

ASX Announcement

Brazil Assets Acquisition Update

As announced on 7 October 2016, Karoon is negotiating the potential acquisition of an operated 100% interest in the Baúna oil project and a non-operated 50% interest in the Tartaruga Verde oil development with Petróleo Brasileiro S.A. ('Petrobras').

Court proceedings have been initiated in the Federal Court of Sergipe by Mr. José Hinaldo Nunes Santos (Mr. Nunes Santos) against Petrobras, the Brazilian oil and gas regulator Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') and Karoon alleging that the correct sale procedure was not followed.

The transaction forms part of a wide-ranging plan by Petrobras to divest approximately US\$35 billion of assets between 2015-2018 to reduce debt. Several proposed and announced transactions have been challenged in other lawsuits on the basis they do not meet the requirements of a public tender.

On 7 December 2016, the Brazilian Federal Court of Accounts ('TCU') announced it has suspended any further sale of assets by Petrobras, except for five projects that are in the final stages of negotiation until it decides on the merits of whether Petrobras' divestment system observes applicable laws and regulations. Karoon has been advised by Petrobras that the Baúna and Tartaruga Verde assets are included in the five exempted projects and as such, will not be subject to any suspension by the TCU.

The Q&A provided below seeks to provide some context, and where possible clarity, around the current process.

Historical Timeline of Events

25/11/16	Class action filed against Petrobras and ANP in the Federal Court of Sergipe
19/11/16	Karoon was notified by Petrobras an injunction was granted to stay the proposed Baúna and Tartaruga Verde sale (announced by Karoon, Monday, 21/11/16)
21/11/16	Petrobras filed an appeal against the injunction
7/12/16	Reported that TCU suspended Petrobras' divestment program, with the exception of 5 projects in the final stage of negotiations
8/12/16	Karoon announces it has been joined to the court proceedings initiated by Mr. Nunes Santos

Why have the court proceedings been initiated?

Court proceedings have been initiated by Mr. Nunes Santos against Petrobras, the ANP and Karoon alleging that the correct sale procedure for the Baúna and Tartaruga Verde assets was not followed by Petrobras.

The Plaintiff, Mr. Santos, alleges that the existing sales process is not in compliance with its obligations required under Brazilian Public Bidding Law (Law No. 8666/1993), which requires an open public bidding process to be conducted by entities of the Public Administration.

Petrobras disputes the allegations and has announced the sales process was conducted in compliance with the stages laid down in Petrobras' Divestment System, which in turn complies with the simplified bidding mechanism outlined in Decree No. 2745/1998, and guaranteed extensive competition among potential interested parties, as a means of ensuring the best deal for the Company.

What is the timing for appealing the injunction and the main court proceedings?

Petrobras is appealing the injunction and there may not be a need for Karoon to get involved in the appeal.

Due to a court recess period from 20 December 2016 until 20 January 2017, Karoon does not expect any resolution on the injunction until after the recess period at the earliest.

Karoon is required to file its defense in respect of the merits during February 2017. Karoon is currently taking advice regarding this, any decision will likely be made in the new year.

What risks do the court proceedings create for the transaction?

Karoon is investigating the basis of the claims which have been made.

Karoon remains committed to these negotiations relating to Baúna and Tartaruga Verde, however the outcome of these court proceedings, and timing of a resolution, remains uncertain.

Are there any other similar court proceedings against Petrobras?

As previously stated, the Baúna and Tartaruga Verde divestment forms part of a wide-ranging asset divestment plan by Petrobras announced this year. Several proposed and announced transactions have been challenged on the basis they do not meet the requirements of a public tender.

Karoon understands from media reports that several other asset divestments are subject to similar proceedings and that multiple injunctions have been filed.

Karoon understands from media reports that at least one of the injunctions imposed during the 2015-2016 divestment program has been successfully appealed. Since Petrobras' divestment system was enacted in 2016, there is still no case law regarding this specific matter.

For further information please contact:

Scott Hosking | Company Secretary
T: +613 5974 1044
E: shosking@karoongas.com.au

Ian Howarth | Collins Street Media
T: +614 0782 2319
E: ian@collinsstreetmedia.com.au

James Wootton | Investor Relations
T: +613 9616 7520
E: jwootton@karoongas.com.au

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 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.

Forward looking statements

This announcement may contains 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.

Karoon disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.