



KAROON ENERGY LTD
ABN 53 107 001 338

**INTERIM FINANCIAL REPORT
FOR THE FINANCIAL HALF-YEAR ENDED
31 DECEMBER 2019**

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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 2019

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 2019 (the 'financial half-year').

The Directors' Report is presented in Australian dollars, unless otherwise indicated.

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;
Mr Robert Hosking – Managing Director;
Mr Mark Smith – Executive Director (*ceased to be a Director on 29 November 2019*);
Mr Peter Turnbull – Independent Non-Executive Director;
Ms Luciana Rachid – Independent Non-Executive Director;
Mr Geoff Atkins – Independent Non-Executive Director;
Mr Clark Davey – Independent Non-Executive Director; and
Mr Jose Coutinho Barbosa – Non-Executive Director.

Review of Operations

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

The corporate vision is to transform Karoon from a successful oil and gas explorer to a global Exploration and Production company with material long-term oil production underpinned by a highly prospective exploration portfolio, providing a foundation for future exploration and production growth. In the short to medium-term, this will be achieved through Karoon's *'Three Pillar'* corporate strategy which is focused on sustainable production, field developments and focused exploration opportunities

Karoon has historically driven value through the geotechnical workup of exploration and appraisal acreage to identify prospective opportunities. The focus is on acquiring high-equity interests in undervalued offshore acreage within proven petroleum systems. Karoon's acquisition strategy has focused on, but not limited to, opportunities in South America in particular Brazil, where Karoon has a key operational presence.

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

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Review of Operations (continued)

Brazil

Concession BM-S-40 Baúna Oil Field and the Existing Undeveloped Patola Oil Discovery

During July 2019 Karoon executed a binding sale and purchase agreement ('SPA') with Petrobras to acquire a 100% operating interest in Concession BM-S-40 containing the producing Baúna oil field and the undeveloped Patola oil discovery ('Baúna') located in the Santos Basin, offshore Brazil for a headline acquisition price of US\$665 million with an effective date of 1 January 2019.

At the date of signing this Directors' Report, completion of the acquisition of the Baúna production asset was still subject to several conditions precedent. Under the SPA, Karoon does not have control of the Baúna asset until completion of the transaction.

The remaining key conditions to be satisfied under the SPA are as follows:

- (a) payment of the outstanding consideration (acquisition price less the deposit and closing adjustments);
- (b) final Brazilian oil and gas regulatory approval from the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (the 'ANP', the Brazilian Petroleum regulator);
- (c) issue of a new environmental licence to Karoon by the Brazilian environmental agency, the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis (IBAMA); and
- (d) assignment of the FPSO charter and service contracts.

During February 2020 a competent person's report was completed by AGR Petroleum Services Reservoir Management Services ('AGR') estimating the reserves and contingent resources for Concession BM-S-40. AGR estimated 2P reserves of 46.8 mmbbls as at 1 January 2019, based on a US\$65.00/bbl oil price scenario. The gross 2C contingent resource estimate was 19.8 mmbbls as at 1 January 2019. The AGR assessment represents an update to their previous competent person's report, which was announced on 29th August 2019 and was effective as of 1 January 2019. Production for calendar year 2019 was 6.94 mmbbls oil, or 19kbpd. After accounting for field production through 2019 these results represent reserves increases of 3.9mmbbls, 0.8mmbbls and 0.7mmbbls at 1P, 2P & 3P levels respectively. AGR's revised Contingent Resource assessment represents increases of 0.7mmbbls, 1.0mmbbls and 1.2mmbbls respectively at 1C, 2C & 3C levels.

During the half-year Karoon continued to build and establish a specialised, experienced project operations team to ensure effective project management and put in place long term contracts with vendors. An Operating Management System has also been developed with a third party operational readiness review planned to be undertaken by Wood Group prior to the Brazilian regulators operational audits and ahead of a transfer of Operatorship. Wood Group have an operational readiness division with significant experience in Brazil.

Santos Basin Exploration Blocks S-M-1037 and S-M-1101 (KAR 100%)

During the financial half-year, following consultation with the ANP, Karoon submitted to the ANP a joint development plan for the Neon and Goiás oil fields in place of individual plans. This submission does not mean Karoon has reached, nor is compelled to reach a final investment decision to proceed into a development of the fields. Prior to a final investment decision being reached, Karoon anticipates drilling a 'control well' to assist delineating the southern region of the field and assisting with planning and design of both potential development wells and infrastructure.

