27 October 2014

ASX Announcement

Chairman's Address – 2014 Annual General Meeting

[Opening Remarks]

[Slide 3 – Total Shareholder Return]

Karoon is a young company, listing on the ASX on 8 June 2004 with an initial public offering price of A$0.20 per share.

The successful execution of Karoon's exploration led growth strategy has delivered a cumulative annual growth rate of over 30% since IPO.

Today, Karoon has grown into an A$800 million global oil and gas explorer, a member of the ASX200 Energy Index, and ranks as the 8th largest Australian oil and gas company.

The growth of the company, expansion of the geographical footprint and complexity of the business has been rapid in the context of Karoon's Australian oil and gas peers.

As part of this growing up process and positioning for the next leg of growth, consideration has also been given to what is the right Corporate Governance structure going forward.

I will touch on this in a little more detail later, but I want to stress the point, this review process commenced approximately 18 months ago with Karoon consulting various Corporate Governance experts. Significant progress on strengthening the Company's Corporate Governance practices has been made over this time.

[Slide 4 – How Does Karoon Rank? #8]

[Slide 5 – Oil and Gas Company Ranking, Top 10]

[Slide 6 – Investment Highlights]

Over the past decade Karoon has built up a technical team of employees and contractors with over 600 years of experience, a team that is responsible for delivering an off-shore exploration drilling success rate of approximately 70%.

This record has climbed to 78% from 9 exploration wells in the last 24 months.

Despite challenging industry conditions, in the last 12 months our commercial team has successfully delivered ~A$1 billion of value through the divestment of the Poseidon gas project and farmout of a 50% interest in Carnarvon Basin permit, WA-482-P.

Importantly, the proceeds of up to US$800 million from the divestment of Poseidon injects a significant amount of capital into the Company at a timely point in the cycle.

Today Karoon's pipeline of assets is focused on less capital intensive, potentially higher returning oil opportunities. Karoon has 3 oil discoveries in the Santos Basin, Brazil and 2.9 Bn bbls of independently assessed net prospective resource in acreage positions with proven petroleum systems in 5 basins across 3 countries.

Karoon is set to commence drilling the Kangaroo -2 appraisal well in the coming weeks, following the receipt of the Olinda Star drilling rig last week.

[Slide 7 – Industry Backdrop - Last 7 Years]

I wanted to share some industry observations with you to highlight some of the challenges that the global oil and gas industry is currently facing.

Following the rapid oil price growth from the early to mid 2000's, the global oil and gas resource land grab kicked in with over US$350 billion of acquisitions worldwide during the period 2008 to 2012.

As you can see from the chart, the rapid oil price growth followed by the resource land grab resulted in ballooning capital expenditure over this time.

At the same time capital expenditure is pushing decade highs, production rates have been falling from peak levels.

[Slide 8 – Falling Industry Returns]

In combination with rising capex and falling production, over the last 3 years, the oil price has remaining flat at approximately US$110/bbl.

This has results in declining industry returns.

As an illustration of how this has impacted returns, here is a chart of Exxon Mobil's Return on Average Capital Employed over the last 9 years.

Broadly as capital expenditure has been rising and production falling, particularly from 2011 to 2013 while the oil price has been flat, returns have been falling.

This has forced the industry to refocus on capital discipline.

The mantra from investors and companies alike has been to refocus the industry's attention to boosting cash flow generation instead of production growth.

This has led to the divestment phase which the industry is currently working its way through.

[Slide 9 – Poseidon Divestment, A Great Result]

Despite the industry challenges, transactions are still being done for the right assets.

But they are taking longer.

So why did Karoon sell the Poseidon gas project?

The transaction price of up to US$800 million was a very competitive price. It was a premium to Karoon's valuation and to the PetroChina / ConocoPhillips transaction in the same permits 18 months earlier.

Indeed, significant project specific and broader Australian LNG industry risks and uncertainties remained which had the potential to negatively impact the project's economics.

The divestment of Poseidon also removed the large capital expenditure overhang associated with the on-going appraisal and development of a large scale LNG project and refocus investment to less capital intensive, potentially higher returning oil opportunities.

The injection of US$600 million upfront rebuilt the balance sheet at a crucial time in the cycle.

[Slide 10 - 2014/15 Operational Objectives]

Particularly in the context of the current industry backdrop the Poseidon gas divestment and farmout of WA-482-P to Apache are an endorsement of prospectivity and location of Karoon's suite of assets.

In the case of the Poseidon gas project divestment, the 6 well exploration drilling campaign completed during the year had de-risked the resource to the point Origin was willing to up to US$800 million to buy a strategic gas asset in a significant LNG province.

However, as we have seen on the Santos and Tumbes Basin campaigns, farmouts are taking longer to complete.

As it stands today, Karoon hasn't completed a second round farmout on the Santos Basin blocks, but we expect, in the event of success to farmout an additional interest prior to any development. For reasons I will touch on in a moment the risk reward profile is acceptable for Karoon to drill at the current 65% equity interest.

Peru remains a highly prospective and exciting exploration opportunity. However due to limited infrastructure, off-shore exploration in Peru is an expensive exercise. Hence it is intended Z-38 won't be drilled in the absence of a farmout. In addition, Karoon is considering cheaper alternatives, like rig sharing to reduce the significant mob / demob costs.

