West

The prospects for a number of major industrial developments in the Mid West region offer opportunities for generators in the region, including the Centauri 1 Project, but constraints in the existing transmission system could restrict the ability to offer secure electricity supply to these projects.

The major risk is that in the current circumstances it may prove difficult to obtain a Network Connection Agreement with Western Power because of capacity limitations on the transmission system and the potentially substantial costs involved in upgrading the transmission network.

Opportunities may arise, however, to alleviate or defer the need for major investment in new transmission capacity by meeting load within the region from local sources, thus relieving the pressure on the north-south transmission system. This is in line with WPC’s current practice which is to rely heavily on dispatch of Geraldton and Mungarra power stations to provide network support and maximise network capacity.

There may also be opportunities for direct supply from power stations in the North Country region, such as Centauri 1, to supply power directly to new industrial projects in the region, effectively bypassing the constraints which according to WPC’s assessment presently pose an impediment to development.

² Mid West Strategic Infrastructure Forum, 13 April 2005, Workshop Outcomes p 12



5 The Centauri 1 Project in the WA electricity market

This section reviews the current positioning of the Centauri 1 Project in terms of the developing WA electricity market. The following section analyses the potential market performance of the Centauri 1 project as a market participant using ACIL Tasman's in-house model of the WA electricity market, *WAPowerMark*.

5.1 IMO registrations

EGL has obtained the following registrations with the Independent Market Operator (IMO), in accordance with the WA Market Rules:

- Market Generator
- Market Customer
- Rule Participant

EGL responded to the WA government's call for expressions of interest in the provision of reserve capacity (September 2004) offering capacity from the Centauri 1 power station on the basis described earlier in this report (that is, installation of a nominal 168MW of generating plant to provide certified capacity of 100MW, with a potential peaking capacity of 110MW).

The IMO has assigned EGL 100MW of Conditional Certified Reserve Capacity applying to the Reserve Capacity Cycle that commences January 2006 (for plant that will provide capacity during 2008–09). The initial Reserve Capacity Obligation under this Conditional Certification commences on 1 July 2008. In order to convert this Conditional Certification into Certified Reserve Capacity, it will be necessary for EGL to re-lodge an application for Certified Reserve Capacity with the IMO between 1 May and 20 July 2006, confirming that the information within the application remains correct as at the date and time specified for the 2008–09 Reserve Capacity Cycle.

5.1.1 Implications of EGL's Conditional Certified Reserve Capacity assignment

The Conditional Certified Reserve Capacity assigned to EGL by the IMO provides a pathway by which EGL can obtain capacity credits for the Centauri 1 power station. The following summarises our understanding of EGL's entitlements and obligations arising from the conditional certification is based on our investigations, including discussion with the IMO:

- Provided EGL reapplies for Certified Reserve Capacity as outlined above, and provided also there is no material change from the original application for conditional certification, the IMO will grant Certified Reserve Capacity status *for one year only (2008–09)*.
- The IMO verbally indicated to ACIL Tasman that the plant would be able to have this Certified Reserve Capacity assigned into Capacity Credits provided that bilateral contracts with market customer are in place or anticipated to be in place when the plant is commissioned. Once assigned, Capacity Credits would entitle the Centauri 1 Project to capacity payments for at least one year, either through bilateral contracts with Market Customers or from the IMO if bilateral contracts were unable to be satisfactorily negotiated with Market Customers.



- The price for Capacity Credits not covered by bilateral contracts, which would be paid by the IMO under current arrangements, is \$127,500/MW/year for each megawatt of Capacity Credits, being 85% of the current maximum reserve capacity auction price of \$150,000/MW which applies in the absence of an auction. The capacity payment price could change in the future.
 - EGL would therefore, subject to satisfaction of all obligations as a provider of Capacity Credits, be entitled to a capacity payment of (indicatively) \$12.75 million for 100MW of Capacity Credits from Centauri 1 power station for the 2008–09 year. However the IMO's price for capacity could change in future; this would require a change in the Market Rules.
 - The Special Pricing Arrangements which allow new capacity committed as a result of a Capacity Auction to lock in the level of capacity payments for periods of ten years will not be available to EGL because the Conditional Certification arose from an EOI process, not a Capacity Auction.
 - After 2008–09, Centauri 1 would not be automatically entitled to be assigned Capacity Credits. In order to receive capacity payments it would have to win capacity at an auction (which seems increasingly unlikely) or to hold bilateral contracts for capacity. The price for capacity paid by the IMO and passed through to Market Customers may vary from time to time while the prices for capacity under bilateral contracts with Market Customers would be on a negotiated basis. When a reserve capacity auction is held, the price for capacity paid by the IMO for Capacity Credits not covered by bilateral contracts will be determined through the auction process.
- The primary obligation taken on by EGL once Certified Reserve Capacity is granted and converted to Capacity Credits is to make the capacity available to the market, by offering all of that capacity into the STEM, and to make any unscheduled capacity available in real time if required, and subject to adequate notification being given.
 - A letter of offer for a network access agreement from WPC, together with evidence of environmental approval, will be pre-conditions to the grant of Certified Reserve Capacity
 - As a condition of certification, EGL will be required to lodge a security deposit equal to about 25% of the value of the annual payments the facility will receive if scheduled. This security is refundable if the facility fails to secure Capacity Credits or once it first satisfies its obligations as a provider of reserve capacity.
 - Failure to meet the obligations of its Capacity Credits would require EGL to pay a refund to the IMO. The amount of the refund may vary depending on the value to the system of the capacity not provided (so that, for example, a plant outage at peak demand time would incur a higher refund cost than a similar outage during an off-peak period). This aspect of the market rules penalises unreliable plant.



6 Modelling the future performance of the Centauri 1 power station

6.1 WA Market Model

ACIL Tasman has constructed a model of the WA electricity market “*WAPowerMark*” which provides estimates of future STEM prices and dispatch for each generating unit on a half-hourly basis.

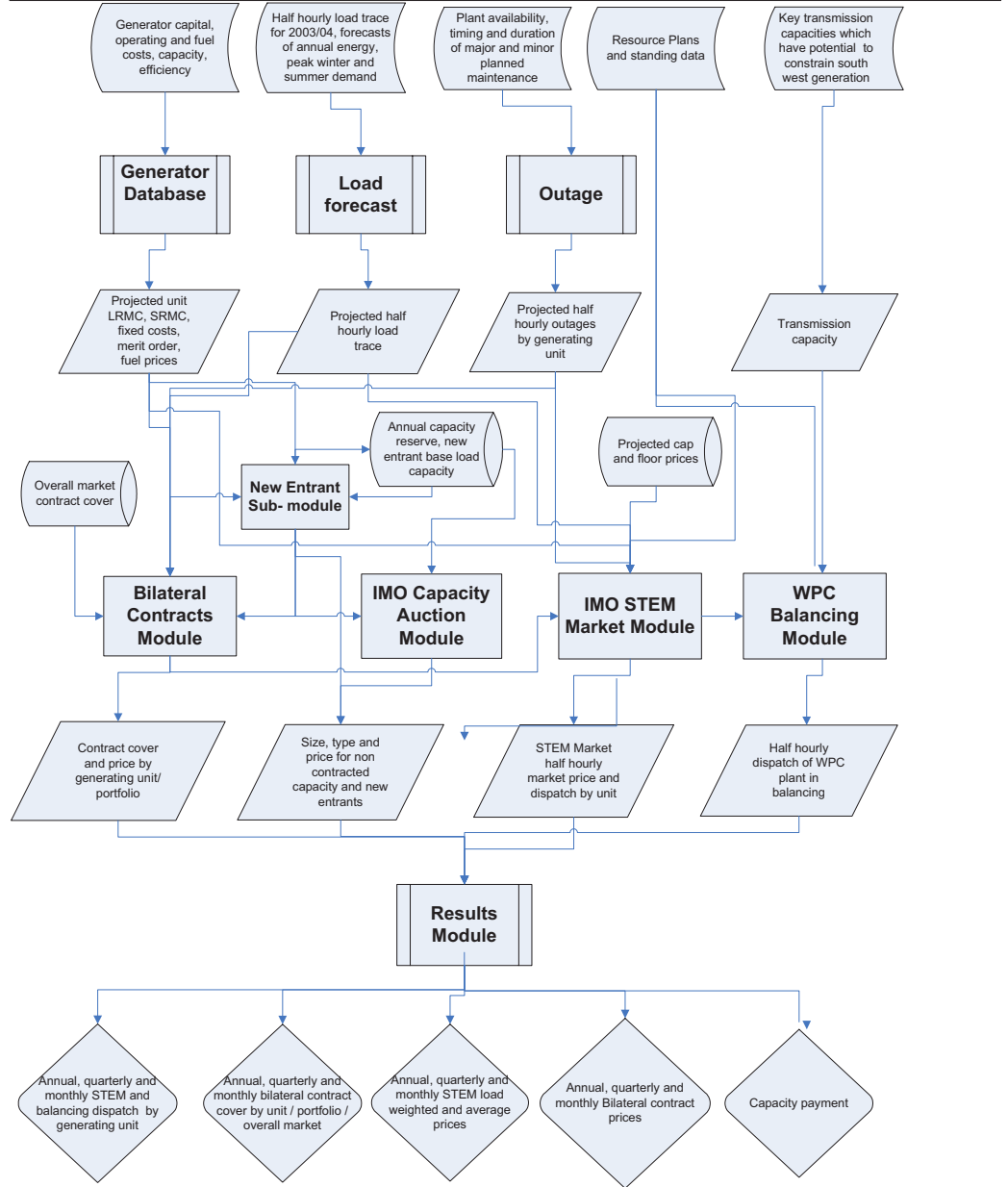
Based on a series of inputs and estimates regarding electricity demand, generator costs, installed plant capacity, contract coverage, planned and unplanned plant outages and marginal loss factors, the model produces estimates of STEM price and generation unit dispatch for each half hour trading interval.

6.1.1 Model structure

Overview

The model developed by ACIL Tasman simulates each of the key market elements including the bilateral contract market, the STEM and the balancing payments. The capacity auction is reflected in the selection of the lowest cost new entrants. The overall model layout is shown in Figure 5.

Figure 5 Overall model layout





6.2 Key parameters relating to the Centauri 1 Project

For modelling purposes, we have adopted the following key parameters in relation to the Centauri 1 facility:

- Installed plant capacity of 168MW available for dispatch
- Capacity payments based on 100MW of Capacity Credits, being all of EGL's Conditional Reserve Capacity Certification, is converted to Capacity Credits
- Capacity payment of \$127,500/MW of certified capacity in 2008–09, reverting in subsequent years to efficient new-entrant levels (including provision for refund payments based on probabilistic assessment of forced outages)
- Capital cost of plant in accordance with quotations provided to EGL by vendors
- Operating costs of plant in accordance with information provided to ACIL Tasman by EGL, together with ACIL Tasman own estimates based on operating costs of comparable plant
- Fuel supply base cost is purchase of gas ex-pipeline at a cost of \$2.90/GJ (2005 dollars, escalating at CPI); alternative is coal seam methane supply from the Centauri 1 Project at a price of \$1.90/GJ.
 - **It must be emphasized that there is no information currently available on which to assess the likelihood that EGL can produce CSM at a price of \$1.90/GJ.** This price has been assessed as the floor price for CSM to the power plant on the basis that, at any lower implied price, EGL would be better off selling CSM production to third parties via pipeline sales rather than using it to generate electricity.

6.3 Generator bidding strategies

Generator revenues received as a result of electricity sales through the STEM will be determined by how much dispatch the plant achieves (Q) and the dispatch-weighted prices received (P). Because of the way prices are determined in the market, increased plant dispatch implies lower dispatch-weighted prices. The optimal bidding strategy for a generator involves maximising revenue (P x Q), not maximising dispatch.

The optimal bidding strategy for EGL and other independently-operated open cycle gas turbine peaking generators (outside the main generation portfolios) is likely to see them bidding some of their capacity into the STEM at short-run marginal cost (SRMC) and the remainder at higher prices. Our investigations indicate that if *all* peaking plant was to bid in even a small proportion (<5%) of capacity into the market at SRMC, the effect would be to suppress market prices to levels that would result in a sub-optimal reduction of revenue. For the major generation portfolios in particular, this would adversely affect the prices received by all of their generating plant, and would be negative for revenues. Hence we do not expect to see portfolio generators bidding peaking plant into the market at SRMC. However operators such as EGL that are looking to increase revenue from a single peaking facility are likely to be able to bid some capacity at SRMC, increasing plant dispatch without significantly affecting market prices. The optimal strategy is likely to vary from operator to operator, and will change over time as the amount of independently-operated peaking plant in the market changes. Our



modelling suggests that the optimal bidding strategy for EGL is likely to see the amount of capacity bid at SRMC decreasing over time.

We have not sought to fully optimise the bidding strategy for the Centauri 1 station. However we have confirmed through our analysis that if all of the independently-operated (non portfolio) peaking plant in the system were to offer 30% of available capacity at SRMC, the resulting improvement in dispatch would more than offset the reduction in prices and result in improved revenues, at least for the first half of the modelling period. Accordingly, we have adopted this bidding strategy for modelling purposes.

It should be noted that EGL may be able to further improve the revenue performance of the Centauri 1 station by refining this bidding strategy.

6.4 Modelling scenarios

The following scenarios have been modelled:

- Base Case (Pipeline Gas Supply)
 - Fuel price \$2.90/GJ
 - 30% of capacity bid at SRMC
 - 100MW Capacity Credits
- CSM Supply Case
 - Fuel price \$1.90/GJ
 - 30% of capacity bid at SRMC
 - 100MW Capacity Credits

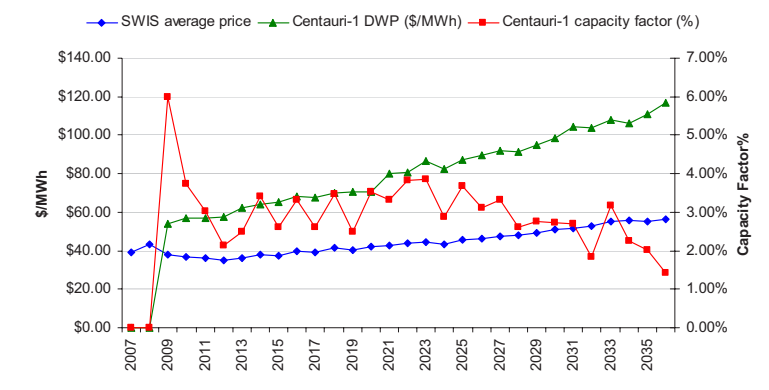
For both cases, variants have been run with an assumed increase in the level of capacity credits to 145MW.

The results of these modelling scenarios are set out below.

6.4.1 Base Case

Figure 6 summarises the Base Case in terms of the capacity factor and dispatch weighted prices potentially achieved by the Centauri 1 power station, and compares the price result with the average pooled price in the SW IS.

Figure 6 Base Case: Dispatch Weighted Price, Capacity Factor



Data source: ACIL Tasman modelling

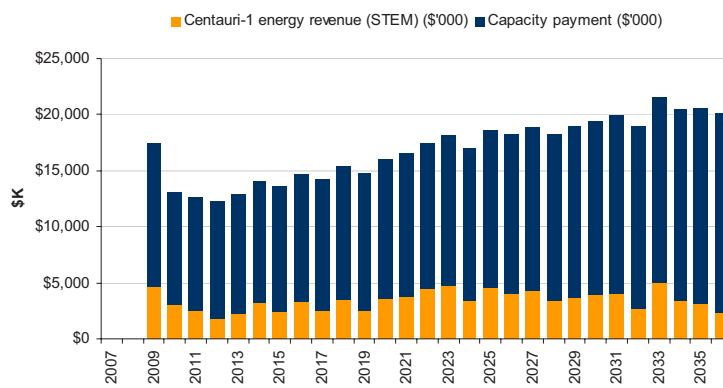


Capacity factor in 2008–09 is approximately 6%, but falls quickly to around 3% for the majority of the modelling period. Over the last 10 years, capacity factor falls further to around 2% as more independently-operated peaking plant enters the market.

Dispatch Weighted Price received by the Centauri 1 power station starts out at around \$54/MWh in 2008–09, increasing in nominal terms to \$71/MWh in 2019–20 and to \$98/MWh in 2029–30.

Figure 7 illustrates the revenues earned by the Centauri 1 plant from capacity payments and STEM energy sales under the Base Case scenario.

Figure 7 **Base Case: Capacity and Energy Revenue**



Data source: ACIL Tasman modelling

Impact of increased capacity credits through bilateral contracts—Base Case

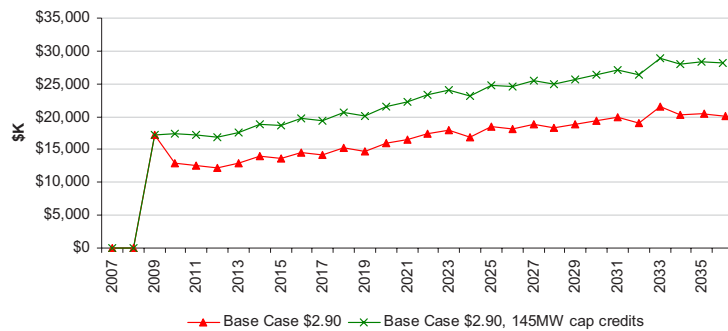
The level of capacity payments received by the Project will depend on the level of capacity credits held, which is in turn dependent on the ability of EGL to secure bilateral contracts for capacity with power purchasers. The Base Case assumption is that 100MW of capacity credits will be available to the project throughout the modelling period, in line with the level of Conditional Certified Reserve Capacity granted by the IMO as a result of the recent EOI process. However, given the nominal capacity of the plant proposed to be installed, we consider that it would be reasonable for the Centauri 1 Project to target significantly higher levels of capacity credits of around 145MW. This is based on technical data relating to the proposed gas turbine plant, presented by EGL in its application to the IMO for conditional certification, which shows that each of the four turbine units will be capable of generating at least 36.5MW at ambient temperatures up to 40°C if fitted with evaporative intercooling technology.



