

Karoon Gas Australia Ltd

Corporate and Operational Review

Annual General Meeting, 2014



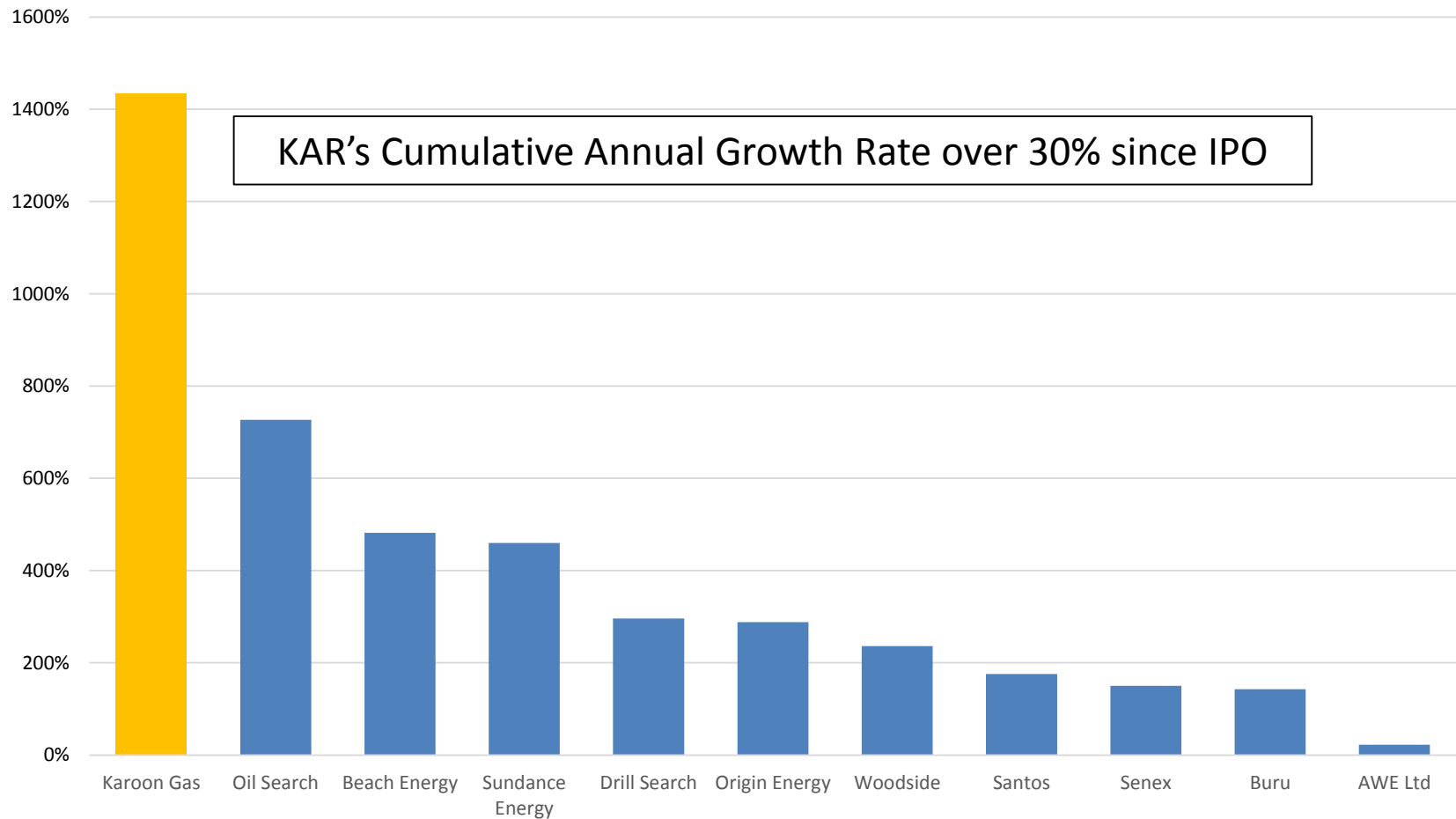
Queiroz Galvão "Olinda Star" Semi Submersible Drilling Rig

Chairman's Address

Robert Hosking,
Executive Chairman

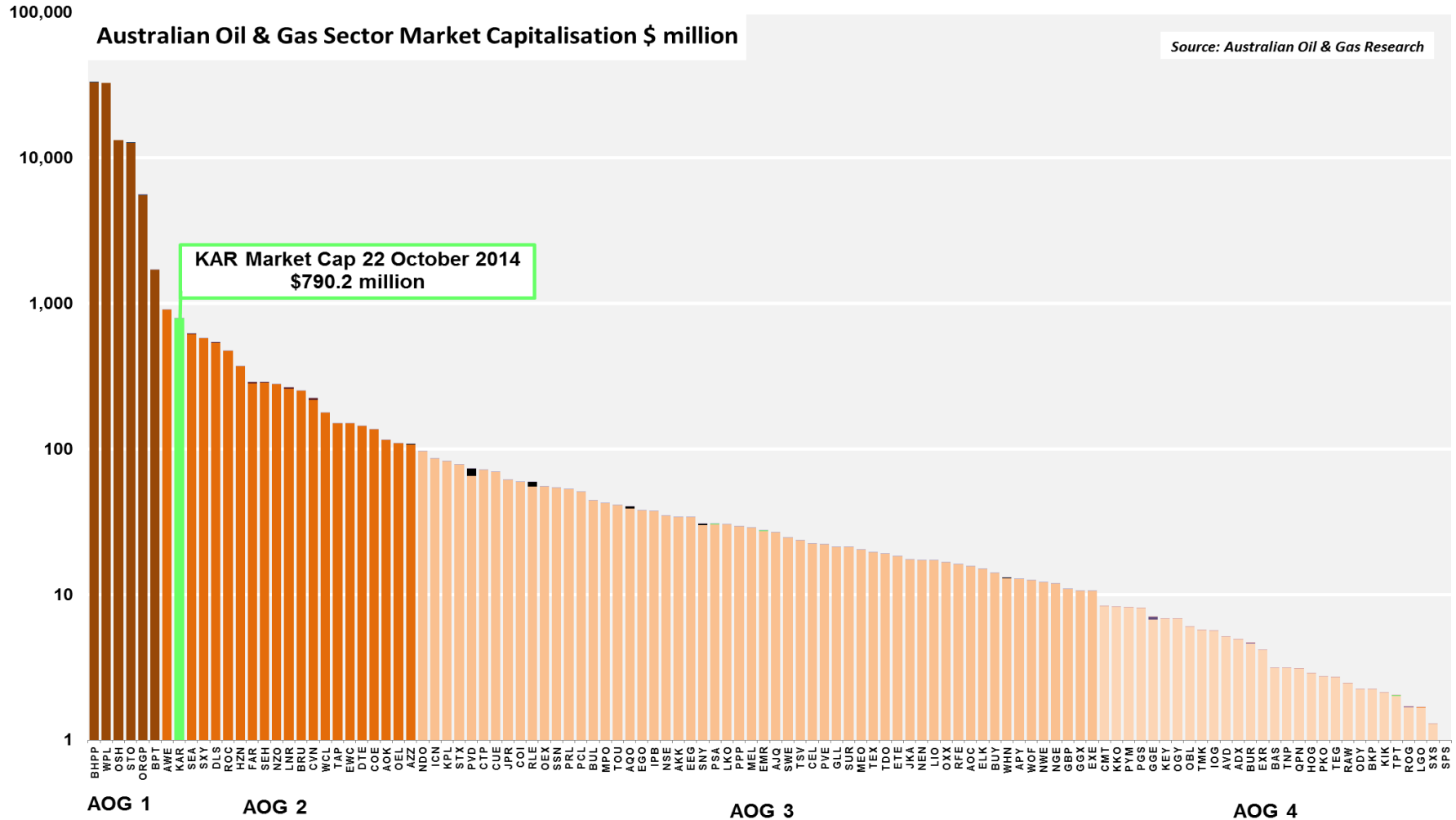
Total Shareholder Return

Since IPO (8 June 2004)



Source: Shareprice data as at 21 October 2014, Yahoo Finance

How Does Karoon Rank? #8



Oil and Gas Company Ranking, Top 10

2014 Ranking of the global top 10 oil & gas companies on approximate market value (billion U.S. dollars)

As at 31/03/2014

RANK	COMPANY	MARKET VALUE (billion U.S. dollars)
1	Exxon Mobil	416
2	Royal Dutch Shell	238
3	PetroChina	225
4	Chevron	220
5	BP	156
6	Total	154
7	Sinopec	102
8	Gazprom	92
9	Petrobras	88
10	ENI	87
	BHPB Petroleum	35*
	Woodside	29