Work continued on the Neon and Goiás oil discoveries with third party service provider discussions continuing, alongside evaluating the potential to utilise a redeployed production system for a future field development.

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

Low cost internal geological and geophysical studies and mapping work was ongoing during the financial half-year.

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 oil accumulations.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Review of Operations (continued)

Peru

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

During the quarter the Stena Forth drillship was contracted to drill the first well in the Block, Marina-1 well exploration.

On 26 January 2020 the Marina-1 exploration well commenced drilling and it was drilled to a depth of 3021mm MD near the top of the Cardalitos Formation and was subsequently plugged and abandoned. Mudlogging and LWD logging results from the Primary targets in the Tumbes Formation indicated that the well encountered thin water bearing sands with no oil and only minor gas shows. Several potential reservoir sequences were encountered in the well, unfortunately these sections were water wet and provide no prospectivity at this location. Operationally the well was drilled to plan, on time and within budget, with no safety or environmental incidents.

Marina-1 will provide a large amount of valuable data on the geological setting for this region of the Tumbes Basin. The well result will be thoroughly analysed and assessed with other geological information so to evaluate the remaining prospectivity in the Block before a decision is made on any future exploration activities in the Block.

Equity Interests

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

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

* Tullow Peru Limited's interest is subject to satisfying certain farm-out conditions. Karoon's farm-in obligations to Pitkin Petroleum Peru Z-38 SRL are also still to be completed.

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

Karoon entered into a Technical Evaluation Agreement ('TEA') with Perupetro SA (the Peruvian oil and gas regulator) to evaluate Area 73 offshore Peru. The TEA was signed during December 2018 and is effective for 18 months from 1 January 2019. Area 73 lies immediately south of Karoon's existing operated Block Z-38 and gives Karoon a strategic position in the area. Area 73 is in the Talara Basin, however the northern part of the TEA area is in the south of the Tumbes Basin, and several prospects have been identified. The drilling result at Block Z-38 will provide additional knowledge for potentially similar plays in Area 73.

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

Seismic reprocessing of 3D marine seismic, previously acquired over Area 73, continued during the financial half-year.

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Review of Operations (continued)

Australia

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

Seismic reprocessing began during the financial half-year on parts of the existing database of 3D seismic for the renewed permit area. The joint operation has a high-quality 3D data set covering all of the renewed permit area and the additional seismic interpretation work will allow Karoon to better define, risk and rank the 10 significant prospects which have been identified. Upon completion of the reprocessing and geoscience studies, the focus will be on de-risking the numerous prospects with a view to attracting a farminee to partner in progressing the area.

Equity Interests

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

Karoon Gas (FPSO) Pty Ltd	50%
Santos WA Northwest Pty Ltd (<i>Operator</i>)	50%

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

Due to the difficulties associated with regulatory approvals to conduct operations, during the financial half-year Karoon submitted a formal request with the regulatory authorities to surrender exploration permit EPP46.

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

The exploration permit was surrendered on 10 October 2019, in good standing.

DIRECTORS' REPORT (Continued) FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019

Financial Position

During the financial half-year, Karoon completed a fully underwritten equity raising for \$284 million. Gross proceeds of \$175 million were received during October 2019 through the completion of the institutional placement and institutional portion of the 1:1.06 pro-rata accelerated non-renounceable entitlement offer (the 'entitlement offer') at \$0.93 per ordinary share. The retail component of the entitlement offer raised gross proceeds of \$109 million during November 2019. Karoon converted \$241 million of proceeds from the equity raising into USD, at an average A\$/US\$ exchange rate of 0.68, to mitigate currency risk around funding the Baúna acquisition price.

Karoon also completed its debt funding plans relating to the acquisition of Baúna by entering into a fully underwritten senior secured term loan facility for up to US\$275 million with ING Bank N.V, Singapore Branch at a 4% margin over LIBOR. Subsequent to half-year end, Karoon and ING have now received firm commitments from the early syndication process, with 3 major international banks and Shell Western Trading and Supply Limited providing commitments in the final approval process.

Other significant milestones reached relating to the acquisition of Baúna included:

- entering an Oil Marketing Agreement with Shell Western Trading and Supply Limited, a member of the Royal Dutch Shell plc group, to market 100% of the production volumes from Baúna for up to 5 years; and
- submission of regulatory applications required to progress the Baúna transaction to financial close.