Nominating certified capacity closer to the nameplate capacity of the plant increases the risk that refunds will have to be made to the IMO on occasions when the plant is not able to meet its capacity obligations fully (due to extreme weather conditions or unplanned outages). This has been taken into account in the model by grossing up the capacity payment rate to make a probabilistically determined allowance for cost of refunds.

The impact on total plant revenue of increasing certified capacity from 100MW to 145MW is shown in Figure 8.

Figure 8 **Market revenue comparison, Base Case (100MW) vs 145MW certified capacity**



Data source: ACIL Tasman modelling

Increasing certified capacity to 145MW would add around \$4.5 million per year initially, rising in nominal terms to around \$8 million per year by the end of the modelling period.

6.4.2 CSM Case

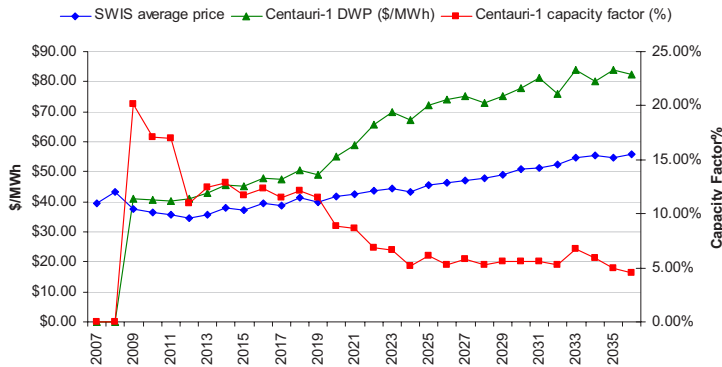
The CSM Case differs from the Base Case only in terms of the assumed cost of fuel for the power station. This fuel is assumed to come from EGL’s own CSM production at an effective cost of \$1.90/GJ.

As previously discussed, it should not be inferred that we have made any assessment that the coal seams in EGL’s exploration acreage can produce CSM at a price of \$1.90/GJ; there is no information currently available on which to base such an assessment. Rather, the CSM case has been designed to test the performance of the Project at the lowest fuel price that might reasonably be assumed. This lower bound has been set on the basis that at any implied value below \$1.90/GJ for gas used in the power station, EGL would be better off selling the gas to third parties via pipeline sales.

Figure 9 summarises the CSM Case in terms of the capacity factor and dispatch weighted prices potentially achieved by the Centauri 1 power station, and compares the price result with the average pooled price in the SW IS.



Figure 9 **CSM Case: Dispatch Weighted Price, Capacity Factor**



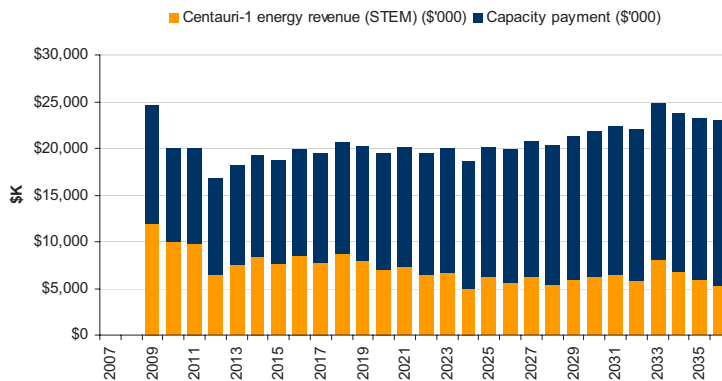
Data source: ACIL Tasman modelling

Capacity factors are considerably higher than for the Base Case, reaching 20% in 2008–09 but falling rapidly to around 12% through to 2019–20. Over the last 10 years, capacity factor falls further to around 5% as more independently-operated peaking plant enters the market.

The Dispatch Weighted Price modelled for the Centauri 1 power station is significantly lower than for the Base Case (an expected result in view of the higher dispatch levels) starting out at around \$40/MWh in 2008–09, increasing in nominal terms to \$55/MWh in 2019–20 and to \$78/MWh in 2029–30.

Figure 10 illustrates the revenues earned by the Centauri 1 plant from capacity payments and STEM energy sales under the CSM Case scenario.

Figure 10 **CSM Case: Capacity and Energy Revenue**



Data source: ACIL Tasman modelling

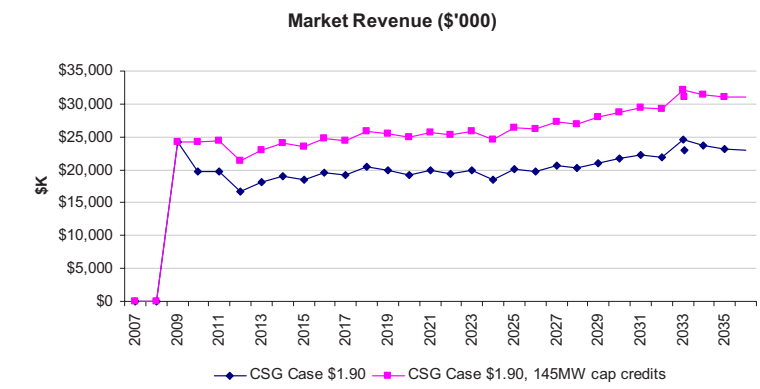
Impact of increased capacity credits through bilateral contracts—CSM Case

Again, and based on the arguments previously advanced, we have considered a variant of the CSM Case in which the level of certified capacity for Centauri 1 is increased from 100MW to 145MW. The impact on capacity revenues is not affected by fuel price, and so the incremental effects of the higher level of certified capacity are the same as for the Base Case, adding around \$4.5 million per year



initially, rising in nominal terms to around \$8 million per year by the end of the modelling period, as shown in Figure 11.

Figure 11 **Market revenue comparison, CSM Case (100MW) vs 145MW certified capacity**



Data source: ACIL Tasman modelling

7 Assessment of Opportunities and Risks

The Centauri 1 Project has locational advantages that offer opportunities in the market, while at the same time facing a number of significant market risks.

7.1 Locational advantages

- **Access to coal resources** within exploration licences held by EGL: these could host developable CSM resources for use as fuel for the Centauri 1 power station
- **Access to natural gas facilities:** the Project site is close to two major gas transmission pipelines (DBNGP, Parmelia) that could supply natural gas as fuel for the Centauri 1 power station, and to the Dongara gas processing plant and Mondarra underground gas storage facilities which potentially provide flexibility in gas supply arrangements, including capacity to put gas into or take gas from underground storage to buffer peak load fuel requirements for the power station use
 - this is particularly important if CSM is to be used as the primary fuel source for the power station, since it will allow the field to produce at a relatively steady rate by diverting gas to pipeline sales when not required in the power station, and by allowing withdrawal from storage or injection into storage to manage short term peak requirements.
- **Regional growth potential:** the project is located in the Mid West Region where significant economic growth potential is recognised.
 - The region includes numerous proposed mining and mineral processing developments that could boost demand for electricity and/or gas supply. Access to adequate and reliable energy supply for large users has been identified as one of the crucial infrastructure issues for further industrial



development in the Mid West. EGL has an opportunity to supply into this growing market.

- There may be opportunities for direct supply from power stations in the North Country region, such as Centauri 1, to directly to new mining or industrial projects in the region, effectively overcoming electricity transmission system constraints which, according to WPC’s assessment, presently pose an impediment to development in the region
- **Local transmission networks support potential:** the Project is located in an area (the North Country region of the SWIS transmission system) where the provision of more generation capacity may offer network benefits in terms of alleviating or deferring the need for major investment in new transmission capacity by meeting load within the region from local sources, thus relieving the pressure on the north-south transmission system. This is in line with WPC’s current practice which is to rely heavily on dispatch of Geraldton and Mungarra power stations to provide network support and maximise network capacity.

7.2 Electricity market risks

- **Competitor risk:** the future performance of the Centauri 1 Project may be affected by the actions of competitors in the electricity market, including new-entrant generators, over which EGL will have no control. For example, competitors may win contracts for capacity ahead of EGL, so affecting the level of bilateral contracts for capacity held by EGL and the reserve capacity payments available to EGL.
- **WA Electricity Market Rules risk:** there is considerable uncertainty with regard to the final form and interpretation of the WA Market Rules, with a possibility of changes that could impact on the future market performance of the Centauri 1 power station. Not all of the arrangements are yet fully developed and there is a risk that the rules as currently defined and interpreted will change in response to emerging implementation issues. So, for example the IMO has indicated that key aspects of the arrangements relating to the Reserve Capacity Mechanism may change, by allowing everyone in the market to participate and bid their capacity into the market rather than issuing a pre-determined level of reserve capacity certifications for each cycle.
- **Reserve Capacity payments risk:** for the reasons outlined in the preceding point, there is uncertainty regarding the level of future Reserve Capacity payments as well as the ability of Centauri 1 power station to access those payments, particularly after the 2008–09 year.
- **Bilateral contracts risk:** In the absence of a reserve capacity auction, bilateral contracts are needed to secure the Capacity Credits and thereby to receive Reserve Capacity payments.
 - EGL is presently negotiating to secure bilateral contracts for the Centauri 1 power station
 - In the worst case, if in any particular year no capacity auction is held and EGL does not have bilateral contracts with an electricity buyer, it may receive no reserve capacity payments for that year.



- **Network connection risk:** there is a risk that EGL will be unable to secure a network connection agreement with WPC, or to secure such an agreement within a timeframe that will allow the Conditional Certified Reserve Capacity granted by the IMO to be converted into Certified Reserve Capacity.
 - WPC has advised EGL that no further generation can be accommodated in the North Country Region (where Centauri 1 is to be located) without major network reinforcement, and that, should that reinforcement require the construction of a new 330 KV line from the Perth metropolitan area, the lead time involved could be five years or more.
 - It is our understanding that if there is substantial load growth in the North Country region, that may be more readily accommodated by locating new generation in the region and boosting the local network capacity, rather than constructing the 330 KV line from Perth. However, until the necessary network studies are undertaken and the optimal reinforcement strategy agreed, there would appear to be a significant obstacle to gaining a network access agreement with WPC.
 - A letter of offer from the network operator for an access agreement is a precondition for any new generating facility to be certified to provide Reserve Capacity.

7.3 Gas supply risks

7.3.1 Gas supply – Coal seam methane

- **CSM supply risk:** EGL proposes to develop its own CSM production capability within the project area as the primary source of fuel for the Centauri 1 power station. However, at this point in time, no technical evaluation of the CSM production characteristics of the target (Cattamarra Coal Measures) has commenced in the Exploration Licences held by EGL. Until this testing occurs, it is not possible to reliably assess the prospects for establishing commercially viable CSM production in the Centauri 1 Project area.
 - This risk is mitigated by the availability of pipe line natural gas as an alternative fuel, although potentially at a higher cost.
- **CSM regulatory risk:** WA law does not make any specific provision for CSM. In particular, there are no regulatory provisions designed to address competing rights of coincident petroleum and mining exploration tenement holders to gas contained in coal seams. All of the land covered by exploration licenses held by EGL is also subject to exploration permits held by other parties under the *Petroleum Act 1967*. While a solution may be found through some form of co-operative agreement with the petroleum title holders—for example a “strata titling” approach that would clarify rights and obligations—until such arrangements are settled there is a risk that EGL’s entitlements to CSM could be disputed by the petroleum exploration permit holders.
- **CSM production characteristics risk:** CSM production wells typically have limited flexibility to shut off or reduce production to meet variable fuel offtake requirements. CSM is therefore not normally well-suited to use in peaking power plant. However, as discussed above the Centauri 1 Project’s location in relation to gas pipeline and storage infrastructure potentially addresses this issue.



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PKF Corporate Advisory

16 December 2005

The Directors
Eneabba Gas Limited
Suite 3 1327 Hay Street
WEST PERTH WA 6005

Dear Sirs

Investigating Accountant's Report

1. INTRODUCTION

The Investigating Accountant's Report ("Report") has been prepared at the request of the Directors of Eneabba Gas Limited ("EGL" or "the Company") for inclusion in a Prospectus ("the Prospectus") to be dated on or about 16 December 2005, relating to the Offer of 40,000,000 fully paid ordinary shares at \$0.25 cents each to raise \$10,000,000 with the ability to accept oversubscriptions for an additional 10,000,000 fully paid shares at \$0.25 cents each to raise \$2,500,000 ("the Offer"). The Offer has not been underwritten.

You have requested PKF Corporate Advisory Services (WA) Pty Ltd to prepare a Report on the following:

- A review of the Australian Generally Accepted Accounting Principles ("AGAAP") historical consolidated Statement of Financial Position and notes as at 30 June 2005; and
- A review of the AGAAP and Australian Equivalents to International Financial Reporting Standards ("AIFRS") Pro-Forma consolidated Statement of Financial Position as at 30 June 2005.

Where applicable, this Report has been prepared having regard to the guidance set out in Australian Auditing Standards ("AUS") 902 "Review of Financial Reports" applicable to review engagements and Auditing Guidance Standards ("AGS") 1062 "Reporting in Connection with Proposed Fundraisings".

All the terms used in this Report have the same meaning as the terms used and defined in the Prospectus.

2. BACKGROUND

The Company was incorporated in December 2003 and its business objective is to assess the feasibility of establishing a 168MW gas turbine power station near Dongarra, Western Australia.

PKF Corporate Advisory
Services (WA) Pty Ltd

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Australian Financial Services
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The AGAAP historical consolidated Statement of Financial Position and notes as at 30 June 2005 as set out in Annexure A of this Report have been extracted from the audited financial statements for the year ended 30 June 2005, which were audited by Wellington Partners, West Perth. An unqualified audit opinion was issued in relation to the financial report of EGL for the year ended 30 June 2005.

3. SCOPE OF EXAMINATION

3.1 AGAAP Historical Consolidated Statement of Financial Position

We have conducted a review of the AGAAP historical consolidated Statement of Financial Position of EGL as at 30 June 2005 in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the AGAAP historical consolidated Statement of Financial Position is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

Our review has been conducted in accordance AUS 902 "Review of Financial Reports". Our review was limited to enquiries of the Directors and personnel of EGL, analytical procedures applied to the financial data, and the performance of limited verification procedures.

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 given in an audit. We have not performed an audit on the AGAAP historical consolidated Statement of Financial Position as at 30 June 2005.

3.2 AGAAP and AIFRS Pro-forma Consolidated Statement of Financial Position

We have conducted a review of the AGAAP and AIFRS Pro-forma consolidated Statement of Financial Position of EGL as at 30 June 2005 in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the AGAAP and AIFRS Pro-forma consolidated Statement of Financial Position is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, assuming the Pro-forma transactions set out in Note 2 of Annexure A had taken place on 30 June 2005.

We note the Directors of EGL are responsible for the preparation and presentation of the financial information.

The Directors of EGL have also determined the impact of transitioning to AIFRS. The disclosures set out in Annexure A note 1 (k) of this Report reflect the elections of the Directors' have made in considering the first time adoption of AIFRS. The Directors may at any time until completion of EGL's first AIFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies to be applied arising from the voluntary exemptions contained in AASB 1 "First-time Adoption of A-IFRS". Accordingly, EGL's first A-IFRS compliant financial report may differ from the disclosures as set out in Annexure A note 1 (k) of this report.

The purpose of the AGAAP and AIFRS Pro-forma consolidated Statement of Financial Position is to demonstrate the financial effects on EGL assuming that the transactions as set out in Note 2 of Annexure A had taken place on 30 June 2005:

Our review has been conducted in accordance with AUS 902 Review of Financial Reports . Our review was limited to enquiries of the Directors and personnel of EGL, a review of the assumptions used to prepare the AGAAP and AIFRS Pro-forma consolidated Statement of Financial Position, analytical procedures applied to the financial data and the performance of limited verification procedures.

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 given in an audit. We have not performed an audit on the AGAAP and AIFRS Pro-forma consolidated Statement of Financial Position and accordingly, we do not express an audit opinion on the AGAAP and AIFRS Pro-forma consolidated Statements of Financial Position as at 30 June 2005.

We note the Directors of EGL are responsible for the preparation and presentation of the financial information.

