
MARCH 2020 QUARTERLY REPORT AND APPENDIX 5B

Significant events during the quarter:

COVID-19

The COVID-19 pandemic is having an unprecedented negative impact on global oil demand that saw the Brent oil price collapse over 65% for the March 2020 quarter.

Governments and Corporations around the world have taken dramatic and immediate steps to combat COVID-19 through the implementation of social distancing measures on a global scale. The resulting economic slowdown and collapse in oil demand has forced a coordinated and prolonged supply response from OPEC+ with cuts announced during April 2020 aiming at 10% of global supply. While the extent of the cut is unlikely to balance the market in the near term, it demonstrates a continued willingness of OPEC+ to manage supply for the stability of the oil market.

While significant uncertainty remains on the timing and shape of a recovery, Karoon does not believe COVID-19 represents a permanent long-term destruction of demand for oil. Emerging from COVID-19 Karoon expects a meaningful rebound in demand as economic activity returns and lower energy prices stimulate incremental demand.

Karoon Managing the Current Market

- Karoon is well capitalised with A\$504.5 million of cash and no drawn debt as at 31 March 2020. Note that 93% of Karoon's cash is held in USD to mitigate currency risk.
- Karoon is evaluating its strategic alternatives to deliver the best outcome for shareholders in a post COVID-19 world.
- Critical staff required to complete the Baúna acquisition and transition to operatorship are being retained, however consulting contracts are being suspended where possible. Discretionary spend and capital expenditure outside of Baúna is being eliminated.
- Recent permanent and temporary cost reductions are being implemented, including consolidation and reduction of offices and workforce.
- The Board, senior management and the majority of employees will take a 20% temporary reduction in salaries and fees.

Baúna Acquisition Update

Despite the impact of COVID-19 on world energy markets in the short term, Karoon remains positive on the long term future for energy and remains committed to working towards completing the acquisition of the 100% operated interest in Santos Basin Concession BM-S-40, the producing Baúna oil field and the undeveloped Patola oil discovery ("Baúna"), but only on acceptable terms for shareholders. Baúna is a high quality strategically located asset with the potential to deliver long term value to Karoon's shareholders.

Prior to financial close, Karoon requires assignment of the relevant production contracts, including the FPSO contract, and acceptable approvals of the Brazilian regulatory authorities (IBAMA and the ANP). Shareholders are also aware the Company is exposed to oil price, interest rates and foreign exchange fluctuations that affect the operating costs and revenues arising from Baúna that are captured in the adjustment to the purchase price due to an effective date of 1 January 2019.

Availability of the debt financing facility to achieve financial close remains subject to a final bank case, including agreeing relevant oil pricing and associated hedging that will determine the final borrowing base amount available for the acquisition. The current oil market conditions brought about by COVID-19 downturn have resulted in significant uncertainty with respect to the final size of the borrowing base amount available at financial close. Discussions are continuing in this regard.

Strategic review

Due to the foregoing uncertainties, the Board initiated a strategic review during the quarter to evaluate whether strategic alternatives can deliver a superior outcome for shareholders in a post-pandemic world. The results of the review are scheduled for completion early in Q3, 2020.

Operational Summary

Baúna

During the quarter, an updated reserves and resources competent persons report was prepared by AGR Petroleum Services Reservoir Management Division. After accounting for 2019 production, the report showed an increase of 1.2 mmbbls in 2P reserves (1P reserves increasing 4 mmbbls) and an increase of 1 mmbbls in 2C contingent resources as at 1 January 2020 against the previous assessment provided in August 2019.

Baúna produced 1.5 million barrels of oil at an average production rate of 16.5k barrels a day during the quarter.

While good progress was made during January and February 2020 in completing regulatory approvals, the escalation of COVID-19 during March and implementation of social distancing measures in Brazil, has adversely impacted the speed of securing the regulatory approvals and progressing the assignment of the FPSO contract.

Brazil

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

100% Equity Interest

Operator

During the quarter Karoon commenced conceptual engineering studies with the Teekay Corporation to evaluate the possibility of utilising a redeployed production system for a future development of the Neon oil field.

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 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 Interest¹

Operator

During the quarter, the Marina-1 exploration well was drilled to a depth of 3021mm MD near the top of the Cardalitos Formation and was plugged and abandoned. The well encountered thin water bearing sands with no oil and only minor gas shows. Preliminary indications are that failure of the Marina prospect is associated with lack of effective hydrocarbon migration and poor reservoir development at this location. The well was drilled on time and without safety or environmental incident.

¹ Karoon's 40% equity interest remains subject to completion of farm-in obligations

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Marina-1 has provided a large amount of valuable data on the geological setting for this part of the Tumbes Basin. Once the results have been analysed and the geological models updated, a decision will be made about relinquishment or a low cost forward program.

During the quarter, the total cash outflow for exploration and evaluation included approximately \$A38 million of payments relating to these drilling activities. Approximately \$A33 million is expected to be paid during the current quarter for outstanding amounts related to the campaign.

