KAROON ENERGY LTD
ABN 53 107 001 338

INTERIM FINANCIAL REPORT FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

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Forward-looking Statements

This Interim Financial Report 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 report. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Investors 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 Interim Financial Report 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 report.

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.

DIRECTORS' REPORT
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

The Board of Directors submits its Directors' Report on Karoon Energy Ltd (the 'Company') and its subsidiaries (the 'Group') for the financial half-year ended 31 December 2018 (the 'financial half-year').

At the 2018 Annual General Meeting, shareholders approved the change of name from Karoon Gas Australia Ltd to Karoon Energy Ltd.

Board of Directors

The names of the Directors of the Company during the financial half-year and up to the date of this Directors' Report are set out below:

Mr Bruce Phillips – Independent Non-Executive Chairman (*appointed a Director on 1 January 2019*);
Dr David Klingner – Independent Non-Executive Chairman (*ceased to be a Director on 13 August 2018*);
Mr Robert Hosking – Managing Director;
Mr Mark Smith – Executive Director;
Ms Luciana Rachid – Independent Non-Executive Director;
Mr Geoff Atkins – Independent Non-Executive Director;
Mr Clark Davey – Independent Non-Executive Director;
Mr Peter Turnbull – Independent Non-Executive Director; and
Mr Jose Coutinho Barbosa – Non-Executive Director.

On 1 January 2019 the Board of Directors appointed Mr Bruce Phillips as the new Independent Non-Executive Chairman, Mr Phillips appointment brings a great wealth of industry, boardroom and governance experience to Karoon. His extensive career has covered technical, financial and commercial areas in ASX listed companies, and he has true global experience through involvement in projects in Australasia, Africa, Europe and the Americas. Importantly Mr Phillips has a deep understanding of operating in South America, which is an exceptional fit with Karoon's current activities and ambitions in Brazil and Peru.

Review of Operations

Karoon is a global oil and gas exploration company headquartered in Melbourne, Australia, with country offices in Brazil and Peru.

Karoon continued its evaluation of exploration, production and development opportunities during the financial half-year.

Karoon's acquisition strategy for new assets is focused on, but not limited to, opportunities in South America in particular Brazil, where Karoon has an operational presence. There are several acquisition opportunities as a result of the Petróbras asset divestment program, along with divestments from other non-Brazilian entities that are of significant interest.

Karoon also continued discussions with oil and gas companies relating to jointly evaluating acquisition and development opportunities in Brazil.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Review of Operations (continued)

Brazil

Santos Basin Blocks S-M-1037, S-M-1101, S-M-1102 and S-M-1165 (KAR 100%)

Under Brazilian regulatory requirements, Karoon submitted both the Final Discovery Evaluation Report ('RFAD') for the Santos Basin Blocks and Declaration of Commerciality ('DoC') relating to the Neon and Goiá light oil discoveries. The DoC transitions the Blocks from the exploration phase however, under Brazilian regulatory requirements, this does not mean that Karoon has reached, nor is compelled to reach, a final investment decision (FID) to proceed into a Development of the discoveries

As part of the DoC process, during January 2019, the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ('ANP') approved the annexation for the Neon and Goiá light oil discoveries. Under the Australian regulatory framework, this is akin to receiving a Retention Licence over the oil discoveries.

Karoon is currently preparing the Development Planning Documents for the discoveries for submission to the ANP.

While Karoon had previously targeted FID for the end of 2018, negotiations with industry suppliers for equipment and services for the Neon discovery remain ongoing. As a result of these negotiations Karoon is currently assessing the benefit of drilling a well, which has the twin objectives of delineating the southern region of the field and assisting with planning and design of development wells and infrastructure.

Karoon remains committed to farming down equity in its 100% owned Santos Basin Blocks and a renewed farmout process is underway, with updated detailed geotechnical material recently made available to a Virtual Data Room, with a Physical Data Room opening in the coming weeks.

Santos Basin Exploration Block S-M-1537 (KAR 100%)

Following the award of Block S-M-1537 from Bid Round 14 during September 2017, Karoon has undertaken geological and geophysical ('G&G') studies. Low cost internal G&G studies and mapping work was ongoing during the financial half-year.

The Block contains one main lead targeting Oligocene turbidite sands with high porosity and permeability as seen in the nearby producing Baúna and Piracaba fields.

Karoon considers the acreage has potential to further expand the existing contingent and prospective resource portfolio in Brazil.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Review of Operations (continued)

Peru

Tumbes Basin Exploration Block Z-38 (KAR 40%*)

During September 2018, force majeure was lifted from Block Z-38 paving the way to target exploration drilling during the first half of calendar year 2020.