Source: Bloomberg

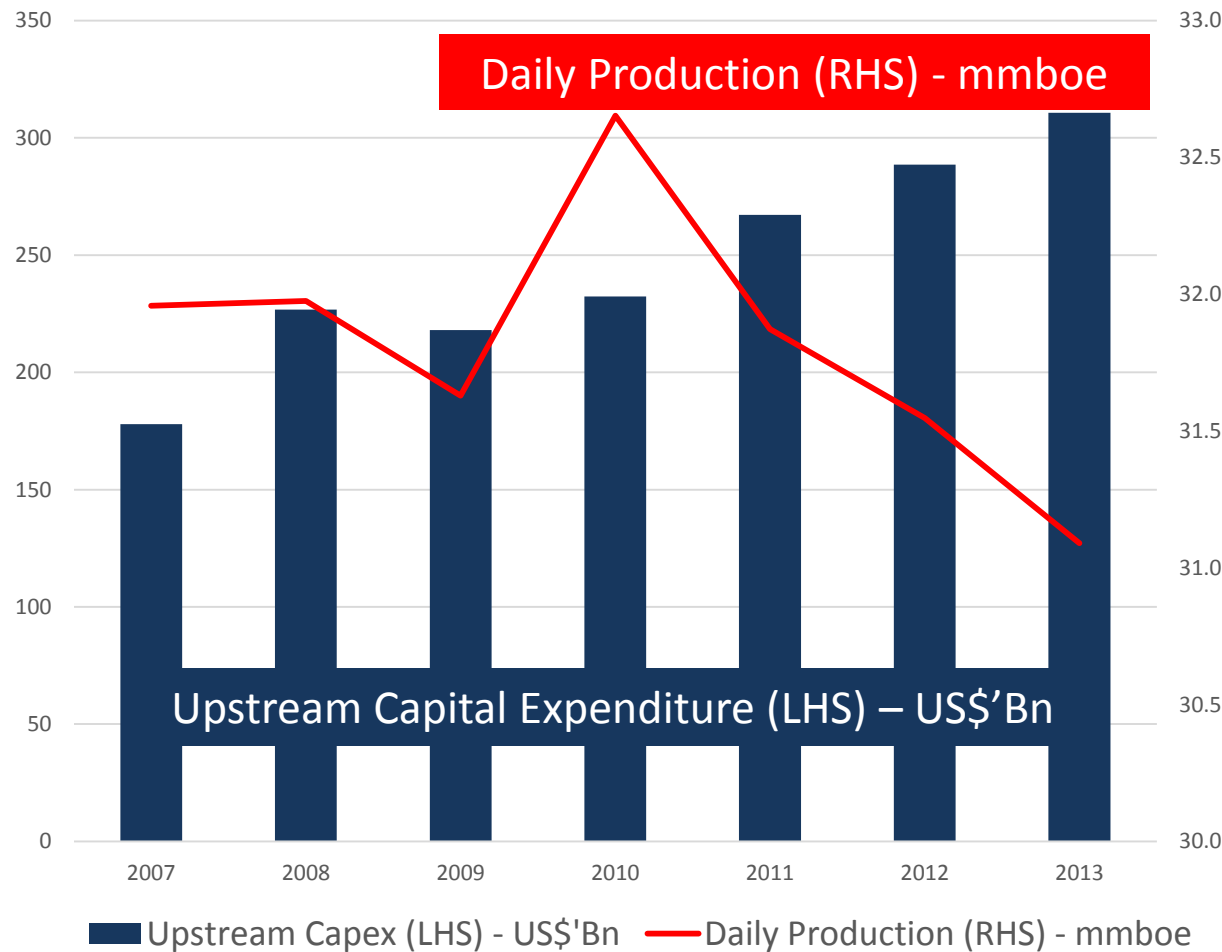
* Source: Australian Oil and Gas Research

Investment Highlights



- Exploration led growth strategy delivering:
 - Shareprice return since IPO, over 30% CAGR
 - 78% drilling success rate (last 24 months, 9 wells)
- ~A\$1 billion transaction value delivered YTD, additional farmout programs ongoing
- Well funded over the medium term, A\$660 million cash in the bank (as at 31 August 2014)
- Focused on less capital intensive, higher returning oil opportunities
- Prioritising production opportunities: Kangaroo oil discovery appraisal drilling November 2014
- Oil focused drilling inventory, 4 exploration wells targeting over 1.1Bn bbls
- On-market buyback announced during August 2014 for up to 10% of ordinary shares on issue
- Independent Board established & separating Executive Chairman function by CYE14

Industry Backdrop – Last 7 Years

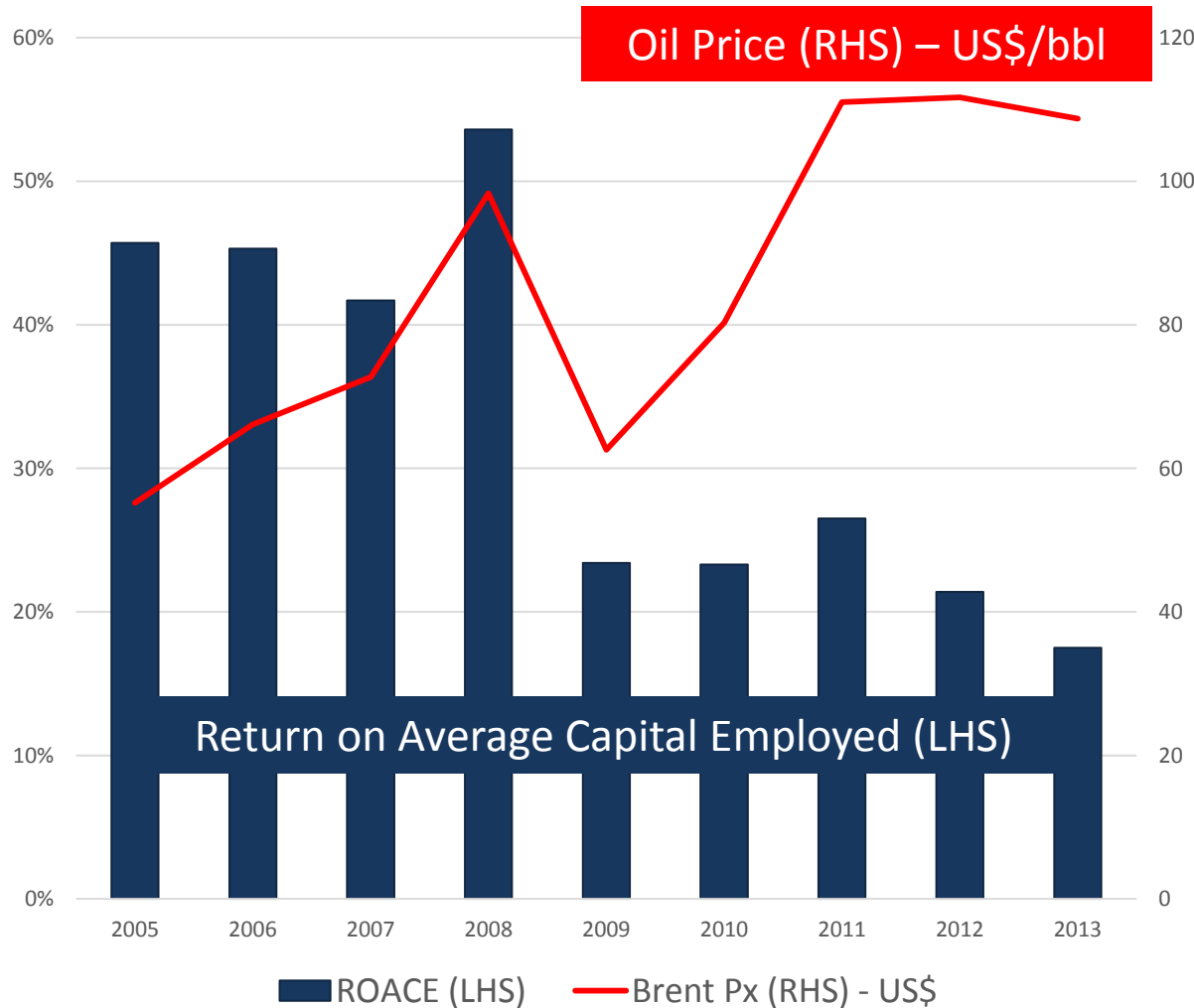


Upstream capex and daily production data represents aggregate data for the following global major oil and gas companies: Gazprom, Exxon, BP, Shell, Chevron, Total, Petrobras, ENI, Statoil and ConocoPhillips.

**Upstream capex risen
US\$133 Billion, +75%**

**Upstream production
declined 7% from peak
levels**

Falling Industry Returns



- Industry returns have been trending lower
- Capex inflation step change increase in 2011
- Oil price environment relatively flat from 2011 to 2013
- Oil fallen ~\$25/bbl in last 3 months

Forced the Industry to Refocus:

- Forced a refocus on capital discipline
- Focus on cash flow generation v production growth

Source: Exxon Mobil Annual Reports

Poseidon Divestment, A Great Result



The divestment of the Poseidon gas discovery for up to US\$800 million: A great result for Karoon shareholders

- US\$800 million was a premium to Karoon's valuation and to the PetroChina / ConocoPhillips transaction in the same permits 18 months earlier
- Significant uncertainties and risks remained for the Poseidon gas project with respect to the following:
 - Final resource size
 - Development concept selection
 - Capital expenditure requirement
 - LNG contract pricing and impact of Henry Hub linkage
- Significant financing challenges remained due to:
 - Significant pre-FID capital expenditure
 - The multi \$'Bn post FID capital expenditure
 - Long dated cash flows and payback
- The transaction window for Australian pre-FID LNG projects remained open, but for how long?
 - Capex inflation and the high AUD putting pressure on project returns over the last 5 years
 - Growing potential for US LNG export competition
 - LNG contract pricing at risk

It's the right time in the cycle to have a strong balance sheet

2014/15 Operational Objectives



Delivered

- ☒ Browse Basin, Poseidon gas project –6 well exploration completed, further de-risking the resource
- ☒ Browse Basin, Poseidon gas project - Divested for up to US\$800 million
- ☒ Carnarvon Basin, WA-482-P – Farmed out, drill planning well advanced and Levitt prospect selected

To Be Delivered

- ☐ Santos Basin – Rig received and Kangaroo-2 appraisal well expected second week November
- ☐ Carnarvon Basin – Levitt-1 scheduled for drilling 1H15 at minimal cost to Karoon
- ☐ Farmouts, Santos & Tumbes Basins– Industry conditions remain challenging. Discussions ongoing
- ☐ Tumbes Basin, Z-38 - 2 well exploration drilling program subject to farmout
- ☐ Browse Basin, WA-314-P – Processed 3D data received, farmout process to resume

Why Kangaroo?



This is NOT the Browse Basin, off-shore Australia

Post salt, dry hole costs in the Santos Basin are ~60% of the cost of wells in the Browse Basin

Why Kangaroo?

