

Karoon Gas Australia Ltd

Corporate Review

October 2016



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*"Olinda Star" Semi Submersible Drilling Rig,
Echidna-1 Production Test*

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Corporate Overview



- Karoon is an independent energy exploration company with operations in Australia and South America
- Exploration success, 13 discoveries from 17 wells since 2009 (76% success rate)
- Market Capitalisation A\$475 million(14/10/2016)
- A\$479 million cash at bank as at 30/6/16, no debt
- 245 million ordinary shares on issue, 7.5 million unlisted rights and options



2017 appraisal drilling and acquisitions in Brazil, if successful, will transition KAR to a significant production company

Investment Proposition



High Impact Oil Focus	<ul style="list-style-type: none"> - Unique oil exposure relative to Australian peer group which are predominantly gas - Multi billion barrel net prospective resource exposure in Brazil, Australia and Peru - Successful exploration track record and technically focused company - High equity interest- meaningful impact on success
Brazil Appraisal/ Development Plan	<ul style="list-style-type: none"> - 2017 appraisal program expected to be followed by FEED and FID - Development is technically straight forward, manageable and appropriate for Karoon's size - Significant industry wide cost reductions being captured
Transition to Production	<ul style="list-style-type: none"> - Potential for meaningful oil production from 2019 from existing portfolio - Cost of reductions lowering break even floor price, currently targeting \$40/bbl breakeven Echidna cost - Opportunities to acquire production at lower than organic rates
Asset Acquisition	<ul style="list-style-type: none"> - Active search for high-quality production or development assets in LATAM and Australia - Recent acquisition of high impact, oil-prone exploration acreage in the Great Australian Bight - Right to negotiate final agreement with Petrobras for Bauna and Tartaruga Verde oil assets offshore Brazil
Strong Balance Sheet	<ul style="list-style-type: none"> - A\$479 million cash at bank (as at 30/06/16) - US\$200 million of contingent milestone cash receivables remain outstanding
Recent challengers/ Market concerns	<ul style="list-style-type: none"> - PRE default: Resolved, leaving control of the future work in the Santos Basin to Karoon - Utilisation of cash- currently working to swap cash for meaningful cash flow - Farm-out momentum (Australia / Peru) - improving in the current environment

Experienced Directors and Management



Dr David Klingner	Independent Chairman	40 years resources and energy experience - head of global exploration Rio Tinto, ex Chairman Turquoise Hill.
Robert Hosking	Managing Director	45 years international corporate experience - trading, shipping and energy related businesses 19 years ASX Directorship experience, founder.
Mark Smith	Exploration Director	40 years oil and gas experience - Geologist BHP Senior Technical Leadership. Principal explorationist, founder.
Jose Coutinho Barbosa	Non-Executive Director	50 years industry experience - Geologist Senior Leadership including CEO Petroleo Brasileiro (Petrobras) International and Interim CEO Petrobras.
Bernard Wheelahan	Non-Executive Director	50 years industry experience - Chemical Engineer Ex-senior leadership including President Shell Venezuelan and Director Shell Australia.
Peter Turnbull	Non-Executive Director	40 years commercial experience - Lawyer and Director of the Governance Institute of Australia, Chairman Corporate Secretaries International.
Luciana Rachid	Non-Executive Director	35 years experience - Chemical Engineer - leadership roles within Petrobras including Investor Relations, Strategy, Trading, Project Development and Operations.
Geoff Atkins	Non-Executive Director	45 years Experience on the offshore industry - Design and Implementation of Marine Infrastructure globally.
Clark Davey	Non-Executive Director	35 years experience - EX-PWC Specialist resource and oil and gas industry tax advisor.
Scott Hosking	Company Secretary	19 years experience - Australian and International trade, finance and corporate management experience with public and private enterprise.

Strategy



The late 2014 oil price crash devastated the global E&P industry. Since then, the Australian listed energy sector has returned an aggregate net loss of A\$8.7 billion and dividends have been slashed. Exploration spending has been cut, assets sold, staff levels reduced, and A\$8.5 billion of new equity raised to pay down debt. Now with lower reserves, less revenue, and fewer people, the industry appears totally reliant on higher oil prices for a return to prosperity.

What are we doing?

Re-deploying Karoon's strong technical, commercial and financial position, built during a period of high oil prices, into high quality E&P assets in prospective basins where Karoon can add value.

How are we doing it?

