

31 October 2013

**ASX Announcement**



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**2013 Annual General Meeting Chairman's Address**

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Good morning and welcome to Karoon Gas Australia's 2013 Annual General Meeting.

My name is Bob Hosking, and as Karoon's Chairman and Chief Executive Officer, I would like to thank our shareholders, staff and guests for attending today's meeting.

I am joined on the stage to my left, by our Executive Director and Head of Exploration, Mark Smith and our Chief Financial Officer and Company Secretary, Scott Hosking. I would also like to take this opportunity to introduce the non-executive members of our Board of Directors, Geoff Atkins, Clark Davey, Stephen Power and Jose Coutinho Barbosa.

Geoff is a civil engineer with over 40 years' experience in the investigation, planning, design, documentation and project management of numerous significant port, harbour and maritime projects. Specifically, Geoff has been involved in the design of Woodside's Pluto LNG jetty, the tender design for ConocoPhillips' Darwin LNG jetty and the James Price Point peer review.

Clark has over 30 years of experience as a taxation consultant to oil and gas, and mining companies and is a former partner of PricewaterhouseCoopers specialising in the natural resource sector. Clark has provided taxation advice for at least 3 of the super major oil companies with respect to income tax and the Petroleum Resource Rent Tax and provided taxation advice in Shell's failed attempt to buy Woodside in 2003.

Stephen is a commercial lawyer with over 25 years of providing advice to the resource industry globally. Stephen was in Columbia representing Karoon in the Pacific Rubiales farm-out deal, a deal which provided US\$250million in funding for the Phase 1 Santos Basin exploration drilling campaign.

Coutinho is an industry veteran with close to 50 years' experience and a geophysicist by training. Coutinho spent 38 years with one of the world's biggest oil companies and Brazil's biggest company, Petrobras, with a career culminating in his position of President and CEO. This brings a wealth of industry and country specific knowledge to Karoon. To give you some context of who Petrobras is on a global scale, they produce approximately 3.5x more oil and gas than BHP Billiton.

In addition to the strength of our Board, over the past decade I have built a geophysical and geotechnical team with over 600 years of relevant experience. This team has delivered an off-shore exploration success rate of 69% over the life of the company.

And more recently we have also built drilling capabilities with our former Exxon Mobil, South American drill team. The team has drilled over 500 off-shore wells all over the globe and drilled Exxon's pre-salt wells in Brazil, Angola and Mexico. They also drilled Karoon's first ever operated off-shore drilling campaign in the Santos Basin on time, on budget and with no significant injury.

Operationally, the 2013 financial year was a very successful year.

We built on our exploration successes with 2 additional gas discoveries in our Browse Basin project and 2 oil discoveries in the Santos Basin.

The 2 oil discoveries in the Santos Basin are another great illustration of Karoon applying its craft, ie the geotechnical workup of early stage exploration acreage and ultimate discovery of hydrocarbons.

This represents an 80% exploration drilling success rate during the financial year.

Subsequent to the financial year end, a further gas discovery was made in the Browse Basin at Proteus-1.

In addition to this exploration success, Karoon completed the farm-out of a 35% equity interest in the wholly owned Santos Basin blocks to Pacific Rubiales, acquired an additional early stage exploration opportunity in the North Carnarvon Basin and secured environmental approvals for the Tumbes Basin drilling campaign planned for mid 2014.

Subsequent to financial year end, Karoon announced an expanded contingent resource for the Kangaroo oil field in the Santos Basin, and the prioritisation of the Kangaroo field appraisal in parallel with pre-FEED (Front End Engineering and Design) studies to accelerate a possible final investment decision.

Importantly, the Kangaroo discovery has the potential to be transformational for the company providing a platform for Karoon to first production and consequently cash flow.

Despite this exploration success, the last 18 months has seen continued volatility in Karoon's shareprice performance.

This volatility can be attributed to a combination of a muted appetite for exploration companies globally as investors favour cash flows and yield, along with investor concerns over new Australian LNG supply. These concerns over future Australian LNG supply are a result of capex pressures eroding the competitiveness for Australian LNG projects and concerns over potential competing LNG supply from North America and East Africa.

In addition to these exogenous factors we also recognise investors would like to see Karoon monetise the value created in our projects from our exploration successes.

One of the items of business at today's meeting is the adoption of the Remuneration Report for the year ended 30 June, 2013. From the proxies lodged prior to the meeting, it appears likely that the Company will not receive the required voting support for the adoption of the Report.

As a Company we take the remuneration of Karoon's Directors and management seriously and seek to take a prudent and proper approach to this issue.

However, we also recognise there are larger concerns behind the voting in this resolution. As mentioned, shareholders want to see this step up in the value of our assets demonstrated through further farm-outs. This will also provide clarity around funding for Karoon's forward drilling campaigns.

To this end, Karoon has retained global investment banks and formalised the farm-out process.

I want to emphasise Karoon remains committed to, and confident of completing each farm-out in a reasonable timeframe. Strong interest remains across the 3 off-shore basins, and, more recently Karoon has received new interest from additional major oil companies and Asian utilities.

The decision in August to raise \$175m in cash from issuing new equity was not taken lightly; however it was a necessary measure to retain the financial flexibility during these farm-out negotiations to obtain the best possible outcome for our shareholders.

