

ASX Announcement

Realising A\$1Bn of Value and Focused on the Future

Dear Shareholder

Karooon is pleased to announce the sale of the Company's interest in Browse Basin permits WA-315-P and WA-398-P to Origin Energy in a transaction worth up to US\$800 million to Karoon. Details of the transaction are attached.

The Browse Basin transaction is a clear demonstration of the value created for Karoon's shareholders by executing on the Company's exploration led growth strategy and commercializing large hydrocarbon discoveries. Importantly, the transaction metrics are broadly in-line with other transactions completed in the Browse Basin, despite difficult market conditions prevailing in the international oil and gas market.

In combination with the recently announced Carnarvon Basin farmout by Karoon to Apache, these transactions represent up to A\$1 billion of value for Karoon in upfront cash payments, carry and future payments.

The injection of capital from the sale of the Browse Basin permits provides significant balance sheet flexibility to fund the next phase of appraisal and exploration drilling programmes along with the possibility to consider strategic capital management initiatives.

The planned 5 well drilling program in South America and Australia consists of an appraisal well at the Kangaroo oil discovery and a further 4 exploration wells targeting prospects with a combined un-risked oil prospective resource best estimate of 1.2 billion barrels net to Karoon across the Santos, Carnarvon and Tumbes Basins.

Importantly, the sale of the Poseidon gas project removes the larger capital expenditure overhang associated with ongoing appraisal and development of a large scale LNG project and allows Karoon to focus on the Kangaroo oil discovery and other high impact oil prospects.

Santos Basin, Brazil – Kangaroo Oil Discovery Appraisal

Karooon is now in a position to finalise a rig contract and commence the next Santos Basin drilling campaign. The Kangaroo oil discovery appraisal is a key priority of the campaign and, upon success, it is expected the project will move into Front End Engineering and Design, bringing Karoon closer to production.

Following the Kangaroo-2 appraisal well, Karoon is planning to drill the high impact Kangaroo West-1 exploration well targeting a total un-risked prospective resource best estimate of 330mmbbls.

Karooon remains committed to completing the Santos Basin farmout.

Carnarvon Basin, Australia – The Next Leg of Oil Exploration Growth Opportunity

The Carnarvon Basin presents the next high impact oil exploration opportunity following on from the Santos Basin campaign. The permit is highly prospective for oil as well as gas and covers an area approximately 1.7 times the size of Karoon's Browse Basin acreage, or 13,538 square kilometres. The current DeGolyer and MacNaughton ("D&M") certified prospective resource best estimate is 2,234 mmbbls, or 1,117 mmbbls NET to Karoon across six prospects, assessed over an area that covers approximately only one third of the permit.

The farmout of a 50% interest to Apache brings a world class partner and operator into the permit and the next exciting leg of exploration led growth at a modest cost to Karoon. Apache has committed to drill the first exploration well in the permit during the first half of 2015.

Tumbes Basin, Peru – 2015 High Impact Oil Exploration

The Tumbes Basin, Z38 block provides further high impact oil exploration during 2015 with two wells planned. The block has a D&M certified un-risked gross prospective resource best estimate of 2,248 mmbbls, or 1,686 mmbbls NET to Karoon.

Karoon remains committed to completing a farmout deal on Peru prior to commencing the planned 2015 exploration drilling campaign.

Browse Basin, Australia – Exploration Opportunity Remains

Karoon maintains a presence in the Browse Basin via its 90% equity interest in WA-314-P, a joint venture with ConocoPhillips (the Operator). While the Elvie prospect remains an exciting opportunity, further exploration drilling in WA-314-P remains subject to completing a farmout.

Balance Sheet – Strategic Capital Management

Given the time required to complete the Origin transaction and receive the upfront US\$600, Karoon is securing interim financing to fund its operational commitments prior to receipt of proceeds. Further details will be provided in the coming weeks.

Upon completion of the Origin deal the Board will undertake an assessment of the Company's capital position and consider any potential for strategic capital management. The outcome of this assessment is expected to be announced during the second half of 2014.

Subsequent farmout success is expected to further strengthen Karoon's capital position.

Corporate Governance – Board Restructure

Finally, as part of a broader set of corporate objectives, Karoon is revising the structure of the Board of Directors to ensure the Board has the appropriate composition and skills mix to effectively manage evolving business risks as the Company progresses into the appraisal phase and, upon success into development.

It is the intention of the Board that the revised structure will also include a majority of independent Non-Executive Directors in accordance with Recommendation 2.4 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. These changes are expected to be implemented by the 2014 Annual General Meeting.

On behalf of my fellow Directors, I would like to express my appreciation for your ongoing support of the Company.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Robert Hosking', written in a cursive style.

Robert Hosking
Chairman

2 June 2014



ASX Announcement

Karoon Enters Agreement for the Sale of Browse Basin Exploration Permits WA-315-P and WA-398-P to Origin for up to US\$800 million

Karoon has entered into a binding Sale and Purchase Agreement (the "Agreement") with Origin Energy Limited ("Origin") for the sale of the Company's 40% equity interest in Browse Basin exploration permits WA-315-P and WA-398-P for up to US\$800 million.

Under the terms of the Agreement, the consideration payable to Karoon is structured as follows:

1. An upfront cash payment of US\$600 million payable upon Completion;
2. A deferred cash payment of US\$75 million payable on Final Investment Decision ("FID");
3. A deferred cash payment of US\$75 million payable on First Production; and
4. A deferred resource cash payment of up to US\$50 million payable on First Production. Origin will pay US\$5 million for every 100 BCFe of Independently Certified 2P reserves exceeding 3.25 Tcfe across the permits at the time of FID up to a maximum of US\$50 million.
5. In addition, Origin will be responsible for all costs associated with the current Pharos-1 exploration well, located in permit WA-398-P.

The Agreement remains subject to normal Joint Venture pre-emptive rights and regulatory approval, and is expected to complete during the third Quarter 2014.

As a result of the Agreement, Karoon has requested re-admission to quotation on the ASX effective today, Monday 2 June 2014.

"The Karoon Board has approved the sale of WA-315-P and WA-398-P to Origin for up to US\$800 million. This is the culmination of approximately 12 months of negotiations with a number of international oil and gas companies.

This Offer is a clear demonstration of the value created for Karoon's shareholders by executing on the core business strategy.

The subsequent balance sheet flexibility allows Karoon to pursue the planned near term high impact oil appraisal and exploration programmes in the Santos, Carnarvon and Tumbes Basins. Upon receipt of proceeds, Karoon will be in a position to advance the Kangaroo oil discovery toward development, pending a successful outcome from the Kangaroo-2 appraisal well."

*Mr Robert Hosking
Executive Chairman*

Citi is acting as Financial Advisor to Karoon Gas Australia in this transaction.

About Karoon Gas Australia Ltd

Karoon Gas Australia Ltd is an international oil and gas exploration company with projects in Australia, Brazil and Peru and a member of the S&P/ASX 200 Index.

Karoon looks for high equity interests in early stage exploration opportunities containing large potential targets in basins with proven Petroleum Systems. Karoon strives to create shareholder value through the geotechnical work-up of the acreage, leveraging its high equity interests to explore and appraise these opportunities to achieve commercialisation.

While the company's core strategy is identifying off-shore early stage exploration opportunities, Karoon's longer-term strategy is to retain residual equity interests in the assets as they go into production.

For further information please see the Karoon website or contact:

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