- Sold Browse Basin gas assets for up to US\$800 million, monetizing 4 years of successful gas exploration.
- Farmed-out 35% of Brazil Santos Basin acreage to PRE in 2013, for US\$250 million in cash and carry. Drilled 5 prospects for 3 oil discoveries, discovering 129 mmbbls* of 2C oil resource. Opportunistic re-purchase of PRE's interest in Sept 2016 for up to US\$20.5 million, equating to US\$0.45/bbl of 2C resource.
- Opportunistically acquired Great Australian Bight Acreage for a A\$26 million work-program, providing a low cost exposure to an exciting new oil frontier where major companies plan to drill 9 wells for ~A\$1 billion over 2 years.
- Negotiating with Petrobras to acquire the Bauna oil field and Tartaruga oil development offshore Brazil. If successful, KAR could emerge with significant proven oil reserves, production and sustained free cash flow. This results from a competitive process and forms part of Petrobras' 2015-2016 Divestment Plan.
- Capitalising on falling rig and equipment costs to significantly enhance Echidna & Kangaroo economics.
- Retained strong balance sheet during the downturn, and returned cash via on-market buy-back at prices materially less than intrinsic value.

*refer to resource summary, page 16

Brazil Bid Success



Key Information

- Petrobras awarded an exclusive negotiation for 2 assets to KAR on October 6th, 2016
- 100% the BM-S-40 concession including the producing Bauna field
- 50% of the BM-S-36 concession including the Tartaruga Verde development with full field production expected in 2018
- Sale by way of competitive tender launched November 2015
- Subject to DD, & regulatory approvals
- Plans to introduce additional E&P participants to defray risks and funding exposure
- Karoon will look to right size its exposure to the purchase taking into account;
 - Cash
 - Staged payments
 - Production cash flows, from effective date
 - Debt; and
 - Partner participation

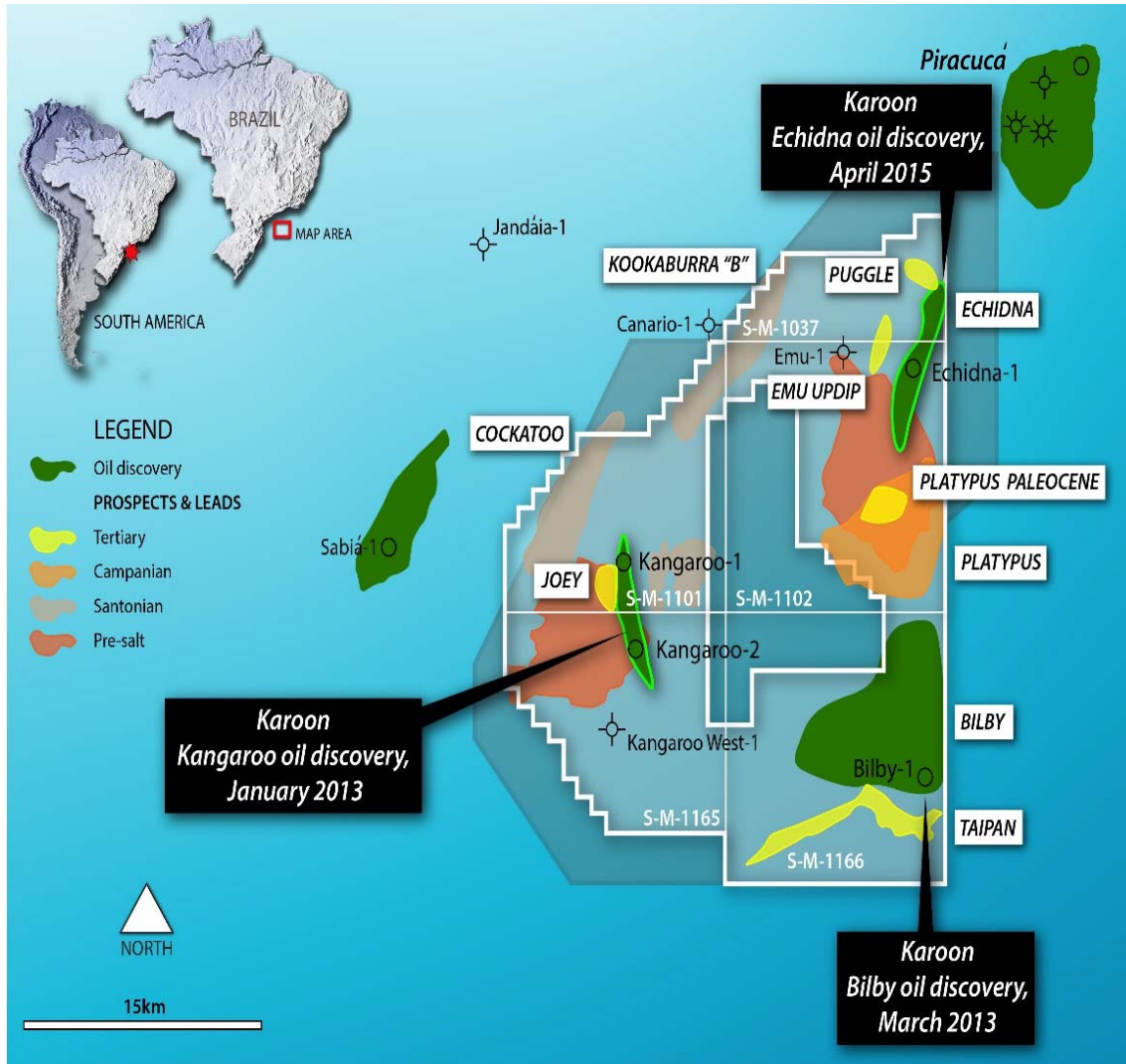
Implications

- Provides investors with unique oil exposure and leverage to rising oil price
- High quality assets, from conventional offshore FPSO style oil fields
- Large post salt reserves in Tartaruga
- Bauna synergies with KAR' Santos basin assets 40 kilometres away
- Profitable production at current oil prices, with a low breakeven price