At the end of December 2019, the Group had a cash and cash equivalents balance of \$496,494,792 (30 June 2019: \$326,191,131), almost all of which is held in USD.

The Group's working capital, being current assets less current liabilities, increased from \$323,978,091 as at 30 June 2019 to \$475,220,794 as at 31 December 2019 as a result of equity capital raisings; which was offset by the Baúna deposit of paid to Petrobras US\$49.9 million (A\$71 million), payments for Baúna transition expenditure, equity raising costs and exploration and evaluation expenditure.

Exploration and evaluation expenditure of \$21,027,680 was incurred during the financial half-year, in the following operating segments:

- Peru, the Group continued with drilling preparations, including the mobilisation of the Stena Forth drillship, and G&G studies, at a total cost of \$19,471,991;
- Brazil, the Group continued work on the Neon and Goiás oil discoveries and G&G studies, at a total cost of \$1,017,483; and
- Australia, the Group and its joint operations partner in WA-482-P continued G&G studies, at a total cost of \$538,206.

During the financial half-year, total assets increased from \$581,089,382 to \$842,484,364, total liabilities increased from \$39,850,473 to \$57,100,853 and total equity increased by \$244,144,602 to \$785,383,511. The major changes in the condensed consolidated statement of financial position were largely due to the following:

- a successful equity capital raising of \$276,905,281 (net of equity raising costs and associated deferred tax);
- expensing of transition costs associated with the Baúna acquisition;
- exploration and evaluation expenditure in Australia, Brazil and Peru;
- consumables purchased for Peru;
- reduction of deferred tax liabilities resulting from crystallising foreign currency gains on the payment of the Baúna deposit and exploration costs denominated in USD, partially offset by the recognition of a current income tax liability; and
- negative movement in the foreign currency translation reserve as a result of the depreciation of the Brazilian REAL against the Australian dollar.

Lease liabilities of \$989,309 (2018: \$Nil) associated with right-of-use assets of \$928,293 are now recognised on the balance sheet under Australian Accounting Standard AASB 16 'Leases' (refer to Note 1 for further details).

**DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019****Financial Results**

The consolidated result of the Group for the financial half-year was a loss after income tax of \$22,635,316 (2018: \$13,334,955).

The loss for the financial half-year included:

- transition costs associated with the Baúna acquisition of \$11,024,835 (2018: \$Nil) that included internal time allocation of employees and consultants and associated office charges, insurance, travel expenses, geotechnical data, success fee, professional fees and external advice relating to due diligence and legal reviews;
- net employee benefits expense of \$5,215,137 (2018: \$5,029,389), which included share-based payments expense of \$1,514,116 (2018: \$1,724,446);
- exploration and evaluation expenditure expensed of \$681,729 (2018: \$2,548,693) from reviewing new ventures predominantly in South America;
- capitalised exploration and evaluation expenditure impaired of \$222,950 associated with exploration permits WA-314-P and EPP46, and Block S-M-1101 (2018: \$866,422); and
- net foreign currency losses of \$5,725,574 (2018: net foreign currency gains of \$15,455,514) almost entirely attributable to the negative movement during the financial half-year in the United States dollar against the Australian dollar on cash assets and security deposits held in United States dollars.

Partially offsetting the loss for the financial half-year was interest income of \$2,033,631 (2018: \$290,582) and tax income of \$2,966,385 (2018: \$447,701). Tax income relates to the de-recognition of a deferred tax liability in relation to historical unrealised foreign currency gains, which were crystallised on the payment of the Baúna deposit and exploration costs denominated in US\$; offset by a current income tax liability on resulting realised foreign exchange gains and recognition of deferred tax arising from transaction costs associated with the equity raising.

Subsequent Events

Subsequent to the end of the the financial half-year the Group was impacted by the Coronavirus and a decline in the global spot oil price as detailed in Note 10(b) of the Condensed Consolidated Financial Statements.

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 9.

