KAROON
Gas Australia

Chairman's Address:

Karoon Gas has enjoyed considerable success since listing on the ASX in June 2004.

Subject to approval at this meeting Karoon shall have approx $74 million in cash and an issued capital of approx. 112.4 million fully paid shares.

Karoon's Current Assets are as follows:

Karoon currently has a 49% interest in the oil and gas exploration permits WA-314-P and WA-315-P in the Browse Basin offshore Western Australia after Karoon signed formal agreements with ConocoPhillips to farm out an initial 51% of the permits in consideration of:

1) Conoco paying Karoon back costs of US$9.6 million.

2) Conoco funding 80% of the costs of the first two wells. Total drilling costs are expected to be approx USD$120 million.

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 with ConocoPhillips have recently secured the exploration permit WA-398-P which lies immediately south of the WA-315-P permit already held by Karoon and ConocoPhillips. Karoon holds 40% equity in this permit with Conoco holding the other 60%. Karoon will be paying its full percentage interest for work to be carried out in this permit.

Upcoming operational highlights in the Browse Basin in the near future include the carrying out of a seismic survey in WA-398-P and drilling in the WA-314-P, WA-315-P and WA-398-P permits.

The final 2D/3D survey data interpretation for the WA-314-P and WA-315-P permits is nearing completion and decisions will be made shortly to high grade drilling targets.

A new 1400 sq km 3D seismic survey over WA-398-P is due to begin in the near future. This survey will be designed to further define those prospective leads in preparation for drilling in the 2008 period.

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

Reported recoverable reserves for the greater Browse assets of the Woodside Joint Venture are around 21 TCF and 300mmbl of condensate. While the Inpex Joint Venture has approx 9TCF and 400mmbl of condensate in its Icthys/Brewster fields. Both these fields are currently being developed and will be major projects by world standards.

Media interest in the area has been high recently. In the most recent weekend Australian Nigel Wilson reported that:

*"**North West Shelf exploration is booming**"*

The Chief Minister recently travelled to Perth to discuss with three Browse Basil permit holders – Woodside, Conoco Phillips and Inpex – the possibility that Browse gas could be brought into the territory and thus circumvent the WA gas reservation policy.

Piping gas from the Browse to Darwin could have an added advantage: cutting development times because of not having to go through the process of securing native title or environmental approvals for onshore sites in the Kimberley.

In the LNG Journal of April 2007 Mr Michel Mark, Senior Vice President LNG, Shell North America was reported as saying:

Let me set the LNG scene. The world's need for clean, affordable energy is growing. That is why natural gas, with its economic, environmental and efficiency benefits will increasingly be the fuel of choice for consumers all over the globe.

Indeed, global gas consumption could grow by more than 2 percent per year over the next 25 years.

Within this natural gas market, LNG demand could increase by as much as 10 percent per year through to 2020. By then, supplies could be meeting a fifth of global gas needs.

So, for example, Sakhalin II has now effectively "sold out", with binding sales at 98 percent of plateau capacity, all under long-term contracts. Major customers are Japan, Korea and North America.

Turning to the US, demand for natural gas is likely to remain strong in the long term. But, with domestic natural gas reserves in decline, LNG will be indispensable for security of supply.

Industry's response to this development has been a significant push to plan and build LNG import and regasification terminals. Shell currently has capacity at three such terminals in the US and Mexico.

LNG is also being recognised as a cleaner energy source than alternatives such as coal. The proposed introduction of carbon trading schemes would further favour LNG over more traditional energy sources. Karoon believes it is well placed to benefit from this changing energy situation.

To ensure Karoon can continue to respond to this changing energy market the company has taken steps to add to its existing technical and commercial team of mainly ex Esso/BHP Geologists, Geo Physicists and Engineers. A recent addition to the team, is David Ormerod who has recently joined Karoon as New Ventures Manager. Karoon now has a unique and diverse range of expertise available to it to progress its various operations.

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.