Critical Transformation

- Transforms KAR from an exploration company to financially sound E&P with pipeline of projects and significant oil production
- Would expose shareholders to production and reserves, allowing a firmer valuation platform while Karoon look's to grow organically from the rest of its portfolio

Potential development Brazil: Santos Basin



- Acquired 100% working interest in 5 blocks in 2008, in mid-water-depth in Santos Basin. Not previously drilled
- Farmed-out 35% to PRE in 2012, for cash & carry valued at US\$290 million
- Three oil discoveries (Kangaroo, Bilby & Echidna) from 6 wells
- Certified 2C resources of 54mmbbls at Kangaroo, and 75mmbbls at Echidna*
- High quality oil, no gas, in excellent “post salt” sandstone reservoirs confirmed by logging and flow-rate testing
- Water depths <400m, not onerous
- Several undrilled prospects, including deeper “pre-salt” targets
- PRE’s 35% working interest re-acquired by KAR in Sept 2016 for up to US\$20.5 million, equating to US\$0.45/bbl of 2C resource

*refer resource summary, page 16

Key Brazilian Development Staff



Jose Formigli	Development Committee Chair	30 years experience - Chief Exploration and Production Officer for Petrobras in Brazil and a member of the Petrobras Executive Board- Personally responsible for 10 pre-salt development projects US\$20 billion of investment.
Edward Munks	Chief Operating Officer	30 years experience - Ex-Senior Leadership with medium to large operating companies in the Resource and Industrial industries.
Tim Hosking	SA General Manager	20 years experience – Project Manager, principally responsible for the acquisition and management of Karoon’s South American Assets.
Ricardo Abi-Ramia	Project Manager	30 years experience – Operating and production experience in Brazil, former head of the Rio de Janeiro business unit of Petrobras.
Jorge Camargo	Brazilian Business Advisor	35 years experience - Ex-Petrobras, and Brazilian country manager for Statoil.
Dennis Hining	Drilling Manager	40 years experience – Former head of ExxonMobil Worldwide Ventures Group for Deepwater Exploration Drilling unit in West Africa, Libya, Indonesia, Brazil, and the Gulf of Mexico.
Ricardo Canela	HSSE Manager	14 years experience - HSSE professional in the oil and gas industry with a further 9 years’ experience working in heavy industry. Ricardo worked for El Paso Brazil for 11 years prior to joining Karoon.
Antonio Luis Tisi	Non-Executive Director	30 years experience - Exploration Lead for Shell International in Houston (SIEP) and as Regional Geologist and SEPCo in Colombia.
Oliver Seybold	Reservoir Team leader	25 years experience - Australasia, Europe, Middle East, Africa and South America. Key responsibilities for reservoir modelling Echidna & Kangaroo fields.
Lino Barro	Engineering Manager (Melbourne)	35 years experience - Reservoir and development engineering, and economic evaluation. Previously with BHPB, Kufpec, & Delhi in Australia, Persian Gulf, Tunisia and South America.

Santos Basin: Development Plan



- Technical work is ongoing at Echidna, a target breakeven oil price ~ \$40/bbl, down from ~US\$60/bbl due to (1) industry deflation (2) simpler, optimised development with fewer wells, less sub-sea equipment
- Appraisal Drilling H1 2017. Rig contracted for 2 firm & 2 well options
- Target FEED 2017/18, and first production 2020