DIRECTORS' REPORT (Continued)
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019

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 2020
Melbourne



Auditor's Independence Declaration

As lead auditor for the review of Karoon Energy Ltd for the half-year ended 31 December 2019, 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 Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
13 March 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated Financial Half-year Ended	
		31 Dec 2019	31 Dec 2018
		\$	\$
Revenue	2	2,033,631	290,582
Other income	2	187,284	15,455,514
Total revenue and other income		2,220,915	15,746,096
Baúna transition costs	2	(11,024,835)	-
Business development and other project costs	2	(91,158)	(4,106,553)
Computer licensing & support		(712,005)	(659,914)
Consulting fees		(455,443)	(355,391)
Depreciation and amortisation expense		(463,277)	(343,650)
Employee benefits expense (net)		(5,215,137)	(5,029,389)
Exploration and evaluation expenditure expensed, impaired or written-off	2	(904,679)	(16,641,542)
Finance costs	2	(382,040)	(74,970)
Insurance expense		(615,858)	(168,109)
Net foreign currency losses		(5,725,574)	-
Payroll and fringe benefits taxes		(296,983)	(263,168)
Property costs		(487,987)	(687,364)
Share registry and listing fees		(114,459)	(93,455)
Telephone and communication expenses		(128,818)	(124,029)
Travel and accommodation expenses		(312,936)	(157,316)
Other expenses		(891,427)	(823,902)
Total expenses		(27,822,616)	(29,528,752)
Loss before income tax		(25,601,701)	(13,782,656)
Tax income		2,966,385	447,701
Loss for financial half-year attributable to equity holders of the Company		(22,635,316)	(13,334,955)
Other comprehensive income, net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from the translation of financial statements of foreign subsidiaries		(11,639,479)	8,025,485
Other comprehensive income (loss) for financial half-year, net of income tax		(11,639,479)	8,025,485
Total comprehensive loss for financial half-year attributable to equity holders of the Company, net of income tax		(34,274,795)	(5,309,470)
Loss per share attributable to equity holders of the Company:			
Basic loss per ordinary share		(0.0669)	(0.0543)
Diluted loss per ordinary share		(0.0669)	(0.0543)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Consolidated	
		31 Dec 2019	30 June 2019
		\$	\$
Current assets			
Cash and cash equivalents		496,494,792	326,191,131
Receivables		1,528,940	1,880,833
Inventories		3,388,872	2,124,577
Security deposits		543,939	535,884
Current tax asset		9,960	54,303
Other assets	4	9,229,223	1,161,836
Total current assets		511,195,726	331,948,564
Non-current assets			
Inventories		30,853,076	31,495,438
Plant and equipment		1,018,789	793,638
Right-of-use assets		928,293	-
Intangible assets		390,270	535,655
Exploration and evaluation expenditure carried forward		224,542,873	208,803,023
Security deposits		7,685,321	7,513,064
Other assets	4	65,870,016	-
Total non-current assets		331,288,638	249,140,818
Total assets		842,484,364	581,089,382
Current liabilities			
Trade and other payables		30,005,472	7,384,308
Lease liabilities		311,093	-
Current tax liabilities		5,063,581	-
Provisions		594,786	586,165
Total current liabilities		35,974,932	7,970,473
Non-current liabilities			
Trade and other payables		246,767	546,766
Lease liabilities		678,216	-
Deferred tax liabilities		20,090,468	31,212,894
Provisions		110,470	120,340
Total non-current liabilities		21,125,921	31,880,000
Total liabilities		57,100,853	39,850,473
Net assets		785,383,511	541,238,909
Equity			
Contributed equity	5	1,079,200,615	802,295,334
Accumulated losses		(265,779,546)	(243,144,230)
Share-based payments reserve		52,889,701	51,375,585
Foreign currency translation reserve		(80,927,259)	(69,287,780)
Total equity		785,383,511	541,238,909

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 2019**

Consolidated	Contributed Equity	Accumulated Losses	Share- based Payments Reserve	Foreign Currency Translation Reserve	Total Equity
	\$	\$	\$	\$	\$
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
Balance as at 1 July 2019	802,295,334	(243,144,230)	51,375,585	(69,287,780)	541,238,909
Loss for financial half-year	-	(22,635,316)	-	-	(22,635,316)
Exchange differences arising from the translation of financial statements of foreign subsidiaries	-	-	-	(11,639,479)	(11,639,479)
Total comprehensive loss for financial half-year	-	(22,635,316)	-	(11,639,479)	(34,274,795)
Transactions with owners in their capacity as owners:					
Ordinary shares issued	284,121,016	-	-	-	284,121,016
Transaction costs arising on ordinary shares issued, net of tax	(7,215,735)	-	-	-	(7,215,735)
Share-based payments expense	-	-	1,514,116	-	1,514,116
	276,905,281	-	1,514,116	-	278,419,397
Balance as at 31 December 2019	1,079,200,615	(265,779,546)	52,889,701	(80,927,259)	785,383,511

