

25 October 2012

ASX Announcement



2012 Annual General Meeting Chairman's Address

Welcome again to the 2012 Karoon Gas Australia Ltd Annual General Meeting. Today I will summarise the activities of the previous financial year and outline our expectations for an exciting 2013.

The 2012 financial year provided Karoon and its stakeholders with another year of turbulent financial markets and more drilling delays, however it also provided Karoon with positive outcomes from seismic work and the eventual commencement of the first of five to eight wells in the Browse Basin, along with operational progress toward the commencement of three wells in the Santos Basin drilling program.

Following the completion of the 2012 financial year we have moved forward operationally and commercially with the signing of a farm-out agreement with Pacific Rubiales Energy Corp in Brazil and the discovery of gas and condensate at the Boreas well location in the Browse Basin. The Group's third campaign, in Peru, is anticipated to take place during calendar year 2013.

During the financial year, the 'Transocean Legend' commenced drilling at the Boreas-1 location and, after ongoing blowout preventer issues during the year were repaired, made the discovery of gas and condensate at Boreas-1 in the primary reservoir. After a full suite of reservoir assessment, testing was conducted including wireline logs, sampling of fluids, cutting of cores and finally drill stem testing. During the drill stem testing the Boreas-1 well flowed at 30 million standard cubic feet per day through a 40/64 inch choke and 20 barrels of condensate per million cubic feet of gas.

While this is a positive result that Mark will further explain in a moment, I want to emphasise that this is a test result that Karoon is very pleased with as we continue to de-risk the field and confirm that the Plover formation is of good quality in this location and depth.

The rig is now suspending the well and preparing to move to the next well location, Zephyrus-1. The joint venture has approved the Zephyrus and Proteas locations for drilling the next two wells in the exploration and appraisal of the greater Poseidon structure. Additional targets will be incorporated into the firm work program once drilling results from these initial wells are available. The aim of this exploration and appraisal program is to gain a better understanding of the hydrocarbon volumes and characteristics of the greater Poseidon structure. This will in turn allow optimal development and commercialisation planning to commence in the near term.

A program to farm-out Karoon's Santos Basin Blocks commenced during the 2012 financial year with significant interest generated and offers received from multiple parties during the process. In September 2012, Karoon executed an agreement to provide a 35% interest to Pacific Rubiales Energy Corp in four of the five blocks with an option for the fifth block. In consideration for the 35% interest, Pacific Rubiales will carry up to USD210 million in drilling costs and pay USD40 million in cash. Karoon is pleased to have completed the arrangement on favourable financial terms, with a reputable Latin American partner (PRE) that has significant operational expertise and experience.

In Brazil, the 'Blackford Dolphin' drilling rig was scheduled to commence during the financial year, however an earlier operator encountered well problems and retained the rig for an extended period. The rig is now nearing completion of a well with Anadarko before Karoon commences its operations, beginning with the Kangaroo-1 well location. Following Kangaroo-1, Karoon will move to the Emu/Cassowary-1 location followed by Bilby-1.

Each of these locations has a prospective resource in the hundreds of millions of barrels of hydrocarbons, across multiple target zones, and at these sizes could be developed on a standalone basis. These are highly material wells for Karoon.

A fourth Brazilian prospect that is partially within Karoon Blocks is currently being drilled by a neighbouring joint venture. This prospect, Kookaburra or Canario as it is known to our neighbours, spudded during September and Karoon expects that results will be public in the coming weeks. This prospect has a gross prospective resource of 360 million barrels of hydrocarbons. A discovery here by the Pan Atlantic led J.V. would be material to Karoon and would provide an excellent start to our own drilling campaign.

In Peru, 3D seismic interpretation undertaken during the financial year has identified the potential for twelve additional prospects and leads. This brings the total prospects within Karoon's Block Z-38 to fifteen. The immediate area around Block Z-38 has discoveries of oil and gas that have produced 1.6 billion barrels of oil, but it is considered to be a frontier area due to its lack of meaningful exploration in the areas further offshore.

Karoon has commenced works to prepare its Peruvian targets for drilling during calendar year 2013. The drilling rig procurement process is currently underway with well targets being in the recoverable prospective resource range of 200-400 million barrels of hydrocarbons. Negotiations will now recommence in order to obtain the rig after being slowed due to the scale of work involved and the level of interest in the Brazil farm-out, and Karoon's desire to offset costs before committing to additional financial exposure in such an unpredictable financial climate over the past year.

This drilling will give Karoon shareholders exposure to a third exploration campaign during calendar year 2013.

Karoon intends to farm-out equity in Block Z-38 and has opened a data room following the additional interpretation of seismic data and results of geotechnical analysis. Interest is strong and bookings to review the new information are presently being made.

For further information please see the Karoon website or contact:

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