Karoon continued its preparations to drill the offshore Marina-1 exploration well. As part of the preparations, Karoon is currently tendering for a drilling rig and services, continuing discussions with regulators to clear final approvals and discussing a rig sharing opportunity in the region. This final stream of work will pave the way for Karoon and its new farm-in partner (subject to regulatory approval), Tullow Peru Limited, to progress plans to drill the Marina-1 exploration well on the Marina Prospect.

Exploration success at Marina-1 would significantly enhance the prospects for the region and potentially open the deeper water areas of the Tumbes Basin to further activity. The Tumbes Basin has been a prolific oil producing region onshore and near shore northern Peru. Discoveries on the deeper water could prove an extension of the existing commercial fields into the larger structures deeper in the basin and make for a meaningful change to Peru's domestic reserves and production.

The Marina Prospect has an unrisked best estimate gross prospective resource of 256 mmbbls (102 mmbbls net to Karoon). This will be the first well drilled in Block Z-38.

Equity Interests

Equity interests of the participants in Block Z-38 are:

KEI (Peru Z38) Pty Ltd, Sucursal del Peru (*Operator*)	40%*
Tullow Peru Limited	35%*
Pitkin Petroleum Peru Z-38 SRL	25%

* Tullow Peru Limited's interest is subject to satisfying certain farm-out conditions including regulatory approvals that are still outstanding as at the date of the Interim Financial Report. Karoon's farm-in obligations to Pitkin Petroleum are also still to be completed.

Tumbes Basin, Area 73 Technical Evaluation Agreement (KAR 100%)

During the financial half-year, Karoon entered into a Technical Evaluation Agreement ('TEA') with Perupetro to evaluate Area 73 in the Tumbes Basin, offshore Peru. Area 73 lies immediately south of Karoon's existing operated Block Z-38 and gives Karoon a larger strategic interest in this highly prospective Peruvian basin.

The TEA was signed during December 2018 and is effective for 18 months from 1 January 2019. The work obligations are for low cost seismic reprocessing, interpretation and geological studies, which will be predominantly undertaken in-house.

The TEA provides a right to negotiate a block contract with Perupetro in respect of the whole area or one portion of Area 73 for a reference minimum work program, and once agreed an option to enter into a Hydrocarbon Concession Agreement.

Area 73 is part of the Tumbes Basin and several prospects have already been identified. Drilling at Block Z-38 will provide additional knowledge for potentially similar plays in Area 73. Karoon expects to utilise the results from the Marina-1 exploration well to better delineate prospectivity in Area 73.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Review of Operations (continued)

Australia

Ceduna Sub-basin, Great Australian Bight, Exploration Permit EPP46 (KAR 100%)

Karoon remains in discussions with seismic contractors and stakeholders regarding the acquisition of 2D and 3D seismic data over the permit, although timing of this acquisition remains uncertain.

Karoon does not plan on committing any further resources to the permit until further clarity is obtained on government approvals for operational activities.

Northern Carnarvon Basin Permit Exploration WA-482-P (KAR 50%)

Results of the evaluation of newly reprocessed data over a 400 square kilometre subset of the Capreolus 3D marine seismic survey were received and showed some significant improvements in data quality. The data has been used to further evaluate high graded prospects, including assessment of fault seal risk. It highlights the requirement for more significant seismic reprocessing in the permit over all prospects. Analysis of an anomalous amplitude versus offset response at the top Legendre Formation has identified new potential at this play level requiring further consideration of seismic reprocessing. The nearby Dorado discovery, billed as the largest oil discovery in Australia for 30 years, has highlighted the potential for oil in this otherwise gas prone region.

The permit's regulatory work commitments have been met, with the current term expiring on 9 March 2019. A 'Renewal Application' has been submitted for approval to the National Offshore Petroleum Titles Administrator ('NOPTA'). As part of the renewal process there is a mandatory requirement to relinquish 50% of the area where no discovery location has been declared. Karoon and its joint venture partner are proposing to keep all the structural high areas identified by 3D seismic surveys thereby retaining the most prospective areas identified by the work conducted to date.

Karoon is engaged in discussions with several potential farminees to introduce a strategic partner to the joint venture.

Equity Interests

Equity interests of the participants in WA-482-P are:

Karoon Gas (FPSO) Pty Ltd	50%
Santos Northwest WA Pty Ltd (*Operator*)	50%

Browse Basin Permit Exploration WA-314-P (KAR 100%)

During the financial half-year, a request for a variation of the Year 4 and Year 5 work program commitments was approved by NOPTA. The Year 4 well commitment was replaced with G&G studies. Ongoing technical work has continued to focus on the permit's Montara level play.