- Attractive Setting:
 - Shallow water depth, ~350 metres
 - Shallow reservoir, ~1,750 mRT
 - Favourable geology

- Manageable Capex
 - Appraisal expected to total 2 wells (Kangaroo-2 & 3)
 - Pre-FEED studies suggest conventional subsea well FPSO development concept
 - Low FEED costs
 - Integrated Production Hub potential

- Preliminary Economics Favourable
 - Economics boosted by attractive setting and conventional FPSO development concept
 - Manageable capex, payback less than 3 years at US\$85/bbl oil
 - Preliminary economics operating margin ~85% at US\$85/bbl oil

Priority Uses of Capital



1. Pursue organic development opportunities
 - Appraisal of a material Kangaroo contingent resource with favourable preliminary economics
2. Continue organic low risk (geological and / or financial) exploration opportunities
 - Kangaroo West – proven play type, same trap type, and reservoir and seal intervals regionally mapped
 - Levitt – Karoon carried for 90% cost of 1st exploration well
3. Exploration led growth focused on early stage geological and geophysical work, NOT well commitments
 - WA-482-P – FIRM commitment was early stage G&G work; OPTION on Year 3 exploration well
 - Browse, Santos and Carnarvon Basin farmouts endorsement of ability to identify prospective acreage
4. Capital management
 - Asset value (ex-cash) implied by current shareprice back to pre-Poseidon gas discovery levels
 - Attractive risk reward profile on Kangaroo and preliminary economics support buyback
 - Kangaroo West and Levitt testing significant prospectivity in the near term
5. Acquisitions
 - Current industry dynamics create a backdrop for possible opportunistic acquisitions

Corporate Governance



In consultation with proxy advisors and other Corporate Governance review has been underway for 18 months

- Independent Board established during June 2014
 - Independent Director, Peter Turnbull appointed 6 June 2014
 - Independent Director, Bernard Wheelahan appointed 24 June 2014
- The Board is committed to appointing an independent Chairperson:
 - Upon appointment, Executive Chairman, Mr Robert Hosking will move to Managing Director
 - Being managed by the Nomination Committee and executive search firm Heidrick and Struggles
 - Process well advanced, interviews being conducted

The new independent Chairperson is expected to be announced prior to year end

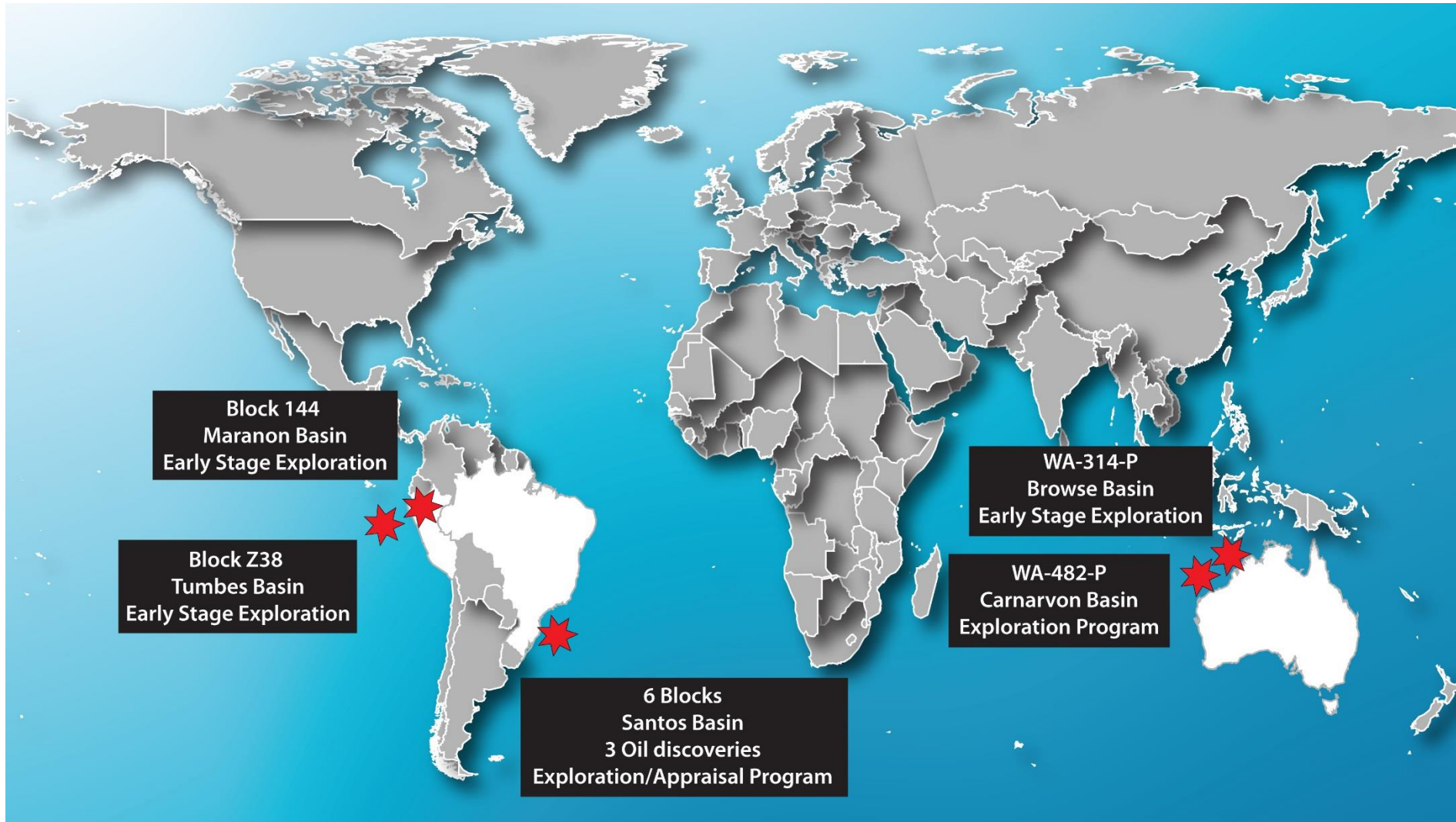
Upon completion, the 8 member Board will consist of:

- 5 independent Non-Executive Directors (including the independent Chair),
- 2 Executive Directors, &
- 1 Non-Executive Director

OPERATIONAL REVIEW

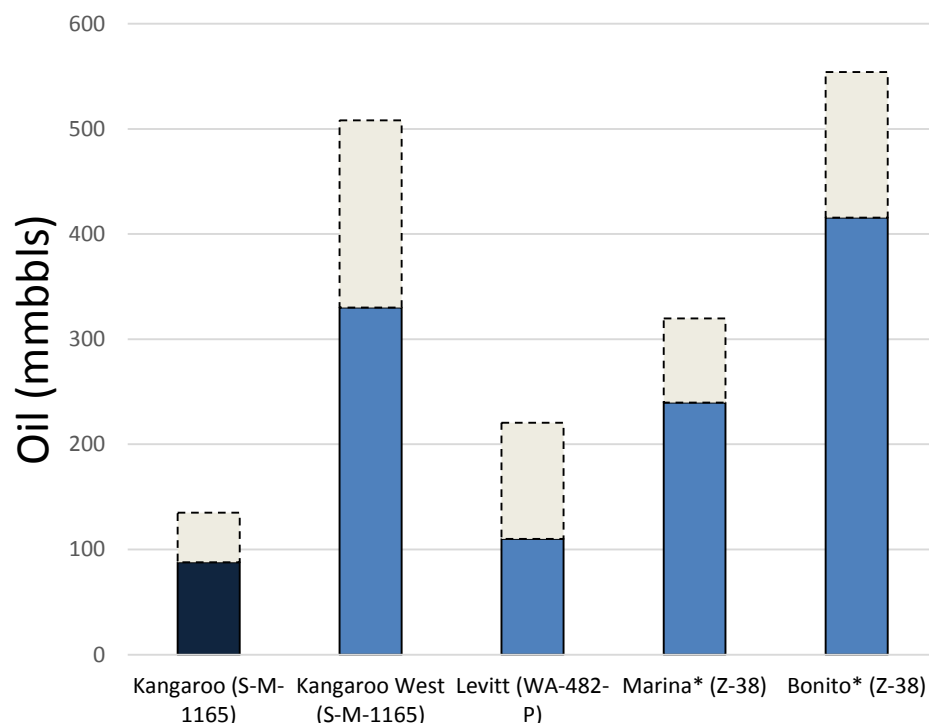
Mark Smith,
Director of Exploration

Karoon's Global Footprint



Drilling Inventory – Oil Opportunity

Unrisked Mid Case Resource Estimate



Resource Classification

NET (to Karoon) Contingent Resource[#] – 2C

NET (to Karoon) Un-risked Prospective Resource[#] – Best Estimate

Net to JV Partner



Type

Discovery - Kangaroo

Prospect - Kangaroo West, Levitt, Marina*, Bonito*

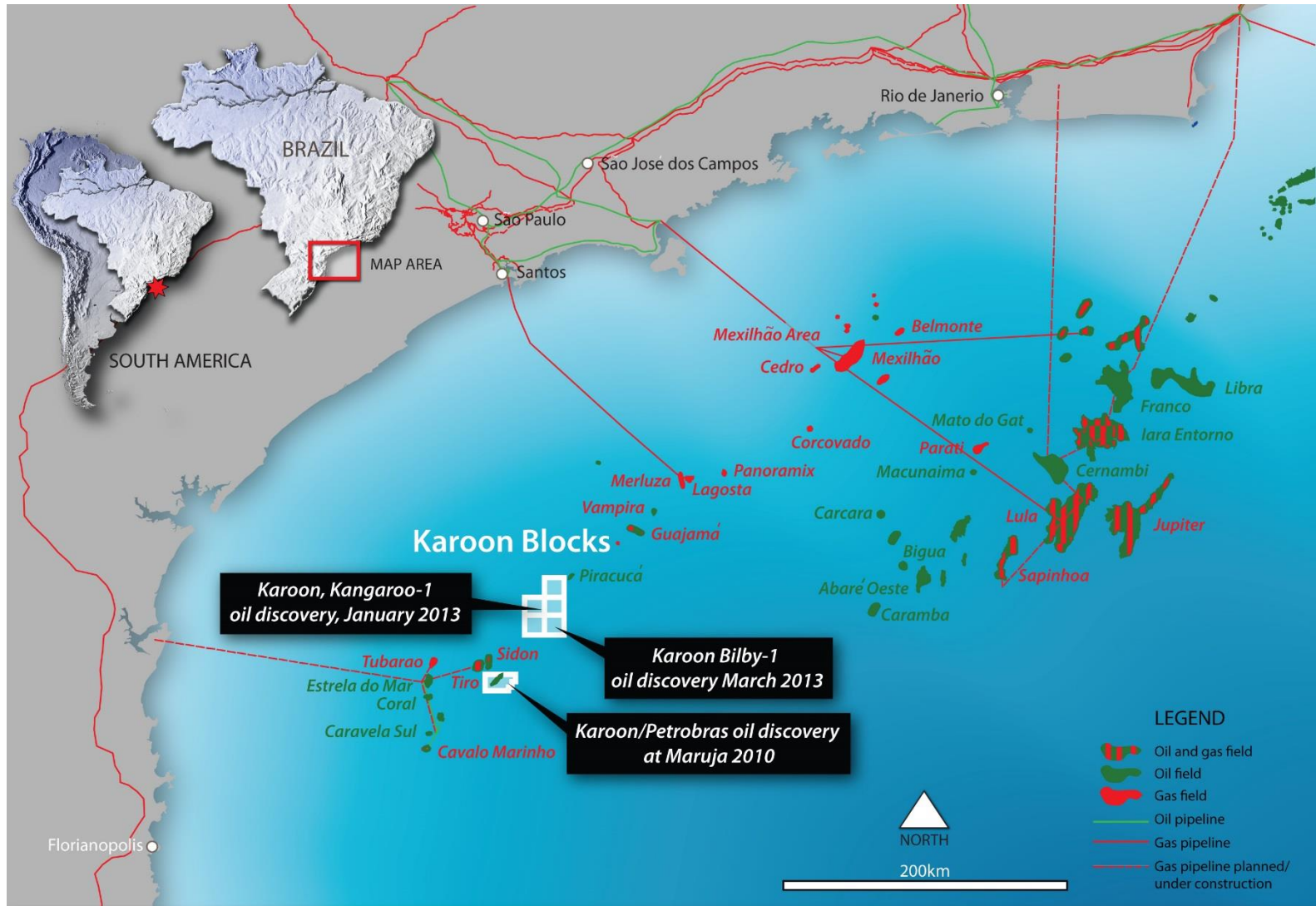
18 month drilling inventory key takeaways:

- First well, Kangaroo-2, appraising the Kangaroo light oil discovery
- 4 exploration wells targeting oil and a total prospective resource Best Estimate:
 - Net to Karoon, UNRISKED 1.1 Bn bbls
 - Net to Karoon, RISKED 287 mmbbls
- Preliminary economic analysis of development scenarios suggest the NPV US\$ / bbl range for discovered pre-development resources is:
 - US\$5 – US\$12 / bbl

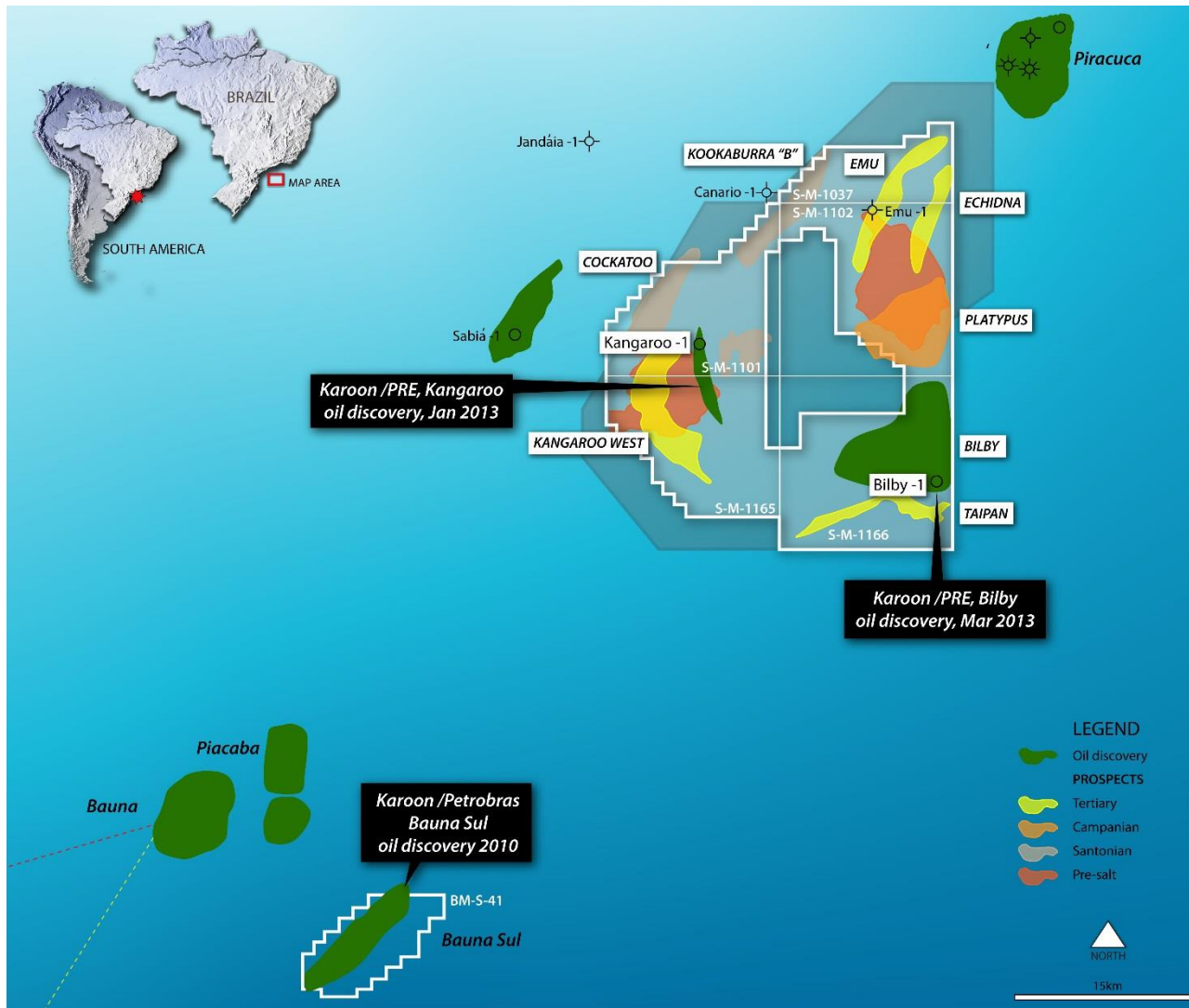
* Exploration wells remain subject to farmout. Net prospective resource presented represents Karoon's 75% interest

Refer to End Notes on page 30

Appraisal Phase – Santos Basin



Santos Basin – 5 Blocks



Blocks S-M-1037, 1101, 1102, 1165, 1166

Equity Interests:

- 65% Karoon (Operator)
- 35% Pacific Rubiales

Operations:

- Pre-FEED studies complete
- 'Olinda Star' rig contracted for up to 4 wells
- 180 day extension for 2014 commitment period

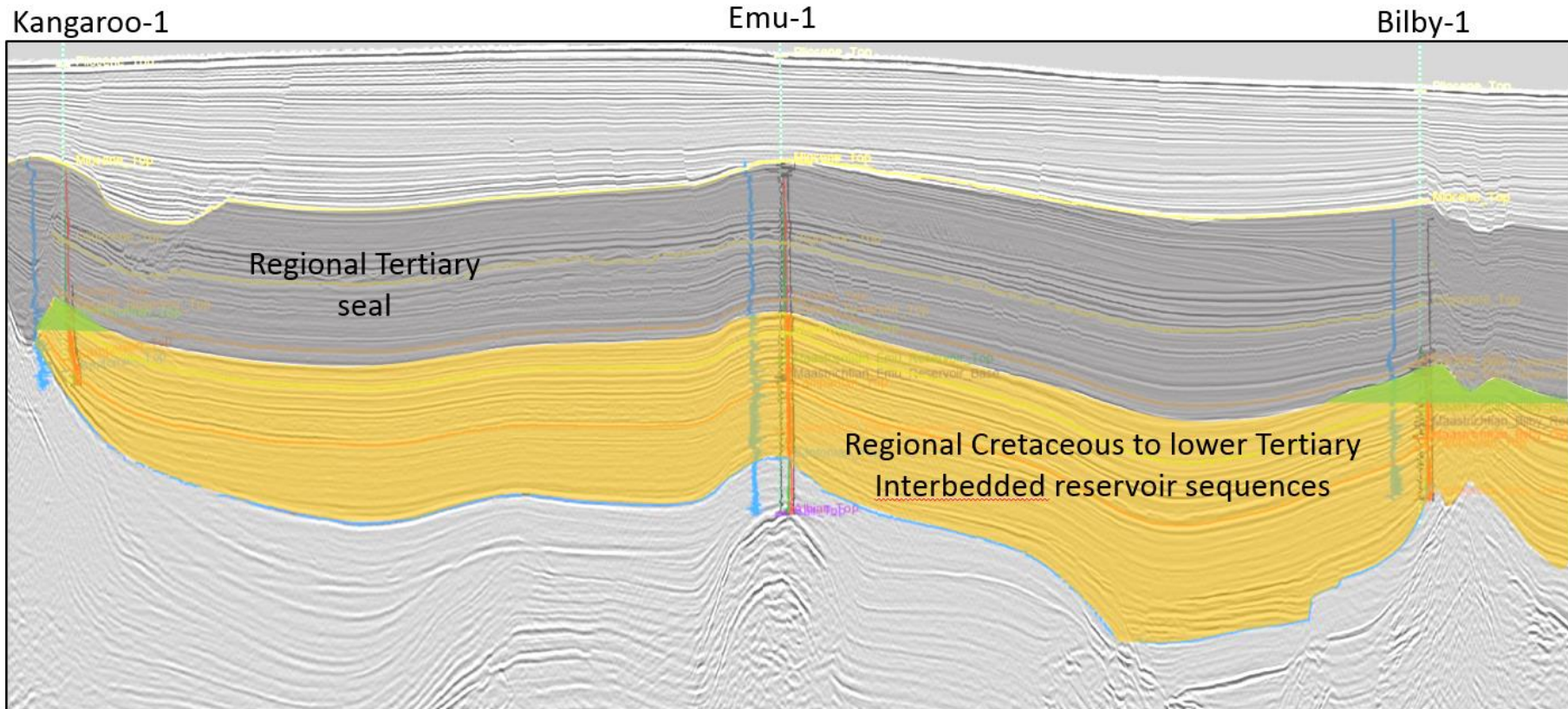
Forward Plan:

- Drilling campaign to commence November 2014
- Limited appraisal drilling required
- Integrated production hub potential

Farmout:

- Farmout discussions on-going

Uniform Reservoir & Seal Sequences

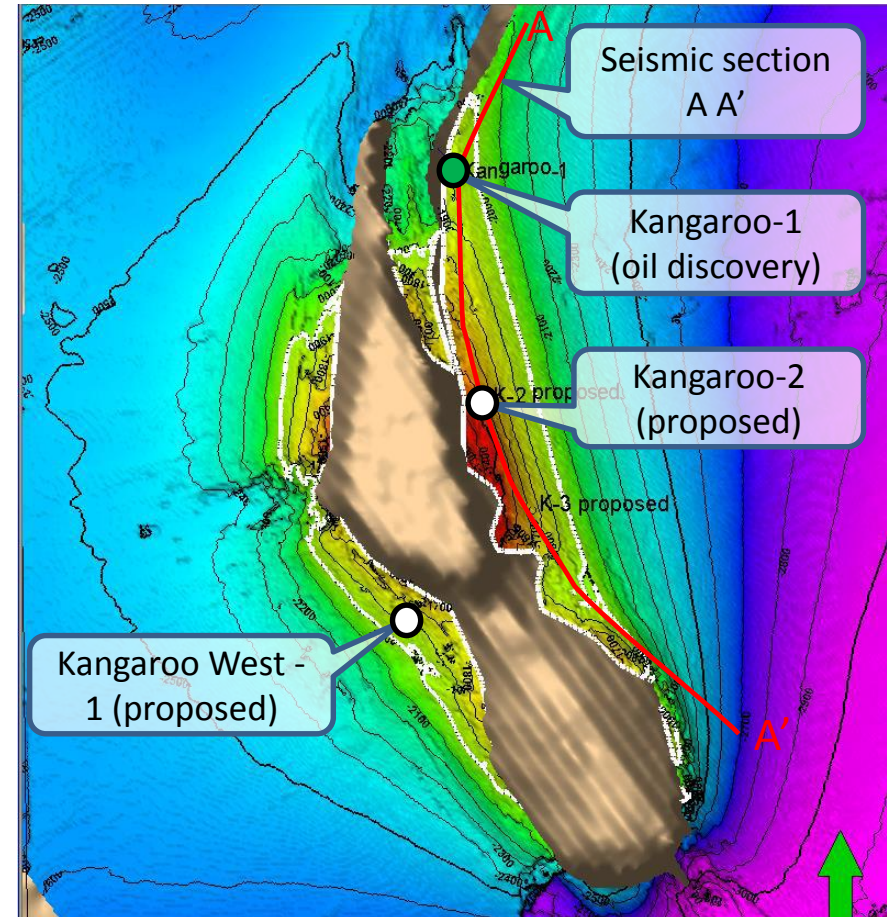


Regionally developed uniform reservoir and seal sequences influenced by salt movement

Santos Basin – Well Locations

Kangaroo discovery and Kangaroo West prospect

- The primary objective of the first well is the lower risk appraisal of the Kangaroo oil discovery by drilling Kangaroo-2 300m updip from Kangaroo-1
- The Kangaroo oil field and Kangaroo West prospect structures are developed on the flanks of an elongate salt diapir
- Excellent 3D seismic data quality
- Kangaroo West is a proven play type, located on the western flank. Good well control with the same trap type and reservoir and seal intervals mapped into the prospect from surrounding wells



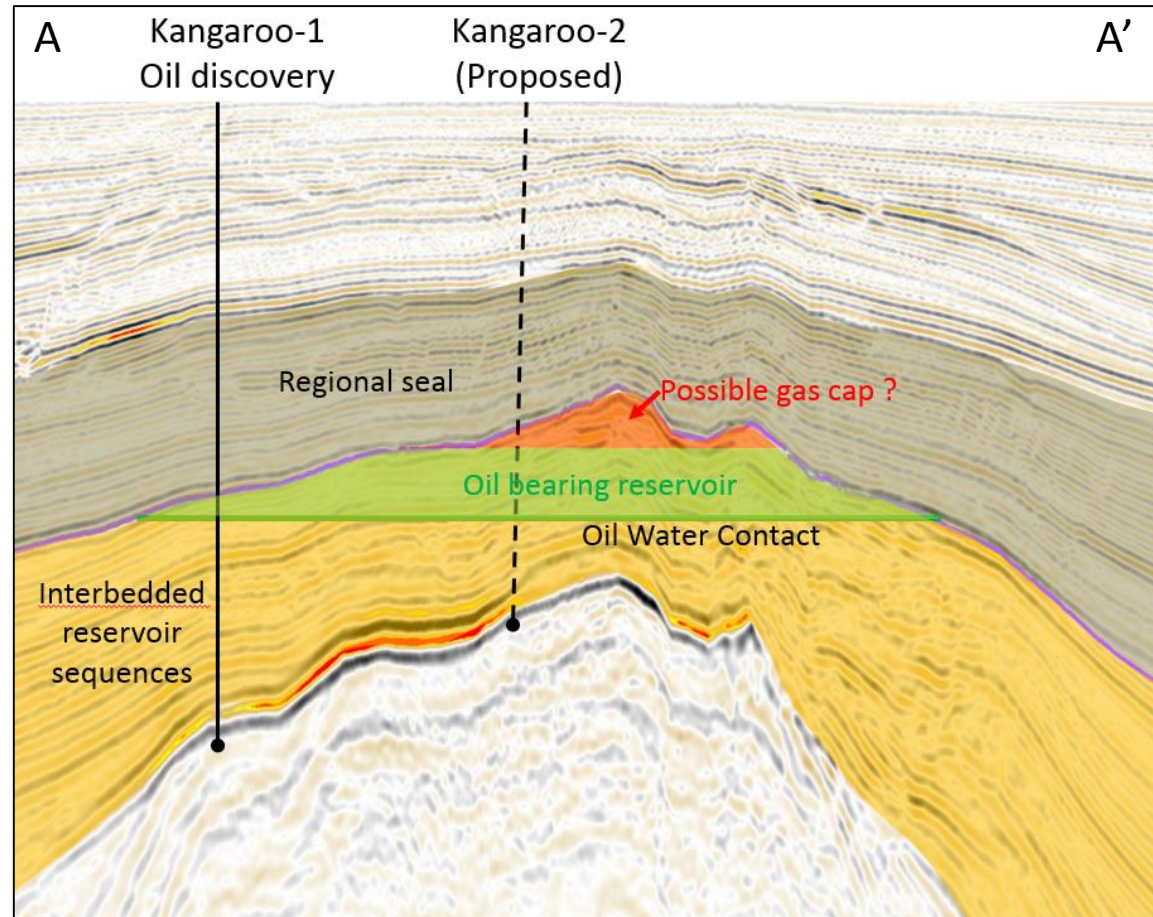
Internal Assessment			Net Contingent Resource (Discovered)			Net Un-risked Prospective Resource [#] (Undiscovered)		
Discovery / Prospect	Interest	Type	1C	2C	3C	Low	Best	High
Kangaroo	65%	Oil (mmbbls)	7	88	317	-	-	-
Kangaroo West	65%	Oil (mmbbls)	-	-	-	15	330	1,193

Santos Basin – Kangaroo Field

Kangaroo Oil Discovery

- Kangaroo-2 appraisal well will determine:
 - the size of the oil column,
 - presence & size of a possible gas cap,
 - reservoir continuity / properties, &
 - flow rates.
- Kangaroo-2 positioned 300m updip from the Kangaroo-1.
- Kangaroo-1 pressure data and recovered oil samples confirms 76 metre oil column in Eocene interbedded sands.
- Oil measured at 40 degrees API.
- Reservoir porosities estimated in the range of 25 to 32%. Permeabilities measured from 10 to >1000md
- Deeper Eocene to Maastrichtian interbedded sands are expected to be within the hydrocarbon column higher in the structure

N-S seismic section AA' through Kangaroo field



Exploration Pipeline – Carnarvon Basin

Permit WA-482-P

Equity Interests:

- 100% => 50% Karoon
- 0% => 50% Apache (Operator)

Farmout:

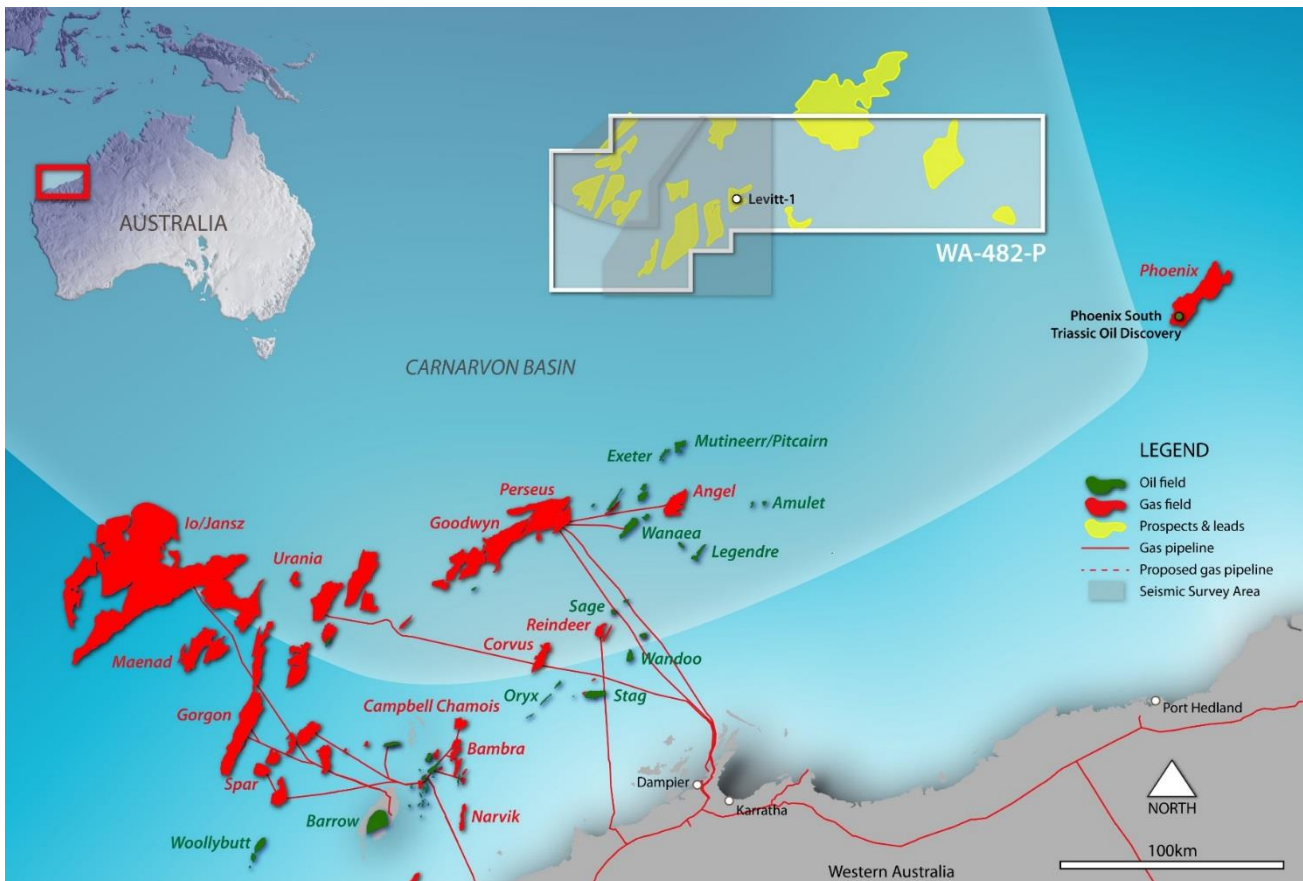
- Complete
- World class partner
- US\$9 million backcosts plus 90% carry 1 well

