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7 April  
**Karooon Gas Australia Ltd**  
2016 Letter to Shareholders

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**Registered Office**

Karooon Gas Australia Ltd  
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## MARKET UPDATE

Dear Shareholder,

We are writing to you in our respective capacities as Chairman and Managing Director of Karoon to inform you about the company's current activities and to provide some observations on the current market.

As you are well aware, the low oil price has had a major impact on the global oil & gas industry worldwide including Karoon's share price. We believe the current share price does not adequately reflect the company's underlying asset base and robust cash position. It is important that shareholders understand that Karoon continues to vigorously pursue our exploration led growth strategy despite the present market conditions, however we are also looking for value creation through opportunities that may eventuate at the bottom of the cycle. In particular, low cost production assets that will complement the existing portfolio and can be acquired at similar cost to exploration and appraisal.

Karoon is a global independent oil and gas company with a strong balance sheet, minimal capital commitments and a clear growth strategy. Historically, this strategy has been highly successful for Karoon with significant oil and gas discoveries in Brazil and Australia. Karoon's successful track record, particularly in Brazil is recognized industry wide and is a key strategic advantage in competing for assets.

Karoon has;

- AUD\$523 million (\$2.12 per share) in cash as at 31 December 2015, with additional receivable contingent payments of US\$200 million.
- Nil Debt.
- 129 million barrels in gross unrisks 2C contingent resources (89 million barrels net to Karoon).
- Multi-billion barrel prospective resources in the exploration portfolio.
- an exploration portfolio that has minimal work commitments over the next two years.
- An appraisal program in offshore Brazil commencing in the 2nd half 2016.
- Recent new farmout interest from interested parties, to which it is working to progress.

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### **BRAZIL UPDATE**

Karooon is a qualified "Class A" operator and has built a strong platform for growth in the offshore Brazil Santos basin. Karooon continues to progress the appraisal of the Echidna and Kangaroo light oil discoveries. The objective of the 2016 appraisal program is to prove resources in preparation for development decision making.

Development planning is underway and Karooon has made excellent progress working with service companies to enable significant cost reductions in development and operating expenditures.

Karooon continues to provide data room access to interested parties as industry interest has returned in 2016. Karooon has until 2018 to complete its current work program.

The Brazilian oil and gas industry is undergoing a period of fundamental change, which presents asset acquisition opportunities. Karooon is a respected company in Brazil and is well placed to participate throughout the cycle.

### **PERU UPDATE**

Both Blocks, Z-38 and 144 remain in Force Majeure awaiting drilling approvals. Karooon continues to work on recently identified new play types and we regard Z-38 as our most prospective exploration opportunity. There are currently limited costs associated with work in the area until Force Majeure is lifted.

Karooon has continued to make presentations and provide data rooms. We are confident that a deal can be reached in an improving environment as exploration budgets allow larger companies to actively progress opportunities again.

### **AUSTRALIAN UPDATE**

Karooon's Australian's permits are in a period of low commitments. During this period prospect definition, farmouts and drilling preparations will be completed.

Data from recent 3D seismic campaigns in the exploration permits WA-314-P and WA-482-P has been processed and interpretation has commenced.

Despite our current market value, Karooon is well positioned to outperform and thrive utilising our strong cash balance, unique opportunities and world class exploration portfolio. Karooon fully expects to capitalise on the value of its assets, whether it be utilising the cash balance to progress to cash flow organically, through opportunistic acquisition, or completing farmouts in the appraisal and exploration assets. We remain focused on producing long-term value through this cycle and the next.

Thank you for your continued support.

Yours sincerely,



Mr Robert Hosking  
Managing Director  
Karooon Gas Australia Ltd



Dr David Klingner  
Chairman  
Karooon Gas Australia Ltd

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