23 September 2005

Australian Stock Exchange Release

Santos Farmin and Share Subscription Complete

Caspian Oil & Gas Limited is pleased to announce that Santos International Operations Pty Ltd ("Santos"), a wholly owned subsidiary of Santos Limited, a major Australian oil and gas exploration and production company, has completed its due diligence investigations and executed contracts formalising the previously announced August 2005 letter agreement to:

- farm into Caspian's oil projects in the Kyrgyz Republic; and
- subscribe for 100 million fully paid ordinary shares at an issue price of three cents per share to raise $3 million.

Santos has also exercised its option to subscribe for an additional 40 million fully paid shares at an issue price of five cents per share to raise an additional $2 million, taking its equity in Caspian to approximately 17.7%.

A condition to the Santos Subscription Agreement requires Caspian to settle its outstanding liabilities to the vendors of the Kyrgyz oil projects immediately rather than on the deferred basis previously agreed with the vendor. Consequently, Caspian will now proceed to issue 30 million fully paid ordinary shares and make payment of US$2 million in full and final settlement of all liabilities to the vendor of the oil projects.

The Farmin Agreement provides for 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.

Three Santos teams have commenced work on the projects. Two geological teams are assessing the geology on the deeper prospects and one team is conducting a review of the production potential from shallow structures on the northern Fergana licences.

Caspian Oil & Gas Limited ABN 44 065 212 679
30 Ledgar Road, Balcatta, Western Australia 6021 **PO** Box 717, Balcatta, Western Australia 6914
phone: (+618) 9240 2405 **fax:** (+618) 9240 2406 **email:** info@caspianogl.com **web:** www.caspianogl.com

Farm-in Arrangements

As outlined in the August 2005 announcement, 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 the planning of a targeted 2D seismic programme (Phase 1);
- Minimum expenditure of US$6 million by 30 June 2008 on 2D seismic and/or the drilling of one or more wells (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 arrangement has the potential to elevate Caspian to a producer status within a relatively short period of time.

Colin Carson

Colin Carson
Director