4. STATEMENTS

4.1 AGAAP Historical Consolidated Statement of Financial Position

Based on the scope of our review, which is not an audit, nothing has come to our attention that causes us to believe that the AGAAP historical consolidated Statement of Financial Position, as set out in Annexure A of this Report, is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

4.2 AGAAP and AIFRS Pro-forma Consolidated Statement of Financial Position

Based on the assumption that the Pro-forma transactions set out in Note 2 of Annexure A had taken place on 30 June 2005 and the scope of our review, which is not an audit, nothing has come to our attention that causes us to believe that the AGAAP and AIFRS Pro-forma consolidated Statement of Financial Position, as set out in Annexure A of this Report, is not presented fairly in accordance with the measurement requirements, but not the disclosure requirements, of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

5. SUBSEQUENT EVENTS

To the best of our knowledge and belief, and based on the work we have performed in relation to the scope set out in Section 3 of this Report, there have been no material transactions or events, other than those included in our Report, or Annexure A note 11 of this Report which would require a comment on or adjustment to, the information referred to in our Report or Annexure A that would cause the information included to be misleading.



6. DECLARATION

PKF Corporate Advisory Services (WA) Pty Ltd is responsible for this Report. This Report is strictly limited to the matters contained herein and is not to be read as extending by implication or otherwise, to any other matter.

PKF Corporate Advisory Services (WA) Pty Ltd does not have any interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this matter.

Except for fees relating to this Report, which are based on normal commercial terms, PKF Corporate Advisory Services (WA) Pty Ltd does not have any interest in EGL nor in the outcome of the Capital Raising. PKF Chartered Accountants and Business Advisors have been appointed auditor of EGL, for which normal professional fees will be received.

PKF Corporate Advisory Services (WA) Pty Ltd has not made, and will not make, any recommendation through the issue of the Report to potential investors of EGL as to the merits of the investment.

The nature of this Report is such that it should be given by an entity which holds an Australian Financial Services licence under the Financial Services Reform Act 2001. PKF Corporate Advisory Services (WA) Pty Ltd is wholly owned by the partners of PKF Chartered Accountants and holds an appropriate Australian Financial Services licence.

Consent for the inclusion of this Report in the Offer Document in the form and context in which it appears has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

PKF Corporate Advisory Services (WA) Pty Ltd

IAN P OLSON
Director

Annexure A – Financial Information

Statement of Financial Position
As at 30 June 2005

	Note	Reviewed AGAAP Historical 30 June 2005 \$	Reviewed AGAAP Pro-Forma 30 June 2005 \$	Reviewed AIFRS Pro-Forma 30 June 2005 \$
Current Assets				
Cash assets	3	768,142	10,064,292	10,064,292
Receivables	4	6,709	6,709	6,709
Total Current Assets		<u>774,851</u>	<u>10,071,001</u>	<u>10,071,001</u>
Non-Current Assets				
Property, Plant & equipment	5	19,925	19,925	19,925
Intangible Assets	6	12,685	12,685	10,472
Total Non-Current Assets		<u>32,610</u>	<u>32,610</u>	<u>30,397</u>
TOTAL ASSETS		<u>807,461</u>	<u>10,103,611</u>	<u>10,101,398</u>
NET ASSETS		<u>807,461</u>	<u>10,103,611</u>	<u>10,101,398</u>
Equity				
Contributed equity	7	1,005,529	10,301,679	10,301,679
Option Reserve	8	-	-	32,800
Accumulated losses	9	<u>(198,068)</u>	<u>(198,068)</u>	<u>(233,081)</u>
TOTAL EQUITY		<u>807,461</u>	<u>10,103,611</u>	<u>10,101,398</u>

The above statement of financial position should be read in conjunction with the accompanying notes.



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Financial Reporting Framework

The financial information has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial statements are prepared on an accruals basis and is based on historical cost and does not take into account changing money values, or except where stated, current valuations of non-current assets.

The consolidated statement of financial position has been prepared in accordance with the measurement requirements, but not the disclosure requirements of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

b) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

c) Property Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant and Equipment

Plant and Equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining the recoverable amount.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the economic company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

d) Cash Assets

Cash on hand, at banks and in short-term deposits is stated at the lower of cost and net realisable value.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

For the purposes of the Statement of Cash Flows, cash includes deposits at call with financial institutions and other highly liquid investments with maturity within less than three months which are readily convertible to cash on hand and cash at bank.

e) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

f) Intangibles

Exploration Licences are required to be amortised over an appropriate period of time i.e. the period of time that the licence is valid. Given that the licences have a valid life of five years, under AGAAP the exploration licences are being amortised over their effective life of five years.

g) Income Tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expenses are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

h) Recoverable amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash flows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than the recoverable amount, the asset is written down to its recoverable amount. Where the net cash inflows are derived from a group of assets working together recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the Statement of Financial Performance in the reporting period in which the recoverable amount write-down occurs.

i) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by or on behalf of EGL is accumulated separately for each area of interest. Such expenditure comprises direct costs plus overhead expenditure incurred which can be directly attributed to the exploration and evaluation process.



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Exploration expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

- Such costs are expected to be recouped through successful development and exploration of the area of interest or, alternatively, by its sale; or
- Exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off.

Evaluation expenditure of each area of interest is carried forward, but only to the extent to which recoupment out of revenue to be derived from the relevant area of interest, or from the sale of the area of interest, is reasonably assured.

j) Going Concern Basis of Accounting

The financial information has been prepared on the basis of a going concern. The Company's ability to continue as a going concern is contingent upon raising additional capital to fund future projects, other principal activities, and for use as working capital. If additional capital is not raised, the going concern basis may not be appropriate with the result that the Company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial information. No allowance for such circumstances has been made in the financial information.

k) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The Company is preparing and managing the transition to the Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for half years ending 31 December 2005 and for the year ending 30 June 2006. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalent to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by the standard setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the continuing work on the entity's AIFRS issues.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for an individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets or groups of assets that are largely independent of the cash inflows from other assets use and subsequent disposal. It is likely that this change of accounting policy will lead to impairments being recognised more often.

The impact of the change is estimated to be nil as at the transition date given the entity held no assets which are required to be tested under AASB 136.

Intangible Assets

Under AASB 138, formation costs are required to be derecognised. This will increase the accumulated losses of the consolidated group by \$2,213.

Exploration Licences need to be amortised over an appropriate period of time i.e. the period of time that the licence is valid. Given that the licences have a valid life of five years, under AIFRS and AGAAP the amortisation expense is already included and thus will not have any effect on the loss of the consolidated group or parent company.

Exploration and Evaluation Expenditure

AASB 6 Exploration and Evaluation of Mineral Resources determines that entities recognising exploration and evaluation assets must perform impairment testing when facts and circumstances suggest the carrying amount has been impaired. If it was determined that the asset was impaired it would be immediately written off to the statement of financial performance.

AASB 6 also confirms that it does not apply to expenditures incurred before the entity has obtained legal rights to explore a specific area. As such pre license expenditure may be required to be expensed as incurred.

The International Accounting Standard therefore requires a more rigorous test to satisfy carrying forward exploration and evaluation expenditure. The economic entity had no exploration assets (other than licences) represented on the balance sheet and as such there is no impact as at 1 July 2004 and 30 June 2005.

Share Based Payments

Under AASB 2 Share Based Payments, the company would recognise the fair value of share options granted to employees as remuneration as an expense on a pro rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs are not recognised under AGAAP.



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

On the 2 August 2005 the Company resolved to issue 4,000,000 options with an exercise price of \$0.30 cents which were valued at \$32,800 as director remuneration. Under AASB 2 this amount must be expensed increasing the accumulated losses of the consolidated group with a corresponding increase recognised in equity.

2. Basis of Preparation of the Pro-forma Statement of Financial Position

The reviewed Pro-forma Statement of Financial Position of Eneabba as at 30 June 2005 has been prepared as if the following proposed transactions had taken place as at 30 June 2005:

- The issue of 40,000,000 fully paid ordinary shares at \$0.25 cents each pursuant to the prospectus to raise \$10,000,000;
- The payment of \$753,850 in costs incurred by the company in relation to the offer;
- The issue of 1,000,000 fully paid shares at \$0.05 cents to Reginald Gillard, a Director of EGL, under a seed raising to raise \$50,000, which took place on the 4 August 2005; and
- The issue of 4,000,000 ordinary share options exercisable at \$0.30 cents on or before 30 June 2009 as part of the remuneration package of Reginald Gillard, a Director of EGL.

	Reviewed AGAAP Historical 30 June 2005 \$	Reviewed AGAAP Pro-Forma 30 June 2005 \$	Reviewed AIFRS Pro-Forma 30 June 2005 \$
3. Cash Assets			
Cash at bank	768,142	10,064,292	10,064,292
Movements in cash at bank			
Actual 30 June 2005		768,142	768,142
Issue of shares to Reginald Gillard on 4 August 2005		50,000	50,000
Issue of shares pursuant to the Prospectus		10,000,000	10,000,000
Estimated capital raising costs		(753,850)	(753,850)
Pro-forma as at 30 June 2005		10,064,292	10,064,292
4. Receivables (Current)			
Trade Debtors	1,730	1,730	1,730
Other	4,979	4,979	4,979
	6,709	6,709	6,709
5. Plant & Equipment			
Plant and Equipment	21,428	21,428	21,428
Less: Accumulated depreciation	(1,503)	(1,503)	(1,503)
	19,925	19,925	19,925



	Reviewed AGAAP Historical 30 June 2005 \$	Reviewed AGAAP Pro-Forma 30 June 2005 \$	Reviewed AIFRS Pro-Forma 30 June 2005 \$
6. Intangible Assets			
Exploration Licences	11,140	11,140	11,140
Less: Accumulated Amortisation	(668)	(668)	(668)
Formation Expenses	2,213	2,213	-
Total Intangible Assets	12,685	12,685	10,472
7. Contributed Equity			
Share capital (Historical: 4 shares at \$1 each, 50,250,000 @ \$0.0001 each plus 20,010,000 shares @ \$0.05 cents each; Pro-forma: 4 shares at \$1, 50,250,000 @ \$0.0001 each, 20,010,000 shares @ \$0.05 cents each, 1,000,000 shares @ \$0.05 cents, plus 40,000,000 shares @ \$0.25 cents each)	1,005,529	10,301,679	10,301,679
	1,005,529	10,301,679	10,301,679
Movements in share capital			
Actual 30 June 2005		1,005,529	1,005,529
Issue of shares to Reginald Gillard		50,000	50,000
Issued shares pursuant to the prospectus		10,000,000	10,000,000
Less capital raising costs		(753,850)	(753,850)
Pro-forma as at 30 June 2005		10,301,679	10,301,679
Movements in share options		Exercise Price	Number of Options
Opening balance of share options as at 30 June 2005		\$0.30	48,480,000
Issue of attaching options pursuant to the Capital Raising		\$0.30	10,000,000
Issue of share options to Reginald Gillard on the 2 August 2005		\$0.30	4,000,000
Closing balance of share options as at 30 June 2005		\$0.30	62,480,000

	Reviewed AGAAP Historical 30 June 2005 \$	Reviewed AGAAP Pro-Forma 30 June 2005 \$	Reviewed AIFRS Pro-Forma 30 June 2005 \$
8. Options reserve			
Option reserve (Historical: no options expensed; Pro-forma: AGAAP no options expensed, AIFRS 4,000,000 options issued for \$0.0082)	-	-	32,800
	Value per Option	Exercise Price	Value
Movements in option reserve			
Actual 30 June 2005	-	-	-
Issue of options to Reginald Gillard	\$0.0082	\$0.30	32,800
Pro-forma as at 30 June 2005			<u>32,800</u>
9. Accumulated Losses			
Balance at the beginning of this period	(2,734)	(2,734)	(4,947)
Loss for the period	<u>(195,334)</u>	<u>(195,334)</u>	<u>(228,134)</u>
Balance at the end of the period	<u>(198,068)</u>	<u>(198,068)</u>	<u>(233,081)</u>
10. Contingent Assets and Liabilities			
As at 30 June 2005 the Company has no contingent assets and liabilities.			
11. Related Party Information			
Transactions with related parties and Directors interests are disclosed in Section 9.4 of the Prospectus.			
12. Segment Information			
The Company operates in the gas exploration business segment within the geographical area of Australia.			
13. Subsequent Events			
On the 2 August 2005 the company issued 4,000,000 share options to Reginald Gillard with an exercise price of \$0.30 cents which mature on 30 June 2009. On the 4 August 2005 the Company also issued 1,000,000 shares to Reginald Gillard at \$0.05 cents each to raise an additional \$50,000. These are related party transactions as Reginald Gillard is a Director of EGL.			



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22 November 2005

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TELEPHONE +61 8 9429 7444 FACSIMILE +61 8 9429 7666

The Directors
Eneabba Gas Limited
Suite 3, 1327 Hay Street
West Perth
Western Australia 6005

Dear Sirs

Solicitors' Report on Mining Tenements

1. Introduction

- 1.1 This Report has been prepared for inclusion in a Prospectus to be issued by Eneabba Gas Limited ACN 107 385 884 (**Company or EGL**) on or about 16 December 2005 for the issue of up to 50,000,000 fully paid ordinary shares in the capital of the Company at an issue price of \$0.25 per share, together with one free attaching option for every two shares allotted, to raise \$12,500,000.
- 1.2 This Report, in accordance with the instructions given to us by the Company, relates to the mining tenements held by the Company in Western Australia and listed in the Schedule of Mining Tenements (**Schedule**) as at 22 November 2005 (**Mining Tenements**).
- 1.3 The Schedule is based on information contained in searches of publicly available records maintained by the Western Australian Department of Industry and Resources (**DOIR**) and our inquiries with DOIR. Based upon the information contained in the searches and our inquiries with DOIR, in our opinion, the Schedule contains an accurate statement of the status of the Mining Tenements as at 22 November 2005.
- 1.4 The Schedule forms part of this Report.

2. Searches

- 2.1 We have conducted on-line searches of the Mining Tenements obtained from the DOIR website on 22 November 2005, searches of the Mining Tenements in the register maintained by DOIR obtained on 21 November 2005 and searches of the on-line Register of Aboriginal Heritage Sites from the Department of Indigenous Affairs, Western Australian Government website obtained on 22 November 2005.
- 2.2 We have not been instructed to carry out, and have not carried out, any investigations in relation to the underlying tenure of the Tenements.
- 2.3 We have been advised by the Company that any areas of the Mining Tenements that are capable of being subject to native title or a claim for native title have been excised from the Mining Tenements and therefore that native title issues do not arise. As a result, we have not been instructed to carry out, and have not carried out, detailed searches of the existence and scope of any native title claims.

MINTER ELLISON GROUP AND ASSOCIATED OFFICES

SYDNEY MELBOURNE BRISBANE CANBERRA ADELAIDE PERTH GOLD COAST
HONG KONG SHANGHAI BANGKOK JAKARTA SAN FRANCISCO LONDON
AUCKLAND WELLINGTON



3. Mining Tenements

- 3.1 The Mining Tenements are exploration licences granted under *Mining Act 1978 (WA) (Mining Act)*.¹
- 3.2 While in force, an exploration licence authorises the Company to explore for minerals and undertake operations necessary for exploration including digging pits, trenches and holes, and sinking bores and tunnels, subject to the Mining Act and any conditions that may be imposed on the exploration licence.² An exploration licence remains in force for 5 years, although this period can be extended subject to Ministerial discretion³.
- 3.3 Exploration licences are granted according to graticular blocks and as such, there is no need to survey an exploration licence.
- 3.4 The Minister may grant an exploration licence on such terms and conditions as he or she thinks fit. In addition to these conditions, an exploration licence is also granted subject to standard conditions including expenditure, safety, and environmental conditions. Failure to comply with any of these conditions exposes the Company to potential forfeiture of the relevant exploration licence.
- 3.5 During the term of an exploration licence, the Company must surrender certain areas contained in the exploration licence. At the end of the third year for which the licence was granted, the Company must surrender not less than half the number of blocks contained in the licence. At the end of the fourth year, the Company must surrender at least another half of the remaining blocks contained in the exploration licence⁴.
- 3.6 The Minister may exempt the Company from having to surrender its blocks if the Company shows that its exploration program could not be undertaken due to delays occasioned by law; arising from administrative, political or environmental requirements of governmental or other authorities; or obtaining requisite consents or approvals for exploration⁵.
- 3.7 The holder of an exploration licence is entitled to convert the exploration licence to a mining lease subject to the terms of the Mining Act where the holder determines there are economic quantities of minerals to be exploited. A mining lease grants exclusive rights to mine the land for a period of 21 years and may be renewed for a successive period of 21 years⁶.
- 3.8 We are instructed that EGL wishes to explore the land the subject of the exploration licences for coal (including its full calorific value) and upon finding economically extractible quantities thereof, EGL will seek to convert parts of the exploration licences to mining leases under the Mining Act for commercial extraction of coal (including its full calorific value). At present, none of the Mining Tenements have been converted into mining leases.
- 3.9 The expenditure requirements which apply to the Mining Tenements are listed in the Schedule. There is no unsatisfied expenditure requirement which is due as at the date of this Report.

4. Endorsements on Mining Tenements– conditions on Company’s activities

- 4.1 The Mining Tenements have been granted to explore, target, locate and assess coal (including its full calorific value) within the tenement at depths below 30 metres. This removes the private landowner compensation requirement under section 35 of the Mining Act.

¹ Section 57, Mining Act

² Section 66, Mining Act

³ Section 61, Mining Act

⁴ Section 65(1), Mining Act

⁵ Section 65(1a)(b), Mining Act

⁶ Section 78, Mining Act

- 4.2 However, the Company is not entitled to commence mining on the natural surface or within a depth of 30 metres unless compensation is paid or tendered to the owner.
- 4.3 It should be noted that the Mining Tenements are granted subject to endorsements that the Company must comply with, among other things, the provisions of the *Environmental Protection Act 1986 (WA)*, *Wildlife Conservation Act 1950 (WA)* and the *Aboriginal Heritage Act 1972 (WA)* and any regulations made pursuant to those Acts. Exploration licences 70/2676 and 2762 are subject to the additional endorsements noted in the Schedule.

5. Aboriginal Heritage

- 5.1 Mining tenements are granted subject to an endorsement that the holder must comply with the *Aboriginal Heritage Act 1972 (WA)* (AHA). The AHA applies to any place which is or was associated with Aboriginal people and which is of historical, anthropological, archaeological or ethnographical interest.
- 5.2 The AHA makes it an offence for a person to excavate, destroy, damage, conceal or alter any Aboriginal site or object on or under an Aboriginal site unless the person is authorised to do so by the Registrar of Aboriginal Sites or the Minister for Indigenous Affairs consents to it. An Aboriginal site includes any sacred, ritual or ceremonial site which is of importance and special significance to persons of Aboriginal descent. Aboriginal sites can exist and be protected on both Crown and freehold land.
- 5.3 We have conducted a search of the on-line Register of Aboriginal Sites from the Department of Indigenous Affairs, Government of Western Australia website. The results of that search indicate that all of the Mining Tenements except for exploration licences EL70/2759 to 2761 (inclusive) and 2763 contain one or more registered Aboriginal Heritage Sites.
- 5.4 It should be noted that there may be Aboriginal Heritage Sites which exist but are not recorded on the Register of Aboriginal Heritage Sites held by the Department of Indigenous Affairs. It should also be noted that some Aboriginal Heritage Sites which are recorded as being registered in the register of Aboriginal Heritage Sites may no longer exist. The AHA operates to protect all Aboriginal Heritage Sites whether or not they are registered with the Department of Indigenous Affairs – an Aboriginal Heritage Site need not be registered or in any other way acknowledged as an Aboriginal Heritage Site to be protected under the AHA.
- 5.5 Prior to commencing exploration operations under the Mining Tenements, the Company will need to carry out Aboriginal heritage surveys over the Mining Tenements to ascertain the nature and location of all Aboriginal Heritage Sites to ensure that it does not contravene the AHA. The Company must ensure that it complies with the provisions of the AHA and the *Aboriginal and Torres Strait Islander Heritage Protection Act 1984 (Cth)* before interfering with any Aboriginal Heritage Sites.
- 5.6 We have not been instructed to review any Aboriginal Heritage Agreements (if any) in relation to the Mining Tenements.

6. Native title generally

- 6.1 Native title was first recognised by the common law of Australia on 3 June 1992 in the High Court of Australia's decision in *Mabo v The State of Queensland (Mabo)*. In general terms, native title will be found to exist where the claimants can establish they have maintained a traditional connection to the lands or waters in question since colonisation and that native title rights have not been lawfully extinguished by legislative or executive acts of government which are wholly inconsistent with the continued existence of native title.
- 6.2 The *Native Title Act 1993 (Cth)* (NTA) commenced on 1 January 1994 and was enacted by the Commonwealth Government to provide a framework within which native title is recognised and protected, and to address uncertainties arising from the High Court's decision in *Mabo*. The



NTA (which was subsequently amended in 1998 in response to the High Court of Australia's decision in *Wik v The State of Queensland (Wik)*) has, in general terms, these effects:

- (a) it recognises and protects native title;
- (b) it validates '*past acts*' (being acts done prior to 1 January 1994) and '*intermediate period acts*' (being acts done between 1 January 1994 and 23 December 1996) to the extent that these acts were invalid because they were done without regard to native title;
- (c) it establishes the procedures to be complied with for '*future acts*' which affect native title (being acts done after the commencement of the NTA such as the grant of mining tenements and other interests in land). The principal process in respect of the grant of '*future acts*' is the '*Right to Negotiate*' (RTN) which requires all concerned parties to negotiate in good faith with the registered native title claimants with a view to securing the registered native title claimants' consent to the doing of the '*future act*'; and
- (d) it confirms the extinguishing effect on native title of certain categories of previous exclusive possession acts, such as the grant of freehold title.

6.3 The extinguishing effect of freehold tenure on native title has also been confirmed at common law following the High Court of Australia's decision in *Fejo v Northern Territory*. This is because the rights conferred by a grant in fee simple (or freehold) are entirely inconsistent with the continued existence of any native title rights and interests such that native title is taken to have been extinguished from the date of grant of the freehold tenure. Once native title is extinguished by the valid grant of freehold title, it cannot be revived when the land comes to be held by the Crown in the future.⁷

7. Native title and the Mining Tenements

7.1 The Company has instructed us, and DOIR has confirmed, that:

- (a) the Mining Tenements have been granted only over the area of validly granted freehold land; and
- (b) any Crown land that is the subject of a Native Title claim has been excised from the area of the affected Mining Tenements; and
- (c) any other areas of land that are Federal, State or other Shire or authority land for conservation, vacant Crown land or public utility (which could also be the subject of a Native Title claim) have also been excised from the area of the affected Mining Tenements.

Based on these instructions and confirmation, and for the reasons explained in paragraph 6.2(d) and 6.3 above, no native title issues will arise in respect of the Mining Tenements. Any area of the Mining Tenements which is held in fee simple is not subject to native title.

7.2 Based on the matters set out in paragraph 7.1 above, native title has been extinguished over the underlying freehold tenure over which the Mining Tenements lie and the Company can apply to renew or extend the Mining Tenements in accordance with the Mining Act without attracting the RTN process or any other '*future act*' procedures under the NTA.

8. Scope of Investigation

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

⁷ *Fejo and Another v Northern Territory of Australia and Another* 195 CLR 96

- (a) reviewing tenement searches of the Mining Tenements obtained from DOIR; and
- (b) reviewing searches of Aboriginal Heritage Sites which are registered with the Department of Indigenous Affairs and available on the Department's website.

8.2 This Report relates only to the law of Western Australia in force at the date of this Report and is strictly limited to the matters it deals with.

9. Material contracts

9.1 There is one material agreement between the Company and Woden Pty Ltd in respect of one Mining Tenement, being EL70/2676 (**Woden Royalty Agreement**). The Woden Royalty Agreement, and its effect, is referred to in Section 9 of this prospectus.

9.2 We have reviewed the summary of the Woden Royalty Agreement at Section 9 of this prospectus and consider it to be an accurate summary of the terms and effect of that agreement.

10. Assumptions

In this Report we have assumed:

- (a) that any information provided to us by DOIR is accurate and up to date as at the date we received it and we have relied on the accuracy of the information and details contained in those search results;
- (b) that any information obtained from the websites of DOIR and the Department of Indigenous Affairs is accurate and up to date as at the date we obtained it and we have relied on the accuracy of the information and details contained in those search results;
- (c) that all information or advice, whether oral or written, provided to us by the Company, its officers, employees, agents or representatives is accurate and complete;
- (d) that there are no native title issues either because any land the subject of a native title claim has been excised from the area of the Mining Tenement or because other land underlying the Mining Tenements is held in fee simple and therefore native title is extinguished;
- (e) that any copies of documents provided to us are complete and true copies of the originals; and
- (f) the authenticity of all signatures.

11. Consent

Minter Ellison has given and has not withdrawn its consent to the issue of the Prospectus with this Report.

Yours faithfully
MINTER ELLISON



Partner responsible: Andrew Thompson (08) 9429 7670
Our reference: AGT 60-1240847

Schedule of Mining Tenements held by EGL

Exploration Licence (EL) Particulars	EGL Share (%)	Initial Term Commenced	Initial Term Expires	Blocks	Minimum Annual Expenditure (\$)	Annual Rent (\$) (GST inclusive)	Applicable Notes
EL 70/2676	100	13/10/2004	12/10/2009	26	23,400.00	2,636.92	(a) A royalty deed was entered into on 26 October 2004 between EGL and Wooden Pty Ltd (see Section 11 of the Prospectus). (b) Further to the endorsements noted in paragraph 4.3 of the Report, the company must also comply with the <i>Conservation and Land Management Act 1984 (WA)</i> and the <i>Bushfires Act 1954 (WA)</i> . (c) 3 Aboriginal Heritage Sites registered with Department of Indigenous Affairs (DIA).
EL 70/2758	100	15/11/2005	14/11/2010	70	63,000.00	6,930.00	1 Aboriginal Heritage Site registered with DIA.
EL 70/2759	100	15/11/2005	14/11/2010	59	53,100.00	5,841.00	
EL 70/2760	100	15/11/2005	14/11/2010	13	20,000.00	1,287.00	
EL 70/2761	100	15/11/2005	14/11/2010	61	54,900.00	6,039.00	
EL 70/2762	100	15/11/2005	14/11/2010	70	63,000.00	6,930.00	(a) 1 Aboriginal Heritage Site registered with DIA. (b) Further to the endorsements noted in paragraph 4.3 of the Report, the company must also comply with the <i>Water and Rivers Commission Act 1995 (WA)</i> , <i>Country Areas Water Supply Act 1947 (WA)</i> and <i>Metropolitan Water Supply Sewerage and Drainage Act 1990 (WA)</i> .
EL 70/2763	100	15/11/2005	14/11/2010	50	45,000.00	4,950.00	
EL 70/2764	100	15/11/2005	14/11/2010	50	45,000.00	4,950.00	1 Aboriginal Heritage Site registered with DIA.
EL 70/2765	100	15/11/2005	14/11/2010	59	53,100.00	5,841.00	1 Aboriginal Heritage Site registered with DIA.
EL 70/2785	100	15/11/2005	14/11/2010	60	54,000.00	5,940.00	(a) On 18 July 2005, Shire of Mullewa Council determined not to allow exploratory work (including drilling) on road reserves. However, such work can take place by other measures. (b) 1 Aboriginal Heritage Site registered with DIA.
EL 70/2786	100	15/11/2005	14/11/2010	38	34,200.00	3,762.00	2 Aboriginal Heritage Sites registered with DIA.
EL 70/2798	100	15/11/2005	14/11/2010	37	33,300.00	3,663.00	6 Aboriginal Heritage Sites registered with DIA.



SECTION 7- INVESTMENT & RISK CONSIDERATIONS

Introduction

The Directors have considered and identified in this Section items they regard to be some of the critical areas of investment and risk associated with investing in the Securities, however these considerations are non-exhaustive and prospective investors should read this Prospectus in full and seek professional advice if they require assistance. Some of these considerations can be mitigated by the use of safeguards and appropriate systems and controls, but many are outside the control of the company and cannot be mitigated. There are a significant number of factors that investors should consider before investing in the Securities and the factors affecting exploring for, appraising, developing and operating CSM projects and also establishing a base load power station should include the following, but are not limited to just these factors **Securities offered by this Prospectus should be considered to be speculative.**

7.1 Lack of operating history

The Company was established on 12 December 2003 and has predominantly been active on organisational activities, entering into various agreements, seeking regulatory approvals, designing various strategies and work programs, undertaking exploration data assessment, establishing the framework to bid for capacity on SWIS and also designing and costing a 100MW gas turbine power station. The company has not been engaged in any revenue producing activities. Consequently, the Company has a limited history and there can be no assurance that the Company will be successful in implementing any / all of its plans, nor achieving its objectives.

7.2 General economic climate

Factors, such as inflation, currency fluctuation, interest rates, changes to legislation, political decisions, industrial disruption and fuel prices may impact on the Company either now or in the future. The Company's future income and asset values could be affected by these factors and in particular, by the market price for any product that the Company may produce and sell and the comparative prices of various substitute and / or competing products sold by third party vendors.

7.3 Exploration

Potential investors should understand that hydrocarbon appraisal, development and production are high risk undertakings. In the particular case of CSM there are a number of key sub-risks of the geology being affected by minor geological movements which cannot be determined at the outset and / or the risk that even if identified there being insufficient lateral extent associated with the target coals / oil shales.

There can be no guarantee that the company's appraisal and production activities within tenements held, will result in the discovery of economic quantities to ensure the resource will be commercially viable. Even if it is an apparently identifiable viable resource, no guarantee is given that it can be economically exploited.

7.4 Operation and production

Appraisal drilling and production are risky undertakings, with most if not all associated risks being outside the control of the Company. Hazards incidental to the appraisal and development of hydrocarbons such as unexpected formations, formation pressures, climatic conditions or other factors are inherent in drilling and may be encountered by the Company. If appraisal on the Company's current or future tenements is unsuccessful, no production will be possible. Construction, commissioning and initial operations of the proposed power station may be hampered by bad weather, transport damage, delivery delays, technical setback and delays in key dates that effect the arrangements, registration and level of capacity payments from the IMO.

7.5 Environmental

The Company is unable to predict the incidence or effect of future environmental legislation and regulations or how these, if they occur, may affect the Company. There can be no assurances that any such laws in the future will not affect the activities, undertakings or prospects of the Company in a material respect.

The Company is and will be subject to various environmental regulations in respect of most if not all aspects of its operations. Whilst to the best of the knowledge of the Directors the Company is currently not in breach of any of these obligations because there are certain risks inherent in the operations of the Company such as accidental spills, leakages and events beyond the reasonable control of the Company or its employees that could expose the Company to significant liability.

The Company will also be required to seek the approval and consent of various regulatory authorities before undertaking its various activities that are likely to impact upon the environment and whilst the Company will seek to maximise its chances of gaining these approvals and consents, there can be no guarantee that they will be forthcoming and to the extent that some or all of the approvals and consents are not forthcoming the Company will be unable to undertake its stated activities. Due to the processes required, there can be no guarantee that any of these approvals and consents can or will be gained within the allotted time frame for the project to meet commercial



expectations. Future environmental regulations and or standards which currently are not applicable in regard to greenhouse gas emissions, may have an effect on the operation of the power station.

7.6 Water quality and disposal

After a well is drilled and completed, the coal seams are dewatered allowing the pressure in the well bore to reduce. If the produced water is saline, the costs of handling it will be a significant factor influencing economic viability of the Company's operations and therefore a major cost risk. As the Company is in appraisal phase, it cannot provide any assurance as to the quality or quantity of water that is likely to be produced from the wells drilled on its projects and subsequent disposal arrangements.

7.7 Marketing

There can be no assurance that an energy off-taker(s) (bilateral contracts) will be found by the Company to buy its total output. The range of off-takers will be limited to the Company's end product being relatively location specific and also limited transfer stations to adjacent transmission should excess capacity be available. Assuming appropriate gas supply and electricity sale contracts or sale exit use can be negotiated, there will be various factors beyond the control of the Company that will impact upon the price of gas or electricity sold including but not limited to regional supply and demand, pipeline lateral connection and transportation costs, natural gas feed and supply, gas supply pricing, economic conditions, collection, transportation, metering and delivery infrastructure. Therefore even if the Company is successful in marketing its end product, there can be no assurances that the Company will make a profit.

7.8 Energy market

The price of electricity and gas are influenced by physical and investment demand and supply factors together with other factors generally out of the control of the Company. The price that is established by the SWIS auction mechanism of the IMO may also affect price per unit of energy within the SWIS grid. Prices for energy outside of the SWIS grid will depend on contracts for energy that are not yet confirmed and may be dependent on the IMO establishing its pricing structure. Proximity to primary and secondary infrastructure is a key risk. The Company may not be able to secure adequate bi-lateral energy contracts from customers over the period of operation, both in volume and timing within the market. These factors will affect the Company's revenues and may also affect the level and timing of capacity payments from the IMO.

7.9 Regulation

The impact of actions by State and Federal governments may affect the Company's activities including such matters as access to land and infrastructure, compliance issues, regulations, taxation and royalties. Energy markets are highly regulated. With access arrangements to existing production, metering, transportation and delivery channels may become complicated and in many cases difficult to negotiate on favourable terms, due to oligopoly market conditions. The Western Australian legislation in regard to the IMO, Market Rules and changes to both quantum and timing of capacity payments may be changed over the period of operation of the power station. These changes may be triggered by a change in the nature of the energy market or a change of government policy within the energy legislation. The outcomes of most regulatory related negotiations are generally beyond the control of the Company.

7.10 Competition and substitutes

The Company may have to compete commercially with other commercial enterprises engaged in energy production and power generation. Long term contracts held by such enterprises may obstruct or exclude the Company, hindering its development. No guarantees of the Company's competitiveness in such situations can be given. Neither can the Company guarantee that access to all, or certain necessary technical advice or equipment, will be available to it.

7.11 Reliance on third parties and dealing with key counterparts

The Company will ultimately be reliant in relationships with gas suppliers, transmission operators, energy (electricity) and resource industry participants. The Company also considers that a good working relationship with government, gas suppliers, energy generators and suppliers is important throughout the life of the Company. Any inability to develop or any adverse disruptions to these relationships may impact upon the Company's operational and financial performance

7.12 Ability to attract and retain personnel.

The Company is and will continue to be dependent upon the services of the Directors and a stable core of key technical and management providers and suppliers who have accumulated a significant level of experience relevant to the activities and planned activities of the Company. The Company will continue to be reliant upon the continued performance efforts and expertise of its key technical providers and management personnel. There are no guarantees that the Company will be able to retain these persons. The Directors believe that with adequate implementation

of correct remuneration strategies will assist in attracting and maintaining key staff.