Operations:

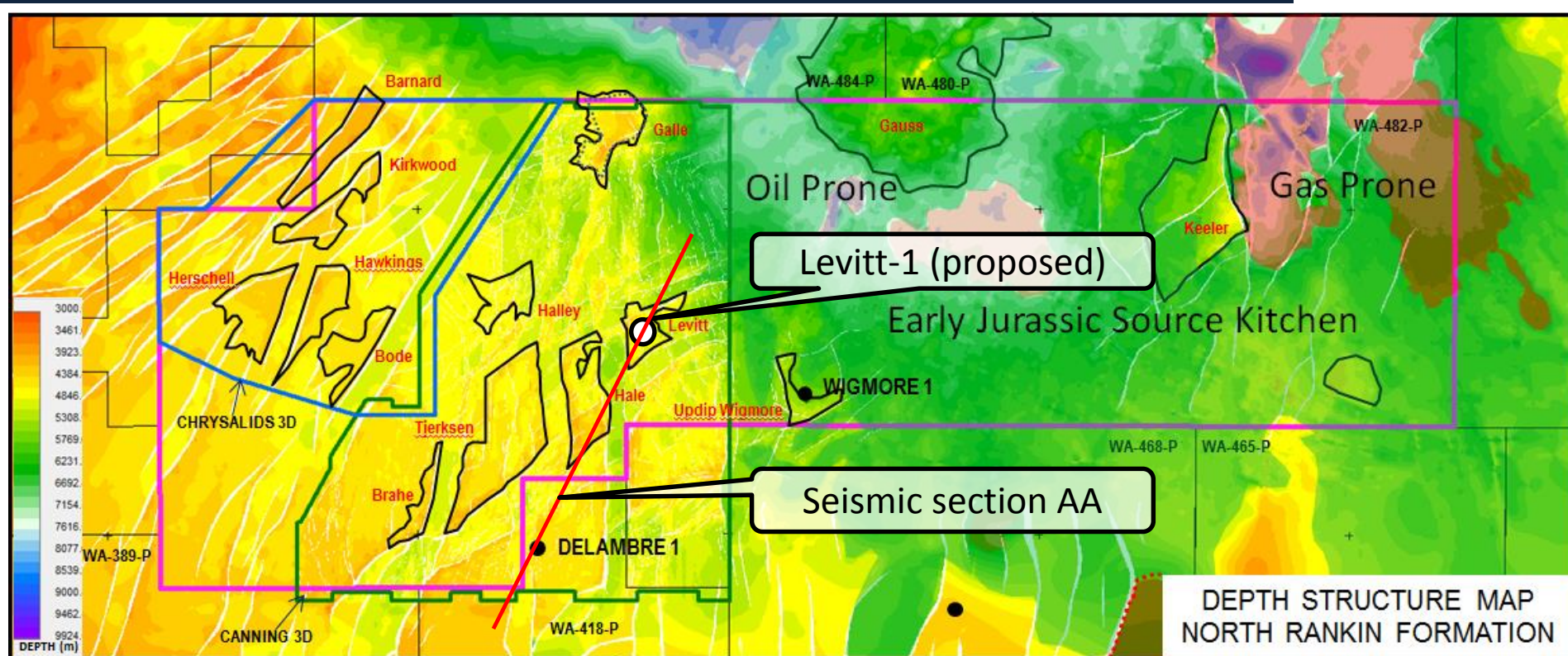
- Chrysalids 3D seismic survey data processed and received

Forward Plan:

- Drilling Levitt-1 scheduled 1HCY15



Carnarvon Basin – WA-482-P

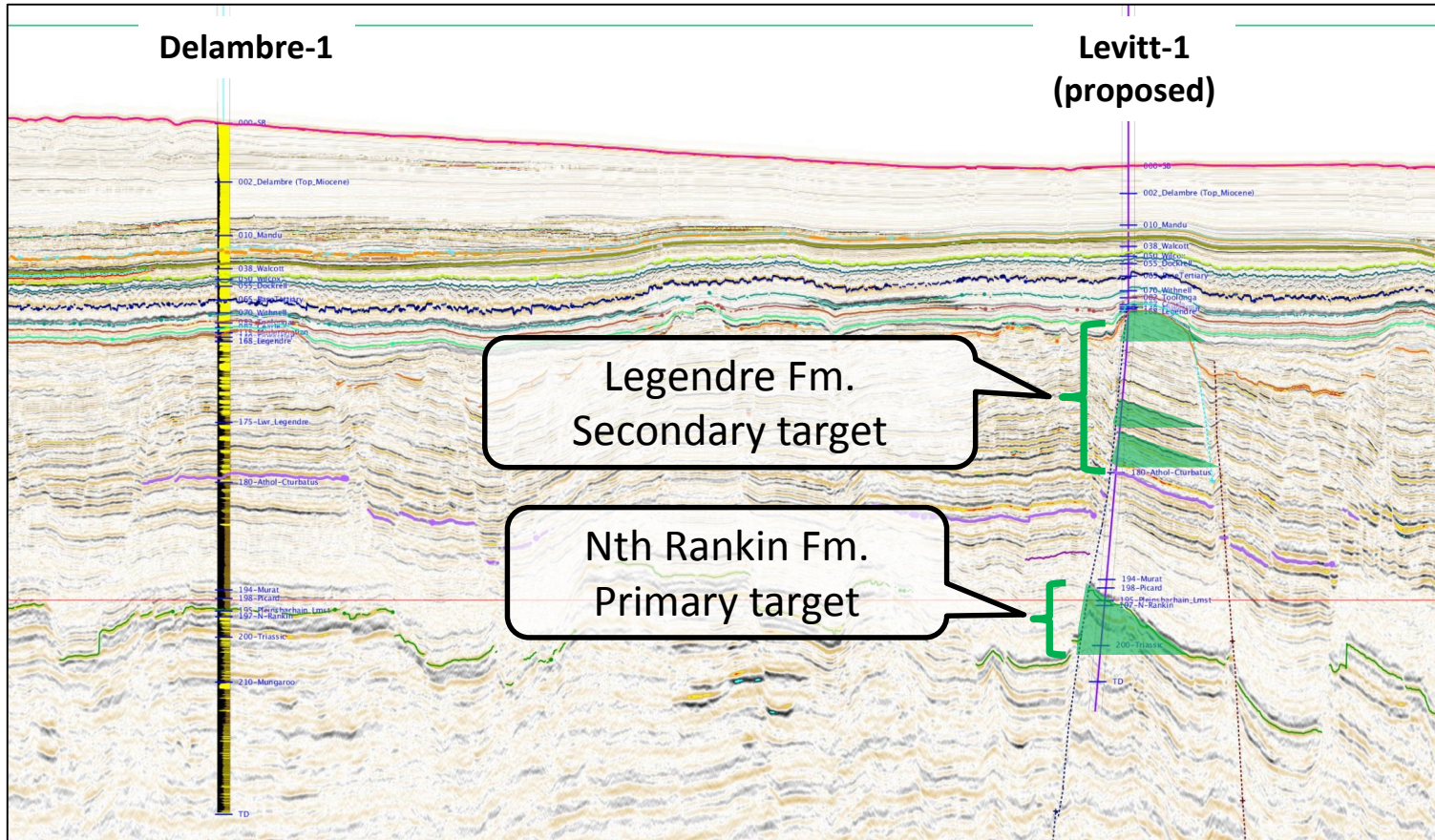


- Levitt-1 is well positioned to receive migrating hydrocarbons from the oil mature Early Jurassic source kitchen.
- Primary target North Rankin formation and secondary target Legendre formation

Independently Assessed			Net Un-risked Prospective Resource [#] (Undiscovered)		
	Interest	Type	Low	Best	High
WA-482-P (Permit)	50%	Oil (mmbbls)	375	1,117	2,837
Levitt (Prospect)	50%	Oil (mmbbls)	36	110	275

Carnarvon Basin – WA-482-P

N-S seismic section AA through Levitt Prospect



Levitt-1

Prospective targets at Legendre and North Rankin Fm. levels.

Gross unrisked prospective resource 220mmbbls, 110mmbbls net

Delambre-1. Dry well with structure located in migration shadow.

