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## JUNE 2020 QUARTERLY REPORT AND APPENDIX 5B

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### Significant events:

- Subsequent to the end of the quarter, Karoon Energy Ltd (“Karooon”) announced that it had successfully agreed on adjusted terms for the Baúna acquisition, splitting the original US\$665 million “headline” consideration into 2 parts comprising US\$380 million of firm consideration and US\$285 million of contingent consideration linked to oil prices. The renegotiated acquisition terms were approved by Karoon and Petrobras’s Board of Directors during July 2020<sup>1</sup>.
- The strategic review launched during the March quarter was carried out in parallel with the Baúna renegotiations and was completed during July 2020. The primary conclusion of the review was pursuing Karoon’s previously stated Brazilian Southern Santos Basin strategy provided the best outcome for shareholders.
- Karoon’s founder and long-standing CEO and Managing Director, Mr Robert Hosking informed the Company during July that he will retire at the 2020 Annual General Meeting. The Board has engaged an independent specialist search firm to complete a global search for a replacement CEO.
- Cash at bank as at 30 June 2020 was A\$432 million.

### Karooon’s Managing Director, Mr Robert Hosking said:

*“Karooon is very pleased with the outcome of the Baúna renegotiations. The revised acquisition terms ensure Karoon is able to continue with the acquisition of Baúna despite the current challenging and uncertain oil price environment through funding the closing payments out of existing cash, and not having to rely on debt finance to reach completion.*

*In addition to being able to complete the transaction using existing cash, another key consideration was ensuring Karoon retained the financial capacity to invest in the current operational plan to grow production, which comprises a workover campaign on the existing wells and development of the Patola discovery.*

*On a personal note, after founding Karoon and 16 years at the helm I have decided to step down as Managing Director at this year’s AGM. While the Baúna transaction is yet to complete, in order to find a suitable replacement prior to the AGM a replacement process has commenced. I wish to assure shareholders that I am committed to seeing through Karoon’s transition into production and steering the company through a seamless transfer to full ownership of the Baúna asset.*

*I am leaving Karoon in a strong position with a foundation asset, and an exciting future of growth.”*

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<sup>1</sup> For further information, see the ASX announcement entitled “Karooon Energy Ltd agrees on adjusted terms for the Baúna acquisition” and the ASX announcement entitled “Baúna Acquisition – Adjusted Terms” both dated 27 July 2020.

## **Corporate Summary**

### **Strategic review completed**

During the quarter Karoon undertook a wide-ranging strategic review process to assess the merits of the Baúna acquisition alongside other strategic capital initiatives and alternate acquisition opportunities as a result of the fall-out of COVID-19. Specialist consultants were utilised to assist the Board and management team in investigating different strategic options and outcomes.

Following completion of the strategic review during July 2020, the primary conclusion was that pursuing the previously stated South Santos Basin strategy in Brazil provided the best outcome for shareholders. In reaching this decision, the Board considered (without limitation) the following key parameters with respect to Bauna:

1. The strategic fit with Karoon's existing assets and opportunity to create incremental value.
2. The ability to successfully negotiate acquisition terms so Karoon could fund the transaction without debt or affecting Karoon's ability to invest in its operational plan for the asset.
3. The ability to generate risk adjusted returns and demonstrate value acceptable to shareholders.
4. Confidence of Baúna's ability to generate positive cash flows through the cycle.

### **Revised Baúna Acquisition**

Critical to progressing with the acquisition of Baúna was negotiating and agreeing a revised transaction to ensure Karoon could fund the closing payments without debt financing due to COVID-19 and current economic environment. Over the course of the quarter, management engaged with Petrobras seeking to renegotiate the original Baúna acquisition terms.

As announced to the ASX on 27 July 2020, Karoon's wholly owned subsidiary Karoon Petróleo & Gás Ltda., executed a binding agreement to amend the sale and purchase agreement ("SPA") to acquire a 100% operating interest in the Baúna field (Concession BM-S-40) located in the Santos Basin, offshore Brazil.

The renegotiated terms split the "headline" US\$665 million consideration into the following:

1. US\$380 million of "firm" consideration made up of:
  - a. US\$150 million payable on closing of the transaction;
  - b. Closing adjustment comprising operating and investing cash flows in the period from the effective date of 1 January 2019 to the closing date, the deposit paid, along with interest payable on firm consideration; and
  - c. deferred "firm" consideration payable 18 months after closing, which is US\$380 million less items a) and b) above; and
2. Up to, in aggregate, US\$285 million (plus interest of 2% per annum) of "contingent" consideration payable based on the average annual daily Brent oil price (based on thresholds between  $\geq$  US\$50/bbl and  $\geq$  US\$70/bbl) in respect of calendar years 2022 to 2026 (inclusive).

The firm and contingent consideration payable is expected to be funded from Karoon's existing cash and organic cash flows from the asset.

As per the original SPA terms there is also an additional US\$50 million that remains payable in the event the average Brent oil price exceeds US\$100/bbl in calendar year 2020.

Reaching transaction close remains subject to certain conditions precedent, which are being completed by Petrobras and/or Karoon, including (without limitation):

- Issue of new environmental operational licenses to Karoon by the Brazilian Institute of the Environment and Renewable Natural Resources.
  - Written approval from the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis to the assignment of the concession contract relating to Concession BM-S-40.
  - Assignment or novation of the FPSO charter contract and the FPSO services agreement (or otherwise entry into a contract with the counterparty to such contracts which provides for use of the FPSO). The
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key commercial terms have been agreed in writing and final documentation is expected to be completed over the coming month.