7.13 Ability to manage growth.

To achieve the objectives set out in this Prospectus, the Company will be required to implement operational and financial systems, procedures and controls and develop, expand, retain, manage and where appropriate, train its staff. While the activities of Directors, corporate governance procedures, risk analysis procedures and activities of the Board are given in good faith, no undertakings or assurances can be given of the Company's ability to manage future growth which may depend on economic or natural events outside the control of management. While a detailed set of corporate governance policies are in place, natural events can occur beyond the control of the Company.

7.14 Land access and Native Title

Some of the Company's interests in the tenements are located within areas that may be the subject of claims or applications for native title. The *Native Title Act 1993* (Cwth) and related State native title legislation and Aboriginal lands rights and Aboriginal heritage legislation may affect access to exploration areas or obtaining production licences. Any inability to reach agreement with various parties who hold such rights may impact upon the Company's ability to operate. Native title issues in regard to pipelines that service the fuel supply to the power station may influence cost and / or other restraints that may affect the commercial revenues to the Company. The nature of the tenement provisions is discussed in more detail in the Solicitor's Report in Section 6 of this Prospectus.

7.15 Permits, licenses and consents

Most of the Company's current and proposed activities will be subject to various regulatory approvals, permitting and licensing requirements. The granting and / or maintenance of such approvals are often subject to the exercise of the Minister's discretion under the required Acts and as such, cannot be assured and should be considered as an inherent risk of the business.

7.16 Legal

The introduction of new legislation, regulations or amendments to existing legislation by both State and Federal governments, or developments under common law in any jurisdiction which governs the Company's operations or contractual obligations, could impact adversely on the assets, operations and the financial performance of the Company.

7.17 Taxation and Royalties

Profits arising from the discovery and commercialisation of the operations are subject to both State and Federal taxation. Should any changes occur

within either jurisdiction, the profitability of the Company could be dramatically altered.

7.18 Share Market risks

The price of the Securities when quoted on the ASX will be influenced by international as well as domestic factors affecting conditions of equity, financial and commodity markets. These factors may affect the general level of prices for listed securities of stocks that are listed on the ASX.

7.19 Changes to accounting standards

The Company is required to adopt the Australian equivalents to AIFRS – International Financial Reporting Standard- as issued by the Australian Accounting standards board effective 01 July 2005. The Company was incorporated on 12 December 2003 and has adopted and applied AIFRS pro-forma statements as at 30 June 2005. The adoption of applying AIFRS standards has been immaterial to the financial statements as at 30 June 2005.

7.20 General investment

There is a risk that the price of Securities and returns to Shareholders may be affected by:

- local and world economic conditions;
- interest rates and currency exchange rates;
- levels of tax, taxation law and accounting practice;
- government legislation and intervention;
- inflation or inflationary expectations; and
- natural disasters, social upheaval, war, as well as factors beyond the Company's control.

While the Company is not aware of any expenses that need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenses may be adversely affected. To fully develop and commercialise the Project, the Company is likely require additional future funding, however, there can be no assurance that additional funds will be available on acceptable terms, or at all. Any inability to obtain funding, if required, may have a material adverse effect on the Company's business and its financial condition and performance.

In addition there are various considerations associated with the operation of the Company due to factors beyond its control which have already been addressed within the context of the industry in which it operates.

The Company maintains insurances and corporate governance policies where it considers that these measures are required and are commercially viable to institute, having regard to the benefits and costs that would accrue from activating such options as and when they arise.

SECTION 8 - ADDITIONAL INFORMATION



8.1 Allotment of Securities

The allotment of Securities is pursuant to this Prospectus. The Shares offered for subscription by this Prospectus will be issued as follows:

- the Shares will rank *pari passu* in all respects with existing shares and will, without limiting the foregoing, participate in dividends (if any) declared or paid after the date of issue, subject to the ASX Listing Rules and regulations regarding escrow;
- the Directors will proceed to the allotment and issue of Securities as soon as practicable after the Closing Date, subject to the ASX granting approval for the Company to be admitted to its official list.
- in accordance with the Corporations Act, all application monies for Securities will, before the allotment and issue of Securities pursuant to this Prospectus, be held by the Company in trust in a bank account established solely for the purpose of depositing application monies pursuant to this Prospectus;
- interest will not be payable on any monies refunded to applicants; and
- successful applicants will be forwarded details of their holding of Securities as soon as practicable after allotment.

8.2 Rights attaching to Securities

8.2.1 Rights attaching to Shares

The rights attaching to shares are set out in the Constitution and, in certain circumstances, are regulated by the Corporations Act and general law, and after admission of the shares to the official list of the ASX, the Listing Rules. The material provisions of the Constitution pertaining to shares are summarised below.

Voting

Shareholders are entitled to notice of, and to attend and vote at, general meetings. Subject to the rights or restrictions attached to any class of shares and to the Constitution, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands, and on a poll, one vote for each fully paid share.

Dividends

Dividends are payable out of the Company's profits and are declared by the Directors or by the Company in general meeting but only if the Directors have recommended a dividend. Dividends declared will (subject to any special rights or restrictions attaching to a class of shares created under any arrangement a dividend) be payable on Shares in accordance with the Corporations Act. The Directors may set aside out of the profits of the Company such amounts as they determine as reserves to be applied at the discretion of the Directors for any purpose for which the profits of the Company may be properly applied.

Rights on winding up

The liquidator in a winding up may, with the sanction of a special resolution of members, divide among the shareholders the whole or any part of the property of the Company and determine how the division is to be carried out as between the members or different classes of members.

Issue of shares

Without prejudice to any special rights conferred on the holders of any existing shares or class of shares but subject to the Corporations Act and the Listing Rules, the issue of shares in the Company is under the control of the Directors.

Transfer of shares

Except where required or permitted by law, the Listing Rules, the ASTC Settlement Rules or the Constitution, there is no restriction on the transfer of shares.

Variation of rights

The Company may only modify or vary the rights attaching to any class of shares by special resolution of the Company and with the consent in writing of the shareholders with at least 75% of the votes in the class or the sanction of a special resolution passed at a meeting of the holders of the issued shares of that class.

Directors

The minimum number of Directors is three and the maximum is ten unless the Company in a general meeting determines otherwise. A Director is not required to hold any shares.

At the Company's annual general meeting, one third of all Directors shall retire from office by rotation. The Directors may exercise all powers of the Company as are required by the Corporations Act or the Constitution, to be exercised by the Company at a general meeting.

Directors indemnity

To the extent permitted by the Corporations Act, the Company may indemnify each person who is or has been an officer of the Company or, where the Board considers it appropriate to do so, an officer of a related body corporate of the Company, against any liability incurred by that person in his or her capacity as an officer of the Company or the related body corporate (as the case may be).

8.2.2 Rights attaching to Options

The Options have the following terms and conditions.

Expiry

The Options expire on 30 June 2009.

Transferability

Subject to the Constitution, the Corporations Act, escrow provisions of the ASX Listing Rules, the ASTC Settlement Rules and any restriction agreement entered into, are in accordance with Section 1 of this Prospectus and the ASTC Settlement Rules, and if no restriction applies, Options are freely transferable.

Exercise price

The exercise price for each Option will be 30 cents.

Quotation and ranking

The Company will make application to ASX for official quotation of the Options. The Company will make application to ASX for the quotation of the shares allotted and issued upon the exercise of an Option no later than 5 days from the date of exercise of the Option and receipt of cleared funds equal to the sum payable on the exercise of the Option. All shares issued upon exercise of the Options will rank *pari passu* in all respects with the Company's then existing

shares. The Company will apply for official quotation by ASX of all shares issued upon exercise of the Options.

Participation in new issues

There are no participation rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Options.

However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least ten business days after the issue is announced. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

Adjustment for bonus issues of shares

If the Company makes a bonus issue of shares or other securities to existing shareholders (other than an issue in lieu or in satisfaction, of dividends or by way of dividend reinvestment):

- the number of shares which must be issued on the exercise of an Option will be increased by the number of shares which the Optionholder would have received if the Optionholder had exercised the Option before the record date for the bonus issue; and
- no change will be made to the exercise price.

Reorganisations

In the event of any reorganisation of the issued capital of the Company on or prior to the expiry of the Options, the rights of an Optionholder will be changed to the extent necessary to comply with the applicable Listing Rules in force at the time of the reorganisation.

8.2.3 Dividend

Dividend entitlement

The time for the entitlement to a dividend will be at 5.00pm (AWST) on 30 June of each year during the period from the issue to the conversion date of the shares.

Dividend date

Dividends shall be paid if the Company has funds legally available for the payment of dividends within 30 days after the shareholder becomes entitled to the dividend.

Books closing date

Dividends are payable to the registered holders of shares as they appear in the register for the shares at 5.00pm (AWST) on 30 June of each year during the period from the issue to the conversion date of the shares.

Method of payment

Dividends shall be deemed paid if paid by cheque or direct debit on (or as soon as practicable after) the date determined by the directors that a dividend is to be paid to the account or address nominated by the shareholder.

8.3 Material contracts

Apart from the agreements outlined in the Solicitor's Report, the key material contracts are summarised in Section 11 of this Prospectus.

8.4 Interests of Directors and experts

Other than as set out in this Section 9.2 & 9.4 of this Prospectus or elsewhere in this Prospectus, no:

- Director or proposed Director;
- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- broker or Lead Manager to the Offer,

holds, or has held within two years before the date of this Prospectus, any interest in the Offer or in the formation or promotion of, or in any property acquired or proposed to be acquired by, the Company in connection with its formation or promotion or the Offer.

Set out below are the amounts that anyone has paid or agreed to pay and the nature and value of any benefit anyone has given or agreed to give:

- to a Director or proposed Director to induce him to become, or to qualify him as, a Director of the Company; or
- for services provided in connection with the formation or promotion of the Company or the Offer by any Director or proposed Director, any person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, any promoter of the Company, or any stockbroker to the Offer:

8.5 Consents

Each of the parties named below:

- has not authorised or caused the issue of this Prospectus;
- has not made any statement in this Prospectus or any statement on which a statement in this Prospectus is based, other than as specified below;
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for, any part of this Prospectus, other than the references to its name and the statements(s) and / or report(s) (if any) specified below and included in this Prospectus with the consent of that party; and
- has given and has not, before the lodgement of his Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named, and to the inclusion in this Prospectus of the statement(s) and/or report(s) (if any) by that person in the form and context in which they appear in this Prospectus.

Accounting on Tap Pty Ltd has consented to be named as Accountant in this Prospectus and any electronic version of it in the form and context in which it is named.

Wellington Partners has consented to be named in this Prospectus and any electronic version of it in the form and



context in which it is named, and to the inclusion of the statement in paragraph 2 of the Investigating Accountant's Report in Section 5 of the Prospectus.

Minter Ellison has consented to be named in this Prospectus and any electronic version of it as Solicitors in the form and context in which it is named, and to the inclusion of the Solicitor's Report on Tenements in the form and context in which that document is included and to any express references to that document in this Prospectus in the form and context in which those references are included.

Patersons Securities Limited has consented to be named as Lead Manager in this Prospectus and any electronic version in the form and context in which it is named.

Mitchell Drilling Pty Ltd has consented to the inclusion of the reference to the Mitchell Drilling Pty Ltd contract for core drilling services in Section 5 of this Prospectus and any electronic version in the form and context in which that reference is included.

Security Transfer Registrars Pty Ltd has consented to be named in this Prospectus and any electronic version of it as Share Registry in the form and context in which it is named.

GE Aero Energy has consented to be named in this Prospectus and any electronic version of it as turbine and equipment supplier in the form and context in which it is named.

PKF Corporate Advisory Services (WA) Pty Ltd has consented to be named in this Prospectus and any electronic version of it as Investigating Accountant in the form and context in which it is named, and to the inclusion of the Investigating Accountant's Report in the form and context in which that document is included and to any express references to that document in this Prospectus and any electronic version in the form and context in which those references are included.

Sinclair Knight Merz Pty Ltd has consented to the inclusion of the reference to SKM having been appointed by the Company as engineering and power station consultants to assist in further development of specification of the power station with GE Energy in Section 3 of this Prospectus and any electronic version in the form and context in which that reference is included.

ACIL Tasman Pty Ltd has consented to be named in this Prospectus and any electronic version of it as Independent Energy Advisors in the form and context in which it is named, and to the inclusion of the ACIL Tasman Western Australian Market Report in the form and context in which that document is included and to any express references to that document in this Prospectus in the form and context in which those references are included.

PKF Chartered Accountants has consented to be named in this Prospectus and any electronic version of it as Auditors in the form and context in which it is named.

APT Parmelia Pty Ltd has consented to be named in this Prospectus and any electronic version of it as pipeline operators in the form and context in which it is named.

Strategen has consented to the inclusion of the statement that EGL has appointed Strategen to act as the Company's environmental consultants to continue the process with the EPA of Western Australia and the Company has lodged the initial Section 38 (1) Referral Application with the Department in Section 3 of this Prospectus and any electronic version in the form and context in which that statement is included.

Shire of Irwin has consented to the inclusion of the statement The Local Government administrations of The Shire of Irwin and The Shire of Greenough have fully supported the Project and its development in Section (iii) of this Prospectus and any electronic version in the form and context in which that statement is included.

Shire of Greenough has consented to the inclusion of the statement that The Local Government administrations of The Shire of Irwin and The Shire of Greenough have fully supported the Project and its development' in Section (iii) of this Prospectus and any electronic version in the form and context in which that statement is included.

8.6 Litigation

As at the date of this Prospectus, the Company is not engaged in any litigation and so far as the Directors are aware, no litigation involving the Company is threatened.

8.7 Taxation obligations

The taxation obligations and the effects of participating in the Offer can vary depending on the circumstances of each individual applicant, the particular circumstances relating to their holdings of Securities and the taxation laws applicable to applicants as residents of different jurisdictions.

Applicants who are in doubt as to their taxation position should seek professional advice. It is solely the responsibility of individual applicants to inform themselves of their taxation position resulting from participation in the Offer.

8.8 Overseas investors

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore any person into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. No such action has been taken to register or qualify the Securities, or otherwise to permit a public offering of the Securities, in any jurisdiction outside Australia. This Prospectus does not constitute an offer of the Securities in any place in which, or to any person to whom, it would be unlawful to do so.

8.9 Corporate Governance

The Directors are responsible for protecting the rights and interests of all shareholders in the Company through a process of policy setting and performance monitoring. The Board's functions include:

- guiding and approving strategic direction and business planning for the Company;
- monitoring business performance against agreed benchmarks;
- ensuring the effectiveness of internal controls and business risk management;

- appointing and monitoring the performance of the Company's Managing Director; and
- ensuring the Company complies with its responsibilities under the Corporations Act, the Listing Rules, the Constitution and other relevant laws.

The composition of the Board is determined in accordance with a number of principles and at all times will comprise Directors with a broad mix of business expertise and experience. The composition of the Board, its performance and the appointment of new Directors will be reviewed periodically by the existing Board. In respect of the performance of the executive directors; this will be undertaken periodically in accordance with the provisions outlined in the employment contracts which are summarised in Section 9 of this Prospectus.

The Company does not have a formal securities trading policy for Directors and senior executives other than that the Directors and the Company's officers, consultants and staff are all required to comply with the Listing Rules and Corporations Act in regard to continuous disclosure and insider trading rules.

As part of the admission to the official list of the ASX, the Board will as part of its annual report comment on its adherence to each of the ASX Principles of Good Corporate Governance and Best Practice Recommendations (introduced on 31 March 2003). The Company's corporate governance policies will be published on the Company's website.

8.10 Expenses of the Offer

The total expenses of the Offer (exclusive of applicable GST) and associated costs payable by the Company are estimated to be approximately \$ 753,850 made up as follows*.

	\$
Independent Consultant's fees	12,000
Investigating Accountant's fees	5,000
Legal fees & disbursements	50,000
Legal fees – Solicitor's Report	19,000
Lead Manager fee	50,000
ASX fees	57,850
ASIC Fees	4,500
Share Registry fees & postage	6,000
Printing & postage costs	24,000
Marketing costs	15,000
Miscellaneous expenses	10,500
Management fee payable to Lead Manager	100,000
Lodgement fees to brokers	400,000
Total	753,850

*As per the table in Section 1.6, the costs of the Offer will vary dependent on the level of the subscriptions for Securities received. This table is based on the Offer raising of \$10.0 million.

8.11 Lodgement Fees to brokers

The Company will pay a lodgement fee of 4.0% of the subscription price of Shares comprised in applications bearing the stamp of a member organisation of ASX and accepted by the Company.

8.12 Lead Manager Fee

The Lead Manager will be paid a fee of \$50,000 (\$10,000 of which has been paid as at the date of this Prospectus) for performing the role of Lead Manager.

8.13 Management Fee

A management fee of 1.0% of the total amount raised by the Company will be paid to the Lead Manager.

8.14 Enquiries

Enquiries regarding this Prospectus should be directed to the Company on (08) 9321 0099 or at the Company's e-mail admin@eneabbagas.com.au

SECTION 9 - MATERIAL CONTRACTS



9.1 Royalty Agreement with Woden Pty Ltd*

The Company has a royalty agreement with Woden Pty Ltd (“Woden”) (a company 50% owned by M H Babidge) under which the Company has agreed to pay Woden a 3.0% Royalty on gross production from E 70/2676. In consideration of the Company paying the Royalty, Woden has agreed to relinquish any ongoing interest that it had in respect of E70/2676 and will deliver consultancy services in respect of the tenement to the Company.

Upon written notice to the Company, Woden may assign the whole or part of its rights, benefits and obligations in respect of the Royalty to any third person, nominee, assign or company, in full or in part, without any restriction.

The Company may assign the whole or part of the rights, benefits and obligations in respect of the Royalty to any third person, nominee, assign or company, in full or in part, but any such assignment must (unless Woden expressly confirms otherwise in writing) carry with it a full obligation on the assignee to meet all the obligations of record keeping and reporting and remain jointly and severally liable to Woden for the full and timely performance of such obligations of the Company under the agreement. In the agreement, the Company also acknowledges that Woden will have the right to look to either the Company or the assignee for performance under the agreement.

“Royalty” means a sum which is equal to the gross proceeds from the sale (whether immediate or for future delivery) of all net wellhead value of CSM produced by the Company from the Licences where sales are effected on an arm’s length basis on normal commercial terms, or where sales are not so effected by the average price of CSM gas or the relevant hydrocarbon equivalent as quoted on each of the five (5) business days on which the market was open for trading immediately preceding the first day of the month in respect of which calculation of the Royalty is made.

9.2 Employment contracts with key executives

Employment contracts have been signed with the key executives of the Company effective from the dates shown below:

R. N. Gillard	02 August 2005
T.L.C.Goh	12 December 2003
M. H. Babidge	12 December 2003
P. C. Woods	22 February 2005

These employment contracts are the same in all material respects except for start date (anniversary

date) given above and salary as detailed below. The activation date for payment of salary as advised will be from 01 November 2005, but not due to be paid until date of drawdown of funds following this Prospectus. The 2005 AGM of the Company approved a pool of \$200,000 per annum for Director’s fees; this will be allocated to additional non-executive directors as required in future years.

R. N. Gillard

<u>Item</u>	<u>From IPO</u>
Base salary \$	50,000
Super 9.0% \$	4,500
Base Salary Package \$	54,500

T.L.C.Goh

<u>Item</u>	<u>From IPO</u>
Base salary \$	78,000
Super 9.0% \$	7,020
Base Salary Package \$	85,020

M.H.Babidge

<u>Item</u>	<u>From IPO</u>
Base salary \$	98,000
Super 9.0% \$	8,820
Base Salary Package \$	106,820

P. C. Woods

<u>Item</u>	<u>From IPO</u>
Base salary \$	55,000
Super 9.0% \$	4,950
Gross \$	59,950

The material provisions of the employment contracts are summarised below:

9.2 a. Activation date

Prior to the “activation date” (01 November 2005), the Directors will not draw any salary or wages, except in special circumstances, where a payment for all Directors will be at the rate of \$185 / hr plus GST. All other pre-IPO work will be “Pro Bono” as agreed. It will be necessary during the period before IPO to attend meetings and once IPO Listing has occurred, appropriate wages will be paid from the “activation date”. No salaries or wages have been paid to Directors. Re-imbursment of expenses has occurred in the normal course of business.

9.2 b. Redundancy

In the case of the Company terminating employment for redundancy, or where the employment is terminated within 4 months following a “change of control”, as defined in

section 50AA of the Corporations Act executives nominated will be entitled to receive a redundancy termination payment, which will be not less than 12 month's "Base Salary Package" referred to in 9.2 above applying at the time of termination, but not ever being less than the IPO Base Salary Package at any time.

9.3 Office rental commitments

The office premises at Suite 3, 1327 Hay Street Perth WA 6005 are rented until 20 March 2007 at a rate of \$8,880 per half year payable in advance. This rent includes car parking and outgoings except power, gas, water use and consumables.

9.4 Related party disclosures

The Directors' interests in shares (personally or through associated parties) and options as at the date of this Prospectus are:

Director	Shares	
	Direct	Indirect
Reg Gillard	1,000,000	
Thomas Goh	10,000,001	
Mark Babidge	5,000,001	30,000,001*
Total	16,000,002	30,000,001

Director	Options	
	Direct	Indirect
Reg Gillard	500,000	
Thomas Goh	7,500,000	
Mark Babidge	3,750,000	22,500,000*
Total	11,750,000	22,500,000

* Mark Babidge declares the interest of 50% of Woden Pty Ltd

9.5 Land Option Purchase Agreement

A subsidiary of EGL, Eneabba Energy Pty Ltd, signed a Land Purchase Option Deed on 27 October 2005, with F.J. Burton to purchase some 162.2512 hectares (approx 400 acres) and as such has secured the freehold land for the Project, some 6 km north east of the town of Dongara. The Company has paid a non-refundable deposit of \$40,000 for the Option and has agreed a total purchase price for the land of \$850,000 (less the deposit). The land not used for the power station site will be leased back as pastoral lease to the farmer for 25 years. The land price of \$2,125 per acre (\$5,315 / hectare) represents a price well within the land sales averages for land in the area in the past 12 months.

9.6 Lead Manager's Mandate

Patersons Securities Limited ("Patersons") has been appointed Lead Manager to the Offer pursuant to a Mandate signed on 11 November 2005. The Lead Manager's remuneration is detailed in Section 8.11 to 8.13 and also includes the reimbursement of reasonable expenses. Patersons appointment pursuant to this Mandate may be terminated by the Company at any time before any Securities under the IPO have been offered to and accepted by any investor to subscribe for a "firm allocation":

- if Patersons fails to rectify any material breach of this Mandate having been given 10 business days notice in writing by the Company of such breach having occurred; or
- on a no fault basis with 10 business days notice in writing by the Company, provided that in circumstances where the Company considers withdrawing from the proposed IPO or terminating the Mandate as a result of dissatisfaction with the execution of the Mandate by Patersons, the Company must first provide Patersons with reasonable verbal and written notice and an opportunity to rectify, to EGL's satisfaction, the quality of service to be provided under the Mandate.

Upon such termination, a fee of \$75,000 together with the retention of any fees paid up to the date of termination and the reimbursement of accrued reasonable expenses will be payable to Patersons. Patersons may terminate the Mandate at any time, if one or more of the following events occur in its sole and absolute opinion:

- the Australian equity capital market conditions and/or ASX trading conditions are such that they are not, in the bona fide judgement of Patersons, conducive to the successful completion of the Mandate or other events beyond the control of Patersons are so material and adverse as to make it impracticable or inadvisable to proceed with the new equity issue on the terms and in the manner contemplated therein;
- there is a material adverse effect including any adverse change in the assets, liabilities, financial position or prospects of the Company as disclosed publicly and/or to Patersons, other than for the costs incurred by the Company in relation to the proposed IPO;
- there is a false or misleading statement in the material or information supplied to Patersons or included in the presentation materials or a material omission in the material supplied to



Patersons or included in the presentation materials;

- (d) any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or the international financial markets or any material adverse change occurs in national or international political, financial or economic conditions, in each case the effect of which is that, it is impracticable to market the new issue or to enforce any contract to issue and allot the new shares or that the success of the new issue is likely to be adversely affected;
- (e) there is introduced, or there is a public announcement of a proposal to introduce, into the parliament of Australia or any state of Australia, a new law, or the Reserve Bank of Australia, any federal or state authority of Australia adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Mandate), any of which does or is likely to prohibit or regulate financial institutions or credit providers, capital issues or stock markets;
- (f) ASX gives formal or informal notice that the securities of the Company will not be admitted to trading on the official list of ASX;
- (g) default by the Company of any term of the Mandate;
- (h) any of the warranties or representations by the Company in the Mandate are or become materially untrue;
- (i) a Director or proposed Director of the Company is charged with an indictable offence or any Director or proposed Director of the Company is disqualified from managing a corporation under the Corporations Act;
- (j) ASIC issues, or threatens to issue, a proceeding, hearing or investigation in relation to the IPO; and
- (k) any government agency (including ASIC) commences any public action, hearing or investigation against the Company or any of its directors in their capacity as a Director of the Company or announces that it intends to take such action.

Any such notice Patersons will be entitled to retain any fees already paid as a termination together with the reimbursement of accrued expenses.

9.7 IMO Conditional licences and Reserve Capacity payments

9.7.1 IMO Registrations

EGL has obtained the following registrations with the Independent Market Operator (IMO), in accordance with the WA Market Rules;

Market Generator
Market Customer
Rule Participant

EGL responded to the WA Government's call for expressions of interest (EoI) in the provision of reserve capacity (October 2004) offering capacity from the Centauri 1 power station on the basis described earlier in this Prospectus (that is, installation of a nominal 168MW of generating plant to provide certified capacity of 100MW, with a potential peaking capacity of 110MW). The IMO has assigned EGL 100MW of Conditional Certified Reserve Capacity applying to the Reserve Capacity Cycle that commences January 2006 (for plant that will provide capacity during 2008–09). The initial Reserve Capacity Obligation under this Conditional Certification commences on 01 July 2008. In order to convert this Conditional Certification into Certified Reserve Capacity, it will be necessary for EGL to re- lodge an application for Certified Reserve Capacity with the IMO between 01 May and 20 July 2006, confirming that the information within the application remains correct as at the date and time specified for the 2008-09 Reserve Capacity Cycle. Subject to this approval by the IMO, EGL must then pay the IMO a security deposit of \$3.75 million no later than 10 August 2006 and EGL will, once that payment has been paid be eligible to receive its first Reserve Capacity payment from the IMO according to the market rules and regulations.

9.7.2 Implications of EGL's Conditional Certified Reserve Capacity assignment

The Conditional Certified Reserve Capacity assigned to EGL by the IMO provides a pathway by which EGL can obtain capacity credits for the Centauri 1 power station. The following summarises EGL's entitlements and obligations arising from the conditional certification is based on formal correspondence and discussion with the IMO executive:

1. Provided the Company reapplies for Certified Reserve Capacity as outlined above, and provided also there is no material change from the original application for conditional

certification, the IMO will grant Certified Reserve Capacity status.

2. The IMO has indicated to the Company that the plant would be able to have this Certified Reserve Capacity assigned into Capacity Credits provided that bilateral contracts with Market Customer are in place or anticipated to be in place when the plant is commissioned. Once assigned, Capacity Credits would entitle the Centauri 1 Project to capacity payments for at least one year, either through bilateral contracts with Market Customers or from the IMO if bilateral contracts were unable to be satisfactorily negotiated with Market Customers, as per the minimum period under the market rules. This IMO registration and the Capacity Payments is for a term of 10 years plus (under the initial IMO reserve capacity special price arrangements for inaugural applicants) a further 5 years, subject to terms and conditions being met.
3. The price for Capacity Credits not covered by bilateral contracts, which would be paid by the IMO under current arrangements, is \$127,500 / MW / year for each megawatt of Capacity Credits, being 85% of the current maximum reserve capacity auction price of \$150,000 / MW / year which applies in the absence of an auction. The capacity payment price could change in the future, should legislation be changed.
 - EGL would therefore, subject to satisfaction of all obligations as a provider of Capacity Credits, be entitled to a capacity payment of (indicatively) \$12.75 million for 100MW of Capacity Credits from Centauri 1 power station for the 2008–09 year. However the IMO's price for capacity could change in future; this would require a change in the Market Rules and legislation.
 - The price for capacity paid by the IMO and passed through to Market Customers may vary from time to time while the prices for capacity under bilateral contracts with Market Customers would be on a negotiated basis. When a reserve capacity auction is held, the price for capacity paid by the IMO for Capacity Credits not covered by bilateral contracts will be determined through the auction process. However under the market rules, those who have procured Capacity Credits via the bilateral trade process are free to trade them with others. However it is clear that the obligation to provide the capacity associated with Capacity Credit will always remain with the facility associated with the Capacity Credit and is not transferable.
4. The primary obligation taken on by EGL once Certified Reserve Capacity is granted and converted to Capacity Credits is to make the capacity available to the market, by offering all of that capacity into the STEM, and to make any unscheduled capacity available in real time if required, and subject to adequate notification being given.
 - A letter of offer for a network access agreement from Western Power, together with evidence of environmental approval, will be pre-conditions to the grant of Certified Reserve Capacity.
 - As a condition of certification, EGL will be required to lodge a security deposit of \$3,750,000 (as per letter of registration no later than 10 August 2006). This security is refundable if the facility fails to secure Capacity Credits or once it first satisfies its obligations as a provider of reserve capacity.
 - Failure to meet the obligations of its Capacity Credits would require EGL to pay a refund to the IMO. The amount of the refund may vary depending on the value to the system of the capacity not provided (so that, for example, a plant outage at peak demand time would incur a higher refund cost than a similar outage during an off-peak period). This aspect of the market rules penalises unreliable plant.

9.8 Deposit for Core Drilling

A deposit of \$37,500 has been paid to Mitchell Drilling Contractors Pty Ltd to secure the drilling contract, with rig and support team for core drilling to begin in May 2006. This has been necessary to secure this rig and team in a market where drill rig availability is scarce, with "casual drill rig contracts" risking up to a 12 month delay.

SECTION 10 - DIRECTORS' STATEMENT



The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in that respect to any other statements made in the Prospectus by persons other than the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC, or to the Directors knowledge, before any issue of the Securities pursuant to this Prospectus.

This Prospectus is prepared on the basis that certain matters may reasonably be expected to be known to likely investors or their professional advisers.

Each Director has consented to the lodgement of this Prospectus with the ASIC and has not withdrawn that consent.

Dated 16th day of December 2005

Signed for and on behalf of the Board

A handwritten signature in black ink that reads "Mark H Babidge".

Mark H Babidge
Managing Director

SECTION 11 - GLOSSARY

11.1 Definitions

- \$, A\$ or cents.** Australian dollars and cents unless otherwise stated.
- ABARE.** Australian Bureau of Agricultural Research Economics.
- AEDST.** Australian Eastern daylight saving time.
- Application.** A valid application made on the terms and conditions set out in this Prospectus by using an Application Form to apply for Securities.
- Application Form.** Each form or accompanying this Prospectus (including the electronic version on the internet) upon which any Application to subscribe for Securities must be made.
- AWST.** Australian Western Standard Time.
- ASIC.** Australian Securities and Investments Commission.
- ASTC.** ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532).
- ASX.** Australian Stock Exchange Limited (ABN 98 008 624 691).
- Auditor.** The nominated auditor of the Company.
- Bilateral Contract.** A contract formed between any two parties for the sale of electricity or generation capacity by one party to the other.
- Board.** The board of Directors of the Company from time to time.
- CH** Methane gas symbol.
- CHESS.** Clearing House Electronic Sub-register System.
- Closing Date.** The last day on which Application Forms will be accepted being 30 January 2006 (unless varied by the Directors).
- Company.** Eneabba Gas Limited (ABN 69 107 385 884).
- Constitution.** The constitution of the Company.
- Corporations Act.** *Corporations Act 2001* (Cwth) (as amended).
- Director.** A director of the Company.
- DoIR.** Department of Industry and Resources – W.A. Government.
- EEPL.** Eneabba Energy Pty Ltd ABN 23 114 452 863, a subsidiary of EGL.
- EGL.** Eneabba Gas Limited ABN 69 107 385 884.
- Eol.** Expression of Interest dated 02 October 2004 W.A. Office of Energy.
- EPA.** Environmental Protection Agency.
- Existing Option holder.** A holder of Existing Options.
- Existing Options.** An option, which is on issue as at the date of this Prospectus, to acquire a share in the capital of the Company.
- Exposure Period.** The period of 7 days after lodgement of the Prospectus with ASIC, which may be extended by ASIC to not more than 14 days, during which no Application for Securities under this Prospectus will be accepted.
- GE Aero Energy.** An operating component of GE Energy, a General Electric Company business.
- IMO.** Independent Market Operator - a body established by WA statute that has responsibility to operate the Wholesale Electricity Market including the Reserve Capacity Mechanism in the SWIS.
- IPO.** Initial Public Offering.
- Lead Manager or Patersons.** Patersons Securities Limited ABN 69 008 896 311 (“Patersons”)
- Listing Rules.** The listing rules of the ASX.
- Market Customer.** An entity that purchases power from the market either for its own consumption or for retail sale.
- Market Generator.** An entity that operates a generating facility to provide energy to the market.
- Market Rules.** The set of rules which govern the operation of the Wholesale Electricity Market.
- Mid West.** The Mid West Region of Western Australia (major population centre, Geraldton)
- Minimum Subscription.** Subscription for 16,000,000 Shares and 8,000,000 Options from not less than 500 applicants.
- Mining Lease.** A lease granted under the *Mining Act 1978* (WA).
- NWIS.** North West Interconnect System.
- Offer.** The invitation made pursuant to this Prospectus for investors to apply for the Securities.
- Opening Date.** The first day on which Application Forms will be accepted being 09 January 2006 (unless varied by the Directors).
- Option.** An option, issued for zero consideration pursuant to the Offer, to acquire a Share on the terms and conditions set out in this Prospectus.
- Option holder.** A holder of Options.
- Project.** The assessment of the feasibility of the design, construction and operation of a 168MW gas turbine power station powered using natural gas, located in Dongara W.A.
- Prospectus.** This prospectus dated 16th December 2005 for the issue of Securities.
- Reserve Capacity.** Capacity associated with an energy facility. Capacity of the generation systems to generate electricity and send it out into a networks forming part of the SWIS.
- Reserve Capacity Mechanism.** The process by which the IMO determines the required capacity to be available within the SWIS and ensures that this capacity is provided.
- Reserve Capacity Security Deposit.** The amount of cash deposit that a generator must lodge with the IMO under the terms and conditions of the Market Rules.