Exploration Pipeline – Tumbes Basin

Block Z-38



LEGEND

- Gas pipeline
- Oil field
- Gas field
- Basin Depocentre
- Prospect
- Drop core oil recovery
- Proposed well locations

Talara Basin Oil & Gas Fields
1680 mmbbl

MAP AREA

PERU

SOUTH AMERICA

NORTH

30km

Block Z-38

Equity Interests:

- 75% Karoon (Operator)
- 25% Pitkin Petroleum

Operations:

- EIA regulatory approval received mid 2013
- Prospect evaluation complete
- Block currently in force majeure, effective September 2013 (22 months remaining)

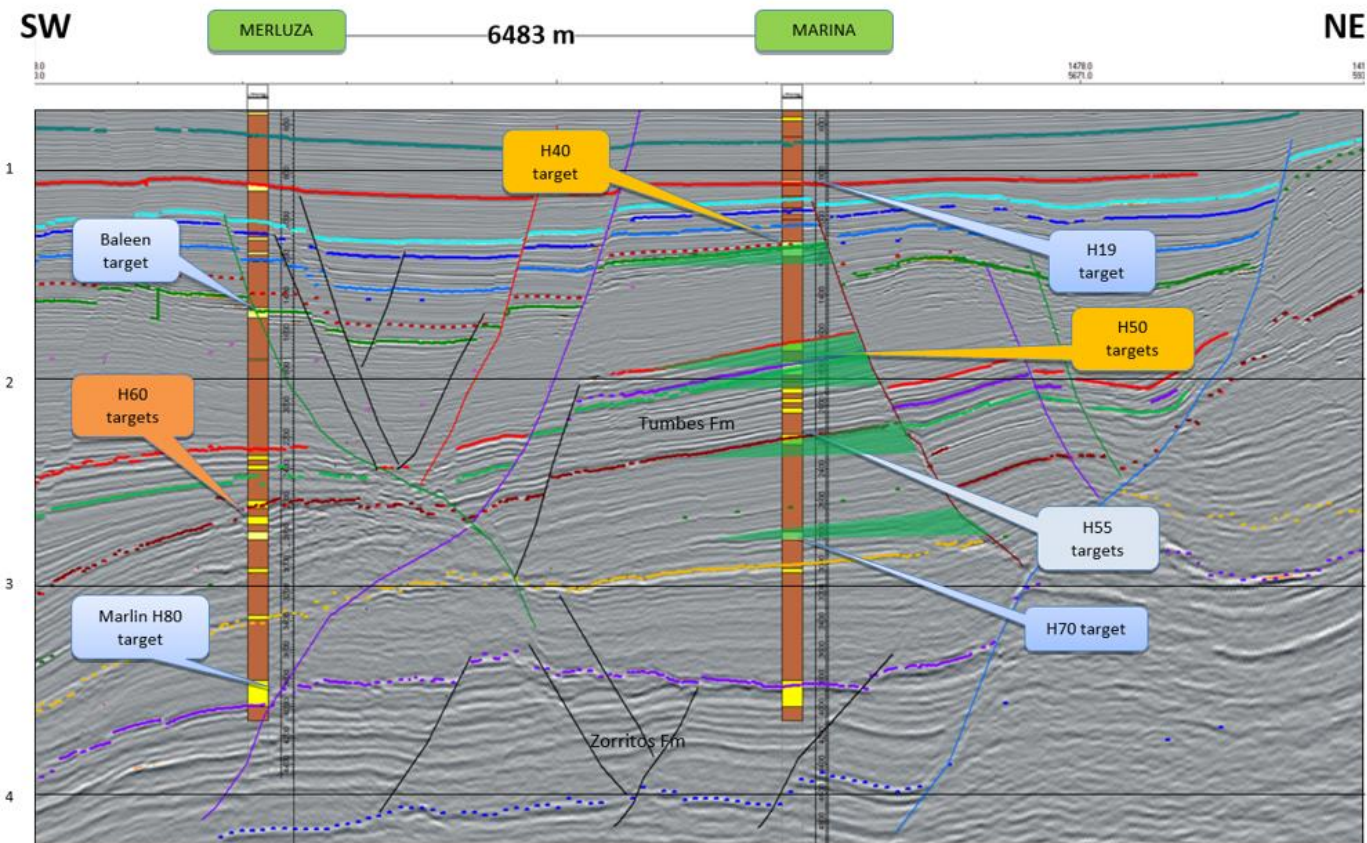
Forward Plan:

- Drilling planned to commence 2015, remains subject to farmout
- Initial 2 wells planned

Farmout:

- Discussions remain ongoing

Tumbes Basin Z-38 Marina Prospect

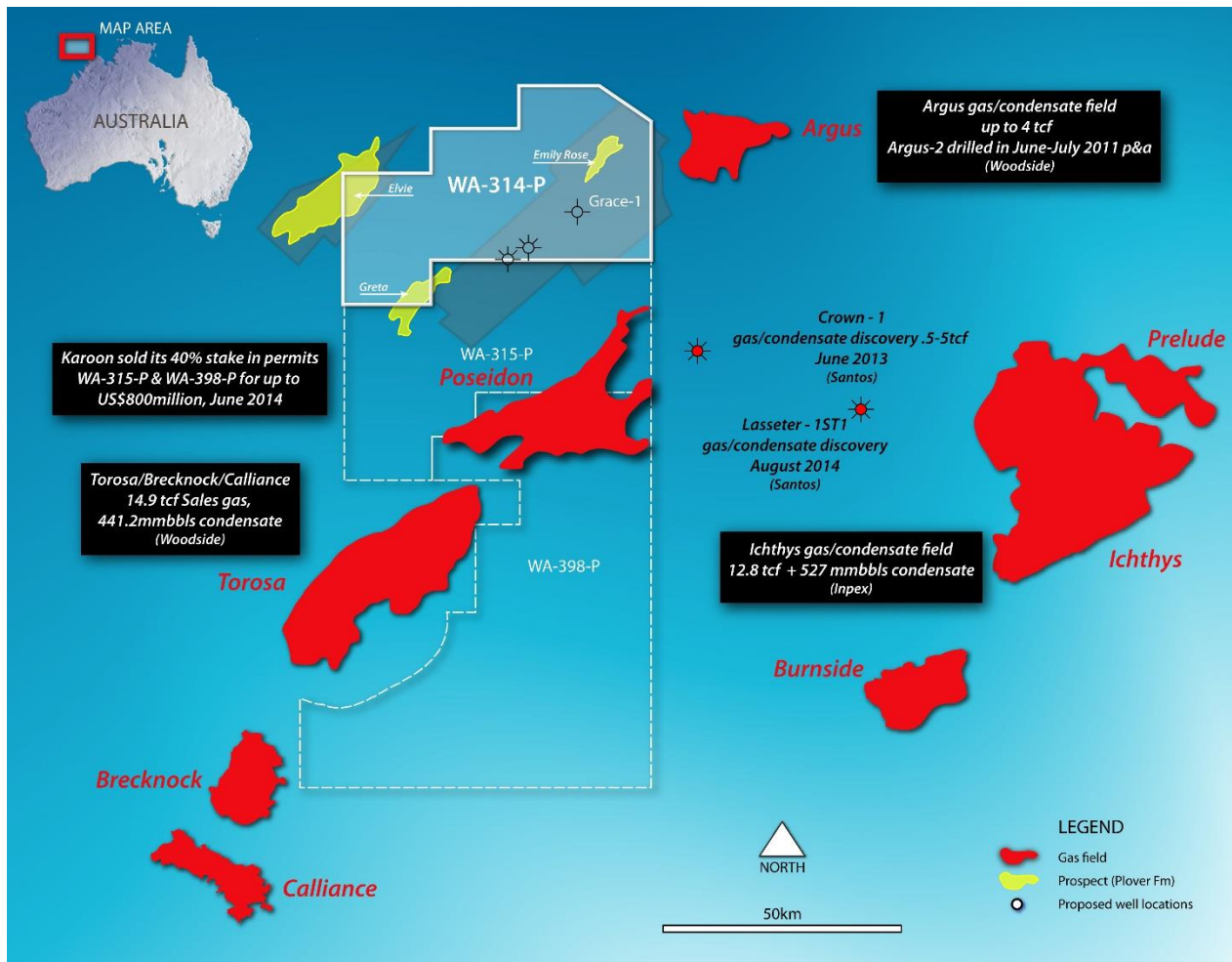


Indicative
hydrocarbon
column

Principal targets between H40 & H55 but secondary targets from 800-4000m. H70 target equivalent to 36 API oil sand in 15-X-1 well

Independently Assessed	Net Un-risked Prospective Resource [#] (Undiscovered)				
	Interest	Type	Low	Best	High
Z-38 (Block)	75%	Oil (mmbbls)	686	1,686	3,764
Marina (Prospect)	75%	Oil (mmbbls)	129	240	405
Bonito (Prospect)	75%	Oil (mmbbls)	186	415	953

Exploration Pipeline – Browse Basin



Permit WA-314-P

Equity Interest:

- 90% => 100% Karoon (Operator)
- 10% => 0% ConocoPhillips

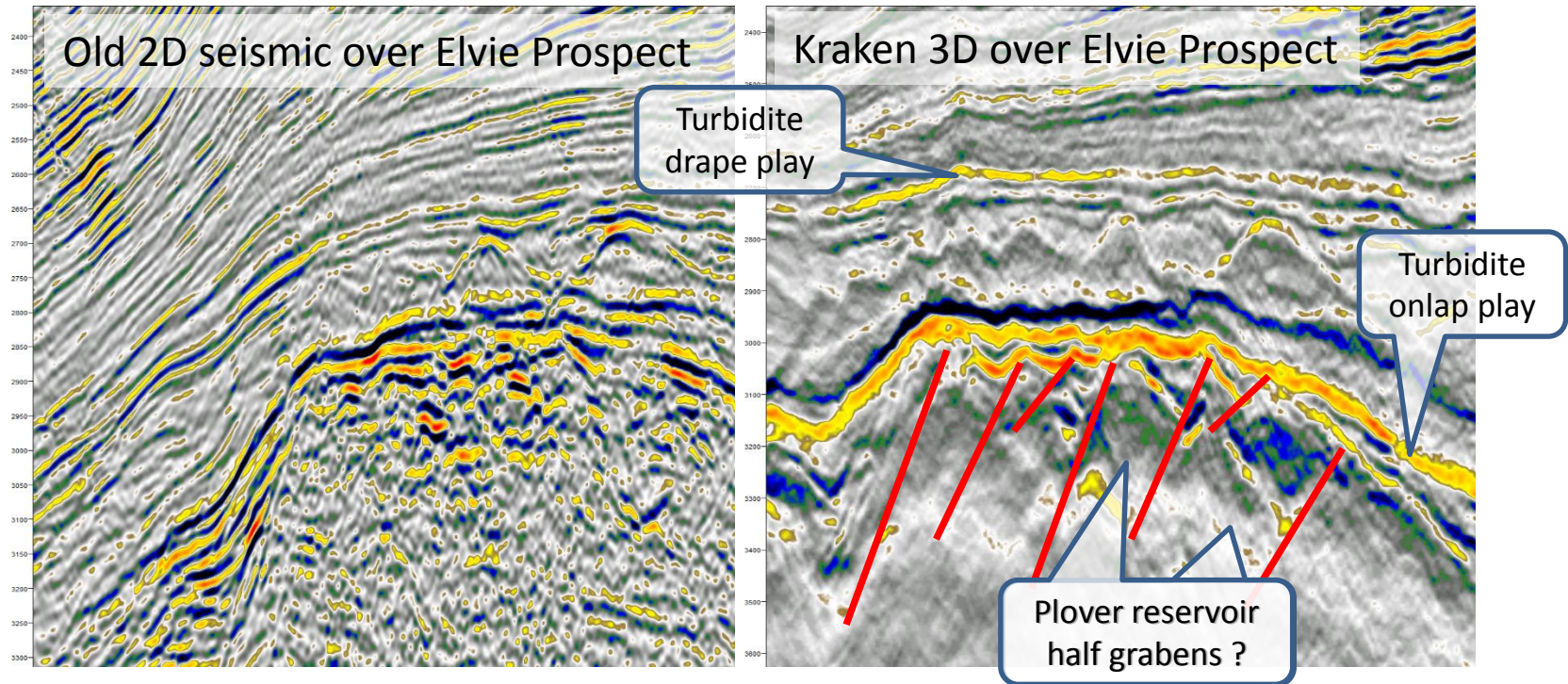
Operations:

