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SEPTEMBER 2020 QUARTERLY REPORT AND APPENDIX 5B

Significant events:

- Following the announcement during the quarter that Karoon Energy Ltd's ("Karoon") founder and long-standing CEO and Managing Director, Mr Robert Hosking would retire at the 27 November 2020 AGM, on 26 October 2020 Dr Julian Fowles was appointed Karoon's new CEO and Managing Director, effective immediately following the AGM.

- On 30 September 2020 the appointment of Mr Peter Botten as a Non-Executive Director effective from 1 October 2020 was announced.

- Karoon successfully agreed adjusted consideration terms for the Baúna acquisition, splitting the original US$665 million "headline" consideration into 2 parts, 1) US$380 million of firm consideration, plus 2) US$285 million of contingent consideration linked to oil prices.[1]

- Karoon was issued new environmental operational licenses by the Brazilian environmental agency, the Brazilian Institute of the Environment and Renewable Natural Resources ("IBAMA"). The issue of such licenses by IBAMA represents the satisfaction of one of the key outstanding conditions precedent to the acquisition of Baúna under the sale and purchase agreement ("SPA").

- On 22 October 2020 (Brazil time) the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ("ANP") Board of Directors approved, with conditions, the assignment of the rights and obligations under Concession Contract BM-S-40 related to the Baúna field. On 26 October 2020 (Brazil time) Karoon received notice that the approval conditions had been satisfied.

- During the quarter, Baúna produced 1.43 million barrels of oil at an average production rate of 15.6k barrels a day.

- Cash at bank as at 30 September 2020 was A$399.5 million.

Karoon's Managing Director, Mr Robert Hosking said:

"Over the past quarter Karoon has made enormous progress on its transformation plans with the Company currently on the cusp of a becoming a producer.

Key milestones necessary to close the Baúna acquisition were reached during the past few months with the ANP and IBAMA approvals being received. The remaining outstanding key condition precedent, the assignment of the FPSO agreements, is expected to be satisfied over the coming week.

In addition to completing the Baúna acquisition, it also gives me great pleasure to welcome Dr Julian Fowles as my successor, joining Karoon as CEO and Managing Director effective immediately following the AGM.

Dr Fowles is a highly experienced industry executive with international and Brazil specific experience, and he is well placed to lead Karoon in its next phase of growth."

[1] *For further information, see the ASX announcement entitled "Karoon Energy Ltd agrees on adjusted terms for the Baúna acquisition" and the ASX announcement entitled "Baúna Acquisition – Adjusted Terms" both dated 27 July 2020.*

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Corporate Summary

CEO succession update and appointment of new Non-Executive Director

Following the announcement during July 2020 that Karoon's founder and long-standing Managing Director, Mr Robert Hosking, is retiring at the November 2020 AGM, Karoon launched a global search for a suitable replacement.

On 26 October 2020, Karoon announced that Dr Julian Fowles was appointed CEO and Managing Director effective immediately following the AGM on 27 November 2020.

Karoon Chairman, Mr Bruce Phillips said, "After an extensive and rigorous global search process, we are delighted Dr Fowles has agreed to join Karoon as its new CEO and Managing Director. Julian is a highly experienced petroleum industry executive who has had a successful international career with Shell International, Cairn Energy, Petra Energia and Oil Search. Julian's deep upstream experience in international leadership roles, including CEO experience in Brazil, and company building success will be of great benefit to Karoon as it transitions from a pure exploration company into a profitable E&P entity. "

On 30 September 2020, Karoon announced the appointment of Mr Peter Botten as a Non-Executive Director effective from 1 October 2020. His appointment follows the decision by two long standing Non-Executive Directors, Mr Geoff Atkins and Mr Jose Coutinho Barbosa, to retire at the AGM on 27 November 2020.

Mr Botten is a highly experienced and successful internationally recognised business leader with over 40 years' experience in the international resources sector. His executive career was dominated by his 26-year tenure as CEO of Oil Search.

Karoon Chairman, Mr Bruce Phillips said that Peter's "appointment brings a great wealth of relevant experience covering technical, financial and commercial areas in significant ASX-listed resource companies. His cultural and strategic capabilities, involvement in complex international jurisdictions and broad ranging upstream experience makes him a strong addition to the Karoon Board."

Baúna Acquisition

During July, Karoon's wholly owned subsidiary Karoon Petróleo & Gás Ltda., executed a binding agreement to amend the Baúna SPA to reflect renegotiated consideration terms. The revised terms split the original "headline" US$665 million firm consideration into US$380 million of firm consideration[2] and US$285 million of contingent consideration.

In respect of the firm consideration, Karoon is required to pay US$150 million on closing with a further deferred consideration amount payable 18 months after financial close. The deferred consideration amount will be finalised following the close of the transaction.

During August 2020 Karoon was issued new environmental operational licenses by IBAMA, satisfying the environmental approval condition precedent.

