CASPIAN OIL & GAS

5 August 2005

Australian Stock Exchange Release

Santos to Farm into Kyrgyz Oil Interests and Subscribe for Caspian Shares

Caspian Oil & Gas Limited is pleased to announce that it has entered into a letter agreement with Santos International Operations Pty Ltd ("Santos"), a wholly owned subsidiary of Santos Limited, a major Australian oil and gas exploration and production company to:

- farm out and joint venture its oil projects in the Kyrgyz Republic; and
- issue 100 million fully paid ordinary shares at an issue price of 3 cents per share to raise $3 million.

The above transactions are subject to further due diligence to Santos' satisfaction, agreement of final documentation and any necessary Kyrgyz Government and other approvals.

Key terms of the agreement require Santos to:

- sole fund, manage and operate staged work programs up to the value of US$28 million over all of the licences to earn an 80% interest in those projects over a period of approximately four years; and
- pay a cash consideration of US$1 million for use of the technical database relating to the Kyrgyz operations.

The Kyrgyz oil projects covering approximately 16,500 sq km are currently owned 100% by Caspian subsidiary JSC Textonic. With the exception of the Aksai prospecting licence, they are situated in the Fergana Basin, an established oil producing region with a production history dating back over a century.

The introduction of Santos, with its financial strength and technical expertise, will be a major catalyst for the fast tracking of the exploration and development of the Kyrgyz oil projects.

Details of Farm-in Arrangements under the letter agreement

Under the terms of the letter agreement, there are effectively two separate facets of the proposed joint venture arrangement between Santos and the Company – a farmin to all of the licences, focussing on the deeper potential, and a farmin to the shallow potential of some of the northern Fergana licences subject to a review of those projects.

Santos can incur staged expenditure of US$24 million as indicated below to earn an 80% interest in all of the licences, excluding the shallow production potential down to 1,000m depth on the northern Fergana licences of Charvak, Ashvaz, East Mailisu and West Mailisu.

- Minimum expenditure of US$3 million by 31 December 2006 on, amongst other things, field work and data review, including commencement of targeted 2D seismic programme (Phase 1);
- Minimum expenditure of US$6 million by 30 June 2008 on 2D seismic and/or medium depth drilling targets (Phase 2); and
- Minimum expenditure of US$15 million by 30 June 2009 on drilling programs (Phase 3).

At its sole discretion Santos may withdraw from the farm-in at the end of Phase 1 or end of Phase 2. If Santos elects to withdraw before completing the US$24 million in expenditure it does not retain any equity in the oil projects.

Santos has the discretion to change the content of the expected work programme, in consultation with Caspian, as dictated by the technical demands that emerge over the implementation of the programme, whilst expending the committed amounts thereon.

Santos will complete a feasibility study by 1 January 2006 to determine whether it will participate in the development of the shallow northern prospects (defined as to a depth of up to 1,000m at the Charvak, East Mailisu, West Mailisu and Ashvaz licences). If it decides to proceed with the development, Santos must sole fund expenditure of US$2 million by 31 December 2006 and a further US$2 million by 30 June 2008 to earn its 80% equity. If Santos elects not to proceed, Caspian may develop these shallow structures on its own or farm them out to another operator. This facet of the arrangement has the potential to elevate Caspian to a producer status within a relatively short period of time.

Placement

Under the ASX Listing Rules the placement to Santos of 100 million fully paid ordinary shares in the Company, which will represent approximately 15% of Caspian's enlarged capital, must be approved by shareholders. This approval will be sought at the recently convened general meeting to be held on 19 August 2005.

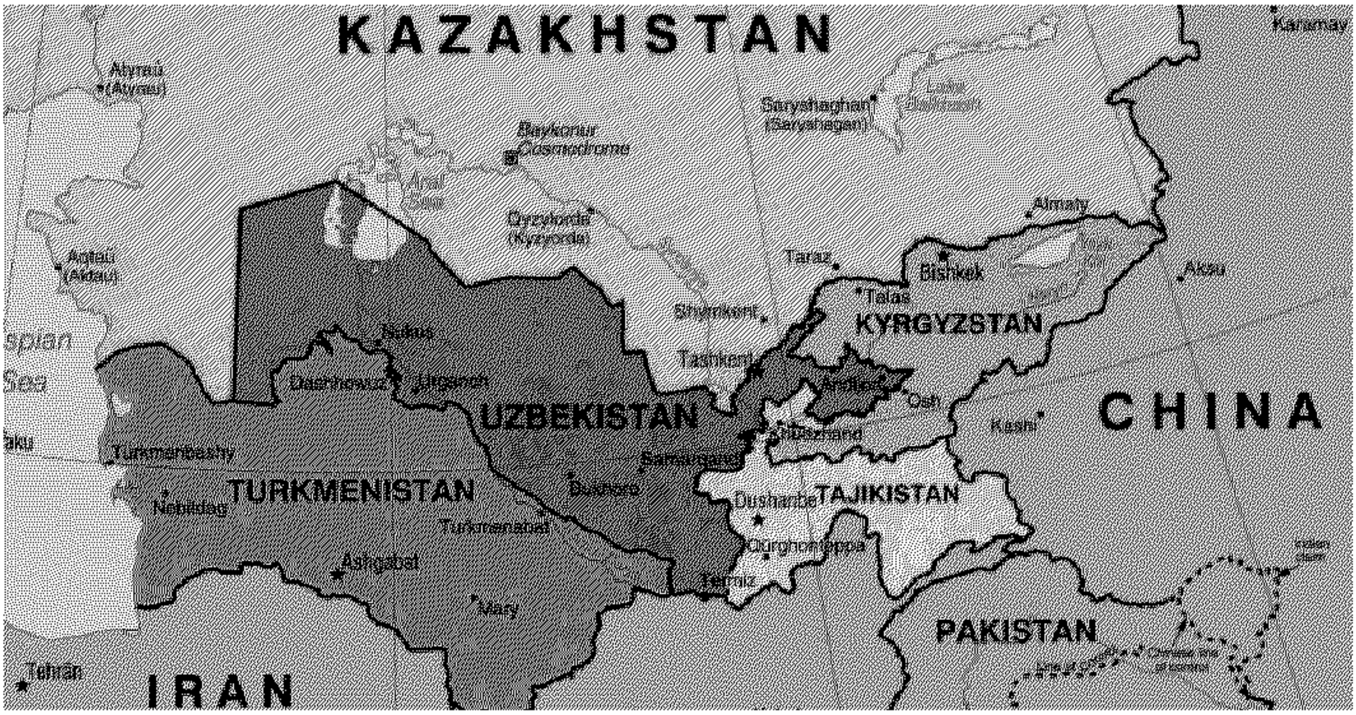
The proceeds raised from the placement to Santos will be used by the Company to finalise vendor payments on the oil projects and for ongoing operating expenses.

On or before settlement, Santos has the right to subscribe for an additional 40 million fully paid ordinary Caspian shares on the same terms that Caspian may issue shares to other investors after entering into the letter agreement, or the volume weighted average market price for the 30 days to 5 August 2005 if there are no other share issues. Santos will also be granted the right to participate in future share issues by Caspian at the same price per share as the other participants to maintain its percentage shareholding in Caspian.

Santos due diligence and approvals (if any) from the Kyrgyz Government are required to be completed by 23 September 2005. Subject to the satisfactory completion of these outstanding conditions, the transaction is expected to settle on or before 23 September 2005.

Colin Carson
Director

Location Map



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