- Kraken 3D seismic processed data received
- Current (Year 6) work program commitment comprises G&G studies
- NO current well commitment

Farmout:

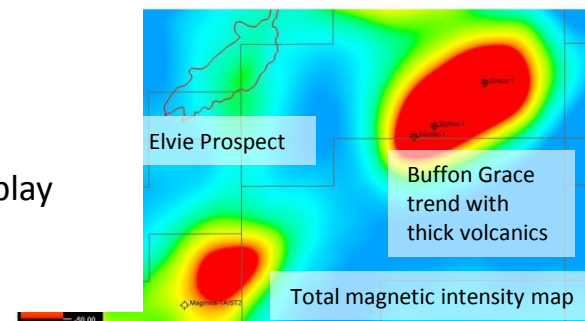
- Formal farmout process to recommence prior to YE
- Discussions remain ongoing

WA-314-P – Seismic

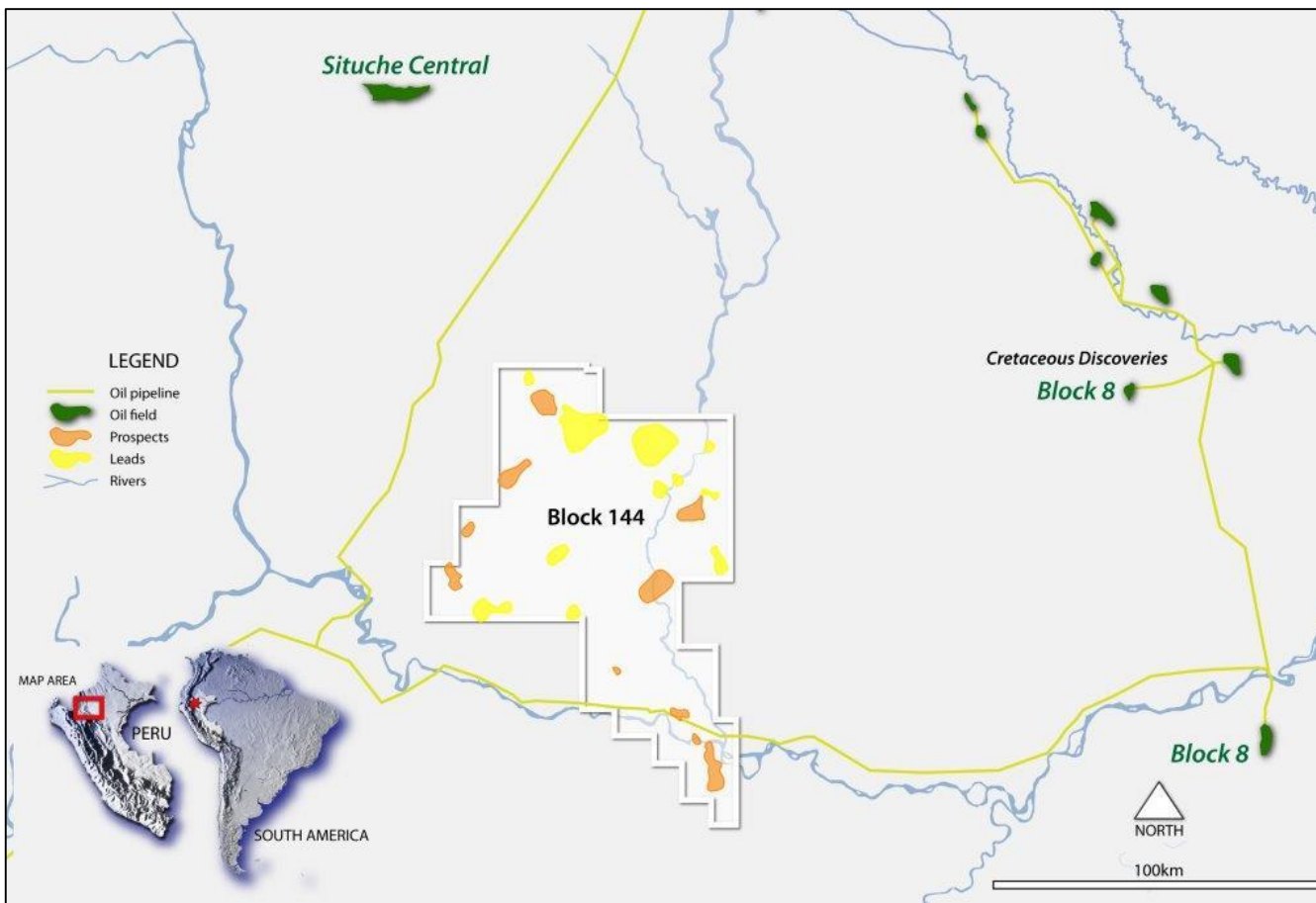


Results;

- Accurate depth imaging under rugose sea-floor
- Imaging of fault blocks that underpin the Elvie 4-way closure
- Imaging of Jurassic half grabens (primary reservoir target)
- Enhanced detail in Late Cretaceous/Early Tertiary turbidite drape play
- Magnetics indicate low impact of volcanics at Elvie prospect.



Exploration Pipeline – Marañón Basin



Block 144

Equity Interest:

- KAR 100% (Operator)

Operations:

- Block is currently in force majeure, effective from June 2012

Farmout:

- Farmout process commenced, preliminary interest received

Resource Summary – NET to Karoon



The estimated quantities of petroleum that may potentially be recovered by the application of a future development project relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. There is no certainty that any portion of the prospective resource estimated on behalf of Karoon will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources evaluated.

Independently Assessed - DeGolyer & MacNaughton					NET Contingent Resource (Discovered)			NET Un-risked Prospective Resource (Undiscovered)		
Permit	Interest	Basin	Country	Type	1C	2C	3C	Low	Best	High
WA-314-P*	100%	Browse	Australia	Wet Gas (Bcf)	-	-	-	559	1,096	2,051
Total - Wet Gas					-	-	-	559	1,096	2,051
Permit / Block	Interest	Basin	Country	Type	1C	2C	3C	Low	Best	High
WA-482-P*	50%	Carnarvon	Australia	Oil (mmbbls)	-	-	-	375	1,117	2,837
Block Z-38*	75%	Tumbes	Peru	Oil (mmbbls)	-	-	-	686	1,686	3,764
Block 144*	100%	Maranon	Peru	Oil (mmbbls)	-	-	-	53	107	195
Total - Oil					-	-	-	1,113	2,910	6,796

Internally Assessed					NET Contingent Resource (Discovered)			NET Un-risked Prospective Resource (Undiscovered)		
Discovery / Prospect	Interest	Basin	Country	Type	1C	2C	3C	Low	Best	High
Kangaroo**	65%	Santos	Brazil	Oil (mmbbls)	7	88	317	-	-	-
Kangaroo West***	65%	Santos	Brazil	Oil (mmbbls)	-	-	-	15	330	1,193
Total Oil					7	88	317	15	330	1,193

* 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'.

** The Kangaroo contingent resource as assessed 31 July 2013 has previously been disclosed in Karoon's 1 August 2013 announcement, 'Kangaroo Oil Discovery Contingent Resource Upgrade'. The announcement referred to gross contingent resource numbers, 1C: 11 mmbbls, 2C: 135 mmbbls, and 3C: 487 mmbbls, where as the table above presents them on a net basis. The discovered resource is categorised as a contingent resource because further evaluation is required to confirm commerciality.

For the contingent and prospective resource estimates previously announced and referred to in the 2 paragraphs immediately above, Karoon is not aware of any new information or data that materially affects the resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

*** The Kangaroo West net un-risked prospective resource estimates were assessed by Karoon's Engineering Manager, Mr Lino Barro on 30 April 2014 (see Competent Persons Statement below). They based on seismic survey data, nearby well data and other geologic information and prepared on a deterministic method in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers.

SPE-PRMS Standards - Society of Petroleum Engineers- Petroleum Resource Management System-Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be discovered accumulations, resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

Competent Persons Statement – Mr Lino Barro, Karoon Gas Australia Ltd Engineering Manager - Any petroleum reserves, contingent resources and prospective resources information contained in the following Corporate Presentation relating specially to Santos Basin, Brazil, exploration blocks S-M-1037, S-M-1101, S-M-1102, S-M-1165, S-M-1166 are based on, and fairly represent, information and supporting documents prepared by, or under the supervision of, Mr Lino Barro, Karoon Gas Australia Ltd Engineering Manager. Mr Barro has the following qualifications B.Eng. (Chemical), MBA. Mr Barro is a member of the Society of Petroleum Engineers. Mr Barro has consented in writing to the inclusion of this information in the format and context in which it appears.

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End Note

This estimate of prospective petroleum resources must be read in conjunction with the cautionary statement on page 20 that the estimated quantities of petroleum that may potentially be recovered by the application of a future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.