



Chairman's Address:

Karoon Gas has enjoyed considerable success since listing on the ASX in June 2004 and is on track for a very exciting future with exploration activities accelerating over the next 10 months.

Karoon is currently holding \$72 million in cash, has 114.4 million fully paid shares on issue and a market capitalization of approximately \$400 million as of this week. I think we could all agree that Karoon has delivered significant capital growth for its shareholders over its short history.

At present, the main driver of Karoon's growth remains its interests in the Browse Basin located offshore from Broome in Western Australia.

Karoon currently has a 49% interest in oil and gas exploration permits WA-314-P and

WA-315-P and a 40% interest in the adjacent WA-398-P.

Exploration Permit WA-398-P was acquired during the 2006/2007 financial year following a joint bid made with Karoon's joint venture partner in the Browse, ConocoPhillips. This permit is situated directly south of the WA-315-P permit. The Poseidon prospect previously identified by Karoon straddles both of these permits and the acquisition of the new permit is therefore considered by Karoon to be especially important to the future exploration of the area.

Upcoming operational highlights in the Browse Basin Acreage include;

- a 3D seismic acquisition programme of approximately 1400 sq kms in WA-398-P and 1900 sq kms overall, which is due to commence late this year or early next year. This seismic survey will be conducted by Fugro-Geoteam.

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- The Sedco-703 drilling rig has been contracted for 200-225 days to complete the much anticipated Browse Basin drilling program. This drilling program is scheduled to commence during the third quarter 2008 and will include wells in WA-314-P, WA-315-P and WA-398-P.

In addition, the final 3D seismic data interpretation for the WA-314-P and WA-315-P permits will be completed shortly prior to the commencement of the drilling program.

Karoon's Browse Basin permits are situated in close proximity to Woodside's Terosa development which has a proven resource of 21 TCF and 300mmbbl of condensate. The other large proven gas field in the area is the Japanese Inpex led Joint Venture Ichthys field, which has a proven resource of 9TCF and 400mmbbl of condensate. The Browse Basin has certainly proven to be rich in gas and condensate which augurs well for the upcoming exploration programme.

As well as being in the right place, the recent announcement by Woodside regarding its proposed gas sale to PetroChina Company Ltd points to Karoon's timing also being right.

Woodside has announced that it has “signed an LNG key terms agreement with PetroChina Company Ltd for the potential sale of 2 to 3 million tonnes per annum of LNG from the Woodside operated Browse Development off Western Australia, for a period of 15 to 20 years. The key terms agreement included an agreed price, which would see revenues of A\$35 billion to \$A45 billion flowing to Australia”¹

Recent studies by Karoon have revealed that the current world capacity for LNG production represents approximately 10% of overall world gas consumption.

Indigenous natural gas supplies in many of the world's major gas producing countries are in decline. That suggests that global demand for LNG is likely to continue to rise

and that gas prices will also continue to rise in line with the decline in local supplies

Increasing attention by the media and governments around the world to the effects of climate change is also likely to lead to greater demand for LNG.

Countries that are under pressure from the international community and suffer from extremely poor air quality as a result of coal fired power production will, I believe, be forced to turn to LNG at least as a medium term alternative to coal.

Construction of Gas fired power stations will be increasingly important resulting in greater LNG demand in the years to come.

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 exciting developments being announced over the coming year.

¹Speech by Don Voelte at the 45th Japan Australia Joint Business Conference