Rule Participant. A registered entity that has been approved for trading within the SWIS and is an energy provider, market generator, market customer and trades in bi-lateral energy contracts within the W.A. legislative trading network.

Securities. Shares and Options offered pursuant to this Prospectus.

Share. A fully paid ordinary share in the capital of the Company issued pursuant to the Offer

Shareholder. A holder of Shares.

SKM. Sinclair Knight Merz Pty Ltd– energy and power consultants.

STEM. Short Term Energy Market.

SWIS. South West Infrastructure System – electricity generation area for South-West Western Australia.

W.A. State of Western Australia.

Western Power. Western Power Corporation.

Wholesale Electricity Market. A market for trading wholesale electricity in W.A. which covers the area bounded by Geraldton, Kalgoorlie and Albany (more commonly called SWIS).

Woden. Woden Pty Ltd ABN 31 008 850 780.

11.2 Technical Terms

Appraisal. exploration / extension / appraisal wells drilled to determine the physical extent, reserves and production rate of a resource area.

Basin. A low area of the earth's crust in which sediments accumulate.

Bcf. Billion cubic feet (10^2 cubic feet).

Btu. British Thermal Unit – a unit of heat energy defined as the amount of Heat required to raise the temperature of one pound of water by one degree Fahrenheit.

CCGT. Combined Cycle Gas Turbine.

cf. A common symbol for cubic foot.

Coal measures. A succession of sedimentary rocks ranging in thickness and consisting of claystones, shales, siltstones, sandstones and stratified beds of coal.

Condensate. A pool of liquid resulting from a change of state of a substance.

Control point. A physical location nominated by EGL at which EGL has conducted investigations of geological data, lithological data and well logs derived from drilling.

CSG. see CSM.

CSM. Coal seam methane, the name given to methane found in coal seams. Also known as

coal seam gas (CSG) and coal bed methane (CBM).

E. Exploration Licence.

GJ. Gigajoule (10^2 joules).

GWh. Gigawatt hour – a metric unit of energy, especially electrical energy.

Hydrocarbon. Organic compound composed entirely of carbon and hydrogen.

J or Joule. A unit of energy.

kmkilometre(s).

km². A square kilometre.

kPa or kilopascal. One kilopascal equals 1,000 Pascals (pa) or 1 kPa = 0.145lbf/in².

ktoe. Kilo tonne of energy.

LNG. Liquid Natural Gas.

LPG. Lighter hydrocarbons, such as propane, butane, pentane and mixtures of these gases that liquefy under pressure or refrigeration.

m. Metre(s).

m³. Cubic metre (s).

Mcf. Thousand cubic feet (10^3 cubic feet).

mD. 10^3 of a Darcy.

Methane or CH₄. The lightest hydrocarbon gas, chemical symbol CH₄.

MJ/m³. Heating value or heating ratio.

mMMcf. Million cubic feet (10^6 cubic feet).

MMcfd. Million cubic feet per day.

mPa. 10^6 Pascals.

MW or megawatt. A unit of power.

MWh. Megawatt hour – a metric unit of energy, especially electrical energy.

PJ. Petajoule (10^{15} joules).

psi. Pound per square inch (also known as lbf/in²) a traditional unit of pressure.

Seismic. The sonic assessment of geological structures.

Transmission. Power lines that transmit energy at 132 kV or 330 kV (high voltage).

t. Tonne.

kt. 10^3 t.

Tcf. Trillion cubic feet (10^{12} cubic feet).

TJ. Terajoule (10^{12} joules).

W or Watt. Power in one second which gives rise to one joule.

Well casing. Steel lining use to exclude unwanted fluids, control well pressures and support sides of a well bore.

SECTION 12 - APPLICATION FORM and INSTRUCTIONS

By completing the Application Form accompanying this Prospectus, investors will be providing personal information to the Company (directly or via the Share Registry). The *Privacy Act 1988* (Cth) governs the use of a person's personal information and sets out principles governing the ways in which organisations should treat personal information. The personal information the Company collects from investors on the Application Form is used to evaluate applications for Securities and, for successful Applications, to provide services and appropriate administration for investors. If the Company is obliged to do so by law, investor's personal information will be passed on to other parties strictly in accordance with legal requirements. Once personal information is no longer needed for our records, the Company will destroy or de-identify this personal information.

The Company collects information about each applicant provided on an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the applicant's security holding in the Company. By submitting an Application Form, each applicant agrees that the Company may use the information provided by an applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for these purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisors, and to the ASX and regulatory authorities.

If an applicant becomes a security holder, the Corporations Act requires the Company to include information about the security holder (including name, address and details of the securities held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a security holder. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements. If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

An applicant has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests may be made in writing to the Company's registered office.

Please deliver or post the completed Application Form together with your cheque to either of the addresses listed below.

In person	Patersons Securities Limited Level 23 Exchange Plaza 2 The Esplanade Perth WA 6000
or	Eneabba Gas Limited 3 / 1327 Hay Street West Perth WA 6005
By post	Patersons Securities Limited GPO Box W 2024 Perth WA 6846
or	Eneabba Gas Limited P. O. Box 772 West Perth WA 6872

Application forms must be received by not later than 5.00 pm AWST on 30 January 2006.

If your Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. Any decision as to whether to treat your Application as valid, and how to construe, amend or complete it, shall be made by the Company in its absolute unfettered discretion and shall be final. You will not, however, be treated as having offered to subscribe for more Securities than indicated by you.

Please let us know your contact telephone number(s) / facsimile number and email address in case we need to contact you in relation to the Application.

Before completing the Application Form you should read the Prospectus.

If you have any questions on how to complete this Application Form please telephone the Company Secretary of the Company on (08) 9321 0099 between 9.00 am and 5.00 pm AWST on week days.

The Application Form need not be signed by the applicant(s).

Electronic Application Form

Persons intending to use an electronic version of the Application Form should note the following:

1. This Application Form relates to the Offer of Securities at an issue price of 25 cents per Share together with one free attaching Option for every two Shares allotted pursuant to a Prospectus dated 16 December 2005.
2. This Application Form is accompanied by an electronic version of the Prospectus which contains information regarding investing in the Securities referred to in the Application Form. Applicants should read the Prospectus in its entirety before applying for Securities.
3. A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus and any supplementary document.
4. The Securities referred to in the Prospectus will only be issued on receipt of the Application Form issued together with the Prospectus.
5. The Offer to subscribe for Securities referred to in the Prospectus is available to Australian residents. The Prospectus does not constitute an offer of Securities in a jurisdiction where, or to any person to whom, it would be unlawful to issue the Prospectus.
6. Whilst the Prospectus is current, the Company will send copies of the Prospectus and any supplementary document and the Application Form, on request and without charge. In this regard, please contact the Company Secretary on (08) 9321 0099.
7. If you apply for Securities on the basis of the Application Form attached to the electronic Prospectus, you are deemed to declare to the Company that you received personally the electronic Prospectus, or a printout of it, attached to the Application Form before applying for Securities.



This supplementary prospectus is dated 20 January 2006 ("Supplementary Prospectus"). A copy of this Supplementary Prospectus was lodged with the Australian Securities and Investment Commission ("ASIC") on that date.

This Supplementary Prospectus should be read together with the Eneabba Gas Limited Prospectus lodged with the ASX and ASIC 16 December 2005. Terms used in this Supplementary Prospectus have the same meaning as in the Prospectus.

Eneabba Gas Limited has appointed a new director since the lodgement of the Prospectus. In addition, Eneabba Gas Limited has effected minor amendments / erratum, to certain paragraphs of the Prospectus as detailed in the Schedule of Changes.

The indicative timetable of the Offer remains unchanged.

Each of the Directors of Eneabba Gas Limited has consented to the lodgement of this supplementary prospectus.

**SCHEDULE OF CHANGES TO PROSPECTUS
ISSUED BY ENEABBA GAS LIMITED DATED 20
JANUARY 2006**

**APPOINTMENT of CHRIS BENNETT as
INDEPENDENT DIRECTOR**

The Chairman Reg Gillard is pleased to announce the appointment of Chris Bennett as an Independent Director effective from 18 January 2006.

The significant commercial expertise of Mr Bennett in corporate finance, corporate administration and overseas finance will greatly assist in adding this additional dimension to the Eneabba Gas Limited Board of Directors, the summary of his background is given below.

Mr Bennett holds a Degree in Commerce (UWA) and is a Chartered Accountant. He was formerly the General Manager Finance of Foodland Associated Limited which until the transfer of its businesses to Woolworths Limited and Metcash Limited in November 2005 was an ASX top 100 Company. Prior to this he held senior finance positions in public companies for 13 years.

This appointment recognised the skills and experience of Mr Bennett as a major benefit for Eneabba Gas Limited and the level of remuneration necessary to attract a person of Mr Bennett's skills and experience. The Board has agreed director's fees of \$40,000 per annum and allotted (subject to shareholder approval) to him as part of his remuneration package, three million (3,000,000)

Share Options on the same terms and conditions as other EGL Options, that have the Share Options exercisable at \$0.30 per Option until 30th June 2009 (these options will be escrowed for a period of two years).

CROSS REFERENCING

Items to assist in cross referencing within the Prospectus lodged 16 December 2005 so as to guide potential investors to relevant sections of that Prospectus that are applicable to those statements;

**Page 4 Chairman's letter "bullet point"
"inputs of Capacity Payments from the IMO
underpinning the Project"**

To be read in conjunction with

Page 5	section (e)
Page 41-43	ACIL Tasman section 4.3 Market Structure
Page 47-48	ACIL Tasman section 5.1.1 Implications of EGL's Conditional Certified Reserve Capacity assignment
Page 57-58	ACIL Tasman Section 7.2 Electricity market risks
Page 81	Section 7- Investment Risk & Considerations section 7.8 Energy market section 7.9 Regulation
Page 89-90	section 9.7.2 Implications of EGL's Conditional Certified Reserve Capacity assignment

**Page 6 Milestones & Achievements 23 June 2005
"The Eol proposal is for 15 year period, conditions
as per Rule 4.21 & 4.22"**

To be read in conjunction with

Page 47-48	ACIL Tasman section 5.1.1 Implications of EGL's Conditional Certified Reserve Capacity assignment
Page 89-90	section 9.7.2 Implications of EGL's Conditional Certified Reserve Capacity assignment

**Page 14 Section 2.1 Paragraph 2
"The ACIL Tasman Report summarises the
opportunities in the W.A. Electricity Market (with
the new legislation not operating until 01 July
2006)"**

To be read in conjunction with

Page 16	section 2.3 Wholesale Electricity Market and the Independent Market Operator
---------	--

All relevant legislation is already in operation. What is yet to become operational are a number of sections in the Market Rules governing the operation of the energy market from 01 July 2006.

Page 17 Section 2.3 Paragraph 3

"The Conditional Certification for the Centauri 1 Power Station gives an assignation of 100MW of capacity that applies to the Reserve Capacity Cycle that commences in January 2006 (i.e. for plant that will provide capacity during 2008-2009) and the initial Reserve Capacity Obligation commences on 01 July 2008".

To be read in conjunction with

Page 47-48 ACIL Tasman section 5.1.1
Implications of EGL's Conditional
Certified Reserve Capacity
assignment

Page 89-90 9.7.2
Implications of EGL's Conditional
Certified Reserve Capacity
assignment

Adjust these paragraphs by deleting the underlined term and replacing it with the specific terms added as shown in brackets.

Page 14 section 2.1 Paragraph 5

Capacity payments apply to the approved MW capacity of the plant and are not related to the outgoing energy or despatched levels from the plant. In the event of an energy auction ("Reserve Capacity Auction") having to be held, then the capacity payment will be determined by the energy auction ("Reserve Capacity Auction"). If no auction is held, the capacity payment level will be set at 85% of the maximum cap level (thus for EGL, at present \$127,500 / MW) with the potential for variation of this amount, dependent on the quantum of bilateral contracts that the "generator" has in place.

Page 18 Paragraph 5

As detailed below under Rule 4.10.1, further lodgements were also made with the IMO to secure certification ("Conditional Certification") of a base load 100MW power station for connection to SWIS no later than July 2008.

Page 92 SECTION 11 - GLOSSARY

(definitions to be added)

Capacity Auction. A process for assigning Capacity Credits.

Capacity Credits. A notional unit of Reserve Capacity provided by a Facility during a Capacity Year. The total number of Capacity Credits is determined in accordance with clause 4.20 of the Market Rules. Each Capacity Credit is equivalent to 1MW of Reserve Capacity. The Capacity Credits to be provided by a Facility are held by the Market Participant registered in respect of that Facility. The number of Capacity Credits provided by a Facility may be reduced in certain circumstances under the Market Rules, including under clause 4.25.4 or adjusted under clause 4.25.6.

Certified Reserve Capacity. For a Facility, and in respect of a Reserved Capacity Cycle, is the quantity of Reserve Capacity that the IMO have assigned to the Facility for the Reserve Capacity Cycle in accordance with clause 4.11 of the Market Rules, as adjusted under these Market Rules including clause 4.14.8. Certified Reserve Capacity assigned to a Facility registered by a Market Participant is held by that Facility.

Conditional Certified Reserve Capacity. As per the meaning in clause 4.9.5 of the Market Rules, the holder has no priority entitlements compared to any other holder of Certified Capacity. Conditional Certified Reserve Capacity can be converted to Certified Reserve Capacity if information contained in the application for Conditional Certified Reserve Capacity is consistent with the previous information and correct at the time of re-lodgement.

Reserve Capacity Auction. The process for determining the Reserve Capacity Price for a Reserve Capacity Cycle and the quantity of Reserve Capacity scheduled by the IMO for each Market Participant under clause 4.19.

Reserve Capacity Price. In respect of a Reserve Capacity Cycle, the price of Reserve Capacity may vary between zero (\$0/MW) and the Maximum Reserve Capacity Price.

ERRATA

Page 87 Item 9.2

Replace M.H. Babodige with M.H. Babidge

Page 87 Item 9.2 table P. C. Woods

Replace the table with

P. C. Woods	
Item	From IPO
Base salary \$	55,000
Super 9.0% \$	4,950
Gross \$	59,950

Page 88 Item 9.4

Delete Options table and replace with

Director	Options	
	Direct	Indirect
Reg Gillard	4,500,000	
Thomas Goh	7,500,000	
Mark Babidge	3,750,000	22,500,000*
Total	15,750,000	22,500,000

* Mark Babidge declares the interest of 50% of Woden Pty Ltd

MANAGING DIRECTOR 20.01.2006



SUPPLEMENTARY PROSPECTUS
ENEABBA GAS LIMITED
ACN 107 385 884

This Supplementary Prospectus is dated 27 February 2006 (**Supplementary Prospectus**). A copy of this Supplementary Prospectus was lodged with the Australian Securities and Investment Commission ("ASIC") on that date.

This Supplementary Prospectus should be read together with the Eneabba Gas Limited Prospectus lodged with the ASIC and the ASX on 16 December 2005 (**Prospectus**) and a Supplementary Prospectus issued 20 January 2006 (**Earlier Supplementary Prospectus**). Terms used in this Supplementary Prospectus have the same meaning as in the Prospectus.

This Supplementary Prospectus adds to the information contained in the Prospectus and the earlier Supplementary Prospectus.

The indicative timetable of the Offer now is advised as

Offer closes (Closing Date)	2 April 2006
Holding statements issued	05 April 2006
Trading of shares on ASX expected to commence	12 April 2006

This timetable is indicative only. Subject to the requirements of the ASX Listing Rules and the Corporations Act, the Company, in conjunction with the Lead Manager reserves the right to vary the dates and times of the Offer without prior notice, which may have a consequential effect on other dates.

Investors are reminded that the Securities offered by this Prospectus should be considered to be speculative. In particular, should the feasibility study referred to in the Prospectus not confirm the viability of the Project investors may lose some or all of their funds. Further the attention of the investors is specifically directed to Section 7 of the Prospectus "Investment and Risk Considerations". In addition to the risks described in Section 7 investors are advised of a further risk, as described below.

Each Director has consented to the lodgement of this Supplementary Prospectus with the ASIC and has not withdrawn that consent and has authorised Mark H Babidge Managing Director to sign for and on behalf of the Board.

Mark H Babidge Managing Director

27 February 2006

SCHEDULE OF CHANGES TO PROSPECTUS ISSUED BY ENEABBA GAS LIMITED
DATED 16 DECEMBER 2005 & 20 JANUARY 2006

CLARIFICATION AS TO STATEMENTS IN THE PROSPECTUS

The Company directs investors and/or their advisors that, in assessing the project, and after reading the Prospectus (16 December 2005), "(iii) *Investment Highlights*" on page 5; "(iv) *Milestones & Achievements*" on page 6 and "(v) *Future Activities and Milestones*" on page 7, that they should read Section 7 Investment & Risk Considerations on pages 80-82. The Company having detailed the main features of the investment, advises that Section 7 has the same prominence as "Investment Highlights" ; 'Milestones & Achievements' and 'Future Activities and Milestones'

Network Connection Risk

There is a risk that EGL will be unable to secure a network connection agreement with Western Power Corporation (WPC), or to secure such an agreement within a timeframe that will allow the Conditional Certified Reserve Capacity granted by the IMO to be converted into Certified Reserve Capacity.