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 2019**

	Consolidated Financial Half-year Ended	
	31 Dec 2019	31 Dec 2018
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST refunds)	1,052,919	267,021
Payments to suppliers and employees (inclusive of GST)	(9,507,279)	(12,099,900)
Payments for exploration and evaluation expenditure expensed	(681,729)	(2,038,470)
Interest received	1,960,750	267,910
Interest and other costs of finance paid	(382,040)	(74,970)
Income taxes refund	41,550	77,904
Net cash flows used in operating activities	(7,515,829)	(13,600,505)
Cash flows from investing activities		
Purchase of plant and equipment and computer software	(257,271)	(295,232)
Payment of deposit for production asset	(71,097,636)	-
Payments for Baúna transition expenditure	(11,866,806)	-
Payments for exploration and evaluation expenditure capitalised	(5,787,560)	(4,371,385)
Payment of security deposits	(296,050)	(217,790)
Proceeds from disposal of non-current assets	15,182	-
Net cash flows used in investing activities	(89,290,141)	(4,884,407)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	284,121,016	-
Payment of equity raising costs	(10,121,831)	-
Principal elements of lease payments	(160,936)	-
Payments for finance lease	(33,717)	(49,071)
Net cash flows from (used in) financing activities	273,804,532	(49,071)
Net increase (decrease) in cash and cash equivalents	176,998,562	(18,533,983)
Cash and cash equivalents at beginning of financial half-year	326,191,131	333,572,953
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(6,694,901)	14,992,554
Cash and cash equivalents at end of financial half-year	496,494,792	330,031,524

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 2019

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 have been prepared using the going concern assumption which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

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 2019.

The condensed consolidated financial statements have been prepared using the same accounting policies, critical estimates, judgements and methods of computation as disclosed in the Company's Annual Report for the financial year ended 30 June 2019, except for AASB 16 *'Leases'* as discussed 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.

Statement of Compliance

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

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

The Group has adopted all 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 2019. 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 16 *'Leases'*; and
- (ii) AASB Interpretation 23 *'Uncertainty over Income Tax Treatments'*.

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, except for AASB 16 as disclosed below.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Note 1. Basis of Preparation of the Condensed Consolidated Financial Statements (continued)

AASB 16 'Leases'

The Group has applied AASB 16 from 1 July 2019. The Group has adopted the simplified transition approach without restatement of comparative information for the financial year prior to first adoption.

AASB 16 eliminates the distinction between operating and finance leases and brings all operating leases (other than short-term and low value leases) onto the condensed consolidated statement of financial position. As a lessee, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

In applying the new standard for the first time, the Group used the following transition practical expedients permitted by AASB 16:

- (a) the use of a single discount for operating leases, as they have reasonably similar characteristics (and it did not have a material effect);
- (b) the accounting for operating leases with a remaining lease term of 12 months (or less) were classified as short-term leases, which have continued to be recognised on a straight-line basis as an expense in profit or loss; and
- (c) the use of hindsight in determining the lease term where the lease agreement contains an option to extend the operating lease.

The Group elected under AASB 16 not to apply the new standard to contracts that were not identified as containing a lease under AASB 117 'Leases' and AASB Interpretation 4 'Determining whether an Arrangement contains a Lease'.

At transition, all relevant lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, where that rate was not readily determined, the Group's estimated incremental borrowing rate as at 1 July 2019. Right-of-use assets for non-cancellable operating lease commitments were measured at the amount of the lease liability on transition.

As a result of initially applying AASB 16, as at 1 July 2019 the Group recognised right-of-use assets of \$1,079,270 as a non-current asset and lease liabilities of \$1,079,270 (split between current and non-current). There was no change in accumulated losses as a result of applying AASB 16 from 1 July 2019. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using an average rate of 8% as at 1 July 2019. Adjustments recognised on adoption of AASB 16 are detailed below.