Unless the Montara play proves attractive, it is likely the Group will relinquish the permit.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Financial Results

The consolidated result of the Group for the financial half-year was a loss after income tax of $13,334,955 (2017: $28,165,830).

The loss for the financial half-year included:

- write-off of capitalised exploration and evaluation expenditure associated with historical Australian exploration and evaluation activities for permit WA-482-P of $13,226,427 in relation to designated acreage planned for relinquishment, subject to approval of a Renewal Application submitted to NOPTA by the Operator (2017: $5,892,079, South America);
- business development and other project activities of $4,106,553 (2017: $2,095,824) that included internal time allocation of employees and consultants and associated office charges, geotechnical data and external advice relating to due diligence reviews on potential asset acquisitions;
- net employee benefits expense of $5,029,389 (2017: $5,590,745), which included share-based payments expense of $1,724,446 (2017: $1,864,749); and
- exploration and evaluation expenditure expensed of $2,548,693 (2017: $3,541,262) from reviewing new exploration ventures predominantly in South America.

Partially offsetting the loss for the financial half-year was interest income of $290,582 (2017: $171,229); and net foreign currency gains of $15,455,514 (2017: net foreign currency losses of $4,946,474) almost entirely attributable to the appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7391 as at 30 June 2018 to AUD1:USD0.7058 as at 31 December 2018) on cash assets and security deposits held in United States dollars during the financial half-year.

Minimal interest income is earned on the Group's USD cash holdings, which represents USD proceeds received from the sale of the Group's Browse Basin assets during August 2014. The Group made the decision to retain these proceeds in USD to provide a natural hedge against future USD exploration expenditure and benefit from an appreciation in the USD to fund corporate overheads largely denominated in AUD, whilst managing the income tax exposure arising from the movement of these funds. The USD proceeds were initially received at a value of USD1:AUD1.07 which compares to USD1:AUD1.41 as at the financial half-year ended 31 December 2018, representing an appreciation of approximately $80 million or 32% in AUD equivalent.

Financial Position

At the end of December 2018, the Group had a cash and cash equivalents balance of $330,031,524 (30 June 2018: $333,572,953) and no debt.

The Group's working capital, being current assets less current liabilities, decreased from $329,000,556 as at 30 June 2018 to $325,171,766 as at 31 December 2018 predominantly as a result of expenditure on new business development, payments to suppliers and employees and exploration and evaluation assets; partially offset by the appreciation in the United States dollar against the Australian dollar during the financial half-year on cash assets and security deposits held in United States dollars.

Exploration and evaluation expenditure of $5,528,089 was incurred during the financial half-year, in the following operating segments:

- Peru, the Group continued with drill planning and logistics, G&G studies, at a total cost of $2,574,585;
- Brazil, the Group continued work on the Neon light oil discovery and G&G studies, at a total cost of $2,526,423; and
- Australia, the Group and its joint venture partner in WA-482-P continued G&G studies, at a total cost of $427,081.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Financial Position (continued)

During the financial half-year, total assets decreased from $594,920,565 to $591,300,724, total liabilities comprising predominantly deferred tax on exploration and evaluation assets and net unrealised foreign currency gains, decreased from $39,694,851 to $39,660,034 and total equity decreased by $3,585,024 to $551,640,690. The major changes in the condensed consolidated statement of financial position were largely due to the following:

- exploration and evaluation expenditure in Australia, Brazil and Peru;
- appreciation in the United States dollar against the Australian dollar (from AUD1:USD0.7391 as at 30 June 2018 to AUD1:USD0.7058 as at 31 December 2018) on cash assets and security deposits held in United States dollars; and
- positive movement in the foreign currency translation reserve as a result of the appreciation of both the Brazilian REAL and United States dollar against the Australian dollar.

Business Strategies and Prospects, Likely Developments and Expected Results of Operations

The Directors' Report sets out information on the business strategies and prospects for future financial years and refers to likely developments in operations and the expected results of those operations in future financial years. Information in the Directors' Report is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Group. Details that could give rise to likely material detriment to Karoon, for example, information that is confidential, commercially sensitive or could give a third party a commercial advantage has not been included. Other than the matters included in this Directors' Report, information about other likely developments in the Group's operations and the expected results of those operations have not been included.

External Auditor's Independence Declaration

A copy of the external Auditor's Independence Declaration for the financial half-year, as required under Section 307C of the *Corporations Act 2001*, is set out on page 8.

