

KAROON GAS AUSTRALIA

CASHED-UP WITH PLENTY OF ENERGY

With substantial interests in 19 prospects and risked prospective resources totalling 1.23 billion barrels of oil equivalent, a cashed-up Australian explorer has no intention of remaining in the junior league.

IT IS DIFFICULT TO TELL who is the more eager for the next year to come to pass, Karoon Gas Australia's investors or the company itself.

Since listing four years ago, Karoon has created a petroleum exploration portfolio that spreads risk across two vastly different but valued regions, with the ultimate objective of becoming a global liquefied natural gas (LNG) and oil producer.

Accordingly, and with \$110 million cash in hand, it is about to embark upon one of the most ambitious seismic and drilling programs for an explorer of comparable size, hoping to realise optimal potential quickly and efficiently.

Karoon's Browse Basin partnership with ConocoPhillips is a major boost to plans, not to mention the credibility it attaches to Karoon's ability to pick an address.

Karoon will retain between 40% and 49% of the three contiguous blocks it acquired in the region between 2004 and 2007, and with ConocoPhillips' clout, the joint venture has been able to commit a combined \$250 million to a 2008-09 seismic and drilling program.

Furthermore, the partners have secured a 225-day semi-submersible rig contract from early next year. This means that for any good find in the Browse, appraisal drilling could likely begin to firm up quantities by this time next year.

The targets are multi-trillion cubic feet prospects, along trend with the Scott Reef and Brecknock fields, with Karoon responsible for 20% of the drilling and testing costs within two permits, and 40% within the third.

"The risked reserves are similar to those within the North-West

Shelf project," Karoon executive chairman Robert Hosking told *RESOURCESTOCKS*.

In addition, Karoon holds 67% of a Bonaparte Basin permit surrounded by the multi-billion dollar Kuda Tasi, Bayu Undan and Laminaria-Corallina projects.

Despite the large finds and several committed projects, the industry view is that there is plenty yet to be found and developed within the neighbourhood. The proximity of finds also strengthens prospects for forming timely and favourable partnerships.

Browse Basin/Timor Sea regional endeavour seems plenty for an explorer yet to realise cash flow, but Karoon's people are no novices when it comes to petroleum exploration and development, not to mention considerable commercial and legal nous.

Despite its prestigious southern hemisphere locations, Karoon is well aware of the risks in the petroleum game. Neither is it ignorant of the comparable opportunities and massive discoveries still being made in offshore Brazil.

Accordingly, this time last year the company was successful in picking up five Santos Basin exploration blocks.

Karoon's Santos Basin address is approximately 200km from the Petrobras Tupi and Carioca multi-billion barrel discoveries and the company is keen to complete 3D seismic programs as soon as practically possible.

Just two months after its Brazil purchase, Karoon further supplemented its exploration inventory with a 60% farm-in to an offshore northern Peru acquisition.

Adjacent blocks host multi-trillion cubic feet gas fields and profitable

oil production. Close to supporting infrastructure, the attraction of the area has been boosted even further with a \$300 million Shell farm-in to a block adjoining Karoon's.

"We are optimistic about our near and mid-term growth," Hosking offered. "Several new assets will require large work loads, but possess the potential for great value for shareholders on any success."

Karoon is no amateur when it comes to fund raising, either.

Time and time again it has attracted significant new investment, a \$51 million raising last November supplementing \$42 million of new investment just six months earlier.

"Solid demand for energy investments and our upcoming drilling program have helped," Hosking said.

Further ongoing support could be garnered by listing on overseas markets.

Hosking emphasises it would only be done at a time when value would definitely be created. However, he

Karoon and Browse Basin partner ConocoPhillips have contracted the semi-submersible SEDCO703 rig for up to 225 days from late 2008 to early 2009





also noted, "People understand energy better overseas."

With ample work on hand, Karoon is nonetheless also continuing due diligence on an onshore block in the Gippsland Basin, Victoria.

The company did, however, knock back the offer of geothermal acreage in Australia.

This is not to say Karoon would never consider this addition to its other energy production plans.

"Karoon remains interested in geothermal energy, but assessments of available acreage deemed them to be uncommercial for the company," Hosking said.

"That said, Karoon will continue to watch the progress of geothermal."

Karoon's direct workforce numbers just a dozen at the moment, supplemented by consultants in Peru and Brazil.

But given the potential for success in any of Karoon's holdings off Australia and South America, the company envisages possible considerable expansion.

With a share price that has held admirably through volatility and uncertainty and a strong cash position, investors remain keen for news from any one of Karoon's considerable opportunities.

Combine a seven-month Browse Basin drilling program due to commence at the latest by the end of March next year, 2D and 3D seismic assessments in Brazil and Peru over the next two years, and ongoing discoveries neighbouring Karoon's Timor Sea acquisition, and there is

every reason for optimism.

While confident in its achievements to date, however, Karoon remains focused and realistic.

"While we are at an exciting time, there is still risk involved with our activities," Hosking admitted.

"However, we have a very large portfolio of projects and a fantastic upside if any one of these were to be completely successful.

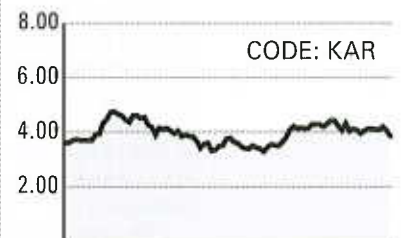
"It is very difficult to acquire quality acreage, but our assets have been rated very highly in the independent assessment by DeGolyer and MacNaughton.

"Moreover, recent upheaval in world markets has had comparatively little effect on our current position, a point we are also very happy with." **RS**



The Geo Atlantic 2 provided Karoon and ConocoPhillips with 1400sq.km of 3D seismic data

KAROON GAS AUSTRALIA AT A GLANCE



4 months ending September 30, 2008

HEAD OFFICE

Office 7A
34-38 Lochiel Avenue
Mt Martha VIC 3934
Ph: +61 3 5974 1044
Fax: +61 3 5974 1644
Email: info@karoongas.com
Web: www.karoongas.com.au

DIRECTORS

Robert Hosking, Geoff Atkins
Mark Smith, Stephen Power
Scott Hosking

MARKET CAPITALISATION

\$440 million (at press time)

MAJOR SHAREHOLDERS

Talbot Group Holdings Pty Ltd 13.86%
Wellington Management Company 13.99%
Ropat Nominees Pty Ltd 10.9%
Summerlea Nominees Pty Ltd 5.43%
JJ Holdings (Vic) Pty Ltd 3.71%

Karoon Gas
Australia executive
chairman
Robert Hosking