For Browse Basin permit WA-314-P, the processed data from the Kraken 3D seismic survey run over Elvie has been received and is currently being interpreted. The farmout program for WA-314-P is scheduled to resume in the coming months.

[Slide 11 – Why Kangaroo?]

So why is Karoon happy to drill Kangaroo-2 and Kangaroo West-1 at a 65% equity interest?

Mark will discuss the risks around the geology in more detail in a moment, but the basic setting is shallow water, shallow reservoir and geology that suggests the reservoir will deliver commercial flow rates.

Based on the pre-FEED studies completed to date, the capital expenditure for a Kangaroo development is manageable.

The full appraisal prior to FID consists of likely only two more wells, Kangaroo-2 and Kangaroo-3, and FEED costs are expected to be less than US$50 million.

The most likely development concept is a conventional sub-sea well FPSO development.

Based on preliminary economic studies, a Kangaroo development on success has the potential be a low cost producer with a payback of 1-3 years (depending of leased or purchased FPSO) at US$85/bbl oil.

What is the integrated production hub potential?

According to a prominent US investment bank, Petrobras' neighbouring Bauna Piracaba (Tiro / Sidon) integrated production hub has a breakeven oil price per barrel of US$40/bbl.

It is this type of integrated production hub development concept that Karoon is trying to emulate.

[Slide 12 – Priority Uses of Capital]

When Karoon considers where capital will be allocated over the next 24 to 36 months, the following priorities have been identified:

I touched on Kangaroo a moment ago, this is the immediate priority.

Karoon will still prioritise exploration drilling, looking to unlock the mutli billion barrel resource potential in Karoon's assets. But it is important to understand that the geological and financial risks have to be reduced to an acceptable level before exploration drilling will proceed.

I want to make the point Karoon does not intend to drill the earlier stage exploration assets in which Karoon carries a high equity interest without completing a farmout deal prior.

WA-482-P, is a great example of the deal structure Karoon looks for. The commitment was to the early stage exploration work when the permit was acquired, but not an exploration well, this was an option. Karoon subsequently farmed out a 50% interest to Apache for a 90% carry in the Levitt-1 exploration well scheduled for drilling in 1H15.

Based on Karoon's medium term capital commitments, an on market buyback program was launched to capitalise on a depressed shareprice and increase shareholder leverage to the asset portfolio.

Non-organic growth opportunities are also considered in parallel with risk reward in the opportunity set in Karoon's existing portfolio.

[Slide 13 – Corporate Governance]

As I outlined earlier, Karoon is a young company, a company that celebrated its 10th birthday earlier this year. The company has grown rapidly into a global oil and gas business which has been involved in 3 off-shore drilling campaigns totalling 16 exploration wells delivering a 70% exploration success rate.

Following the Kangaroo oil discovery, Karoon has been working hard to progress Kangaroo along the potential development path.

As I commented earlier, part of this growing up process is ensuring the company has the right Board composition as the company moves into the next stage of growth. This process commenced approximately 18 months ago.

Karoon established an independent majority on the Board during June this year.

Mr Peter Turnbull, one of Karoon's new independent Directors appointed during June 2014 is charged with overseeing the Company's ongoing Corporate Governance efforts and responsibilities. Peter is a Fellow of the Australian Institute of Company Directors and the Governance Institute of Australia, and has significant experience in designing and implementing corporate governance frameworks and risk management processes.

The next stage in the process is, I will be stepping down as the Executive Chairman and moving to Managing Director on the appointment of a new independent Non-Executive Chairperson.

[Closing remarks]

<u>About Karoon Gas Australia Ltd</u>

Karoon Gas Australia Ltd is an international oil and gas exploration company with projects in Australia, Brazil and Peru and a member of the S&P/ASX 200 Index.

Karoon looks for high equity interests in early stage exploration opportunities containing large potential targets in basins with proven Petroleum Systems. Karoon strives to create shareholder value through the geotechnical work-up of the acreage, leveraging its high equity interests to explore and appraise these opportunities to achieve commercialisation.

While the company's core strategy is identifying off-shore early stage exploration opportunities, Karoon's longer-term strategy is to retain residual equity interests in the assets as they go into production.

For further information please see the Karoon website or contact:

Scott Hosking	Company Secretary T: +613 5974 1044 E: shosking@karoongas.com.au	James Wootton	Investor Relations T: +613 9616 7520 E: jwootton@karoongas.com.au
Ian Howarth	Collins Street Media T: +614 0782 2319 E: ian@collinsstreetmedia.com.au		

Forward looking statements

This announcement may contain~~s~~ certain "forward-looking statements" with respect to the financial condition, results of operations and business of Karoon and certain plans and objectives of the management of Karoon. Forward looking statements can generally be identified by words such as 'may', 'could', 'believes', 'plan', 'will', 'likely', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties, which may include, but are not limited to, the outcome and effects of the subject matter of this announcement. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

You are cautioned not to place undue reliance on forward looking statements as actual outcomes may differ materially from forward looking statements. Any forward-looking statements, opinions and estimates provided in this announcement necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, many of which are outside the control of Karoon. Such statements may cause the actual results or performance of Karoon to be materially different from any future results or performance expressed or implied by such forward looking statements. Forward-looking statements including, without limitation, guidance on future plans, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward looking statements speak only as of the date of this announcement.

Karoon disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.