This Directors' Report is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

13 March 2019
Melbourne

pwc

Auditor's Independence Declaration

As lead auditor for the review of Karoon Energy Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Karoon Energy Limited and the entities it controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
13 March 2019

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated Financial Half-year Ended 31 Dec 2018	31 Dec 2017
		$	$
Revenue	2	290,582	171,229
Other income	2	15,455,514	-
Total revenue and other income		15,746,096	171,229
Business development and other project costs	2	(4,106,553)	(2,095,824)
Computer licensing & support		(659,914)	(870,034)
Consulting fees		(355,391)	(359,501)
Depreciation and amortisation expense		(343,650)	(520,077)
Employee benefits expense (net)		(5,029,389)	(5,590,745)
Exploration and evaluation expenditure expensed, impaired or written-off	2	(16,641,542)	(9,433,341)
Farm-out costs		(143,111)	(190,445)
Finance costs	2	(74,970)	(157,116)
Insurance expense		(168,109)	(165,621)
Write-down of inventory to net realisable value	2	-	(4,837,620)
Legal fees		(112,157)	(21,008)
Net foreign currency losses	2	-	(4,946,474)
Property costs		(687,364)	(1,061,286)
Share registry and listing fees		(93,455)	(84,555)
Telephone and communication expenses		(124,029)	(134,663)
Travel and accommodation expenses		(157,316)	(59,608)
Other expenses		(831,802)	(861,676)
Total expenses		(29,528,752)	(31,389,594)
Loss before income tax		(13,782,656)	(31,218,365)
Tax income		447,701	3,052,535
Loss for financial half-year attributable to equity holders of the Company		**(13,334,955)**	**(28,165,830)**
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		8,025,485	(5,921,900)
Other comprehensive income (loss) for financial half-year, net of income tax		**8,025,485**	**(5,921,900)**
Total comprehensive loss for financial half-year attributable to equity holders of the Company, net of income tax		**(5,309,470)**	**(34,087,730)**
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share		(0.0543)	(0.1147)
Diluted loss per ordinary share		(0.0543)	(0.1147)

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Consolidated 31 Dec 2018	Consolidated 30 June 2018
		$	$
Current assets			
Cash and cash equivalents		330,031,524	333,572,953
Receivables		1,242,957	1,152,572
Security deposits		21,236	18,955
Current tax asset		115,741	185,737
Other assets		793,639	782,828
Total current assets		332,205,097	335,713,045
Non-current assets			
Inventories		39,415,762	37,696,266
Plant and equipment		901,595	802,514
Intangible assets		672,887	781,514
Exploration and evaluation expenditure carried forward		207,133,231	209,629,983
Security deposits		10,972,152	10,297,243
Total non-current assets		259,095,627	259,207,520
Total assets		591,300,724	594,920,565
Current liabilities			
Trade and other payables		6,825,559	6,428,989
Provisions		207,772	283,500
Total current liabilities		7,033,331	6,712,489
Non-current liabilities			
Trade and other payables		374,953	279,544
Deferred tax liabilities		31,925,596	32,373,298
Provisions		326,154	329,520
Total non-current liabilities		32,626,703	32,982,362
Total liabilities		39,660,034	39,694,851
Net assets		**551,640,690**	**555,225,714**
Equity			
Contributed equity	4	802,295,334	802,295,334
Accumulated losses		(228,061,648)	(214,726,693)
Share-based payments reserve		49,434,745	47,710,299
Foreign currency translation reserve		(72,027,741)	(80,053,226)
Total equity		**551,640,690**	**555,225,714**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Consolidated	Contributed Equity	Accumulated Losses	Share-based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
	$	$	$	$	$
Balance as at 1 July 2017	802,295,334	(32,948,904)	43,534,615	(53,988,880)	758,892,165
Loss for financial half-year	-	(28,165,830)	-	-	(28,165,830)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(5,921,900)	(5,921,900)
Total comprehensive loss for financial half-year	-	(28,165,830)	-	(5,921,900)	(34,087,730)
Transactions with owners in their capacity as owners:					
Share-based payments expense	-	-	1,864,749	-	1,864,749
	-	-	1,864,749	-	1,864,749
Balance as at 31 December 2017	**802,295,334**	**(61,114,734)**	**45,399,364**	**(59,910,780)**	**726,669,184**
Balance as at 1 July 2018	802,295,334	(214,726,693)	47,710,299	(80,053,226)	555,225,714
Loss for financial half-year	-	(13,334,955)	-	-	(13,334,955)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	8,025,485	8,025,485
Total comprehensive loss for financial half-year	-	(13,334,955)	-	8,025,485	(5,309,470)
Transactions with owners in their capacity as owners:					
Share-based payments expense	-	-	1,724,446	-	1,724,446
	-	-	1,724,446	-	1,724,446
Balance as at 31 December 2018	**802,295,334**	**(228,061,648)**	**49,434,745**	**(72,027,741)**	**551,640,690**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