***Tumbes Basin, Area 73
Technical Evaluation Agreement
Operator***

Seismic reprocessing of 3D seismic previously acquired over the area continued through the quarter. Perupetro has granted a six-month extension for the Area 73 Technical Evaluation Agreement, extending the agreement period to the end of calendar year 2020.

***Australia
Northern Carnarvon Basin, Permit WA-482-P
50% Equity Interest
Non-Operator***

Seismic reprocessing of the existing database of 3D seismic by the operator Santos 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.

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")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	325	382
1.2 Payments for		
(a) exploration & evaluation (if expensed)	(237)	(919)
(b) development	-	-
(c) production	-	-
(d) staff costs (employee benefits expense-net)	(1,549)	(5,625)
(e) administration and corporate costs	(3,140)	(8,572)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1,394	3,354
1.5 Interest and other costs of finance paid	(66)	(448)
1.6 Income taxes paid	(13)	28
1.7 Government grants and tax incentives	-	-
1.8 Other (GST refunds and net VAT payments)	(3,728)	(2,732)
1.9 Net cash from / (used in) operating activities	(7,014)	(14,532)

Consolidated statement of cash flows		Current quarter \$'000	Year to date (9 months) \$'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(701)	(958)
	(d) exploration & evaluation (if capitalised)	(39,008)	(44,795)
	(e) investments	-	-
	(f) other non-current assets (security deposits)	(37)	(333)
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	8	23
	(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)	(3,213)	(86,338)
2.6	Net cash from / (used in) investing activities	(42,951)	(132,401)
3.	Cash flows from financing activities		
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	(188)	(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 (Payments for finance lease)	-	(34)
3.10	Net cash from / (used in) financing activities	(188)	273,778

Consolidated statement of cash flows		Current quarter \$'000	Year to date (9 months) \$'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	496,495	326,191
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(7,014)	(14,532)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(42,951)	(132,401)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(188)	273,778
4.5	Effect of movement in exchange rates on cash held	58,188	51,494
4.6	Cash and cash equivalents at end of period	504,530	504,530

5. 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		Current quarter \$'000	Previous quarter \$'000
5.1	Bank balances	470,298	253,673
5.2	Call deposits	34,232	242,822
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	504,530	496,495

6. Payments to related parties of the entity and their associates		Current quarter \$'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	471
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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: \$381,922
Consulting fees included in 1.2: \$89,560

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	445,000	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	445,000	-
7.5	Unused financing facilities available at quarter end		-
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.		
Syndicated Facility Agreement for an Underwritten Senior Secured Term Loan Facility for Baúna			
<p>Karoon Energy Ltd's wholly owned subsidiary Karoon Petróleo e Gás Ltda signed a senior secured term loan facility (the 'syndicated facility') during October 2019 of up to US\$275 million (equivalency of up to \$A445 million, based on A\$:US\$0.6175 foreign exchange spot rate on 31 March 2020). The syndicated facility agreement has been fully underwritten by ING Bank N.V., Singapore Branch. The syndicated facility is priced on a 4% margin over LIBOR for a term of up to 4 years from signing and will be fully amortised over the loan life.</p> <p>The senior secured term loan facility was intended to be used as part of the funding package for the acquisition of a 100% operating interest in the Baúna light oil field (Concession BM-S-40) in the Santos Basin, offshore Brazil. Availability of the facility remains subject to a final bank case including agreeing an oil price that will determine the final borrowing base amount available for the acquisition. Given the reserve based lending methodology used to determine the final borrowing base amount, the current oil market conditions brought about by COVID-19 have resulted in significant uncertainty with respect to the final size of the borrowing base amount available at financial close.</p>			
8.	Estimated cash available for future operating activities	\$A'000	
8.1	Net cash from / (used in) operating activities (Item 1.9)	(7,014)	
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(39,008)	
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(46,022)	
8.4	Cash and cash equivalents at quarter end (Item 4.6)	504,530	
8.5	Unused finance facilities available at quarter end (Item 7.5)	-	
8.6	Total available funding (Item 8.4 + Item 8.5)	504,530	
8.7	Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	11	

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: 30 April 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 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 31 March 2020

<u>Exploration Permit/ Block</u>	<u>Basin</u>	<u>Operator</u>	<u>% Equity Interest Held</u>
EPP46	Ceduna Sub-basin, Australia	Karoon	100 (1)
WA-482-P	Northern Carnarvon, Australia	Santos	50 (2)
Block S-M-1037	Santos, Brazil	Karoon	100
Block S-M-1101	Santos, Brazil	Karoon	100
Block S-M-1537	Santos, Brazil	Karoon	100
Block Z-38	Tumbes, Peru	Karoon	40 (3)

- (1) The Group has made a formal request to the regulatory authorities to relinquish EPP46
- (2) 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.
- (3) The Group's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are still to be completed.

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