

## **Chairman's Address:**

Welcome to the Karoon Gas Australia Ltd General Meeting of shareholders.

This meeting has been called principally to consider the approval of certain share placements made and agreed to be made by the Company together with the approval of the issue of options to Executives and employees. Comprehensive information concerning the resolutions is set out in the notice of meeting and attached explanatory memorandum.

Whilst here, I would like to firstly highlight the upcoming activities of the Company and then look more closely at some of the progress that the Company has made since we last met.

A period which, I believe has been marked by increased market capitalization achieved during some very challenging times and also the acquisition of significant acreage by the Company.

The end of 2008 will also mark the beginning of Karoon's biggest exploration program to date. A drilling campaign is scheduled in Karoon's Browse acreage and seismic acquisitions shall commence in each of its South American focus areas.

These exploration programs could elevate Karoon into the upper echelon of Australia's Energy Companies.

Highlights of the coming year include;

- The Browse Basin drilling program which is set to commence in the period late in 2008 to early in 2009. The Sedco-703 drilling rig is contracted for 200-225 days and it will complete the current year drilling commitments including wells in WA-314-P, WA-315-P and WA-398-P.
- Karoon will complete a 1000 square kilometer 3D seismic acquisition and a 2000 square kilometer 2D seismic acquisition programme in the Tumbes Basin, Peru. This seismic campaign will cover the Karoon/Vamex joint venture prospects within its Z-38 acreage and is due to commence late this year or early in 2009. Tenders for these surveys are currently being acquired.
- Recently, Karoon purchased a 3D seismic data set from CGG Veritas in Brazil. This seismic data covers our Brazilian Santos Basin Acreage. Karoon is also negotiating to acquire further new 3D seismic over Karoon's 100% held Santos Basin Acreage as part of our work commitments with the local regulatory authority, the ANP. This new seismic will give Karoon the additional data it requires to begin the planning of a drilling program in the 5 Santos Basin Blocks. The Browse Basin has been a focus for Karoon for

several years and after a successful farmout campaign and three seismic surveys, the final well locations for the Browse acreage are in the process of being selected by the Karoon and ConocoPhillips technical teams. Karoon is happy with the progress of its data interpretation and well planning and looks forward to an exciting 2009.

Separately from the Browse and in an effort to diversify into new and highly prospective areas, Karoon formed a South American focus group. A direct result of the activities of this group has been the addition of the new South American assets in Brazil and Peru which complements the existing Browse Basin acreage by adding considerable risk prospective resources to Karoons asset base.

Karoons decision to move into Brazil has been announcement of two of the biggest hydrocarbon discoveries since the 70's which were found in the Pre Salt layer of the Santos Basin by Petrobras, British Gas and Petrogol.

These discoveries, Tupi and Carioca, are being estimated in the 10-30 billion barrel size and are 200 kms to the north east of Karoon's new Santos Basin permits. In the 6 month period since the Tupi and Carioca discoveries, several other discoveries have been made surrounding Karoon's acreage. Discoveries of note include the Newton discovery 53km to the north-east, the Caravela and Coral fields 100km to the south west and the Merluza field 100km to the north-west of Karoon's Santos Blocks.

These new discoveries have now established the Santos Basin and Brazil as having enormous potential for future large hydrocarbon discoveries and it is considered by many to be the new oil and gas "hot spot" in the world.

Particularly relevant to Karoon's interests in the Santos Basin is the recent oil discovery in Block BMS-40. This block is located 25 km from Karoon's Santos Blocks. Drilling was undertaken in May 2008 and the subsequent discovery is particularly significant as it has proved the presence of light oil in reservoirs above the salt layer, a previously unproven section of the structure which flowed 12,000 barrels a day in testing. These above salt targets can now be added to the pre-salt targets which triggered Karoon's original interests in the Santos Blocks.

As well as being in the right place in Brazil, there has also been some significant news in Peru. Since Karoon executed the farmin agreement to acquire a 60% interest in block Z38 in the North of Peru there has been a multi TCF gas discovery reported by Petrotech Peruviana to the south of Karoon's Block Z-38 Tumbes Basin acreage.

In addition Block Z-1 directly to the east of Karoon's Bock Z-38 has four discoveries which have been reported to have tested to approximately 14,000 barrels of oil and 184 million cubic feet of gas a day.

Shell has also been active in the area, recently signing an MOU with the owner of Block Z 1, BPZ Energy. The MOU will allow Shell to farm into block Z-1 in return for

conducting an estimated US\$300 million work program.

This forthcoming activity in the Tumbes Basin Area demonstrates the type of attention that Peru is receiving as a new gas exploration frontier. Karoon is happy to be involved in this area and looks forward to commencing its seismic programs in the last quarter 2008/first quarter 2009.

Karoon's acquisitions of additional blocks in the Santos Basin in Brazil and the Tumbes Basin in Peru along with its current Browse Basin drilling program provide for the most exciting period in the company's relatively short history.

Karoon is now operationally well positioned with Permits in Basins that have large proven oil and gas discoveries and potential resource targets that are in the multi TCF and hundreds of millions barrel range.

Karoon is pleased with its progress thus far and will be striving to continue its organic growth with more exciting developments being announced over the coming year.

I would like to address a query that has come to light recently. The query relates to Share Purchase Plans and was raised by shareholders over the period since the June placement was closed.

Karoon is aware of the need to allow participation by all of its shareholders in fundraising activities not only the larger institutional shareholders. Karoon has carried out share purchase plans in the past along with its placements to larger shareholders when market conditions did not allow those smaller shareholders the opportunity to acquire shares in the market at an equivalent price.

In the months prior to the most recent placement, however, small amounts of Karoon shares, even above the \$5000 limit per shareholder available in an SPP, could have been purchased on market at lower prices by smaller shareholders.

Placements are often the result of future cash needs of Karoon and demand for shares from large institutions. The Karoon board does take into account current market conditions and the opportunity for smaller shareholders to buy shares in the market at reasonable prices. In the current regulatory and commercial environment, the raising of significant capital by way of placement to larger institutions has been, in most cases, the most effective alternative. Karoon will, however, continue to bear in mind the position of smaller shareholders who may wish to increase their shareholding in the Company.

Karoon would like to take this opportunity to thank the shareholders for their continued support look forward to a big upcoming year.