	Consolidated Financial Half-year Ended	
	31 Dec 2018	**31 Dec 2017**
	$	**$**
Cash flows from operating activities		
Receipts from customers (inclusive of GST refunds)	267,021	950,548
Payments to suppliers and employees (inclusive of GST)	(12,099,900)	(10,445,381)
Payments for exploration and evaluation expenditure expensed	(2,038,470)	(2,756,700)
Interest received	267,910	125,715
Interest and other costs of finance paid	(74,970)	(148,809)
Income taxes refund	77,904	71,750
Net cash flows used in operating activities	(13,600,505)	(12,202,877)
Cash flows from investing activities		
Purchase of plant and equipment and computer software	(295,232)	(131,633)
Payments for exploration and evaluation expenditure capitalised	(4,371,385)	(21,427,974)
Payment of security deposits	(217,790)	(2,565,680)
Net cash flows used in investing activities	(4,884,407)	(24,125,287)
Cash flows from financing activities		
Payments for finance lease	(49,071)	(119,789)
Net cash flows used in financing activities	(49,071)	(119,789)
Net decrease in cash and cash equivalents	(18,533,983)	(36,447,953)
Cash and cash equivalents at beginning of financial half-year	333,572,953	375,069,427
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	14,992,554	(4,732,064)
Cash and cash equivalents at end of financial half-year	**330,031,524**	**333,889,410**

The accompanying notes form an integral part of these condensed consolidated financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018**

Note 1. Basis of Preparation of the Condensed Consolidated Financial Statements

This Interim Financial Report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*.

The condensed consolidated financial statements do not include all the notes of the type normally included in an Annual Report and should be read in conjunction with the Company's Annual Report for the financial year ended 30 June 2018.

The condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as disclosed in the Company's Annual Report for the financial year ended 30 June 2018, except for the impact of the Standards and Interpretations as described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The condensed financial statements are for the Group.

The condensed consolidated financial statements are presented in Australian dollars.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with financial half-year amounts and other disclosures.

New or Revised Australian Accounting Standards and Interpretations that are First Effective in the Current Reporting Period

The Group has adopted all of the new and/or revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the financial half-year ended 31 December 2018. The Group has not elected to apply any new or revised Australian Accounting Standards before their operative dates during the financial half-year.

Significant new and/or revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial half-year that are relevant to the Group include:

(i) AASB 15 *'Revenue from Contracts with Customers'*;
(ii) AASB 9 *'Financial Instruments';* and
(iii) AASB 2016-5 *'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'*

The adoption of all of the relevant new and/or revised Australian Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on either the amounts reported for the current or previous financial half-years.

Statement of Compliance

Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 '*Interim Financial Reporting'.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Note 2. Results for Financial Half-Year

	Consolidated Financial Half-year Ended 31 Dec 2018	31 Dec 2017
	$	$
The results for the financial half-year include the following revenue and expense items which are unusual because of their nature, size or incidence:		
Revenue		
Interest income from unrelated entities	290,582	171,229
Total revenue	290,582	171,229
Net foreign currency gains	15,455,514	-
Total other income	15,455,514	-
Expenses		
Exploration and evaluation expenditure expensed, impaired or written-off:		
- exploration and evaluation expenditure expensed	(2,548,693)	(3,541,262)
- exploration and evaluation expenditure impaired	(866,422)	-
- exploration and evaluation expenditure written-off (refer (a) below)	(13,226,427)	(5,892,079)
Total exploration and evaluation expenditure expensed, impaired or written-off	(16,641,542)	(9,433,341)
Finance costs:		
- finance charges under finance lease	(3,918)	(8,307)
- bank charges	(71,052)	(148,809)
Total finance costs	(74,970)	(157,116)
Share-based payments expense	(1,724,446)	(1,864,749)
Business development and other project costs (refer (b) below)	(4,106,553)	(2,095,824)
Write-down of inventory to net realisable value (refer (c) below)	-	(4,837,620)
Net foreign currency losses	-	(4,946,474)

(a) The write-off during the financial half-year relates to exploration and evaluation expenditure carried forward, which is associated with designated WA-482-P acreage to be relinquished by the Joint Operation as part of the Renewal Application submitted to NOPTA for approval prior to expiry of the permit's current exploration term on 9 March 2019 (2017: demobilisation of liquid mud plant for Block Z-38 as more cost effective alternatives were considered whilst the Block was under force majeure).

