



Chairman's Address Annual General Meeting

I would like to welcome shareholders especially interstate shareholders and visitors to the Karoon Gas Australia Ltd AGM. It is a good turnout and I am glad to see you all here given the current market conditions. Karoon is pleased with its resilience to the market and very happy it has maintained a strong cash position with which to move into the coming Browse Basin drilling program and continued exploration in Brazil and Peru.

Karoon currently has 149 million fully paid shares on issue, a market capitalization of approximately \$350 million and is presently holding \$135 million in usable cash, as of this week (this figure does not include South American performance bonds of USD10.8 million) While other market participants, as well as the leading indices, have lost 50% of their market cap, Karoon has maintained a strong share price, given that at the last share holders meeting Karoon had a market capitalization of \$400 million,

One of the main driver's of Karoon's short term growth and resistance to the current market turbulence is the upcoming drilling in the Browse Basin located offshore from Broome in Western Australia supported by Brazil/Peruvian assets.

The end of 2008 will mark the beginning of Karoon's biggest exploration program to date with a drilling campaign scheduled in Karoon's Browse acreage and seismic survey acquisition due to start in each of its South American focus areas during 2009.

Highlights of the coming year include;

- The Sedco-703 drilling rig has been contracted for 200-225 days to complete the Browse Basin drilling program. The drilling program over WA-314, 315 and 398-P is expected to start sometime in the next month depending on weather and will continue into the 3rd quarter of 2009.

- Karoon is actively planning 2D and 3D seismic acquisitions in the Tumbes Basin in Peru. This seismic campaign will cover the Karoon/Vamex joint venture prospects

within its Z-38 acreage and is due to commence in 2009.

- Karoon is proceeding with its exploration program in the Santos Basin Brazil, and has purchased approximately \$7million of available data covering our acreage. Karoon is also planning to acquire further 3D seismic survey during 2009 and begin drilling approx 2011.

The Browse Basin has been a focus for Karoon Gas for several years and after a successful farmout campaign and three seismic surveys, the location for the initial Browse wells is currently in final approval stages with the relevant regulators. Poseidon-1 will be the initial well.

The Joint Venture is still assessing which well will follow Poseidon. As time progresses the Joint Venture will continue to submit drilling applications for regulatory approval so it is ready when drilling locations are decided upon.

In addition, the final 3D seismic data interpretation for the WA-314-P, WA-315-P and WA-398-P permits will be completed prior to the commencement of the drilling program.

Karoon's Browse Basin permits are situated in close proximity to Woodside's Torosa development which has a proven resource of 18 TCF and 300mmbbl of condensate. Other large proven gas fields in the area include the Japanese Inpex Joint Venture which has upgraded its reserves to a total resource of 12.8TCF and 527mmbbl of condensate. The Browse Basin has certainly proven to be rich in gas and condensate which augurs well for the upcoming exploration programme.

Karoon currently has a 49% interest in oil and gas exploration permits WA-314-P and WA-315-P and a 40% interest in the adjacent WA-398-P.

Exploration Permit WA-398-P was acquired during the 2006/2007 financial year following a joint bid made with Karoon's joint venture partner in the Browse, ConocoPhillips. This permit is situated directly south of the WA-315-P permit. The Poseidon prospect, previously identified by Karoon, straddles both of these permits and the acquisition of the new permit is therefore considered by Karoon to be especially important to the future exploration of the area.

Liquefied Natural Gas will continue to be a commodity in strong demand to feed gas-fired power stations.

Indigenous natural gas supplies in many of the world's major gas producing countries are in decline. That suggests that global demand for LNG is likely to continue to rise along with LNG prices despite the current world economic slow down. Spot cargoes for immediate delivery have been traded recently at prices of between \$10-20 billion per tcf.

Increasing attention by the media and governments around the world to the effects of climate change is also likely to lead to greater demand for LNG. Construction of gas fired

power stations will be increasingly important resulting in greater LNG demand in the years to come.

South America

After a worldwide search for new ventures and due diligence by expert geological staff, Karoon identified and acquired high-quality South American assets in Peru and Brazil earlier in 2007/2008.

Drilling in these assets, in both Peru and Brazil is currently planned for 2010/2011

Sub Salt plays are a significant area of interest for Karoon, particularly in Brazil.

Petrobras, Brazil's partly state owned oil and gas company has made a number of sub-salt discoveries around the Santos Basin. A possibility exists that the sub-salt play type extends into the south-western Santos Basin.

Petrobras has also discovered a shallower Eocene age field, 25kms to the south of Karoon's acreage. This discovery is believed to be in the 150 million barrel range. Existing data suggests that the Eocene play also lies within Karoon's permits. As you will see in Mark Smith's presentation, the Santos Basin continues to be a world class exploration address and Karoon is right in the middle of the action.

Karoon plans to complete a 3D seismic survey over the Santos Basin during 2009 in addition to the 3D seismic it already owns. The company is currently interpreting \$7million worth of existing data to provide a better picture of the geology and further define prospective areas for delineation with seismic and planned drilling in 2011.

The area around Karoon's Peruvian acreage has also had new discoveries and further development work on existing hydrocarbon fairways. The permit to the east has recently had a discovery flowing at 12000 bopd. This along with Shell's USD300 million dollar farm-in exploration program in the adjoining BPZ controlled Block Z-1 has generated more attention and helps confirm the potential of this area.

Karoon will begin its farm-in commitments of 2D and 3D seismic early in 2009. After the completion of the required seismic program, Karoon will be a 60% interest holder of Block Z-38.

Karoon would like to take this opportunity to thank the shareholders for their continued support. 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.