The Preliminary Optimised Echidna Development Concept

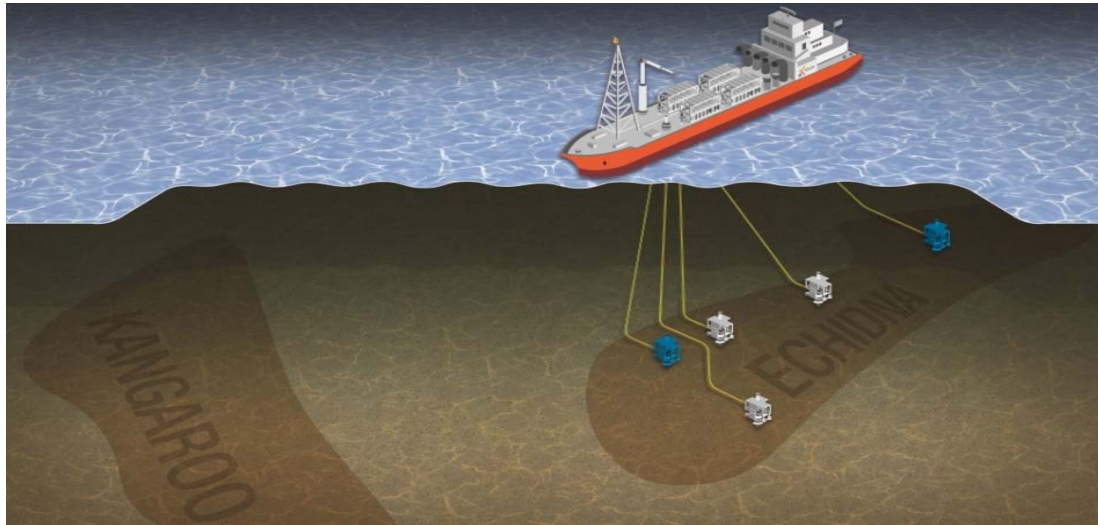
- Previous 2015 development concepts considered both Echidna standalone and combined Echidna & Kangaroo developments using an early production system (EPS)
- Following detailed optimisation work & materially lower per well development costs, the current preferred scenario is for a stand-alone Echidna field development, with Kangaroo integrated at a later date
- Industry wide cost reductions lowering development costs by as much as 35% and pre-FEED tendering has resulted in significant indicated well and equipment costs

Current activity

- Rig contracted for appraisal drilling, 2 firm wells plus 2 options
- Initiated discussion with new partners following the acquisition of PRE's interests

	Sept-15 Est.		Sep-16 Est.
Development Well Cost - US\$'MM	Cost / well	Change	Cost / well
Production Wells	\$140	↓ (35%)	\$90
Injectors	\$100	↓ (24%)	\$75
OPEX /day (FPSO+ logistics + shore support)	US\$400-450 k/d		~US\$ 350 k/d
Break-even (Brent) – US\$/bbl	US\$50 - \$60/bbl		~US\$40 /bbl

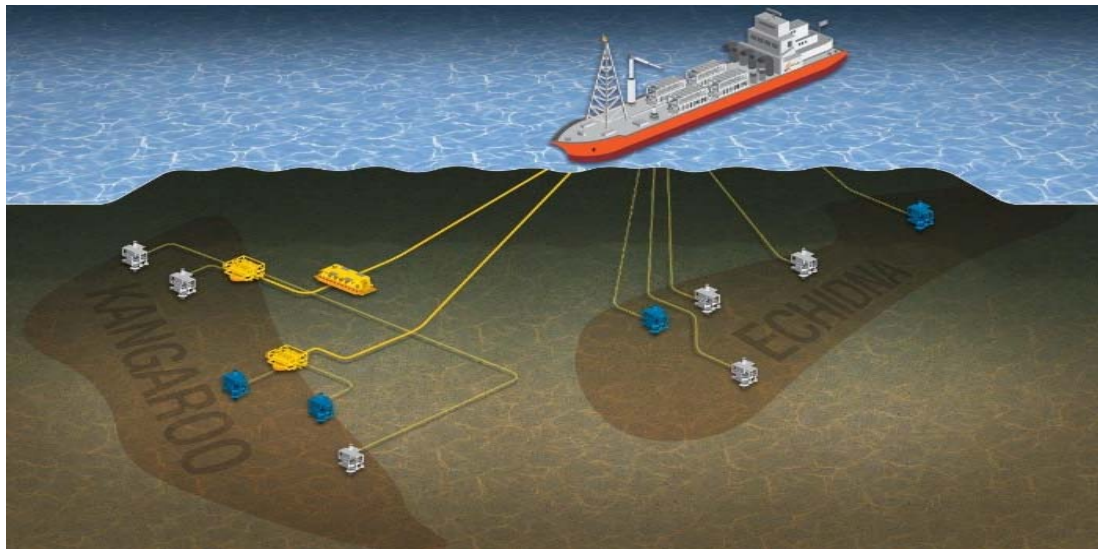
Preferred Development Concept



Phase 1

FFD – Echidna Standalone

- 2C resource: 75mmbbls (gross)
- 3 horizontal producers
- 2 WAG (Water and Gas alternately) injectors