(b) Reviewing new business development and other project activities predominantly in Brazil. Expenditure includes internal time allocation of employees and consultants and associated office charges, geotechnical data and external advice relating to due diligence reviews on potential asset acquisitions.

(c) The write-down during the previous financial half-year resulted predominantly from potential well design specifications, the number of wells being considered as part of the ongoing Neon and Goiá work and the potential future development of the Neon light oil discovery, which is distinct from inventory requirements for exploration drilling. Liquid mud inventory was also written-down following the liquid mud plant demobilisation the previous financial half-year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Note 3. Segment Information

(a) Description of Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and Executive Director/Exploration Director (identified as the 'chief operating decision maker') in assessing performance and in determining the allocation of resources.

The operating segments are based on the Group's geographical location of its operations.

The Group has identified operating segments based on the following three geographic locations:

- Australia – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in three offshore exploration permit areas: WA-314-P, WA-482-P and EPP46;
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in five offshore blocks: Block S-M-1037, Block S-M-1101, Block S-M-1102, Block S-M-1165 and Block S-M-1537; and
- Peru – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in offshore exploration Block Z-38 and Area 73.

'All other segments' include amounts not specifically attributable to an operating segment.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

Segment revenues and results do not include transfers between segments as intercompany balances are eliminated on consolidation.

Employee benefits expense and other operating expenses, that are associated with exploration and evaluation activities and specifically relate to an area of interest, are allocated to the area of interest and are capitalised as exploration and evaluation assets.

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in a manner consistent with that of the condensed consolidated financial statements. Reportable segment assets and segment liabilities are equal to consolidated total assets and total liabilities respectively. These assets and liabilities are allocated in accordance with the operations of the segment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Note 3. Segment Information (continued)

(a) Operating Segments

Segment performance	Australia	Brazil	Peru	All Other Segments	Consolidated
	$	$	$	$	$
Result for financial half-year 31 December 2018					
Segment revenue (interest income from unrelated entities)	179,405	111,055	122	-	290,582
Other income	15,510,151	33,461	(88,098)	-	15,455,514
Business development and other project costs	-	(4,106,553)	-	-	(4,106,553)
Depreciation and amortisation expense	(70,148)	(199,732)	(73,770)	-	(343,650)
Employee benefits expense (net)	(3,696,122)	(1,090,563)	(242,704)	-	(5,029,389)
Exploration and evaluation expenditure expensed	(31,115)	(2,426,592)	(52,869)	(38,117)	(2,548,693)
Exploration and evaluation expenditure impaired	(59,279)	(807,143)	-	-	(866,422)
Exploration and evaluation expenditure written-off	(13,226,427)	-	-	-	(13,226,427)
Finance costs	(33,446)	(34,526)	(6,998)	-	(74,970)
Property costs	(399,729)	(242,886)	(44,749)	-	(687,364)
Administration and other operating expenses	(1,279,384)	(963,765)	(402,135)	-	(2,645,284)
Loss before income tax	(3,106,094)	(9,727,244)	(911,201)	(38,117)	(13,782,656)
Tax income	447,701	-	-	-	447,701
Loss for financial half-year	(2,658,393)	(9,727,244)	(911,201)	(38,117)	(13,334,955)
Result for financial half-year 31 December 2017					
Segment revenue (interest income from unrelated entities)	105,700	65,492	37	-	171,229
Business development and other project costs	(7,148)	(1,325,359)	-	(763,317)	(2,095,824)
Depreciation and amortisation expense	(81,276)	(278,968)	(159,833)	-	(520,077)
Employee benefits expense (net)	(3,551,121)	(1,722,425)	(317,199)	-	(5,590,745)
Exploration and evaluation expenditure expensed	(136,955)	(2,444,834)	(822,326)	(137,147)	(3,541,262)
Exploration and evaluation expenditure written-off	-	-	(5,892,079)	-	(5,892,079)
Finance costs	(35,237)	(115,463)	(6,416)	-	(157,116)
Write-down of inventory to net realisable value	(9,944)	(3,670,268)	(1,157,408)	-	(4,837,620)
Net foreign currency losses	(4,934,148)	4,110	(16,436)	-	(4,946,474)
Property costs	(378,776)	(505,000)	(177,510)	-	(1,061,286)
Administration and other operating expenses	(1,330,242)	(627,540)	(789,329)	-	(2,747,111)
Loss before income tax	(10,359,147)	(10,620,255)	(9,338,499)	(900,464)	(31,218,365)
Tax income	3,052,535	-	-	-	3,052,535
Loss for financial half-year	(7,306,612)	(10,620,255)	(9,338,499)	(900,464)	(28,165,830)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Note 3. Segment Information (continued)