During the quarter Baúna produced 1.46 million barrels of oil at an average production rate of 16.1k barrels a day, in line with Karoon's assessment of production.

### **Operational Summary**

#### **Brazil**

***Santos Basin, Blocks S-M-1037, S-M-1101***

***100% Equity Interest***

***Operator***

During the quarter, the conceptual engineering studies of utilising a redeployed production system for a future field development of the Neon discovery were ongoing. Once complete, Karoon will evaluate these studies and incorporate the results into the strategic planning for Neon.

***Santos Basin, Block S-M-1537***

***100% Equity Interest***

***Operator***

Low cost internal geological and geophysical studies and mapping work was ongoing during the quarter.

The Block contains one main prospect, Clorita, with the reservoir expected to comprise Oligocene turbidite sands with high porosity and permeability as seen in the nearby producing Baúna and Piracaba fields.

#### **Peru**

***Tumbes Basin, Block Z-38***

***40% Equity Interest<sup>2</sup>***

***Operator***

Following the completion of the Marina-1 exploration well drilling campaign during the first quarter 2020 the evaluation of the technical data continued during the quarter. Due to delays in the drilling of the well in the current exploration phase, a six-month extension was requested and granted, extending the end of the current third period to December 2020.

In addition, due to the temporary closure of Karoon's Peru office due to the COVID-19 lock down and quarantine requirements declared by the Peruvian Government, Karoon applied for force majeure in respect of the licence agreement for Block Z-38 which was granted by the authorities on 14 July 2020. The force majeure applies from 16 March 2020 until such time as relevant lockdown requirements are removed.

***Tumbes Basin, Area 73***

***Technical Evaluation Agreement***

***Operator***

Seismic reprocessing of 3D seismic previously acquired over the area continued through the quarter.

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<sup>2</sup> Karoon's 40% equity interest remains subject to completion of farm-in obligations

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**Australia**

***Northern Carnarvon Basin, Permit WA-482-P***

***50% Equity Interest***

***Non-Operator***

Seismic reprocessing of the existing database of 3D seismic continued during the quarter.

***Ceduna Sub-basin, Great Australian Bight, Permit EPP46***

***100% Equity Interest***

***Operator***

Karoon submitted a formal request to withdraw from the permit to the regulatory authorities during the December quarter 2019. The final decision of the Joint Authority is currently pending.

**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.

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.

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## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

**Name of entity**

Karoon Energy Ltd

**ABN**

53 107 001 338

**Quarter ended ("current quarter")**

30 June 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	136	518
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(323)	(1,242)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs (employee benefits expense-net)	(1,464)	(7,089)
	(e) administration and corporate costs	(2,472)	(11,044)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	164	3,518
1.5	Interest and other costs of finance paid	(74)	(523)
1.6	Income taxes paid	(425)	(397)
1.7	Government grants and tax incentives	-	-
1.8	Other (GST refunds and net VAT payments)	(2,243)	(4,975)
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(6,701)</b>	<b>(21,234)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(1,219)	(2,177)
	(d) exploration & evaluation (if capitalised)	(17,090)	(61,885)
	(e) investments	-	-
	(f) other non-current assets (security deposits)	438	105
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	4	27
	(d) investments	-	-
	(e) other non-current assets (security deposits)	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (Bauna deposit and transition costs)	(4,038)	(90,376)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(21,905)</b>	<b>(154,306)</b>

  

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	284,121
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(10,309)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	(34)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>273,778</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	504,530	326,191
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(6,701)	(21,234)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(21,905)	(154,306)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	273,778
4.5	Effect of movement in exchange rates on cash held	(44,021)	7,474
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>431,903</b>	<b>431,903</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts</b>	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	400,937	470,298
5.2	Call deposits	30,966	34,232
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>431,903</b>	<b>504,530</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter  
\$A'000**

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Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Directors' remuneration included in 1.2: \$333,666  
Consulting fees included in 1.2: \$93,108

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-
7.5 <b>Unused financing facilities available at quarter end</b>		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<b>Syndicated Facility Agreement for an Underwritten Senior Secured Term Loan Facility for Baúna</b> Karoon Energy Ltd's wholly owned subsidiary Karoon Petróleo e Gás Ltda had signed a senior secured term loan facility of up to US\$275 million. Subsequent to the end of the quarter, during July the facility lapsed and is no longer in place.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	(6,701)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(17,090)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(23,791)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	431,903
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	431,903
8.7	<b>Estimated quarters of funding available (Item 8.6 divided by Item 8.3)</b>	<b>18</b>

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A



**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2020

Authorised by: By the Board

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## Appendix 1

### Schedule of Interests in Petroleum Tenements

Held by Karoon Energy Ltd Group

As at 30 June 2020

<u>Exploration Permit/ Block</u>	<u>Basin</u>	<u>Operator</u>	<u>% Equity Interest Held</u>
EPP46	Ceduna Sub-basin, Australia	Karooon	100
WA-482-P	Northern Carnarvon, Australia	Santos	50 (1)
Block S-M-1037	Santos, Brazil	Karooon	100
Block S-M-1101	Santos, Brazil	Karooon	100
Block S-M-1537	Santos, Brazil	Karooon	100
Block Z-38	Tumbes, Peru	Karooon	40 (2)

- (1) Liberty Petroleum Corporation is entitled to certain milestone cash bonuses and an over-royalty in the event of production. Phoenix Oil and Gas Limited is entitled to an over-riding royalty in the event of production.
- (2) The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed.