



Chairman's Address:

Karoon Gas was listed on the ASX in June 2004 and has had significant growth over its initial 2 full years of operations.

Karoon shall have by the second week of November 2006 approx \$45 million in cash and an issued capital of approx. 93.4 million fully paid shares.

Karoon has expanded its unique and diverse employment and contracting team of mainly ex Esso/BHP Geologists, Geo Physicists and Engineers.

Karoon's Current Assets are as follows:

Karoon currently has 49% interest in the oil and gas exploration permits WA-314-P and WA-315-P in the Browse Basin offshore Western Australia. In October of this year Karoon signed formal agreements with

ConocoPhillips to farm out up to 60% of the WA-314-P and WA-315-P permits in return for:

- 1) Conoco paying Karoon back costs of USD 9.6 million dollars.
- 2) Funding 80% of the costs of the first two wells estimated cost USD 60 – 80 million.
- 3) ConocoPhillips has an option upon completing its obligations relating to the acquisition of its 51% interest, to acquire a further 9% interest in the permits by paying 80% of the next USD\$125 million of joint venture expenditure.

Karoon considers this farmin deal to be worth approx \$1.50 - \$1.80 per share more than the original farmin deal with BG.

ConocoPhillips has a market cap of approx \$120 billion dollars

Karoo's new Joint Venture Partner, ConocoPhillips was one of the first LNG producers and exporters in the world. ConocoPhillips exported out of Alaska and Japan in the late sixties. ConocoPhillips Joint Venture currently has an LNG exporting terminal in Darwin and it is possible that on exploration success the companies would pipe methane gas to Darwin to process LNG for export. Existing LNG infrastructure such as wharf LNG loading, power water roads and an existing large professional labor force is available in Darwin today.

Other highlights in the Browse Basin this year included the seismic surveys that were completed. The final 2D/3D survey was completed in August 2006. Karoon will be finished processing and interpretation will begin in the next few weeks. This makes a total of approximately 1130sq kms of 3D seismic and approximately 845 kms of 2D over the past year, well exceeding our permit commitments with the federal government, yielding positive results in the

further definition of several prospects thus far and enabled the overwhelming Farmin response from a dozen large multinational oil and gas companies which resulted in ConocoPhillips farming in to the Karoon leases.

The Browse Basin leases are situated in a very prospective location with 2 serious LNG players having positions in the immediate area. Namely the Woodside Joint Venture and the Inpex Joint Venture.

Of note is the position of Karoon's permits, which are adjacent and on trend with the giant gas condensate fields, Brecknock, Scott Reef and North Scott Reef, the latter is located 5km south of WA-314-P.

Recoverable reserves in the Woodside Joint Venture are approx 21 TCF and 300mml of condensate.

The recoverable reserves of the Inpex Joint Venture are approx 9TCF and 400mml of condensate.

With close proximity to the successful Woodside Inpex 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 this week a drilling program is beginning to take shape. The Megascoides-1 well will be re entered for further testing and followed by two highly prospective wells which have been selected on the results of the recent 2D seismic. Results of the drilling shall be progressively available during the drilling campaign and these results are expected in the first quarter of 2007.

Karoon is looking forward to a successful new year and achieving the following objectives:

1. Completing the Gippsland Drilling program on time and on budget with positive results
2. Progressing to the finalization of two wells in the Browse Permits which could confirm the large scale presence of gas and condensate. Following with a successful development program with its new Joint venture partner ConocoPhillips

Karoon would like to take this opportunity to thank the shareholders for their continued support. Karoon is pleased with its progress thus far and will be striving to continue its organic growth with more new exciting developments being announced over the coming year.