

## PROTECT YOUR INVESTMENT IN KAROON

### Ignore Pegasus' opaque plans

- **A small fund manager, Pegasus, managing a small shareholding on behalf of an unknown party, wants to make significant changes to the Board and management of Karoon**
- **Pegasus wants to take Karoon in a new and opaque direction**
- **Your Directors have concerns about the suitability of the proposed new Directors**
- **Independent Chairman recruiting process well underway – candidates shortlisted**
- **Your Directors recommend you vote **AGAINST** the election of the Pegasus nominees at the AGM on 27 October 2014**

#### Fellow shareholders

Pegasus CP One, a small offshore fund managing a shareholding in Karoon on behalf of an unknown party, wants shareholders to elect three of its own nominees to the Karoon Board and remove existing independent Director, Mr Geoff Atkins, from the Board. Mr Atkins was responsible for the design of Woodside's WA LNG marine export terminal in 1985 – one of Australia's largest export facilities at the time and his experience will prove especially valuable as the company moves into production.

Pegasus is proposing that Karoon step back from its exploration-led growth strategy which has delivered a 33% compound annual growth rate (CAGR) in shareholder returns since Karoon's IPO. Instead, it is proposing Karoon adopt a new strategy which is very unclear, but seems to revolve around increased M&A for unknown assets.

Karoon has a majority of independent Directors on the Board and is recruiting an independent Chairman, a process overseen by the independent Directors and international executive search firm Heidrick and Struggles. A shortlist of candidates has been finalised.

#### Your Board has a proven track record and clear strategy for delivering value to shareholders

- **Floated 2004** – market capitalisation grown from \$8m to ~ \$850m, a **CAGR of 33%**. KAR now a member of ASX200 index
- **70% off-shore exploration drilling success rate** over the last decade; **78%** success rate in the last 24 months
- **US\$1.1 billion** of value created through farm-outs and asset divestments
- **\$690m** cash in the bank and contingent receivables of up to **US\$200m** from Origin
- **2.9 billion barrels\*** Best Estimate net un-risked prospective resources as independently assessed (DeGolyer MacNaughton)
- **3 oil discoveries** and assets in 5 basins across 3 countries, all in proven petroleum systems
- **Brazil Kangaroo oil discovery**, on successful appraisal can take Karoon through to production in the near term
- **5 to 8 high-impact wells** expected to be drilled in the next 18 months
- **World class** Directors, executives, geoscientists and petroleum engineers from the world's largest oil companies with deep water exploration experience

## **Your Directors have concerns about the suitability of the Pegasus nominees**

Your Directors have an obligation to assess the suitability of nominees to the Karoon Board. The following information has not been disclosed by Pegasus but the Karoon Board believes it is relevant to shareholders in forming their decision on how to vote.

### **Colin Goodall**

#### **UK Experience: Director, Lamprell Plc: UK registered listed company (2008-2013)**

Oversaw governance failures as Senior Independent Non-Executive Director **and member of the Audit Committee**

- **Lamprell was fined £2,428,300 by the Financial Services Authority (FSA)**
- **FSA ruled deficiencies in Lamprell's systems and controls** meant it could not adequately assess its financial performance against budget and market expectations and Lamprell failed to inform the market of its deteriorating financial position in a timely manner
- **Shares sold by management prior to profit warning** in May 2012. The profit warning resulted in a 57% slump in the share price of Lamprell

#### **Australian Experience: AO Energy**

Failed to deliver on strategy as Chairman of AO Energy in July 2012 to create an "emerging oil and gas company punching above its current weight"

- Undertook a significant restructure of the Board
- Adopted an oil and gas acquisition-led strategy that included proposed significant debt leverage
- Failed to raise the necessary capital of \$10m to \$20m to support the proposed acquisition and appraisal of two Kazakh oil fields
- Raised only \$640,000 out of two attempts, the first \$10-20 million and the second \$1.5 million
- AO Energy failed in its stated strategy and was turned into a biotechnology company within 18 months of Mr Goodall's commencement as Chairman

Mr Goodall made a similar attempt to be appointed to the Board of Central Petroleum without the support of the existing Board of that company, this bid for election was unsuccessful.

### **Dr David Bamford**

Former Director of the unsuccessful AO Energy (refer above).

There are concerns around potential conflicts as a result of Mr Bamford's position as a Director of Premier Oil.

- Premier Oil conducts exploration activities in Brazil in direct competition with Karoon and is from time to time in negotiations and discussions with Karoon on business dealings

### **Glenda McLoughlin**

Failed to create meaningful value for shareholders during eight year term as CFO and Executive Director with Metgasco.

- Metgasco listed in 2004, the same year as Karoon. Current market capitalization only \$23m
- Failed in 2013 attempt to be re-elected to Metgasco Board without the support of the existing Board

## **Who is Pegasus and who really controls their shares?**

Pegasus has publicly stated it is “managing” a 2.4% stake in Karoon. It is not clear to the Board of Karoon who Pegasus actually represents, or why Pegasus has chosen not to disclose this relationship. Karoon shareholders should be careful about following the advice of a party whose position and interests lack transparency. Without proper transparency, Karoon shareholders cannot know whether the candidates nominated by Pegasus are truly independent.

***Shareholders should be extremely wary of an attempt to substantially change the Board when the company has so much cash (~\$690m) as a result of an outstanding value-creating transaction achieved by Karoon to sell its Poseidon assets to Origin.***

## **Pegasus is proposing Karoon abandon its highly successful exploration-led strategy**

Pegasus wants Karoon to abandon its highly successful exploration-led growth strategy and adopt what appears to be an acquisition-based strategy. Pegasus has provided no detail on what types of assets would be acquired, how this strategy would deliver value given the prices that would need to be paid in M&A transactions, how it would be funded, or why this strategy will deliver greater value for shareholders than the plans of the existing Board. Moreover, given that Pegasus’ interest in this situation lacks appropriate transparency, it is unclear whether Pegasus or its undisclosed shareholder partner would have any interest in the assets envisaged to be acquired by Karoon. If Pegasus is truly confident that its strategy will add value, it should be happy to provide all of the above information.

Today, Karoon has 3 oil discoveries and assets in 5 basins across 3 countries all in proven petroleum systems. This is the result of a highly effective, exploration-led growth strategy that has delivered 70% off-shore exploration drilling success over the last decade, and a 78% success rate in the last 24 months. Karoon’s success is far in excess of the market average claimed by Pegasus.

As Karoon moves forward, its focus will be to move up the development cycle to generate more stable earnings and returns.

## **Support your Board and protect your investment**

Karoon is committed to the appointment of a quality independent Chair of the Board once a proper process has been completed, and to the enhancement of shareholder value. We therefore encourage you to continue to support your investment in Karoon by voting FOR resolutions 1-7 and AGAINST resolutions 8, 9, 10 and 11 at the Annual General Meeting. Your company has a strong future with significant value yet to be delivered to shareholders. It is important that your interests be represented by a strong, experienced and independent Board that represents all shareholders.



Robert Hosking  
Chairman

\*The prospective resource volume estimates presented in Australia and Peru have been independently assessed by DeGolyer and MacNaughton and disclosed in Karoon’s 30 April 2014 announcement, “Independently Certified Net Un-risked Prospective Resource, Australia and Peru, Best Case Net to Karoon 4.5 Tcf Wet Gas and 4.2 Bn bbls Oil”

