



Chairman's Address:

Karoon Gas was listed on the ASX in early June 2004 and has shown significant growth over its first full year of operations.

Karoon currently holds \$25.8 million in cash and has an issued capital of approx. 62.3 million fully paid shares and 21.3 million 20cent options, which expire June 30 2006.

Karoon have an experienced board and management team which comprises of a unique and diverse contracting team of ex Esso/BHP Geologists, Geophysicists and Engineers.

Current Assets are as follows:

Karooon has exclusive rights to explore and earn a 100% interest in the oil and gas exploration permits WA-314-P and WA-315-P in the Browse Basin offshore Western Australia. This week Karoon signed a contract with PGS to use their vessel "Ramform Victory" for a 3.D. Seismic Survey. The survey is expected to begin at the start of December 2005 and will cover a 840 sq km area. Further surveys are scheduled to cover up to another 400 sq kms, these surveys are planned for the 1st quarter in 2006.

The Browse Basin leases are adjacent and on trend with the giant gas condensate fields, Brecknock, Scott Reef and North Scott Reef, the latter well is located 5km south of WA-314-P. Recoverable reserves in these fields total 21 TCF. At Scott Reef reserves are estimated at 1 TCF with 130 million barrels of condensate.

As we saw this week Woodside drilled the first of its 3 scheduled appraisal wells, Brecknock-2. This well has revealed a 151m gas bearing interval, with maximum flows of 44MMscf/Day through a 1 inch choke, on a 14metre perforation interval and 8% CO₂. These fields form the basis for Woodside's publicized "Browse Development Hub". Interests in these fields are Woodside, Chevron Texaco, BP, Shell and BHP Billiton.

Woodside will be looking to accelerate plans for marketing and selling the gas, they are also looking at building a new LNG terminal on the WA coast near Broome, to process gas from these fields.

With close proximity to the successful Woodside operated permits, Karoon feels it has been fortunate to be in the right place at the right time and the size

of the potential prize is enormous for Karoon Gas.

Gippsland Acreage:

A 100% holding in oil and gas lease PEP 162 and a mineral lease in EL 4537 which are located in the Western Onshore Gippsland Basin of Victoria. As of last week a 2D seismic has begun to further define prospective areas within PEP 162. The survey is proceeding as planned and is scheduled for completion mid November 2005. The Megascoides-1 well is suspended until the 2D seismic survey is completed and further analysis is done.

Karoon is looking forward in the last quarter 2005/2006 at achieving the following objectives:

1. Completing the offshore 3D seismic survey in Western Australia in both leases WA-314-P and WA-315-P.

2. On completion of the 3D seismic survey in WA-314-P and WA-315-P, drilling 1 hole in each permit by mid-2006.
3. Completing the seismic and drill programs in the Western Gippsland basin, confirming the potential of gas assets in the area

Karooon would like to take this opportunity to thank the shareholders for their continued support. The market capitalization has grown from approx \$8 million on listing on the ASX in early June 2004 to a value of approx \$120 million, at present. Karooon looks forward to further expansion over the coming year.