The resumption of exploration drilling in April 2012 followed an 18 month period, where due to factors out of our control, Karoon didn't have any exploration drilling to speak of. This was both frustrating for management and for our shareholders.

However once exploration drilling recommenced in April 2012, Karoon continued its early Browse Basin exploration successes with 5 new discoveries in 2 Basins around the world. Mark will discuss these in more detail in a moment.

The exploration drilling hiatus also meant it condensed our current and planned drilling campaigns into a 24 to 36 month block of which we are 12 months into now. Looking forward, the next 12 to 24 months holds a significant amount of exploration and appraisal drilling activity.

In the Browse Basin, the Grace-1 exploration well is expected to reach total depth during December. The Grace-1 well is targeting a multi tcf prospective resource, and is located in exploration permit WA-314-P in which Karoon owns a 90% equity interest. Grace will be followed by a further 2 exploration wells on the Greater Poseidon structure, with one additional option well remaining to complete the Browse Basin Phase 2 drilling campaign.

At the completion of the campaign we will have a better understanding of the size and quality of the Greater Poseidon resource and expect to be in a position to provide a revised certified contingent resource range.

While I highlighted previously some of the specific challenges facing new Australian LNG supply, I wanted to highlight there is still significant strategic value in Browse Basin LNG opportunities and the rationale behind our selection of joint venture partner in ConocoPhillips.

In the last 18 months MIMI, PetroChina and Shell all acquired / increased an equity interest in Woodside's Browse Project. And closer to home, PetroChina purchased a 20% equity interest in Karoon's Poseidon Project from ConocoPhillips for a reported \$370 million. This transaction was done prior to the discoveries made at Zephyros and Proteus which have added significant resource volumes to the Poseidon resource.

In addition, the Ichthys LNG project and world first Prelude Floating LNG project were approved for development and there was ongoing exploration drilling activity from major oil and gas companies in nearby permits.

With respect to the selection of our joint venture partner in the Browse Basin, it was Conoco's majority ownership and operator status in the Bayu Undan / Darwin LNG project that ultimately attracted us to them. Darwin LNG facility has a current installed capacity of 3.7mtpa of LNG, but the site has government approvals for up to 10mtpa. Conoco's involvement logically provides the joint venture with possible backfill or brownfield commercialisation options as potential development scenarios. In fact, our partner Conoco has recently commenced planning and survey work for pipeline development options between the Browse and Darwin LNG Projects in addition to related development planning.

In the Santos Basin, we expect to commence the Phase 2 appraisal and exploration drilling campaign during the March quarter next year. This campaign will prioritise the appraisal of the Kangaroo discovery and de-risked exploration wells like Kangaroo West, which is designed to add meaningful resource to the Kangaroo field.

The long lead items have been delivered and several rigs have been identified and discussions with rig owners are at an advanced stage. Final regulatory approvals from the Brazilian regulator, the ANP, are expected in mid to late November after which time we expect to finalise the rig contract.

In September this year we entered into pre-FEED studies on the Kangaroo field due to its favourable contingent resource size, oil quality, reservoir properties and water depth. Karoon will do the early stage engineering work in parallel with the appraisal and exploration drilling to fast track any potential development decision.

While I am discussing Kangaroo, I wanted to touch on the theory of 'closeology' for a moment to give a flavour for what we hope and expect to achieve with our discovery.

The Kangaroo discovery is on trend, less than 40 kilometres away and importantly in the same geologic level as Petrobras' Bauna / Piracaba development (formerly Tiro / Sidon). While reserves are only 120mmbbls, the Bauna / Piracaba field has very good quality reservoir characteristics and we understand is producing approximately 70kbpd.

A prominent global investment bank estimates this development is one of Petrobras' most profitable sources of new supply, and ranks as one of the lowest cost developments this decade.

While we need to do more drilling at Kangaroo, the reservoir looks to be good quality and the contingent resource size has the potential to be very material.

Following the commencement of drilling in the Santos Basin, We expect drilling in the Tumbes Basin, off-shore Peru to commence in mid-2014. The Tumbes Basin program is best described as a high impact frontier exploration campaign. Long lead items have been received, environmental approval has been given and discussions with rig contractors are underway.

Karoon has selected the preliminary locations for the first 2 wells which are planned to test 877 mmbbls of prospective resource of the 2.4 billion barrel gross unrisked mean prospective resource.

12 months from now when I take the stage to reflect on the past year, I would expect:

To have completed the Browse, Santos and Tumbes Basin farm-out processes, demonstrating the step up in value through the workup of the prospects, discoveries and subsequent appraisal programs.

Have completed the 6 firm well Phase 2 drilling campaign in the Browse Basin and have a revised certified contingent resource to present to you. I would also expect that at the end of this process we will have more detail to provide on any commercialisation options.

Drilled the first two firm wells planned for the Santos Basin Phase 2 drilling program. Following these 2 wells, we will have a better idea of the contingent resource range and will likely be able to provide more detail on a commercialisation concept and associated timeline for development.

To have commenced drilling at least one of the high impact frontier exploration wells our Tumbes Basin block.

I would also expect to have the early stage geotechnical work on the North Carnarvon permit complete and planning for drilling well underway.

I would now like to hand over to our Head of Exploration and Executive Director, Mr Mark Smith to give a short presentation of the company's current activities.

**For further information please see the Karoon website or contact:**

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