	1 Jul 2019
Operating lease commitments disclosed as at 30 June 2019	1,866,912
Less short-term leases recognised on a straight-line basis as an expense	(483,692)
Add finance lease liabilities recognised as at 30 June 2019	35,545
Less adjustment as a result of a different treatment of extension options and termination options	(135,080)
Less discount using estimated Group's incremental borrowing rate at date of initial application	(204,415)
Lease liability recognised as at 1 July 2019	<u>1,079,270</u>
Of which are:	
Current lease liabilities	301,392
Non-current lease liabilities	<u>777,878</u>
	<u>1,079,270</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019****Note 1. Basis of Preparation of the Condensed Consolidated Financial Statements (continued)*****AASB 16 'Leases' (continued)***

Under AASB 16, the Group recognised depreciation expense of \$175,734 on right-of-use assets and interest expense of \$52,067 on the lease liabilities in the condensed consolidated statement of profit or loss and other comprehensive income during the financial half-year ended 31 December 2019. Principal elements of lease payments of \$160,936 was shown under financing activities in the condensed consolidated cash flow statement during the financial half-year ended 31 December 2019.

Leases Significant Accounting Policy

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost (present value of the lease liability plus deemed cost of acquiring the asset), and subsequently at cost less any accumulated depreciation, impairment losses and adjustment for remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments expected to be paid over the lease term, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's estimated incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The lease liability is further remeasured if the estimated future lease payments change as a result of index or rate changes, residual value guarantees or likelihood of exercise of purchase, extension or termination options.

The Group has applied judgement to determine the lease term for lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the measurement of lease liabilities and right-of-use assets recognised.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Note 2. Results for Financial Half-Year

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
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	2,033,631	290,582
Total revenue	2,033,631	290,582
Services revenue from joint operations	172,102	-
Net gain on disposal of non-current asset	15,182	-
Net foreign currency gains	-	15,455,514
Total other income	187,284	15,455,514
Expenses		
Exploration and evaluation expenditure expensed, impaired or written-off:		
- exploration and evaluation expenditure expensed	(681,729)	(2,548,693)
- exploration and evaluation expenditure impaired	(222,950)	(866,422)
- exploration and evaluation expenditure written-off	-	(13,226,427)
Total exploration and evaluation expenditure expensed, impaired or written-off	(904,679)	(16,641,542)
Finance costs:		
- finance charges under finance lease	(549)	(3,918)
- interest element on lease liabilities	(52,067)	-
- bank charges	(329,424)	(71,052)
Total finance costs	(382,040)	(74,970)
Baúna transition costs (refer (a) below)	(11,024,835)	-
Business development and other project costs	(91,158)	(4,106,553)
Share-based payments expense	(1,514,116)	(1,724,446)

(a) Represents costs incurred on transition, development initiatives and other project activities associated with Baúna. Expenditure includes internal time allocation of employees and consultants and associated office charges, insurance, travel expenses, geotechnical data, success fee, professional fees and external advice relating to due diligence and legal reviews.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019****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 Exploration Manager (formerly the 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 two offshore exploration permit areas: WA-482-P and EPP46. Exploration permit WA-314-P was surrendered during the financial half-year;
- Brazil – in which the Group is currently involved in the exploration and evaluation of hydrocarbons in three offshore blocks: Block S-M-1037, Block S-M-1101, 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 2019**

Note 3. Segment Information (continued)

(a) Operating Segments

Segment performance	Australia	Brazil	Peru	All Other Segments	Consolidated
	\$	\$	\$	\$	\$
Result for financial half-year 31 December 2019					
Segment revenue (interest income from unrelated entities)	1,758,665	274,966	-	-	2,033,631
Other income	15,182	-	172,102	-	187,284
Baúna transition costs	-	(11,024,835)	-	-	(11,024,835)
Business development and other project costs	-	(91,158)	-	-	(91,158)
Depreciation and amortisation expense	(87,399)	(256,238)	(119,640)	-	(463,277)
Employee benefits expense (net)	(3,957,904)	(1,061,218)	(196,015)	-	(5,215,137)
Exploration and evaluation expenditure expensed	(27,944)	(584,791)	(59,161)	(9,833)	(681,729)
Exploration and evaluation expenditure impaired	(81,163)	(141,787)	-	-	(222,950)
Finance costs	(31,723)	(344,957)	(5,360)	-	(382,040)
Net foreign currency losses	(5,710,642)	66,439	(81,371)	-	(5,725,574)
Property costs	(390,162)	(79,238)	(18,587)	-	(487,987)
Administration and other operating expenses	(2,713,685)	(543,711)	(270,533)	-	(3,527,929)
Loss before income tax	(11,226,775)	(13,786,528)	(578,565)	(9,833)	(25,601,701)
Tax income	2,966,385	-	-	-	2,966,385
Loss for financial half-year	(8,260,390)	(13,786,528)	(578,565)	(9,833)	(22,635,316)
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)