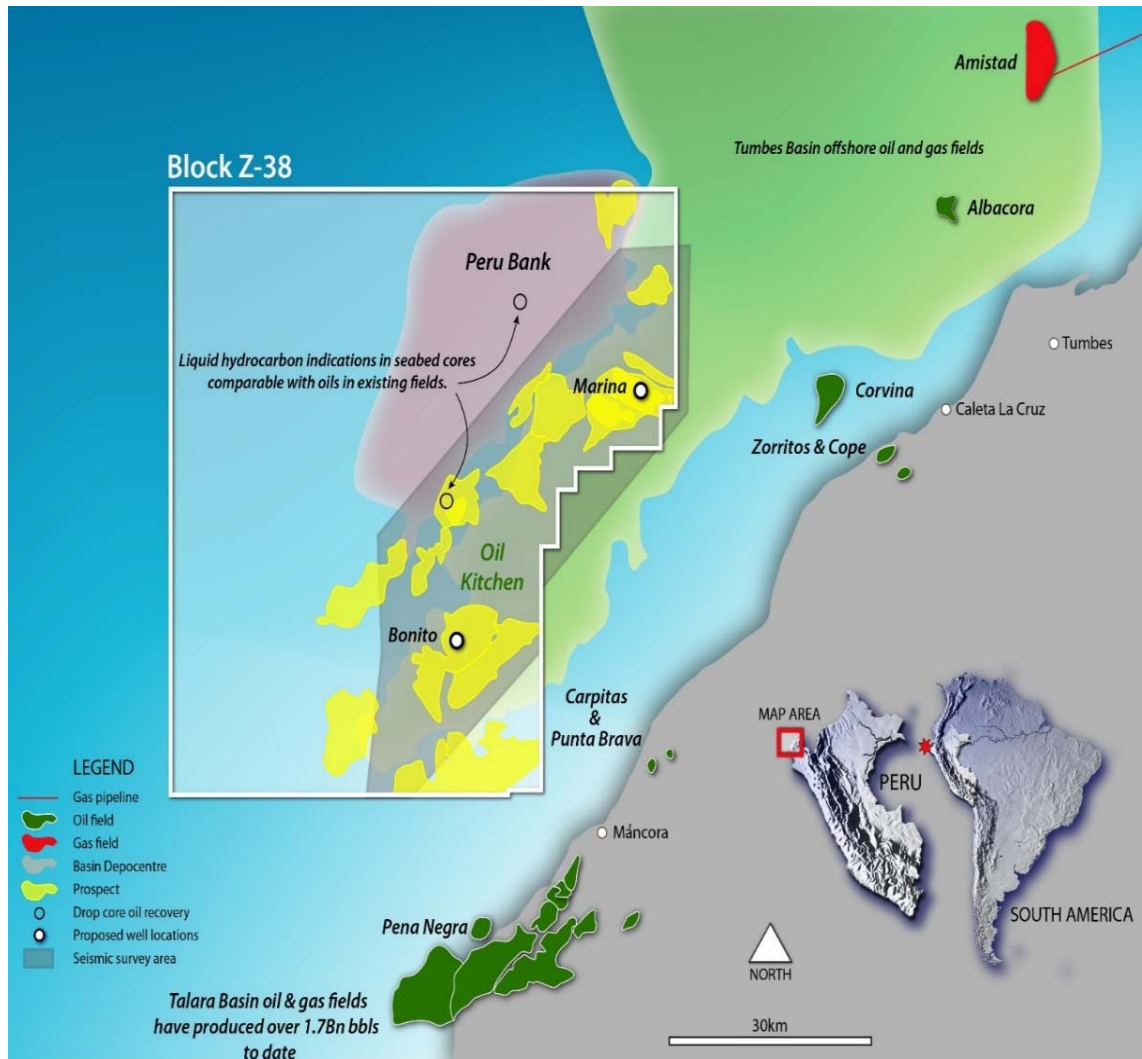


Phase 2

Kangaroo Tieback

- 3 Vertical producers
- 2 Gas injectors
- Pumping to Echidna (19Km)
- 2C resource: 54mmbbls (gross)

