

Karoon Energy Ltd agrees on adjusted terms for the Baúna acquisition

Strategic review

Karoon Energy Limited (“Karoon”) is pleased to announce the completion of its wide-ranging strategic review of the options available to it under the current global health and economic environment. Specialist consultants were utilised to assist the board and management team in investigating different strategic options and outcomes.

The primary conclusion of the review was that pursuing Karoon’s previously stated Southern Santos Basin strategy in Brazil provided the best outcome for shareholders. The first step in implementing the strategy was to then negotiate and agree a revised transaction to acquire the producing Baúna oil field.

Revised Baúna Acquisition

In accordance with the strategic conclusion, Karoon is pleased to announce that its wholly owned subsidiary, Karoon Petróleo & Gás Ltda. (“Purchaser”), has 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 amendments to the SPA split the previously announced “headline” US\$665 million¹ consideration into US\$380 million of “firm” consideration and US\$285 million of “contingent” consideration. The firm and contingent consideration payable is expected to be funded from Karoon’s existing cash and organic cashflows from the asset.

The amended terms simplify and significantly de-risk the transaction. The amendments preserve Karoon’s financial position, enabling it to set about the immediate workover of Baúna’s underutilised production infrastructure and thereby materially boost production, unencumbered by debt or onerous payment terms.

Robert Hosking, Karoon’s Managing Director said:

“Despite the changed environment, this revised agreement delivers the benefits we always wanted from acquiring a producing asset including immediate cash flow, reasonable terms, management of risk, and opportunity for the future. Karoon has assessed several opportunities as part of its broad ranging strategic review and this revised deal for Baúna has proven the best outcome for shareholders on an

¹ Note: the “headline” consideration of US\$665 million (as referred to above) excludes an amount of US\$50 million that is payable in the event the average Brent oil price exceeds US\$100 in calendar year 2020.

overall valuation and returns basis. Karoon is always looking to create value wherever it can be found for its investors and we will continue to work towards delivering Karoon's operational plan to expand its production footprint in Baúna and surrounds, including Neon."

Deed of Amendment – Key Features

Revised purchase price will now comprise:

- US\$380 million "firm" consideration payable by way of:
 - US\$150 million payable on closing of the transaction;
 - closing adjustment offset, comprising the operating and investing cashflows (attributable to the assets to be transferred to Karoon under the SPA) in the period from the transaction effective date (of 1 January 2019) up to the closing date, the deposit (paid at SPA execution in July 2019), along with interest payable on firm consideration;
 - deferred "firm" consideration payable 18 months after closing (equal to US\$380 million less the closing adjustment, less US\$150 million payable on closing).
- up to, in aggregate, US\$285 million (plus interest at 2% per annum) of contingent consideration payable based on the average annual daily Platts Dated Brent oil price (based on thresholds between \geq US\$50 per barrel and \geq US\$70 per barrel) in respect of calendar years 2022 to 2026 (inclusive); and
- an additional US\$50 million in the event the average Brent oil price exceeds US\$100/bbl in calendar year 2020 (which remains in place from the original SPA).

Benefits for Shareholders

- The amendments deliver Karoon quality production assets through prudent new funding arrangements reflecting the greater uncertainties evident in current global energy markets.
- Post-acquisition, Karoon will remain in a strong financial position with approximately US\$130 million in cash, 2P producing reserves of 46.8 MMbbl² (relating to Baúna current wells incl. planned intervention program), 2C contingent resources of 101.8 MMbbl (with 19.8 MMbbl³ relating to Patola and SPS-57 and 82 MMbbl⁴ relating to Neon and Goiás), 16,000 bbls/day of production and no debt. Baúna continues to be cash flow positive at current oil prices.

² The reserves and contingent resource volume estimates presented for Baúna, Patola and SPS-57 were disclosed in the 27 February 2020 ASX announcement "Bauna Oil Reserves Upgrade and Contingent Resource Competent Persons Report Summary". The reserves are a result of stochastic summation of individual well reserves; and not arithmetic sum of the individual well reserves. Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

³ See footnote 2.

⁴ The contingent resource volume estimates presented for Neon and Goia were disclosed in the 8 May 2018 ASX announcement "Resources Update". Karoon is not aware of any new information or data that materially affects these resource estimates and all material assumptions and technical parameters underpinning the estimates in the relevant ASX announcement continue to apply and have not materially changed.

- The Baúna field consists of two producing oil reservoirs, Baúna and Piracaba (2P producing reserves of 46.8 MMbbl⁵), which are both tied back to the leased floating production, storage and off-loading facility (FPSO) Cidade de Itajai, and the existing undeveloped Patola discovery (2C contingent resources of 15.6 MMbbl⁶), the development of which remains a priority for Karoon.
- There is considerable production upside from the proposed workover of Baúna's production infrastructure, replacement and installation of some Electric Submersible Pumps and through existing well interventions and other infill and new pool development operations.
- The acquisition is also expected to deliver material operational and logistical synergies for the potential development of Karoon's existing southern Santos Basin assets, the Neon and Goiás oil fields (2C contingent resources of 82 MMbbl)⁷.
- Karoon now expects to Complete the transaction in the third quarter of calendar year 2020 and will keep the market updated on progress regarding this new timeline.

Conditions Precedent

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

- IBAMA licences: issue of new environmental operational licenses to Karoon by the Brazilian environmental agency, the Brazilian Institute of the Environment and Renewable Natural Resources ("IBAMA").
- ANP approval: written approval from the National Agency for Petroleum, Natural Gas and Biofuels ("ANP") to the assignment of the concession contract relating to Concession BM-S-40.
- FPSO charter assignment: 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), in respect of which key commercial terms have now been agreed in writing. Final documentation is expected to be completed over the coming month.

In the normal course of business, IBAMA and ANP approvals are expected over the next two months.

The conditions precedent to the SPA must be satisfied or waived by a revised longstop date of 30 October 2020.

BTG Pactual and RBC Capital Markets acted as advisers to Karoon on the Baúna transaction.

This announcement was authorised by the Board of Karoon Energy Ltd.

⁵ See footnote 2.

⁶ See footnote 2.

⁷ See footnote 4.

Important Note

Should investors have any questions or queries regarding the company, please contact James Wootton on 03 9616 7500 or jwootton@karoonenergy.com.au. Media please contact Tim Duncan on 0408 441 122 or tsunami@gracosway.com.au. All **holding** enquiries should be directed to our share register, Computershare on 1300 850 505.

About Karoon Energy Ltd

Karoon Energy Ltd. is an international oil and gas exploration company with projects in Australia, Brazil and Peru and is an ASX listed company.

Karoon aims to be an agile and sustainable global energy company delivering profits through a high-quality portfolio of production, development and exploration assets. The Company looks to provide energy to an ever-changing world, creating value for our shareholders and the broader community.

Karoon's strategic vision is to transform into a global E&P company with material production to underpin growth through a highly prospective exploration portfolio and entrepreneurial spirit.

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.