(b) Operating Segments (continued)

Segment assets	Australia	Brazil	Peru	Consolidated
	$	$	$	$
As at 31 December 2018				
Segment asset information				
Cash and cash equivalents	327,413,581	1,685,171	932,772	330,031,524
Exploration and evaluation expenditure carried forward	28,915,991	109,080,521	69,136,719	207,133,231
Security deposits	430,694	2,278,555	8,284,139	10,993,388
Inventories	-	13,361,168	26,054,594	39,415,762
Other	847,860	1,490,998	1,387,961	3,726,819
Segment assets	357,608,126	127,896,413	105,796,185	591,300,724
As at 30 June 2018				
Segment asset information				
Cash and cash equivalents	331,353,468	2,019,810	199,675	333,572,953
Exploration and evaluation expenditure carried forward	41,774,616	103,474,676	64,380,691	209,629,983
Security deposits	430,695	2,184,097	7,701,406	10,316,198
Inventories	-	12,815,556	24,880,710	37,696,266
Other	747,017	1,806,235	1,151,913	3,705,165
Segment assets	374,305,796	122,300,374	98,314,395	594,920,565

Segment liabilities	Australia	Brazil	Peru	Consolidated
	$	$	$	$
As at 31 December 2018				
Segment liability information				
Trade and other payables	3,188,053	3,323,739	688,720	7,200,512
Deferred tax liabilities	31,925,596	-	-	31,925,596
Provisions	533,926	-	-	533,926
Segment liabilities	35,647,575	3,323,739	688,720	39,660,034
As at 30 June 2018				
Segment liability information				
Trade and other payables	3,321,249	2,759,038	628,246	6,708,533
Deferred tax liabilities	32,373,298	-	-	32,373,298
Provisions	613,020	-	-	613,020
Segment liabilities	36,307,567	2,759,038	628,246	39,694,851

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018**

Note 4. Contributed Equity

	Consolidated 31 Dec 2018	30 June 2018
	$	$
(a) Contributed Equity		
Ordinary shares, fully paid	802,295,334	802,295,334
Total contributed equity	802,295,334	802,295,334

(b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares	$
1 July 2017	Opening balance in previous financial year	245,217,605	802,295,334
	Performance rights conversion	503,548	-
30 June 2018	Balance at end of previous financial year	245,721,153	802,295,334
	Performance rights conversion	-	-
31 December 2018	Balance at end of financial half-year	245,721,153	802,295,334

Note 5. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2017: $Nil).

Note 6. Financial Instruments

The Group's financial instruments consist of cash and cash equivalents, receivables, security deposits, trade and other payables. The fair values of financial assets and financial liabilities are represented by their carrying values as disclosed in the condensed consolidated statement of financial position.

Note 7. Contingent Liabilities

As at 31 December 2018, the Group had contingent liabilities in the form of performance guarantees, a letter of credit, bank guarantees, bonds, the Pacific Exploration and Production Corp. deferred contingent obligation, Brazilian Local Content and other matters. There have not been any significant changes from the 30 June 2018 Annual Report.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018**

Note 8. Commitments

	Consolidated	
	31 Dec 2018	**30 June 2018**
	$	**$**
(a) Capital Expenditure Commitments		
Contracts and/or signed Authorities for Expenditure for capital expenditure in relation to assets not provided for in the condensed consolidated financial statements and payable:		
Drilling operations		
Not later than one year	292,409	1,460,063
Later than one year but not later than five years	-	139,617
Total capital expenditure commitments	292,409	1,599,680
(b) Exploration Expenditure Commitments		
The Group has guaranteed commitments for exploration expenditure arising from obligations to governments to perform minimum exploration and evaluation work and expend minimum amounts of money pursuant to the award of exploration tenements EPP46, WA-314-P, WA-482-P, Block S-M-1537 and Block Z-38 (30 June 2018: EPP46, WA-314-P, WA-482-P, Block S-M-1537, and Block Z-38) not provided for in the condensed consolidated financial statements and payable.		
Not later than one year	28,731,575	166,301
Later than one year but not later than five years	77,106,770	101,246,335
Later than five years	2,261,365	2,169,021
Total exploration expenditure commitments	108,099,710	103,581,657

In addition, to the guaranteed work commitments shown above the Group has non-guaranteed work commitments in relation to these tenements due later than one year but not later than five years of $236,625,801 (30 June 2018: $275,361,548). These commitments will become firm commitments if the Group elects to retain the tenements by proceeding into the unguaranteed work periods.