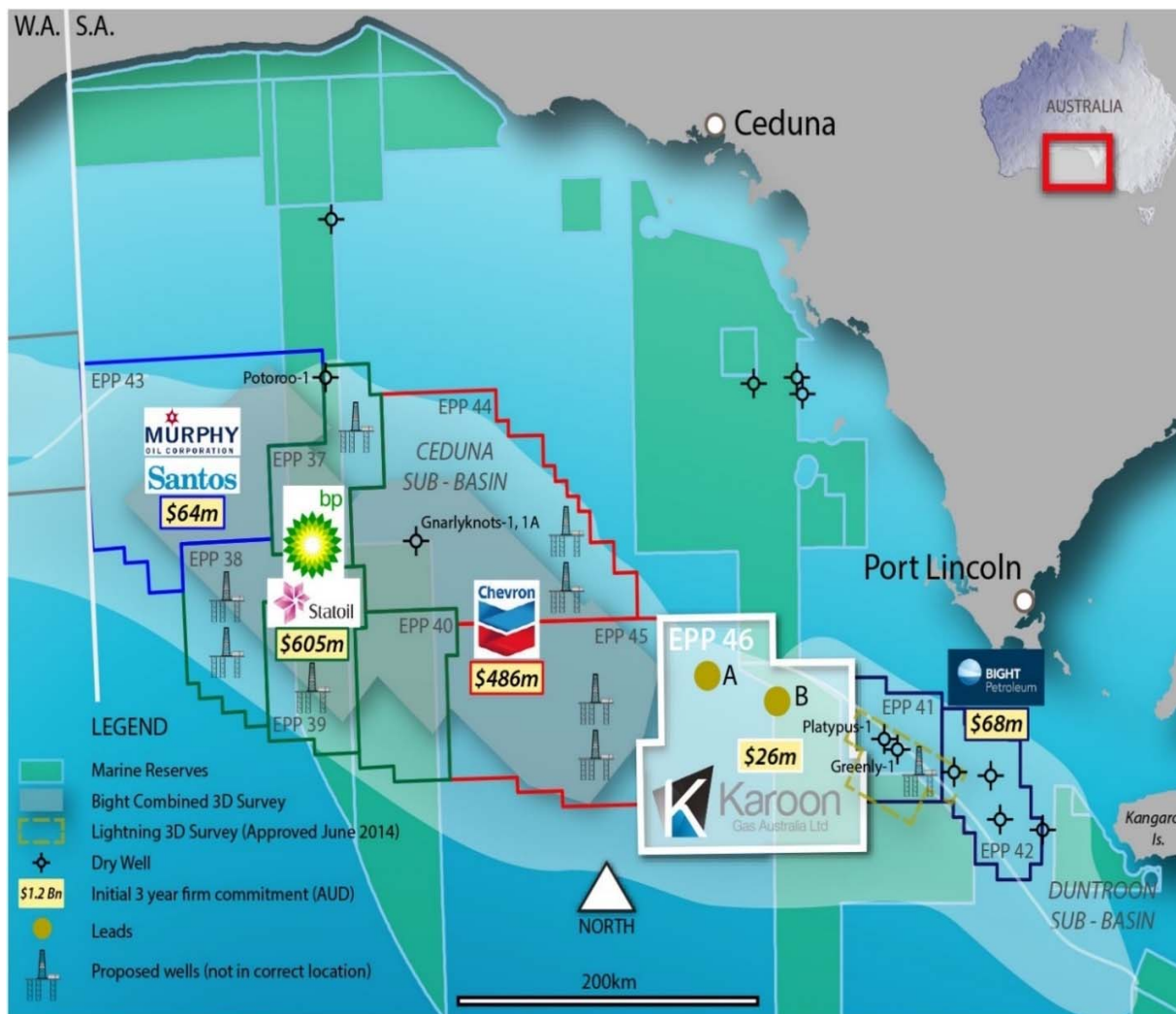
Exploration Peru: Tumbes Basin



- Very large mid to deep-water acreage, lightly explored but oil prone
- Currently in force majeure
- KAR 75% (Operator), Pitkin 25%
- Proven hydrocarbon basin
- Large prospects
- Drop cores show significant oil seeps
- Falling rig rates are likely to reduce the cost of drilling, increasing the interest in the area for farm-out
- Large prospects well defined by 3D seismic and attribute analysis
- Marina (240mm bbls mean net prospective resource*) and Bonito (415mm bbls mean prospective resource*) both drill ready
- Farm-out discussions continue