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Note 3. Segment Information (continued)

(b) Operating Segments (continued)

Segment asset information	Australia	Brazil	Peru	Consolidated
	\$	\$	\$	\$
As at 31 December 2019				
Cash and cash equivalents	467,723,538	3,265,163	25,506,091	496,494,792
Exploration and evaluation expenditure carried forward	29,211,394	108,353,351	86,978,128	224,542,873
Security deposits	663,737	2,201,948	5,363,575	8,229,260
Inventories	-	12,492,996	21,748,952	34,241,948
Other assets	1,019,464	69,059,814	5,019,961	75,099,239
Other	845,418	1,572,835	1,457,999	3,876,252
Segment assets	499,463,551	196,946,107	146,074,706	842,484,364
As at 30 June 2019				
Cash and cash equivalents	320,978,875	305,319	4,906,937	326,191,131
Exploration and evaluation expenditure carried forward	28,754,351	112,600,173	67,448,499	208,803,023
Security deposits	431,133	2,321,309	5,296,506	8,048,948
Inventories	-	13,611,876	20,008,139	33,620,015
Other	1,180,318	1,305,663	1,940,284	4,426,265
Segment assets	351,344,677	130,144,340	99,600,365	581,089,382
Segment liability information	Australia	Brazil	Peru	Consolidated
	\$	\$	\$	\$
As at 31 December 2019				
Trade and other payables	3,751,653	5,019,433	21,481,153	30,252,239
Lease liabilities	109,688	681,825	197,796	989,309
Current tax liabilities	5,063,581	-	-	5,063,581
Deferred tax liabilities	20,090,468	-	-	20,090,468
Provisions	705,256	-	-	705,256
Segment liabilities	29,720,646	5,701,258	21,678,949	57,100,853
As at 30 June 2019				
Trade and other payables	2,956,909	3,844,560	1,129,605	7,931,074
Deferred tax liabilities	31,212,894	-	-	31,212,894
Provisions	706,505	-	-	706,505
Segment liabilities	34,876,308	3,844,560	1,129,605	39,850,473

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Note 4. Other Assets

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Current		
Prepayments	4,415,537	1,161,836
Consumables – fuel for Stena Forth drillship	4,813,686	-
Total current other assets	9,229,223	1,161,836
Non-Current		
Deposit paid for production asset	65,870,016	-
Total non-current other assets	65,870,016	-

Note 5. Contributed Equity

	\$	\$
(a) Contributed Equity		
Ordinary shares, fully paid	1,079,200,615	802,295,334
Total contributed equity	1,079,200,615	802,295,334

(b) Movement in Ordinary Shares

Date	Details	Number of ordinary shares	\$
1 July 2018	Opening balance in previous financial year	245,721,153	802,295,334
	Performance rights conversion	495,324	-
30 June 2019	Balance at end of previous financial year	246,216,477	802,295,334
31 October 2019	Ordinary shares issued at \$0.93 per share	187,955,140	174,798,280
19 November 2019	Ordinary shares issued at \$0.93 per share	117,551,329	109,322,736
	Transaction costs arising on ordinary shares issued	-	(10,308,194)
	Deferred tax credit recognised directly in equity	-	3,092,459
	Performance rights conversion	1,261,747	-
31 December 2019	Balance at end of financial half-year	552,984,693	1,079,200,615

Note 6. Dividends

There were no ordinary dividends declared or paid during the financial half-year by the Company (31 December 2018: \$Nil).

Note 7. 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

Note 8. Commitments

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
(a) Capital Expenditure Commitments		
Contracts 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	6,097,097	182,968
Later than one year but not later than five years	-	-
Total commitment	6,097,097	182,968
Non-cancellable office lease¹		
Not later than one year	-	-
Later than one year but not later than five years	1,313,105	-
Total commitment	1,313,105	-

¹ The Group entered into a non-cancellable office lease for its new Melbourne headquarters to commence on 1 March 2020 for a term of 5 years, inclusive of a rent-free period. A right of use asset and corresponding lease liability will be recognised at commencement date.

(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 WA-482-P, Block S-M-1537 and Block Z-38 (30 June 2019: WA-482-P, EPP46, Block S-M-1537 and Block Z-38) not provided for in the condensed consolidated financial statements and payable.