On 22 October 2020 the Board of Directors of the ANP provided approval, subject to certain conditions, for the assignment of the rights and obligations under Concession Contract BM-S-40 related to the Baúna field. On 26 October 2020 (Brazil time), Karoon received notice that the approval conditions had been satisfied. Once written confirmation of the ANP's Board approval is issued, the last outstanding regulatory condition precedent will be satisfied.

[2] *The firm closing consideration is to be reduced by the closing adjustment comprising the field operating cash flows from effective date of 1 January 2019 to close, the deposit paid, increased by interest payable on the firm consideration.*

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Once written confirmation of the ANP's board approval is issued, the last key condition precedent to be satisfied prior to closing is the assignment or novation of the FPSO charter contract and the FPSO services agreement, which is expected over the coming week.

Change in Accounting Policy to Successful Efforts

During the quarter Karoon voluntarily changed its accounting policy relating to exploration and evaluation expenditure, adopting 'Successful Efforts' accounting in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Successful Efforts was adopted for the preparation of the audited 30 June 2020 financial statements.

The Board believes that Successful Efforts accounting provides greater transparency to the financial performance and position of the Company, enabling improved capital allocation and operational decision-making going forward. In addition, Successful Efforts is more commonly used by peer companies and its adoption will improve the comparability of Karoon's financial results.

Operational Summary

Brazil
Santos Basin, Blocks S-M-1037, S-M-1101
100% Equity Interest
Operator

Pre-FEED studies relating to the redeployment of the Piranema Spirit production facility for a potential Neon development were completed during the quarter.

The study findings were supportive of the suitability and use of the Piranema Spirit for the current Neon development plans. The results of the Pre-FEED studies will be incorporated into the forward strategic planning for Neon.

Santos Basin, Block S-M-1537
100% Equity Interest
Operator

Low cost geological and geophysical studies were 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[3]
Operator

Following the drilling of the Marina-1 exploration well during the March quarter 2020, Karoon's technical team continued its evaluation of the results along with an assessment of the remaining prospectivity of the block which is expected to be completed during the December quarter of 2020. The drilling of the Marina-1 exploration well along with 2D seismic processing will fulfill Karoon's Third Period work obligations. No further work program obligations remain in the current phase.

Following Karoon's application, force majeure was granted during July 2020 due to the impact of COVID-19.

[3] *Karoon's 40% equity interest remains subject to completion of farm-in obligations*

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Tumbes Basin, Area 73
Technical Evaluation Agreement
Operator

Seismic reprocessing of 3D data previously acquired over the area was completed and seismic interpretation of the new data began during the quarter.

Following Karoon's application, force majeure was granted during July 2020 due to the impact of COVID-19.

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 and is working with authorities to relinquish the permit.

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	**Quarter ended ("current quarter")**
53 107 001 338	30 September 2020

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	1	1
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(1,598)	(1,598)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs (employee benefits expense-net)	(1,315)	(1,315)
	(e) administration and corporate costs	(1,583)	(1,583)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	126	126
1.5	Interest and other costs of finance paid	(2,767)	(2,767)
1.6	Income taxes paid	(158)	(158)
1.7	Government grants and tax incentives	-	-
1.8	Other (Bauna transition costs $6.8m, GST refunds & net VAT payments $0.4m)	(7,249)	(7,249)
1.9	**Net cash from / (used in) operating activities**	**(14,543)**	**(14,543)**

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2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(1,790)	(1,790)
	(d) exploration & evaluation (if capitalised)	(90)	(90)
	(e) investments	-	-
	(f) other non-current assets (security deposits)	(140)	(140)
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(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	-	-
2.6	**Net cash from / (used in) investing activities**	**(2,020)**	**(2,020)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
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 (principal elements of lease payments)	(75)	(75)
3.10	**Net cash from / (used in) financing activities**	**(75)**	**(75)**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	431,903	431,903
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(14,543)	(14,543)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,020)	(2,020)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(75)	(75)
4.5	Effect of movement in exchange rates on cash held	(15,720)	(15,720)
4.6	**Cash and cash equivalents at end of period**	**399,545**	**399,545**

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 $A'000**	**Previous quarter $A'000**
5.1	Bank balances	364,293	400,937
5.2	Call deposits	35,252	30,966
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)**	**399,545**	**431,903**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	404
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: $317,799

Consulting fees included in 1.2: $86,243

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7.	**Financing facilities** *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.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	-	-

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.	

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(14,543)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(90)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(14,633)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	399,545
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	399,545
8.7	**Estimated quarters of funding available (Item 8.6 divided by Item 8.3)**	**27**

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

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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: 29 October 2020

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

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.

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Appendix 1

Schedule of Interests in Petroleum Tenements

Held by Karoon Energy Ltd Group

As at 30 September 2020

Exploration Permit/ Block	Basin	Operator	% Equity Interest Held	
EPP46	Ceduna Sub-basin, Australia	Karoon	100	
WA-482-P	Northern Carnarvon, Australia	Santos	50	(1)
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	(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 overriding 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.