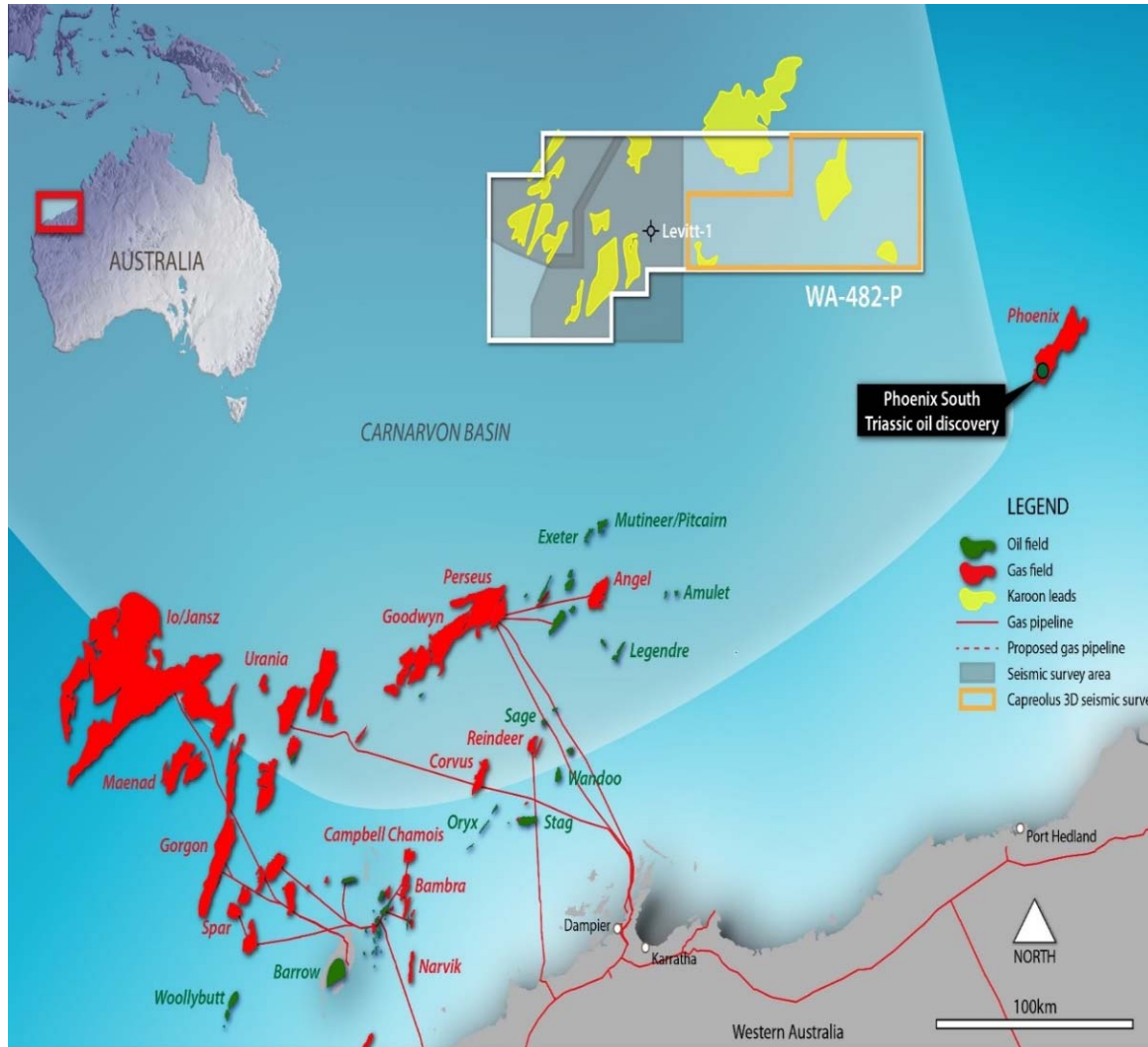
*refer resource summary, page 16

Australia: Great Australian Bight



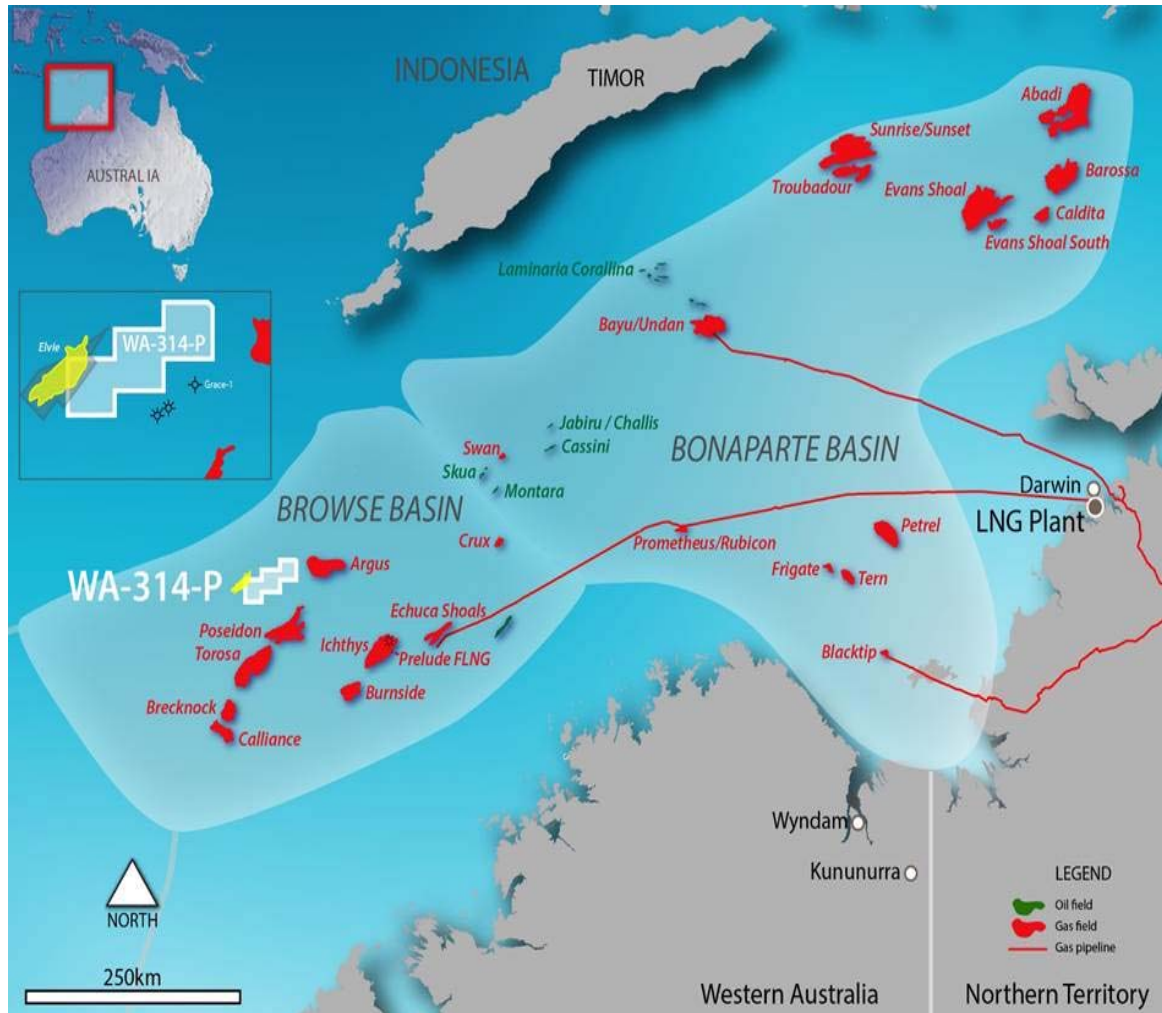
- EPP- 46 awarded to KAR 100%, October 2016
- Large 17,793 square kilometre permit, in lightly explored emerging frontier
- Prospective for oil, with shows recorded in wells drilled in adjacent acreage
- Industry majors including Statoil, Chevron, Santos & Murphy have committed approximately A\$1.2 billion to drilling 9 exploration wells in the surrounding permits during the next 24 months
- Karoon's initial 3-year firm commitment requires the acquisition of 2D and 3D seismic surveys and does **not** include a well
- Karoon's investment of A\$26 million is a low-cost option