Estimates for future exploration expenditure commitments to government are based on estimated well and seismic costs, which will change as actual drilling locations and seismic surveys are completed and are calculated in current dollars on an undiscounted basis. The exploration and evaluation obligations may vary significantly as a result of renegotiations with relevant parties.

The commitments may also be reduced by the Group entering into farm-out agreements, which are typical of the normal operating activities of the Group and by relinquishing exploration permits or blocks.

Where exploration and evaluation expenditure included in this category relates to an existing contract for expenditure and/or signed Authorities for Expenditure, the amount will be included in both categories (a) and (b) above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

Note 9. Subsequent Events

Since 31 December 2018, there have been no material events that have occurred.

The Interim Financial Report was authorised for issue by the Board of Directors on 13 March 2019. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements and notes.

DIRECTORS' DECLARATION
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2018

The Directors declare that:

(a) in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 9 to 20, are in accordance with the *Corporations Act 2001,* including:

   (i) complying with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Regulations 2001*; and

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and

(b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This Directors' Declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:

Mr Bruce Phillips
Independent Non-Executive Chairman

Mr Robert Hosking
Managing Director

13 March 2019
Melbourne

Independent auditor's review report to the members of Karoon Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Karoon Energy Limited (the Company), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Karoon Energy Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Karoon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Karoon Energy Limited is not in accordance with the *Corporations Act 2001* including:

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1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
13 March 2019

GLOSSARY

Term	Definition
2D seismic	Two-dimensional seismic.
3D seismic	Three-dimensional seismic.
AUD, $ or cents	Units of Australian currency.
AASB	Australian Accounting Standards Board.
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.
ASX	ASX Limited (ACN 008 624 691), trading as Australian Securities Exchange.
block	A licence or concession area. It may be almost any size or shape, although usually part of a grid pattern.
Company	Karoon Energy Ltd.
contingent resources	Those quantities of hydrocarbons estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable (as evaluation of the accumulation is insufficient to clearly assess commerciality). 1C- Denotes low estimate scenario of contingent resources. 2C- Denotes best estimate scenario of contingent resources. 3C- Denotes high estimate scenario of contingent resources.
Director	A Director of Karoon Energy Ltd.
discovery well	The first successful well on a new prospect.
exploration	The process of identifying, discovering and testing prospective hydrocarbon regions and structures, mainly by interpreting regional and specific geochemical, geological, geophysical survey data and drilling.
farm-in and farm-out	A commercial agreement in which an incoming joint operation participant (the ‘farmee’) earns an interest in an exploration permit by funding a proportion of exploration and evaluation expenditures, while the participant owning the interest in the exploration permit (the ‘farmor’) pays a reduced contribution. The interest received by a farmee is a farm-in while the interest transferred by the farmor is a farm-out.
FID	Final investment decision.
field	An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area although it may refer to both the surface and underground productive formation.
financial half-year	Financial half-year ended 31 December 2018.
FPSO	Floating production, storage and off-loading facility.
G&G	Geological and geophysical.
hydrocarbon	A chemical compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Karoon or Group	Karoon Energy Ltd and its subsidiaries.
mmbbls	Millions of barrels (1,000,000 barrels).
NOPTA	Australian National Offshore Petroleum Titles Administrator.
Operator	One joint operation participant that has been appointed to carry out all operations on behalf of all the joint operation participants.
ordinary shares	The ordinary shares in the capital of Karoon Energy Ltd.

GLOSSARY (Continued)

Term	Definition
permit	A hydrocarbon tenement, lease, licence, concession or block.
Perupetro	Perupetro SA, the Peruvian oil and gas regulator.
Petróbras	Petróleo Brasileiro SA.
play	A trend within a prospective basin that has common geologic elements containing one or more fields, prospects or leads with common characteristics.
prospect	A geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended.
REAL	Brazilian currency.
reservoir	A porous and permeable rock formation to store and transmit fluids such as hydrocarbons and water.
risk	Prospect risk or geologic risk is the assessed chance that the drilling of the prospect will be successful in finding significant volumes of hydrocarbons. The risk is calculated by multiplying the chance of success of each of the petroleum system elements involved in the prospect.
seismic survey	A type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near vertical plane back to the surface from subsurface boundaries. This data is typically used to determine the depths to form of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
unrisked	A risk value has not been applied to an estimate of hydrocarbon volume either in place or recoverable.
USD	United States dollars.