

Chairman's Letter

Dear Shareholders,

I am pleased to take this opportunity, as your incoming Chairman, to share with you my views and priorities for the future of your Company.

Since my appointment at the beginning of this year, my primary focus has been on listening to shareholders, reviewing the forward strategy, and understanding our options around capital management. Considerable time has also been spent on assessing the progression of our existing assets in Australia, Peru and Brazil; along with assessing our most advanced asset-acquisition opportunities.

This has led to some diverse and fruitful discussions between board members and management which have been governed by the common theme of getting the best possible outcome for shareholders.

There is much work to be done, however this period of review has given me great confidence in the future of your Company.

Listening to shareholders

Our major institutional shareholders and various representatives of retail shareholders have been generous with their time, suggesting a diverse range of issues for the board to consider. The common themes are now our highest priorities, including clarity of strategy, extracting value from the existing asset base, and capital management (specifically cost control and capital allocation).

Company Strategy

Against the backdrop of a very strong balance sheet, the board has undertaken a review of the company's strategy encompassing the evaluation of several future scenarios. The overriding principle in evaluating the strategic alternatives was based solely on potential shareholder returns.

The major components of the strategic review included: a significant production acquisition; pursuing our Southern Santos Strategy including the Neon and Goiás fields and surrounding discoveries and prospects; a value-added exploration focus (eg the Marina prospect in Peru); share buy-backs; Mergers; and selling the assets and returning funds to shareholders.

As a result of the review, the board has adopted a balanced strategy with optionality and flexibility to adapt as industry and other external forces dictate.

The highest strategic priority remains to acquire a high-quality, long-life production asset with robust economic returns and excellent technical characteristics to establish a solid base of future earnings and free cash flow. The Company is well advanced with this priority, and the board has set clear timelines to close a transaction or flex the strategy accordingly.

In parallel, we are pursuing “the Southern Santos Basin Strategy” based around our current assets in Brazil. The asset mix we are pursuing for this component of our strategy includes a smaller producing asset, development of our Neon and Goiás fields, and accumulation of low-cost entry into high potential exploration opportunities.

Shareholders should also be aware it is the board’s intention that any deployment of capital into these two top strategic priorities will leave sufficient funds to drill our high impact Marina prospect in Peru at the earliest opportunity (currently anticipated in early 2020). Success in this well would be transformative for investors in Karoon.

Should circumstances change, the board and management will have completed the work to flex the strategy to consider mergers and/or capital management initiatives.

Capital Management

Like our strategy, the board’s priority for capital management is to achieve the best returns for shareholders in the medium to long term. Currently it is the board’s view that this is best achieved by acquiring a long-life production asset.

In the meantime, we are also preparing to implement other capital management initiatives (eg cost cutting, share buy backs, etc) but these will only be implemented after considering the scale and timing of a successful production asset acquisition. The board has set economic and time limits within which to implement these capital management initiatives and we will keep shareholders informed of developments at the appropriate time.

With respect to cost-cutting measures, management has been reviewing Karoon’s current overhead structure and separately has made significant progress in reducing the Company’s overall spend. Fundamental changes, such as multi-million-dollar reductions in guaranteed work programme commitments have already been achieved in Brazil, Peru and Australia. In 2018 the Company also made the difficult decision to reduce its staffing. Cheaper office space has been utilised in South America and the Australian office will look to relocate to lower cost premises during 2019.

Importantly, the board has also recently targeted a further 20% reduction in corporate costs, in recognition of the desire for shareholders to see tangible spending reductions (without adversely impacting Karoon’s operational capabilities).

Asset update

Peru – High impact exploration in sight

Karoon has now received tenders for a drilling rig for the drilling of the Marina-1 well with its partners Tullow Oil and Pitkin Petroleum. This drilling campaign brings high impact exploration back into the Karoon portfolio and provides a play opening opportunity that Karoon has waited patiently to test. Marina-1 is expected to commence drilling in early 2020.

Brazil – Neon and Goiás project work continues

Karoon has been working with potential joint venture partners, service and FPSO providers to progress its Neon and Goiás projects. The company is reviewing development plan options to optimise efficiency and success, including assessing the benefit of drilling a well, which would have the twin objectives of delineating the southern region of the field and assisting with planning and design of development wells and infrastructure.

Australia – Low cost, longer term exploration prospects

Karoon's core strategy over many years has been to look for "high equity interests in early stage exploration opportunities containing large potential targets in basins with proven Petroleum Systems". Karoon's current Australian asset base remains focussed on large, long-term exploration prospects.

Outlook

Our strategic path has the capacity to deliver meaningful short-term gains, whilst retaining flexibility to adapt to changing circumstances to achieve the best outcomes for our medium to long term shareholders.

In the next few months we look forward to reporting progress on our production acquisition strategy. We are also working hard to realise value from the Neon and Goiás fields and are scheduled to drill the high impact Marina-1 well early in 2020. Good results from any one of these events are expected to deliver very positive outcomes for our shareholders.

On behalf of the board, I thank shareholders for their patience through what has been a difficult time for the Company.



Bruce J Phillips
Chairman

Important Note

Should investors have any questions or queries regarding the company, please contact James Wootton on 03 9616 7500 or jwootton@karoonenergy.com.au All shareholding enquiries should be directed to our share register, Computershare on 1300 850 505.

About Karoon Gas Australia Ltd

Karoon Gas Australia Ltd is an international oil and gas exploration company with projects in Australia, Brazil and Peru.

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 offshore early stage exploration opportunities, Karoon's longer term strategy is to retain residual equity interests in the assets as they go into production.

Forward-looking Statements

This announcement may contain certain "forward-looking statements" with respect to the financial condition, results of operations and business of Karoon and certain plans and objectives of the management of Karoon. Forward-looking statements can generally be identified by words such as 'may', 'could', 'believes', 'plan', 'will', 'likely', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties, which may include, but are not limited to, the outcome and effects of the subject matter of this announcement. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

You are cautioned not to place undue reliance on forward-looking statements as actual outcomes may differ materially from forward-looking statements. Any forward-looking statements, opinions and estimates provided in this announcement necessarily involve uncertainties, assumptions, contingencies and other factors, and unknown risks may arise, many of which are outside the control of Karoon. Such statements may cause the actual results or performance of Karoon to be materially different from any future results or performance expressed or implied by such forward-looking statements. Forward-looking statements including, without limitation, guidance on future plans, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Such forward-looking statements speak only as of the date of this announcement.

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