Exploration Australia: Carnarvon Basin



- Large 13,539 km² block in an emerging oil prone area, acquired by KAR in 2012
- KAR (50%), Quadrant (Operator) 50%
- Fully covered by modern 2D & 3D seismic
- Farmed out 50% to Quadrant in 2014 for up to US\$72 million of cash & carry through the Levitt-1 exploration well
- Levitt-1 drilled mid-2015, dry hole but proves geological model with oil shows
- multiple leads and prospects identified following subsequent 3D survey, evaluation ongoing
- Currently interpreting new data on eastern section of the block adjacent to BHP, REPSOL, CNOOC to the north

Exploration Australia: Browse Basin



- Block WA-314-P retained for exploration upside following divestment of Poseidon gas discoveries in 2014
- KAR working interest 100%
- Recently renewed 3 year term with no well commitment
- Prospect evaluation underway, with 3D seismic identifying tertiary turbidite fairway
- Large Elvie prospect being high graded for drilling, supported by seismic anomalies and likely oil
- Future drilling subject to farm-out

Resource Summary



Prospective Resources Cautionary Statement: 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.

Internal Management Assessment*					NET Contingent Resource			NET Un-risked Prospective Resource		
Discovery	Interest	Basin	Country		1C	2C	3C	Low	Best	High
Kangaroo (S-M-1101, S-M-1165)	100%	Santos	Brazil	Oil (mmbbls)	20	54	99	-	-	-
Echidna (S-M-1037, S-M-1102)	100%	Santos	Brazil	Oil (mmbbls)	24	75	151	-	-	-

Independent Assessment - DeGolyer & MacNaughton**					NET Contingent Resource			NET Un-risked Prospective Resource		
Block	Interest	Basin	Country	Type	1C	2C	3C	Low	Best	High
Block Z-38	75%	Tumbes	Peru	Oil (mmbbls)	-	-	-	686	1,686	3,764
Block 144	100%	Marañón	Peru	Oil (mmbbls)	-	-	-	53	107	195

Note: The Santos Basin contingent resource volumes presented represent Karoon's internal management estimates and have not necessarily been validated or agreed by joint venture partner Pacific Exploration and Production Corporation.

* The Kangaroo and Echidna contingent resource volumes were prepared on a probabilistic basis and have been disclosed in Karoon's announcement 'Contingent Resource Volume Update: Santos Basin Brazil', 17 September 2015. Karoon is not aware of any new information or data that materially affects the resource estimates and all material assumptions and technical parameters underpinning these estimates continue to apply and have not materially changed.

** Prospective resource volume estimates have been independently assessed by DeGolyer and MacNaughton on a probabilistic basis and disclosed in Karoon's 30 April 2014 announcement. 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.

Australian Exploration Permits WA-482-P and WA-314-P

Following the drilling of Levitt-1 (WA-482-P) and thermal modelling and interpretation of the final Kraken 3D seismic survey data (WA-314-P), new data is available that could materially impact assumptions and technical parameters underpinning previously announced prospective resource estimates. Karoon needs to interpret and consider this new data prior to publishing revised prospective resources estimates.

Contact Information



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