- WPC has advised EGL that no further generation can be accommodated in the North Country Region (where Centauri 1 is to be located) without major network reinforcement, and that, should that reinforcement require the construction of a new 330 KV line from the Perth metropolitan area, the lead time involved could be five years or more.
- If there is substantial load growth in the North Country region, that may be more readily accommodated by locating new generation in the region and boosting the local network capacity rather than constructing the 330 KV line from Perth. However, until the necessary network studies are undertaken and the optimal reinforcement strategy agreed, there would appear to be a significant obstacle to gaining a network access agreement with WPC.
- A letter of offer from the network operator for an access agreement is a precondition for any new generating facility to be certified to provide Reserve Capacity.

Page 5 of the Prospectus section (e)

...(e) Capacity payments credits are available to the Company for 100MW and Capacity Credits of between \$12.75m to \$15.0m per year, subject to rules, performance and regulations as per the Market Rules (applicable) from 01 July 2006 – refer Section 4..."

On further review, the Company now understands that, as the Certification it holds is "Conditional", the pricing arrangements which may have been available to it were only available for the year 2008/2009 not for any other period before or after. The pricing range quoted above (\$12.75m – \$15.0m) was inadvertently based on information provided by the IMO pertaining only to the 2007/2008 year and accordingly was not available to the Company. For these same reasons investors are advised to disregard the pricing ranges that appear on pages 14 and 48 of the Prospectus.

Subsequent to the date of the Prospectus 16 December 2005, the IMO has provided further clarity as to the pricing methodologies that will be adopted in the Western Australian electricity market.

Following industry consultation and consideration of the responses that were received, the IMO proposed a final revised Maximum Reserve Capacity Price of \$122,436/MW to the ERA for the 2008/09 Reserve Capacity year. It was further proposed that this value be rounded up to \$122,500/MW. Following completion of a review by the ERA, a Maximum Reserve Capacity Price of \$122,500/MW was approved. This proposed value will be effective from 1 October 2008. (It must be noted that while this is the proposed maximum reserve capacity price, there is still a risk that this price may be further subject to change (up or down) as per requirements under the Market Rules to adjust rules, prices and terms, should market or the economic conditions require such changes to be made – Rule 2.2 – this rule change mechanism has been further highlighted to proponents in an IMO training session held on 9 February 2006))

The Company expects that as it intends to provide new capacity, the Market Rules provide for Capacity Credits not covered by bilateral contracts, which would be paid under current arrangements, of \$104,125/MW, (being 85% of the Current Maximum Reserve Capacity Price of \$122,500/MW). These arrangements are expected to apply every year for 10 years. These payments may not be available until the plant which is the subject of the feasibility referred to in this Prospectus, is capable of dispatching energy under the Market Rules. However, until the Company's application is reviewed by the IMO in May 2006 these arrangements cannot be confirmed. These circumstances will be taken into account as the Company completes its feasibility study.

The ERA has determined that the requirements of clause 2.26.1 of the Market Rules have been satisfied as the revised value of the Maximum Reserve Capacity Price proposed by the IMO reasonably reflects the application of the method and guiding principles described in clause 4.16 and the IMO has carried out an adequate public consultation process. The ERA therefore approved the proposed Maximum Reserve Capacity Price of \$122,500/MW for the 2008/09 reserve capacity year on 23 January 2006 and the IMO announced that change (IMO website 31 January 2006) as outlined below.

Subsequent to the Earlier Supplementary Prospectus of the Company being lodged, the IMO has re-stated in its public documents the following, which confirms some of the indications already made in the Company Prospectus. The relevant section applies to peaking plant, the type of power station proposed by the Company.

Peaking Plant

It is expected that most generators, particularly base-load facilities, will trade their Capacity Credits bilaterally, and will link them to bilateral trades of energy. However, peaking facilities, that operate infrequently, are more likely to rely on the auction process for funding their capacity.

For new capacity, the operator of the capacity will be able to receive the auction price for 10 years without being required to participate in the auction again. This provides revenue certainty for new entrant generators. If the capacity is cleared, then the investor has the option to take up the Special Price Arrangement which ensures it will get that annualized price inflation adjusted every year for 10 years. (p13 IMO report 01/02/06)

These circumstances will be taken into account as the Company's feasibility study is prepared.

ASIC has raised concerns and have commented about the revenue model scenarios graphed in the ACIL Tasman Report because of the 30 year time period covered by the graphs. ASIC has raised concerns that the assumptions underlying the models from which the graphs are derived are hypothetical and may not have a reasonable basis. For these

reasons investors are directed to disregard revenue graphs in the ACIL Tasman Report, ES Figures 1, 2, 3, 4 & 5 and Figures 6,7,8,9,10 and 11 should be disregarded.

Also to the extent that changes concerning pricing, as previously described in this Supplementary Prospectus and announced by the IMO subsequent to the date of the ACIL Tasman Report conflict with that report, that report should be disregarded. In particular investors should disregard information on page 48 of the Prospectus relating to Special Price Arrangements. These circumstances will be considered during the preparation of the feasibility study referred to in the Prospectus.

CLARIFICATION OF FINANCE ARRANGEMENTS

Page 7 of the Prospectus indicates that negotiations on the Project's financing arrangements will begin in February 2006 and the "Finalisation of Finance" is due to occur on 7 July 2006.

For the purposes of clarity the Company advises that negotiations concerning finance will only begin after the issue, now being undertaken by the Company, has closed.

Further, for the purposes of clarity, the Company advises that, although preliminary discussions have been held with some potential sources of the finance (required to acquire the generating units comprising the proposed plant, to commission the plant and to provide the working capital needed in connection to Centauri 1 power station) no agreement has been reached in principle or otherwise, for the provision of that finance, which has already been stated in the prospectus as follows;

P 18 Section 3 : para 2

A separate funding, capital raising or other financial arrangement will be put in place at the time such a commercial proposal may be considered by the Company. This information is solely to advise the potential investors of the future intentions of the Company. This advised intention, also explains why certain timely and preliminary approvals and conditional certifications have been sought by the Company, should this future investment be activated by the Company.

It is highly likely that any provider of finance would not progress serious discussion without the completed power station feasibility model (as referred to in table 1.6 ; p 11) already in place. This is one of the stated aims of the "Project" as described.

FEASIBILITY STUDIES OF THE PROJECT

The Prospectus refers to a completion of a feasibility study; it does not refer to the commencement of the feasibility study.

Directors have given details in the Prospectus which is relevant to the feasibility projects and has specifically not included any description at this stage of its commercial development and full details of all its future activities. It would not be the appropriate actions of the directors to make such assumptions without having not been appraised of the detailed outcomes required by a feasibility study, which has not yet been completed. **It is a matter for the Board to determine at some future time depending on the circumstances whether or not to commit to the investment in the Company's proposed Centauri 1 power station.**

In doing so the Board is likely to be guided by a number of factors including

- The weighted average cost of the Company's capital;
- The availability of equity and debt;
- The discounted value of the project future cash flows;

- The risks associated with achieving project cash flow forecasts;
- The present and future demand for electricity to be generated by the plant;
- The final tendered costs of the generating units to be used in connection with the project;
- The cost of labour and fuel; and
- Such other matters that are relevant to an investment decision.

Table 1.6 sets out how the proceeds of the Offer will be applied and attributes a portion of the proceeds to 'IMO capacity deposit' and 'power station land purchases and associated costs'. In the paragraph directly below the table 1.6 ('*Application of funds*') it states;

The proceeds of the Offer will be used to fund the appraisal of the Project and undertake other preparatory work required to complete the feasibility of the Project of a 168MW gas turbine power station. The Company will use the funds raised by the Offer as detailed in the above table to progress the Project feasibility and for administration costs and working capital, rent, ASX fees & charges, share registry fees, salaries, wages, consultant's fees and other costs and overheads associated in running a public company. The above table demonstrates the expected application of funds over the two year period.

The 'IMO capacity deposit' is regarded as a definitive part of the completion of feasibility. The terms and conditions of the IMO Certified Reserve Capacity requirements require EGL to lodge a security deposit of \$3,750,000 by 5.00pm on 10 August 2006, failing which the IMO will not process EGL's request for Certification for the facility.

Similarly, 'land purchase costs' are also regarded as part of the completion of feasibility. A number of aspects of the feasibility process require the land (and land owner) in question to be clearly identified and known. For example, no feasibility could be made in relation to the network connection, unless advice to the network provider can identify a physical location for such connection to occur. Similarly, applications for particular licences and permits for the Project must be made and held by the land owner in question.

On page 18 (para 5 & 6) of the Prospectus, an extract of which is given below;

As detailed below under Rule 4.10.1, (see page 19 for full details of the plant and its configuration) further lodgements were also made with the IMO to secure certification of a base load 100MW power station for connection to SWIS no later than July 2008.

While initial budget pricing and design parameters have been undertaken by the Company, the final detailed plant configuration has yet to be confirmed with GE Aero Energy. As a guide to prospective investors, the Company has been provided budget estimates for a "turnkey plant" that fall within the industry benchmark of approximate plant cost of \$1.0 million / MW of base load approved.

For purposes of clarity the Company advises that this should not be taken to imply that a plant with a peak capacity of 168MW would cost \$168m. The final cost of the proposed power plant can only be confirmed once the feasibility has been completed.

ASIC DECLARATION

This Supplementary Prospectus has been lodged with ASIC following a declaration by ASIC made on 27 February 2006 pursuant to section 741(1)(b) of the *Corporations Act 2001* (Cth) (**Corporations Act**) (**Declaration**). Under the Declaration, sections 723(3)(b), 724(1)(a) and 724(1)(b)(ii) of the *Corporations Act* were omitted, modified or varied in respect of this Supplementary Prospectus. The effect of the Declaration is that the time periods for EGL to

obtains its minimum subscription under the Offer and approval for quotation of the Shares on the ASX has been extended to recommence from the date of this Supplementary Prospectus (27 February 2006) and not the date of the Prospectus (16 December 2005).

Therefore:

- (a) EGL has three months from 27 February 2006 to obtain approval for quotation by ASX;
- (b) EGL has four months from 27 February 2006 to raise the minimum subscription amount of \$8,000,000, which must be raised prior to approval for quotation by ASX being given; and
- (c) EGL must give Applicants who lodged Applications under the Prospectus and Earlier Supplementary Prospectus:
 - (i) a copy of this Supplementary Prospectus; and
 - (ii) the right to withdraw their Applications and have their Application Monies repaid until 2 April 2006.

APPLICATIONS

Investors who have not previously submitted an Application for Securities

All new Applications must be made on the Application Form attached to this Supplementary Prospectus. The Application Form contains detailed instructions on how the form is to be completed. Investors must not make Applications using the Application Form attached to the Prospectus.

Investors who have previously submitted an Application for Securities and DO NOT WANT TO WITHDRAW THEIR APPLICATION

Applicants who have lodged an Application form pursuant to the Prospectus DO NOT need to complete another application form under the Supplementary Prospectus. However, Applicants in this position who wish to apply for further Securities must use the Application Form attached to this Supplementary Prospectus.

Investors who have previously submitted an Application for Securities and DO WANT TO WITHDRAW THEIR APPLICATION

In accordance with the Corporations Act, EGL will refund the money of Applicants that was paid to EGL prior to the date of this Supplementary Prospectus, who no longer wish to proceed with their Application.

Applicants who wish to withdraw their Applications and obtain a refund must ensure that written notice is received by EGL no later than 2 April 2006. Written requests for withdrawing Applications and obtaining a refund may be sent to:

Eneabba Gas Limited
PO Box 772
WEST PERTH WA 6872

Refund requests must contain the details of the refund cheque (including the address to which it should be sent) and the details of the refund cheque must correspond to the details contained in the Application Form lodged by the Applicant. Refund requests must be received by EGL by 5pm WST on 2 April 2006.

APPLICATIONS ALREADY RECEIVED

As at 10 February 2006, EGL has received 578 applications / commitments totalling \$8,047,750. (561 totalling \$7,042,750 with the Company or its agents and 17 commitments from sophisticated investors totalling \$1,005,000). EGL has not allotted any Securities.

GUIDE TO THE APPLICATION FORM

Please complete all relevant sections of the Application Form using BLOCK LETTERS. These instructions are cross-referenced to each section of the Application Form. Further particulars and the correct form of registrable names to use on the Application Form are contained in the table below.

- A Insert the number of Shares you wish to apply for. The application must be for a minimum of 8,000 Shares and thereafter in multiples of 2,000 Shares. One Free Option will be automatically granted for every two shares allotted.
- B Insert the relevant amount of Application Monies below. To calculate your Application Monies, multiply the number of Shares applied for by **\$0.25**
- C Write the full name you wish to appear on your statement of shareholders. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable name. Applications using the wrong form of name may be rejected. Clearing House Electronic Sub Register System (CHES) participants should complete their name and address in the same format as they are presently registered in the CHES system.
- D Please enter your postal address for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applications, only one address can be entered.
- E Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- F The Company will apply to ASX to participate in CHES. If you are already a participant in CHES, you may complete this section or forward the Application Form to your sponsoring broker for completion prior to lodgement. Otherwise leave this section blank.
- G Enter your Tax File Number (TFN) or exemption category. Where applicable, please enter the TFN for each joint Applicant. Collection of TFNs is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application.
- H Please complete cheque details as requested:
- Make your cheque payable to “**Eneabba Gas Limited – Share Issue Account**” in Australian currency and cross it “Not Negotiable”. Your cheque must be drawn on an Australian bank.
 - The amount should agree with the amount shown in B.
 - Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.
 - Pin (do not staple) your cheque(s) to the Application Form where indicated.

Lodgement of Applications

Return your completed Application Form with cheque(s) attached to:

Patersons Securities Limited	-or-	Eneabba Gas Limited
Level 23 Exchange Plaza		3 / 1327 Hay Street
2 The Esplanade Perth WA 6000		West Perth WA 6005

By Post	-or-	Eneabba Gas Limited
Patersons Securities Limited		P.O. Box 772 West Perth WA 6872
GPO BOX W2024 Perth WA 6846		

Application Forms must be received no later than **5.00pm AWST on 28 March 2006**, subject to the right of the Company to vary the Closing Date. Investors are encouraged to submit their Application Form as soon as possible.

In the event that I/we receive this Prospectus electronically via the Internet, I/we declare that I/we have received this Prospectus personally, or a printout of it, accompanied by or attached to this Application Form prior to applying for Shares. I/we acknowledge that the Corporations Act prohibits any person from passing on to another person this Application Form unless it is attached to or accompanied by the complete and unaltered version of this Prospectus. It is advisable to read the Prospectus before completing the Application Form. The Company will issue to any person free of charge, a printed copy of the Prospectus on request. While the Prospectus is current, the Company will send paper copies of the Prospectus, any supplementary prospectus and the Application Form, on request without charge.

Correct Form of Registrable Title

Note that only legal entities are allowed to hold Shares. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the example of correct forms of registrable title below:

Type of Investor/Title	Correct Form of Registrable Title	Incorrect Form
Trusts (use Trustee(s) name)	Mr John David Smith <Smith Family Trust A/C>	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith <Estate John Smith A/C>	John Smith (Deceased)
Partnerships (use Partners' names)	Mr John Smith and Mr Michael Smith <John Smith and Son A/C>	John Smith and Son
Clubs/Incorporated Bodies	<Mr John David Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds	John Smith Pty Ltd <Super Fund>	John Smith Superannuation Fund

Put the name(s) of any joint applicant(s) and/or account description using < > as indicated above in designated space(s) at Section C on the Application Form.

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CORPORATE DIRECTORY

ENEABBA GAS LIMITED

ABN 69 107 385 884

Registered Office Suite 3, 1327 Hay Street
West Perth, WA 6005

Address P. O. Box 772
West Perth WA 6872
TEL (08) 9321 0099
FAX (08) 9321 0299
WEBSITE www.eneabbagas.com.au

DIRECTORS

Chairman Reginald N **GILLARD**

Director Thomas L **GOH**

Managing Director Mark H **BABIDGE**

Company Secretary Peter C **WOODS**

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Lead Manager **Patersons Securities Limited**
Level 23 Exchange Plaza,
2 The Esplanade Perth WA 6000

Solicitors **Minter Ellison Lawyers**
Level 49 152-155 St George's Tce Perth WA 6000

Auditors **PKF Chartered Accountants**
28 The Esplanade Perth WA 6000

Accountants **Accounting on Tap Pty Ltd**
1 / 46 Ord Street West Perth WA 6005

Share Registry **Security Transfer Registrars Pty Ltd**
770 Canning Highway Applecross WA 6153

Solicitors Report on Tenements **Minter Ellison Lawyers**
Level 49, 152-155 St George's Tce Perth WA 6000

Independent Energy Advisors **ACIL Tasman Pty Ltd**
Level 15, 127 Creek Street Brisbane Qld 4000

Investigating Accountant **PKF Corporate Advisory Services (WA) Pty Ltd**
28 The Esplanade Perth WA 6000



Eneabba Gas Limited

ACN 107 385 884

Suite 3 1327 Hay Street, West Perth WA 6005

P O Box 772 West Perth WA 6872