Not later than one year	49,372,707	79,668,351
Later than one year but not later than five years	966,470	1,375,000
Later than five years	2,185,337	2,303,797
Total guaranteed exploration expenditure commitments	52,524,514	83,347,148

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 \$110,235,737 (30 June 2019: \$225,716,234). 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, 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 2019****Note 8. Commitments (continued)****(c) Acquisition of a Production Asset**

On 25 July 2019, a wholly owned subsidiary executed a binding SPA to acquire from Petrobras a 100% operating interest in Concession BM-S-40, that includes the producing Baúna light oil field located in the Santos Basin, offshore Brazil, for a headline consideration of US\$665 million. On the same date, a deposit of US\$49.9 million was paid to Petrobras which has been recognised as a non-current other asset as at 31 December 2019.

Karoon will fund the remaining consideration via its existing cash balance, a fully underwritten senior secured term loan facility for up to US\$275 million with ING Bank N.V, Singapore Branch and interim net cash inflows from Baúna which Karoon is entitled to under the SPA from 1 January 2019 through to closing expected during the first half of calendar year 2020.

The interim net cash inflows generated by the asset (operational cash flows less income tax, capital expenditures and interest on acquisition consideration from the acquisition's effective date of 1 January 2019 through to closing) are dependent on a number of operational and macro factors (e.g. crude oil price and foreign exchange risks) through to closing.

The transaction is subject to Brazilian regulatory approval, which is expected during the first half of calendar year 2020. In the event the transaction does not complete, the deposit would be returned to Karoon unless Karoon is responsible for the failure to complete, in which case the deposit would be forfeited to Petrobras.

Note 9. Contingent Liabilities

As at 31 December 2019, 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 2019 Annual Report.

Note 10. Subsequent Events

The Interim Financial Report was authorised for issue by the Board of Directors on 12 March 2020. The Board of Directors has the power to amend and reissue the condensed consolidated financial statements and notes.

Since 31 December 2019, the following material events have occurred:

(a) Marina-1 Exploration Well

On the 17 February 2020 the Marina-1 exploration well in Block Z-38 Tumbes Basin offshore Peru, was drilled to a depth of 3021mm MD near the top of the Cardalitos Formation and was subsequently plugged and abandoned. Mudlogging and LWD logging results from the Primary targets in the Tumbes Formation indicated that the well encountered thin water bearing sands with no oil and only minor gas shows. Several potential reservoir sequences were encountered in the well, unfortunately these sections were water wet and provide no prospectivity at this location.

The well result will be thoroughly analysed and assessed with other geological information so as to evaluate the remaining prospectivity in the Block before a decision is made on any future exploration activities in the Block. The carrying value of capitalised exploration and evaluation expenditure relating to the Block and long lead items for future exploration and appraisal wells were \$86,978,128 and \$21,748,952 respectively. These amounts will be assessed for any potential impairment following this evaluation.

(b) Coronavirus and Spot Oil Price Decline

Subsequent to 31 December 2019, the worldwide price for oil and gas has been adversely impacted by the evolving situation surrounding the Coronavirus, related disruptions to demand and change to global oil production supply. The Group's oil and gas tenements are all currently in the exploration phase and therefore, the Group does not have any production income as at 31 December 2019. There was no material effect on the Interim Financial Report as at 31 December 2019. The Group, however, is continually monitoring any potential impact on the medium to long term demand and in the short term in relation to its pending acquisition of a Production Asset as detailed in Note 8(c).

**DIRECTORS' DECLARATION
FOR THE FINANCIAL HALF-YEAR ENDED 31 DECEMBER 2019**

The Directors declare that:

- (a) in the Directors' opinion, the condensed consolidated financial statements and notes, set out on pages 10 to 23, 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 2019 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 2020
Melbourne



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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Karoon Energy Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

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 gives a true and fair view and 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 2019 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 Ltd, 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 Ltd is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 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*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Charles Christie'.

Charles Christie
Partner

Melbourne
13 March 2020

GLOSSARY

Term	Definition
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.
Director	A Director of Karoon Energy Ltd.
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.
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 2019.
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).
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.
permit	A hydrocarbon tenement, lease, licence, concession or block.
Petrobras	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.
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.
SPA	Sale and Purchase Agreement.
TEA	Technical Evaluation Agreement.
Tullow	Tullow Peru Limited Sucursal del Peru or Tullow Oil plc.
USD or US\$	United States dollars.